ANNUAL REPORT 2013/14

FOR Tomorrow

SENKADAGALA FINANCE PLC

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.

FOR *Tomorrow*

A robust performance today positions a company well for tomorrow. With an enduring commitment to creating value for its stakeholders, this is what Senkadagala Finance PLC has achieved through its unsullied history of 45 years of ethical and sustainable business. In recognition, we've in fact been rated an 'A' Category company amongst the financial institutions in the country.

The outlook for the years to come is very positive and we remain an excellent prospect for stakeholders wishing to build a better tomorrow, together with us.

We will continue to strengthen the prospects for our stakeholder community 'for tomorrow' in terms of…

Contents

Senkadagala Finance PLC was initially formed in the city of Kandy in 1968. Celebrating its 45th Anniversary, the Company has become one of the largest licensed finance companies operating under the purview of the Central Bank of Sri Lanka. Senkadagala Finance PLC is a listed company on the *Diri Savi* Board of the Colombo Stock Exchange since March 2011.

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

Further, diversifying its operations, the Company initiated an insurance brokering 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 sixty-three (63) locations spread across the island. In early 2013 the Company opened a fully-fledged branch in Jaffna, thereby increasing the total number of branches to thirty-nine (39) and during the year opened its doors in 11 dispersed locations in the country, bringing the total number of service centres to twenty-four (24) as at the end of March 2014.

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

The registered office of the Company is situated at 2nd Floor, No. 267, Galle Road, Colombo 03.

Financial and Operational Highlights

Company	2014	2013	Change
Financial Results of the Year (Rs. million)			
Total income	3,623	2,976	22
Interest income	3,528	2,862	23
Net interest income	1,660	1,338	24
Profit before VAT on financial services and taxation	657	736	(11)
Profit before taxation	622	680	(9)
Profit for the year	535	579	(8)
Dividends paid	215	133	62
Earnings retained during the year	314	447	(30)
Financial Position (Rs. million)			
Loans and advances	12,676	11,560	10
Total assets	15,870	14,270	11
Deposit base	5,624	3,412	65
Borrowings	3,423	6,136	(44)
Debentures	4,157	2,618	59
Shareholders' funds	2,102	1,574	34
Operational Results of the Year (Rs. million)			
New advances disbursed	6,861	7,009	(2)
Net flow of deposits	2,212	680	225
Debt instruments issued	2,410	1,216	98
Borrowings obtained	1,860	3,703	(50)
Capital expenditure incurred	408	214	91
Information per Ordinary Share (Rs.)			
Earnings per share	9.83	10.64	(8)
Dividends per share	1.79	3.24	(45)
Net assets per share	35.80	29.49	21

535

Profit for the Year
(Rs. million)

2013: Rs. 579 million Change: (8%)

12,676

Loans and Advances
(Rs. million)

2013: Rs. 11,560 million Change: 10%

63

Branches and Service Centres
(Nos.)

2013: 52 Nos. Change: 21%

Company	2014	2013	Change
Key Performance Indicators			
Return on average total assets (%)	3.55	4.58	(1.03%pt)
Return on average shareholders' funds (%)	29.11	42.84	(13.73%pt)
Net interest margin (%)	11.67	11.17	0.50%pt
Gross non-performing assets ratio (%)	3.48	1.07	2.41%pt
Interest cost to interest earned ratio (%)	52.96	53.26	(0.30%pt)
Interest cover (times)	1.29	1.38	(7)
Equity to assets ratio (%)	13.24	11.03	2.21%pt
Debt to equity ratio (times)	3.61	5.56	(35)
Price earning ratio (times)	5.09	4.70	8
Dividends yield (%)	3.58	6.48	(2.90%pt)
Statutory Regulated Ratios			
Core capital ratio (%) - Minimum statutory requirement 5%	14.00	11.41	2.59%pt
Total capital ratio (%) - Minimum statutory requirement 10%	20.93	11.31	9.62%pt
Liquid assets to deposit liabilities ratio (%) - Minimum statutory requirement 10%	36.86	54.53	(17.67%pt)
Government securities to average deposit liabilities ratio (%) - Minimum statutory requirement 7.5%	8.41	7.76	0.65%pt
Rating			
Fitch Ratings Lanka Ltd.	BBB+(lka)	BBB+(lka)	

15,870

Total Assets
(Rs. million)

2013: Rs. 14,270 million Change: 11%

2,102

Shareholders' Funds
(Rs. million)

2013: Rs. 1,574 million Change: 34%

492

Staff Strength
(Nos.)

2013: 414 Nos. Change: 19%

Chairman's Message

Since commencement of business over 45 years ago, I am proud to state that we have recorded a steady performance and have been rated a Category 'A' company among Non-Banking Financial Institutions in the country, by the Central Bank of Sri Lanka.

Dear Shareholders,

Welcome to our Annual General Meeting. I am pleased to present to you the Annual Report of Senkadagala Finance PLC for the financial year 2013/14.

Since commencement of business over 45 years ago, I am proud to state that we have recorded a steady performance and have been rated a Category 'A' company among Non-Banking Financial Institutions in the country, by the Central Bank of Sri Lanka.

Recovery of the World Economy

Recording a growth of 3%, global economy broadly strengthened during the year 2013. Much of the impetus arose from advanced economies on account of the structural reforms and policy decisions which were geared to promote sustainable growth. The recovery of the Euro Zone turned positive during the year. However, economic expansion of emerging economies was hampered due to cyclical factors and decrease in potential output. The developing economies too were affected by conflicts and political instability in 2013 but grew far more than the developed economies, recording a growth of 4.7% against 1.3% of the advanced economies.

Sri Lanka Records a Healthy Growth

Sri Lanka on the other hand rebounded to a higher growth trajectory and recorded a healthy economic growth of 7.3% in 2013. Improved macroeconomic conditions, subdued inflation, declining interest rates and the relatively stable exchange rates contributed towards this growth momentum. Going forward, the improving external environment, increased investments and a recovery in domestic consumption would drive GDP growth in the country.

The relaxation of monetary policy would create an impetus for credit expansion in the private sector.

Subdued Growth of the Non-Banking Financial Sector

Although the Central Bank lowered its policy rates causing the interest rates to reduce during the year, the credit demand remained subdued. This hampered the growth potential of the industry. However, by the year end a slight improvement in credit demand was evident but it did not satisfy the industry potential.

The relatively high interest rates offered by the Non-Banking Financial Institutions (NBFIs) triggered a growth in the deposit base in the industry. High liquidity was evident due to low credit demand and growth of deposits. The level of non-performing assets increased mainly due to customers' reluctance to redeem pawning advances and high lending rates offered during past years. Furthermore, there was an increase in operational expenses as well due to expansion of the branch network. These factors affected the profitability of the industry during 2013.

Saturated market conditions and fluctuating interest rates in the market were the key challenges which affected the business growth. This had a negative impact on net interest income which increased only by 10% YoY to Rs. 44 billion. The interest margin, which is the net interest income as a percentage of average interest earning assets of the sector, declined to 6.6% compared to 7.4% in the previous year.

The plan for consolidation of the banking and financial sector aims to create a strong financial sector consisting of approximately 20 NBFIs, with asset bases of Rs. 20 billion or above. These institutions would be characterised by a strong capital base, resilience in volatile market conditions with a high degree of compliance with the regulatory framework. The consolidation process is expected to create opportunities for the big players of the industry, however, a cautious approach should be adopted in merger/acquisition decisions. We are pleased to announce that our Company is actively participating in this initiative and is exploring opportunities to grow.

Our Key Focus Areas

We firmly believe in steady and sustainable growth. Our objectives are set not just to increase numbers but to attain sustainable development. As such we continually strive to create value for all our stakeholders. This philosophy has enabled us to safeguard the interests of our depositors and enhance the profitability of the Company for over 45 years.

Information technology has always been a critical success factor in achieving the objectives of our institution. We have an internally developed information system which has enabled us to effectively and efficiently cater to the diverse needs of our customers. It has also enabled us to execute centralised control while delivering a tailor-made service whilst maintaining the high standards of the Company.

During the year, we widened our geographical reach by opening 11 new service centres in strategic locations in Sri Lanka. This enabled us to increase our customer base and provide our services to them effectively.

Our Performance

I am pleased to mention that we successfully completed two listed debenture issues and a rights issue during the year. The debenture issues which were aimed at strengthening the capital levels of the

Company were oversubscribed on the very first day of opening. This demonstrates the strong public confidence in our institution. The proceeds enabled us to reduce the mismatch between assets and liabilities and thereby shrink the interest rate risk of the Company. The rights issue was concluded successfully in December 2013. I sincerely thank the shareholders for their unwavering support and trust placed on the management and the Company in making the rights issue a success.

During the year, we successfully secured a loan of USD 7 million with a 5 year tenure from International Finance Corporation (IFC), a member of the World Bank Group to support the growth of micro and small businesses across the country. This is IFC's first investment in a Non-Banking Financial Institution in Sri Lanka since 1999. This is expected to create new opportunities and pave the way to obtain other low cost funding for the Company in years to come.

The overall slowdown in credit growth in the industry, has had a negative effect on our profitability during the financial year. Accordingly, the profit after tax dipped by 7.5% YoY to Rs. 534.9 million. The loans and advances increased by 9.65% to Rs. 12.6 billion, whilst total assets grew by Rs. 1.6 billion to Rs. 15.8 billion in 2013/14, reflecting a growth of 11.21%. The deposit base grew by a staggering 64.82%, from Rs. 3.4 billion in 2012/13 to Rs. 5.6 billion in 2013/14. The liquid assets of the Company also improved mainly due to the sluggish credit demand that prevailed in the market throughout the year and the increase in customer deposit base.

Challenges Faced During the Year

Managing non-performing assets within acceptable limits was a key challenge. The gross non-performing asset ratio of the industry for year 2013 amounted to 6.7%, compared to 5.0% in 2012. This was a notable deterioration. However, our Company succeeded in maintaining a NPA ratio of 3.48% for the financial year under review, lower than the industry average.

Effects of the deteriorating credit quality and thinning interest margins caused the profitability of the industry to decline significantly. Profit after tax for the industry decreased from Rs. 14.9 billion in 2012/13 to Rs. 7.7 billion in 2013/14, reflecting a decline of 93.6%.

Rewarding Our Shareholders

During the year the Board of Directors has recommended the issue of 6,522,755 shares in the proportion of one (1) new ordinary share for every nine (9) ordinary shares, credited as fully paid at a consideration of Rs. 40/- per share, by way of capitalisation of reserves. This was subject to approval from the Colombo Stock Exchange and shareholder approval at an EGM and has since been completed. The Board has also declared and paid a dividend of Rs. 1.79 per share to date, and is proposing a final dividend of Rs. 0.80 per share.

Future Outlook

The low interest rate regime is expected to prevail in the market for the foreseeable future, which is likely to stimulate credit demand in the economy. The Government has embarked on a mega scale infrastructure development plan, which is expected to improve the productive capacity of the country significantly. These factors are expected to create business opportunities for the Company in the future.

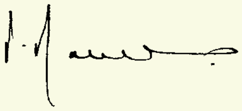
Further, the strengthening of the financial sector and improved governance structure coupled with sound risk policies, will enable the banking and financial sectors of Sri Lanka to secure overseas funds with favourable terms and conditions.
Sri Lanka is on its way to become the regional and international service hub in South Asia. Therefore, the potential for provincial development is extremely high.

In this context, we will continue with our expansion strategy adopted three years ago and partner the development process of our nation. We have believed in organic growth since commencement of our business. Hence we will grow our branch and service centre network during the ensuing year.

In line with the consolidation plan we will negotiate and acquire a suitable company which will help create synergistic values to our stakeholders. Meticulous screening will be carried out prior to selecting the ideal partner for consolidation.

Thank You

As I conclude, I wish to thank my colleagues on the Board for their support and guidance. My appreciation goes to the Managing Director for his valuable contribution to the Company and the staff members for their tremendous efforts and dedication. I also thank the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka and his staff members for their support and guidance.



Dr. Prathap Ramanujam
Chairman

21st July 2014

...Convenience

We've been making things more convenient for the customer - opening service centres… 11 of them during the year; providing on-line facilities enabling savings depositors operate their accounts; introducing SMS alerts for debit card transactions and facilitating customers' fund transfer activity via our membership in SLIPS (the Sri Lanka Interbank Payment System).

Managing Director/ CEO's Review

The total assets of the Company grew by 11.21% to Rs. 15,869.6 million whilst loans and advances swelled by 9.65% to Rs. 12,676 million.

Year 2013 marked our 45th Anniversary. The many strategic initiatives we embarked over the years have proved to be highly successful. They enabled us to remain strong and resilient through challenging economic conditions maintaining healthy capital levels with a steady asset growth during the period. We have established an island-wide network of 63 branches and service centres, a strong asset base of Rs. 15.8 billion and an equity base of Rs. 2.1 billion. Our NPA level is one of the lowest in the industry.

Our Strategic Initiatives

We are a technologically driven company. Incorporating the latest technology in our operations, we provide an efficient and speedy service to our customers whilst maintaining adequate levels of control. In our pursuit to embrace favourable developments in technology in our business operations, we joined the Sri Lanka Interbank Payment System (SLIPS) partnering with LankaClear - the national payment infrastructure solution provider. Through this venture, our customers are able to transact directly with over 30 banks and several non-bank financial institutions. This has proved to be a competitive advantage especially in securing new businesses.

We also extended our SMS alert facility to keep our customers informed about their VISA debit card transactions. Our deposit products were successfully promoted amongst customers via our website. The advanced level of accessibility given to the customers enabled us to gain a competitive edge in the market.

The retention of our loyal deposit customer base over the years has been a key competitive advantage. In an industry characterised by intense competition especially for fixed deposits, our depositors have been with us for many years. During the financial year under review, amid negative sentiments of another finance company in distress, we succeeded in increasing our deposit base by an impressive 64.82% to Rs. 5,624.4 million. This is a strong indication of the higher level of customer confidence earned by the Company.

To strengthen our low cost funding base, we secured a five year term loan from the International Finance Corporation (IFC) with a stable interest rate.

Our branch expansion strategy initiated a few years ago has enabled us to increase our presence island-wide. Despite severe competition, our branches in the North and the East were able to break even within a short span of time. During the year, we opened 11 new service centres, increasing the total to 63 as at the end of the financial year under review. Branch expansion is planned to further penetrate urban areas while accessing outstations with untapped potential.

Competent staff is a key driver in promoting strategic success of our Company. Through an efficient recruitment process we have secured a highly experienced team of senior managers who are dedicated to the development of the organisation. Our committed and competent team of staff members has enabled us to deliver an excellent service to our valued customers over the years. We continue to train and empower our staff members to enhance their capabilities and skills. A meticulous succession plan is also in place to maintain a competent management team in the future as well.

As a responsible corporate citizen, we continued to uplift the communities in which we operate. In this regard, we continued with the internship programme to support the youth of our country to obtain practical experience. We also extended our support to *Kusum Sevena* Day Care/Pre-school managed by the Good Shepherd's Convent, Kotahena and the Special Education Unit in the Dompe Primary School. These were some of the CSR projects undertaken during the year.

Our Performance

The total income for the financial year amounted to Rs. 3,623 million reflecting an increase of 21.77% Year on Year. Net interest margin expanded to 11.78% compared to 11.17% in 2012/13. The net interest grew by 24.09% to Rs. 1,660 million. However, the net profit for the year declined by 7.53% to Rs. 534.9 million. This was mainly due to the marginal increase of NPAs and the increase in our operational costs due to the increasing number of new branches and service centres.

The total assets of the Company grew by 11.21% to Rs. 15,869.6 million whilst loans and advances swelled by 9.65% to Rs. 12,676 million. There was a notable shift in the composition of funding sources with securitised borrowing shrinking by 44.22%, to Rs. 3.42 billion in the current financial year. Debt securities on the other hand, grew by 58.78% to 4.1 billion. Total equity was increased by 33.5% on account of the rights issue concluded during the year.

These measures have strengthened the capital levels of our Company and reduced the gearing ratio as well.

Through stringent credit evaluation and recovery process we have succeeded in maintaining our NPA ratios to be one of the lowest in the industry. This is the successful outcome of the collective effort taken by the management and the operational level staff. A meticulous credit evaluation technique has been set in place to streamline the process while centralised control is maintained to ensure the accuracy of the evaluation process.

Stringent Risk Management Process

The importance of risk management is continuously emphasised by the management. As such we revised and developed our risk management techniques to cater to the rapid developments in the environment.

An Environment and Social Management System (ESMS) was introduced during the year, which is intended to integrate environmental and social risk management into the business process of the Company. We also updated and revised the credit risk manual and comprehensively trained our staff members on the internal controls, procedures and the methods of credit evaluation. Plans are underway to revamp our deposit procedure manual as well.

Looking Ahead

Going forward, we will continue with our branch expansion drive to increase the branch total to 100 within several years. This is expected to generate an increased level of business which would have a positive effect on the market share of the Company. Steps will be taken to further penetrate the lease and hire purchase segment, which will in turn enable us to further develop our income streams.

In line with the financial sector Consolidation Plan of the Central Bank of Sri Lanka we have identified the opportunity to acquire a suitable B grade listed finance company. Analysis and screening process is underway and this is expected to increase the value addition of our Company and create synergistic value to all stakeholders.

The IFC loan has paved the way for us to secure overseas funding which is relatively low cost. With adequate risk management measures in place we will be able to withstand the risks of such transactions and reap the benefits of stable sources of low cost funding in the future.

We will continue with our innovative spirit and present the customers with the development of new technological advancements. This will enable our customers to experience an excellent level of service, whilst a whole array of new services will be offered through the Company website as well. Our customers would be enabled to perform online cash transfers using their savings accounts through our online portal in the ensuing year.

There was a significant dip in market interest rates throughout the financial year. We expect the low interest rates to prevail in the market thereby improve credit demand. The volatility of the market rates has a significant impact on the performance of the finance companies, it is imperative to maintain the stability of the capital market to promote the development of the financial services sector.

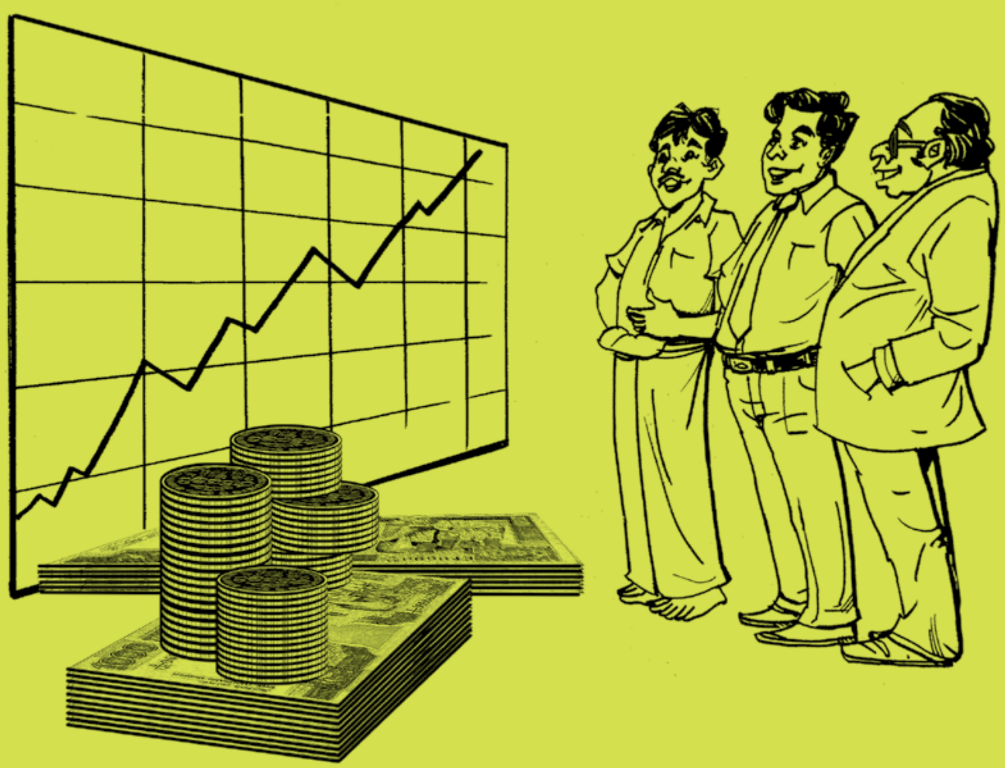
Acknowledgements

As we conclude another momentous year, I wish to thank the Board of Directors for their continuous support and strategic guidance, the senior management team and staff for their dedication and tireless pursuits. I also thank the Director and the staff of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka for their support and guidance.

As we move forward, we will continue to focus on delivering an unparalleled customer service and generating sustainable value for all our stakeholders.

Mr. Lakshman Balasuriya
Managing Director/CEO

21st July 2014



...Returns

We strengthened our capital base via a rights issue and subordinated debentures which facilitated the investors to benefit from With Holding Tax (WHT) exemption on listed debentures. We also pay adequate returns to our depositors as well.

Management Discussion and Analysis

Senkadagala Finance continuously strives to serve all its stakeholders with perfection. This year we completed 45 years of successful service and is standing strong with a positive outlook towards the future. With the broader prospective of enriching the days ahead for our stakeholders, the management strives to create sustainable business growth.

Global Economic Outlook

The world economy, for the most part, had a good 2013. Although, many countries are still struggling their way out of the 2008 financial crisis, it was seen that activity in the major advanced economies started to accelerate from subdued levels experienced during the previous year. However, the growth recorded by many of the emerging economies including China was low compared to their performance following the recession. Economic activity in the Middle East Region, North Africa and Pakistan were adversely affected by the external environments they operate in such as the political instability and the decrease in oil production. Europe is experiencing a slow and uneven recovery from the economic crisis where Germany recorded an impressive come back; reducing unemployment and improving living standards while Greece, Italy and Spain were underperforming.

Global Economic Developments and Outlook (a)

Item	2011	2012	2013 (Est.)	**2014 (Proj.)**
World Output	3.9	3.1	3.0	**3.7**
Advances Economies	1.7	1.4	1.3	**2.2**
United States	1.8	2.8	1.9	**2.8**
Euro Area	1.5	-0.7	-0.4	**1.0**
United Kingdom	1.1	0.3	1.7	**2.4**
Japan	-0.6	1.4	1.7	**1.7**
Emerging and developing economies	6.2	4.9	4.7	**5.1**
Developing area	7.8	6.4	6.5	**6.7**
China	9.3	7.7	7.7	**7.5**
India	6.3	3.2	4.4	**5.4**
World Trade Volume (Goods and Services)	6.1	2.7	2.7	**4.5**
Imports				
Advanced economies	4.7	1.0	1.4	**3.4**
Emerging and developing economies	8.8	5.7	5.3	**5.9**
Exports				
Advanced Economies	5.7	2.0	2.7	**4.7**
Emerging and developing economies	6.8	4.2	3.5	**5.8**
Price Movements				
Consumer prices				
Advanced economies	2.7	2.0	1.4	**1.7**
Emerging and developing economies	7.1	6.0	6.1	**5.6**
Commodity Prices (US $)				
Oil	31.6	1.0	-0.9	**-0.3**
Non-Fuel	17.9	-10.0	-1.5	**-6.1**
Six month London Interbank Offered Rate (LIBOR) on US$ Deposits (per cent)	0.5	0.7	0.4	**0.4**

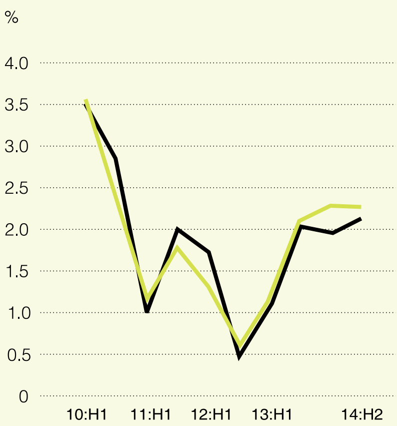
(a) Annual percentage change unless otherwise indicated

Source: I*MF - World Economic Outlook - October 2013*

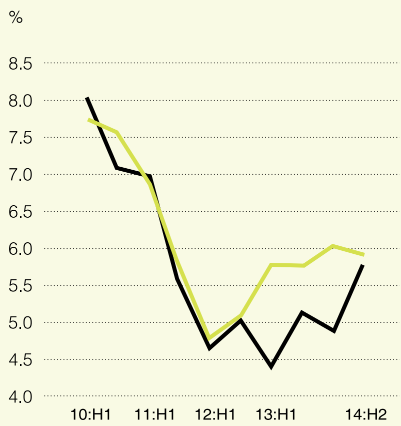
Asia in general had a moderate economic performance during the year and was weaker than anticipated. This can be largely attributed to the slowdown in the economic growth in China as mentioned at the outset. This had a spillover effect on the Region's industrial activity bringing less than satisfactory results to the emerging economies in the periphery. While the Stock Market activity in the Indian subcontinent was at a high level, the country faced persistent supply side constraints. Japan was in the limelight reflecting new policy momentum, increasing asset prices and private consumption.

The policy changes that have been taking place since the wake of the global financial crisis in 2008 has had a considerable impact on the operation of banks and financial institutions. Banks are pressurised to re-look at their business models and restructure where necessary in order to maximise profitability and sustainability. During the year, many global banks restructured their product portfolios and in the process some even let go of certain customer/product lines altogether.

GDP Growth
(Annualised Quarterly Percent Change)



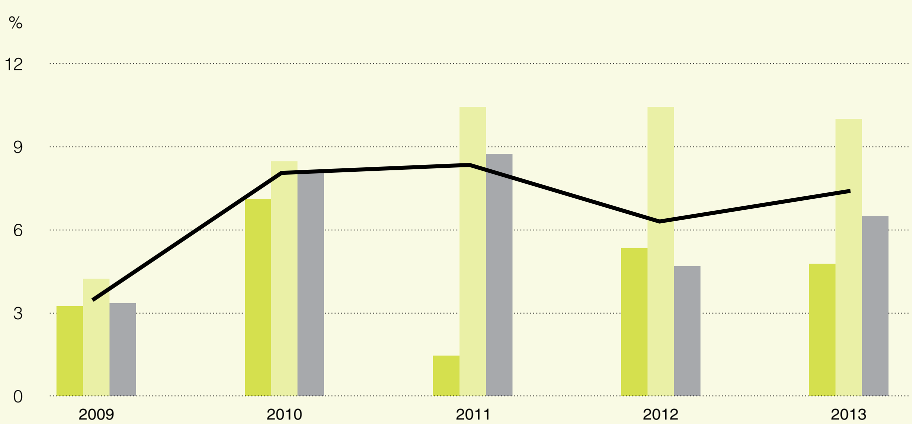
Advanced Economies



Emerging Markets and Developing Economies

April 2013 WEO
October 2013 WEO

Source: *IMF - World Economic Outlook (WEO) - October 2013*



Sri Lanka's GDP Growth by Sector (For the Calendar Year)

Agriculture
Industry
Services
Gross Domestic Product

Source: *Department of Census and Statistics Sri Lanka*

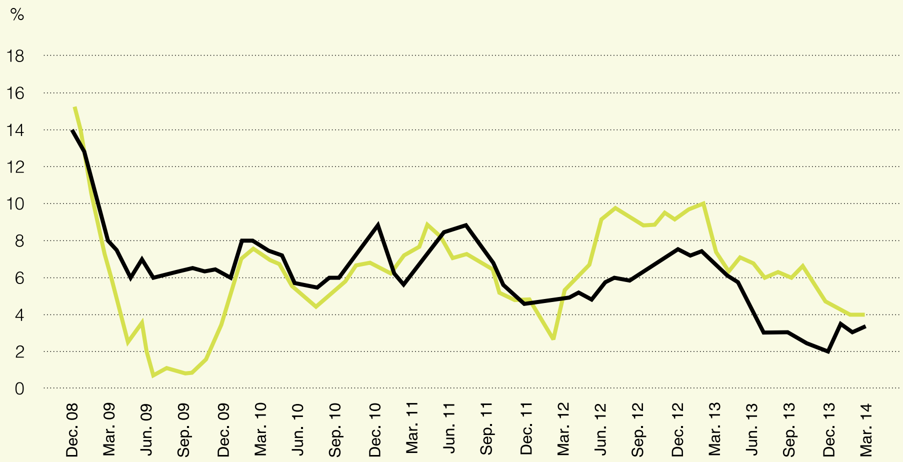
According to the International Monetary Fund - World Economic Outlook, the growing conviction in markets that a turning point in the American Monetary Policy is being reached has led to a tightening in global financial conditions since late May 2013. Many emerging markets have experienced capital outflows and currency depreciations, wider bond spreads and declining equity prices. Although, there was communication hinting at tapering of asset prices, the US Federal Reserve decided not to roll out same in September. However, the IMF predicts that the US monetary and fiscal policies are likely to have important spillover effects on the rest of the world.

Sri Lankan Economy

The growth rate of the local economy bounced back to 7.3% during 2013 compared to 6.3% growth recorded in 2012. This was mainly attributable to the strengthening domestic demand and the boom in exports and tourism industries. Inflation was maintained at an average of 6.9% for the year.

Since the stark depreciation of the Rupee during early 2012, consequent to allowing the exchange rate to float, the statistics for 2013 indicate that the currency was stable throughout the year 2013. The Sri Lankan Rupee has depreciated only 1.9% as against the United States Dollar during 2013. Also, the trend of foreign investors exiting the emerging markets during mid 2013 has had only a temporary effect on the exchange rate.

To combat the slow growth recorded during 2012, the Central Bank of Sri Lanka relaxed its monetary policy for 2013 which also had a positive impact on the inflation in the country. The change also resulted

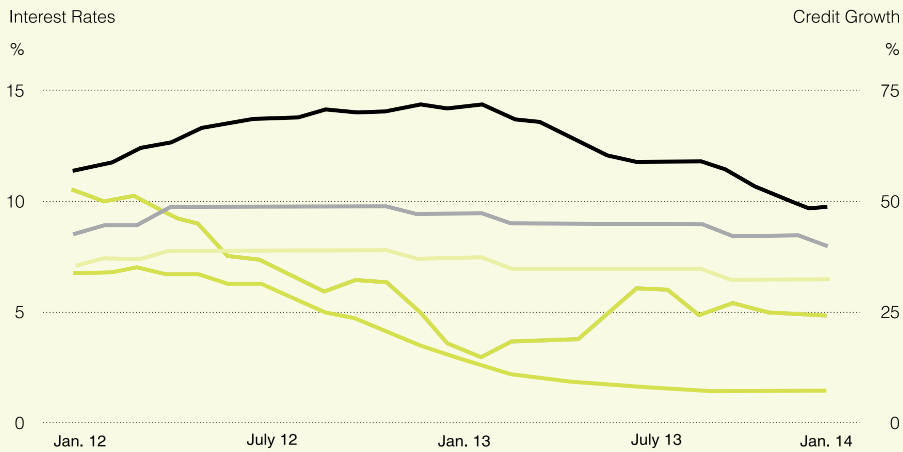


Year-on-Year Inflation

Headline Inflation

Core Inflation

Source: *Central Bank of Sri Lanka Annual Report 2013*



Credit Growth and Interest Rates

Weighted Average Prime Lending Rate

Repurchase Rate

Reverse Repurchase Rate

Private Sector Credit Growth

Government Sector Credit Growth

Source: *Central Bank of Sri Lanka. Weekly Economic Indicators.*

in banks cutting down their lending rates even though statistics indicate a further decline of credit to the private sector. However, it is predicted by the Asian Development Outlook 2014 - Sri Lanka (Asian Development Bank) that the recent relaxation in the monetary policy will allow more lending to the private sector and provide an impetus for expansion.

Sri Lanka also hopes that her export market will pick-up pace during 2014 with the improving state of economy in the US and European markets, them being the main export destinations of the country. Import market is also expected to perform better with the normalisation of domestic demand. Foreign direct investment too is expected to rise with the projected growth in the local economy and the infrastructure development that is taking place in post-war Sri Lanka.

Financial Sector

Financial sector is a key driving force of the county's economy. During the year, despite global economic uncertainty Sri Lankan financial sector remained resilient. However, the ripple effects of the tight monetary policy followed in 2012 hindered the credit demand for banks and NBFI sector. Consequent increases in defaults and gradual decline of market interest rates caused net interest margins to decline. Regardless of this decline sound capital and risk management together with adequate liquid buffers provided a healthy background for sector growth which encouraged economic growth.

With the view of strengthening the financial sector, keeping in line with the Government's call for greater consolidation in the financial sector in its budget proposals for 2014, the Central Bank has initiated the financial sector consolidation programme with a time bound action plan. Implementation of this programme brings about major structural change in the financial sector with the expected outcome of building a resilient, dynamic and internationally competitive financial sector which could catalyst the national economic growth.

It could be said that this initiative corresponds with the international approach where gradual tightening of fiscal policy and structural reforms are encouraged to restore the drawback effects of the economic recession and to avert a future crisis.

Total Assets of the Major Financial Institutions

Item	2012 (a)		2013 (b)	
	Rs. billion	Share (%)	Rs. billion	Share (%)
Banking Sector	6,377.0	70.4	7,185.5	69.7
Central Bank	1,278.8	14.1	1,246.0	12.1
Licensed Commercial Banks	4,355.7	48.1	5,022.2	48.7
Licensed Specialised Banks	742.5	8.2	917.3	8.9
Other Deposit Taking Financial Institutions	621.2	6.9	756.4	7.3
Licensed Finance Companies	536.1	5.9	653.0	6.3
Co-operative Rural Banks	77.2	0.9	94.9	0.9
Thrift and Credit Co-operative Societies	7.9	0.1	8.5	0.1
Specialised Financial Institutions	310.4	3.4	375.9	3.6
Specialised Leasing Companies	60.4	0.7	64.5	0.6
Primary Dealers	160.4	1.8	213.6	2.1
Stock Brokers	10.8	0.1	10.3	0.1
Unit Trusts/Unit Trust Management Companies	32.4	0.4	55.8	0.5
Market Intermediaries (c)	43.9	0.5	29.5	0.3
Venture Capital Companies	2.5	0.0	2.3	0.0
Contractual Savings Institutions	1,752.6	19.3	1,998.3	19.4
Insurance Companies	307.0	3.4	360.4	3.5
Employees' Provident Fund	1,144.4	12.6	1,30.0	12.6
Employees' Trust Fund	158.4	1.7	178.5	1.7
Approved Pension and Provident Funds	110.3	1.2	123.0	1.2
Public Service Provident Fund	32.9	0.4	36.4	0.4
Total	9,061.2	100.0	10,318.0	100.0

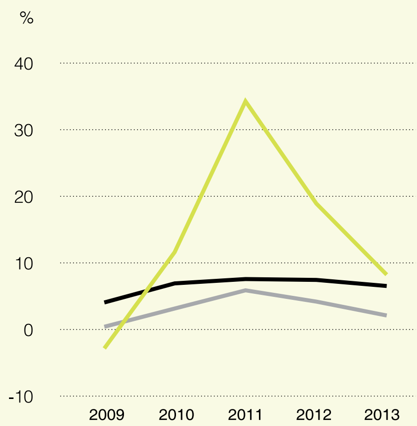
Source: *Central Bank of Sri Lanka Annual Report 2013*

(a) Revised
(b) Provisional
(c) Includes Underwriters, Investment Managers and Margin Providers

The Non-Banking Financial Institution Sector (NBFIS)

The sector comprised of 48 Licensed Finance Companies (LFCs) and 10 Specialised Leasing Companies (SLCs) as at the end of year 2013. Business expansion in terms of the Branch Network increased by 88 during the year out of which 61 new Branches were opened in outstation locations.

During the period under review, the NBFI sector continued to complement the banking system representing a 7% stake in the financial system of the country. According to the Central Bank statistics, the total asset base of the LFC and SLC sectors grew by 20% during 2013 to Rs. 717 billion, a slight decrease from the growth recorded during 2012. Fluctuations in the market prices of gold and comparatively high lending rates offered by the sector led to an increase in the non-performing loans which had a negative impact on the profitability of the sector as a whole. The NBFI sector recorded a profit after tax of Rs. 8 billion by the end of year 2013 which was Rs. 7 billion less than that recorded in 2012.



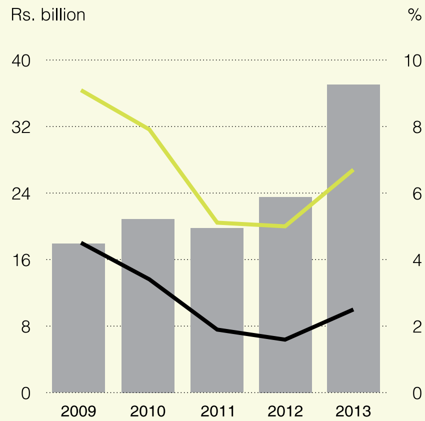
Profitability Indicators of the LFC and SLC Sectors (For the Calendar Year)

ROE

ROA

Net Interest Margin

Source: *Central Bank of Sri Lanka Annual Report 2013*



NBFI Sector NPA Ratio (For the Calendar Year)

Gross NPA (Rs. billion)

Gross NPA Ratio (%)

Net NPA Ratio (%)

Source: *Central Bank of Sri Lanka Annual Report 2013*

Deposits were the major source of funding for the LFCs, representing 47% of the LFC sector liabilities while borrowings were the major source of funding for the SLCs representing 27% of the SLC sector liabilities. As noted by the Central Bank, in its Annual Report 2013, *'the accommodation to deposits and borrowings ratio decreased from 110% in 2012 to 104% in 2013, indicating a deceleration in demand for lending activities of the sector. The capital of the sector increased marginally by 3% in 2013 to Rs. 97 billion compared to an increase of 23% in 2012, mainly due to a decrease in profitability of the sector'*.

The total amount of non-performing accommodations was recorded at Rs. 37 billion at the end of 2013 as against the Rs. 23 billion recorded at the end of 2012. Although, the sector faced difficulties due to market interest rate fluctuations during the year, the volatile movement in equity prices and exchange rates had only a limited impact as a result of the sector's low exposure to equity market and foreign currency related transactions. Further, as a spillover effect of the slow credit growth as against the steady rise in the deposits recorded from the sector, the liquid assets to total assets ratio increased from a 6% in 2012 to an 8% in 2013.

Regulating NBFI Sector

The Central Bank conducted on-site and spot examinations of LFCs and SLCs with a risk based approach and the respective companies were advised to rectify/implement the non-conformities/ recommendations made based on the findings of such examinations, according to a time bound action plan. Companies were instructed to share the said time bound action plan with the Central Bank with the aim of ensuring the effectiveness of the process. Apart from these specific examinations, the Bank also carried out its continuous off-site surveillance activities with the intention of identifying risks and initiate preventive action in a timely manner.

Central Bank also introduced several policy measures and regulations including the widening of the scope of the existing Structural Changes Direction. Guidelines on adoption of Sri Lanka Accounting Standards 32 and 39 and Sri Lanka Financial Reporting Standards 7 require LFCs and SLCs to obtain prior approval from the Director of Supervision - Non-Banking Financial Institutions for dividend distribution. The respective amendments have been incorporated into the Corporate Governance Direction. The Annual Licensing Fee applicable to LFCs was also revised during 2013.

The revision of the directions on liquid asset, interest rates, writing off of accommodations and the introduction of the direction on debt instruments managed to streamline the operations of the Non-Banking Financial Sector Institutions.

Overview of the Business Environment

Understanding of the business environment is a key success factor in implementing turnaround business strategies. Comprehensive analysis of the internal and external environment is achieved by way of a SWOT analysis. Strengths and weaknesses are internal to the organisation while the opportunities and threats are external factors. Meticulous strategic management is where opportunities are promptly identified and capitalised by matching the strengths of the organisation. The strengths of the organisation must be managed in order to reduce the impact due to threats, while the weaknesses are converted into strengths of the organisation.

For Tomorrow

Senkadagala Finance continuously strives to serve all its stakeholders with perfection. This year we completed 45 years of successful service and is standing strong with a positive outlook towards the future. With the broader prospective of enriching the days ahead for our stakeholders, the management strives to create sustainable business growth.

Strategic Initiatives

During the year, the Company embarked on several initiatives to strengthen the Balance Sheet of the Company while creating strategic ties which will create value in future endeavours.

Convert

Strengths

- 45 years of operational expertise
- Skilled, well-trained and experienced human capital
- Internally-developed IT system tailored to our specific needs
- Strategically-located branch network
- Healthy liquid asset levels maintained throughout
- Proven credit control mechanisms

Weaknesses

- Expansion of the branch network stressing profitability
- Majority of newly-opened branches are yet to breakeven
- High reliance on the main product line
- Absence of innovative products
- Deterioration of operational efficiency
- Increase in default rates

Match

Opportunities

- Opening up of untapped market segments (North & East)
- Potential economic growth
- Infrastructure development underway
- Foreign collaboration and investments
- Development in capital markets in the country
- Expansion in tourism
- Easing of tax regimes increasing the funding opportunities
- Influx of new vehicles

To be capitalised

Threats

- Fluctuating interest rates
- Improved customer awareness and price sensitivity
- Increased import duties affecting the imported MV market
- High competition due to increased number of industry participants
- Job opportunities for skilled workers in the industry
- Increase in prices of essential goods reduce disposable income hence impact on NPL

Convert

Strengthen the Capital Base

In the recent past, the capital adequacy ratio of the Company came down, mainly due to the effects of the change in the income recognition method, consequent to the convergence with the International Financial Reporting Standards. The management with the intention of strengthening the Capital Base and improving the gearing ratio of the entity, issued share capital by way of a rights issue during the financial year. The shares were issued in a proportion of one for every ten shares held for a consideration of Rs. 40/- per share increasing the stated capital of the Company to Rs. 747 million. This helped to improve the core capital ratio and the total capital ratio to 14% and 21% respectively.

With the intention of further strengthening the capital base and to take advantage of the easing of the regulations applicable to debt markets the Company issued subordinated listed debentures in December 2013. The debenture raised Rs. 1.25 billion, out of which Rs. 965 million qualifies to be included under Eligible Approved Unsecured Subordinated Term Debt of Tier 2 Capital. These measures increased the total capital ratio from 11.3% recorded last year to 20.9% as at March 2014.

Revised the Funding Mechanism

The ease of regulations in the debt markets opened new doors to funding in Sri Lanka. Exchange tradable debenture proved to be a preferred investment method among investors, with that many corporates issued listed debentures. Senkadagala Finance too issued a listed debenture in May 2013 to reap the benefits of the trend, by which Rs. 1 billion was raised. Subsequently, another debenture was issued as detailed above to support the capital base of the entity.

In addition to issuing unsecured listed debentures, the Company extended its reliance on the fixed deposit base as a form of funding. As a result the FD base of the Company increased by 67%, reaching Rs. 5.4 billion by the end of the year. The favourable movement in the market interest rates enabled the Company to refinance and reduce the interest rate gap, thereby reduce the maturity mismatch, improving the leverage of the Statement of Financial Position. Consequently, the gearing ratio of the entity decreased to 3.61 times as of March 2014.

Affiliate with Strong Business Partners

In the previous financial year, local sources of funding were restrained due to the ceiling on lending imposed on commercial banks increasing the market interest rates. The management then decided to look for other sources of funding. As a result, the Company entered into a loan agreement with the International Finance Corporation (IFC), a member of the World Bank Group. The venture is expected to raise funds at a lower cost and will be resilient to local market trends. With this, the Company is expecting to open the door for other means of such funding which will enable the Company to source low cost funds.

IFC Country Manager for Sri Lanka and Maldives, Adam Sack exchanging loan agreement with Senkadagala Finance MD/CEO, Lakshman Balasuriya. Senkadagala Finance Additional CEO Sanath Bandaranayake, Senior Manager Treasury Shanker Supramaniam, IFC Investment Officers Dinesh Warusavitharana and Ehsanul Azim, IFC Investment Analyst Rukshila Gooneratne also present.

Opening of Hanwella Service Centre.

Opening of Meerigama Service Centre.

Growth Strategy

Company initiated its branch expansion strategy in 2011/12. For the third consecutive year it continued extending the reach of the entity to dispersed locations while further penetrating highly populated areas. During the year, the Company opened service centres in Meerigama, Kadawatha, Hanwella in the Western Province and 7 centres in other regions. Approval has been obtained from the Central Bank of Sri Lanka to open ten more branches within the next financial year.

Technological Support for Growth

Advancement in technology continuously supported growth in Senkadagala Finance. We were the first finance company to introduce a chip driven VISA debit card in January 2013. During the current financial year, the Company further enhanced facilities offered with its debit card. By introducing a SMS alert system programmed to notify customers of the transactions done through the debit card. This measure helped to safeguard the customer while providing an easy form of transaction.

The website of the Company was developed to facilitate online transactions. Now a secured portal enables our customers to operate their savings and fixed deposits through the World Wide Web. A registered customer now can initiate standing orders, make fund transfers and open fixed deposits with the funds available in their savings deposits through this avenue. The management intends to further develop the array of transactions done through the Company website thereby enriching and empowering the customers. As a security measure, transactions done through the online portal too are informed to customers by way of SMS alerts.

Opening of Killinochchi Service Centre.

LankaClear General Manager and CEO Sunimal Weerasooriya exchanges the SLIPS agreement with Senkadagala Finance Additional CEO Sanath Bandaranayake. Senkadagala Finance Manager - Foreign Currency Lakshman Perera (L) and LankaClear Deputy General Manager - IT & Operations Harsha Wanigatunga (R)

In the current financial year, the Company participated in the Sri Lanka Interbank Payment System (SLIPS) by partnering with LankaClear, the national payment infrastructure solution provider. This has enabled us to effectively transact with over 30 banks and several Non-Banking Financial Institutions already on the SLIPS platform thereby adding value to the services we provide to our customers. This has been a competitive advantage in securing new businesses.

Our Product Portfolio

Senkadagala Finance strives to maintain a product portfolio which yields high returns while complementing each other which would promote business success. Customer satisfaction is given high importance, and it's considered a key competitive strength of the Company. Principal lines of business for the Company are lending and obtaining deposits. The main lending products are Finance Lease and Hire Purchase. In addition there are Commercial Loans, Personal Loans and Pledge Loans. The latest addition to this is the Pawning Advances. We also accommodate deposits in the form of Certificates of Deposit, Savings and Fixed Deposits. Except for these main products, Foreign Currency Exchange Services and Insurance Brokering Activities are also carried out. We strive to provide a full spectrum of financial services to our customers.

Finance Leases

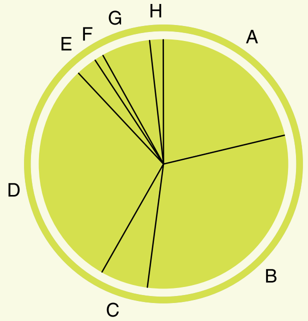
Finance lease market is a highly competitive one, with specialised leasing companies and commercial banks providing customers with a wide range of leasing options to choose from. In such an environment competing solely on the price is ineffective.

However, in the current financial year the Company managed to achieve a growth of 6% increasing the gross finance lease advances to Rs. 6,177 million. The non-performing ratio for finance leases increased to 5.37%, the average loan size is Rs. 600,000/-. The yield on average finance leases for the current year was 24%. The Company continued on its customer centric approach to differentiate itself from the rest of the industry. The Company strengthens its relationship with localised vehicle dealers, which enables us to develop our business while safeguarding the interest of the local community. This is a cost effective mean of advertising.

Hire Purchase

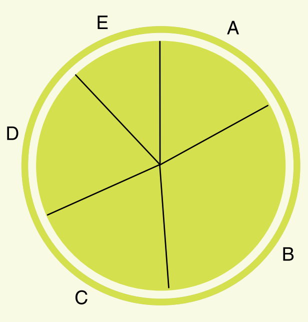
Slowdown in credit demand hampered the growth potential of lending products of the Company. The gross hire purchase loans which primarily finance registered vehicles and other equipment experienced an YoY growth of 14%. Hire purchases are marginally higher priced than finance leases, due to the high level of risk associated with the underlying security, therefore hire purchases yield a return of 25%. The non-performing ratio of hire purchases stood at 2.26%, the average loan size being Rs. 900,000/-. In order to expand this business we maintain close ties with registered vehicle dealers and vehicle brokers. Promotional activities are carried out tailored to the locality which increases the return.

Analysis of Loan Portfolio on Type of Asset Financed



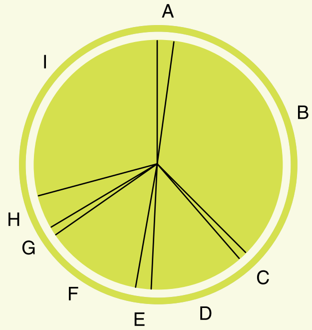
A - 21% Cars/Jeeps
B - 31% Vans
C - 6% Buses
D - 30% Lorries
E - 3% Land Vehicle - Tractors
F - 1% Motor Cycles
G - 6% Three Wheelers
H - 2% Other Loans

Analysis of Loan Portfolio on Size of Facility



A - 17% Below Rs. 0.5 million
B - 32% Rs. 0.5 million to Rs. 1.0 million
C - 19% Rs. 1.0 million to Rs. 1.5 million
D - 20% Rs. 1.5 million to Rs. 2.5 million
E - 12% Above Rs. 2.5 million

Analysis of Loan Portfolio on Economic Sector



A - 2% Agriculture and Fishing
B - 36% Manufacturing
C - 1% Tourism
D - 12% Transport
E - 2% Construction
F - 12% Trades
G - 1% Financial and Business Services
H - 4% Other Services
I - 30% Other

Other Loans and Advances

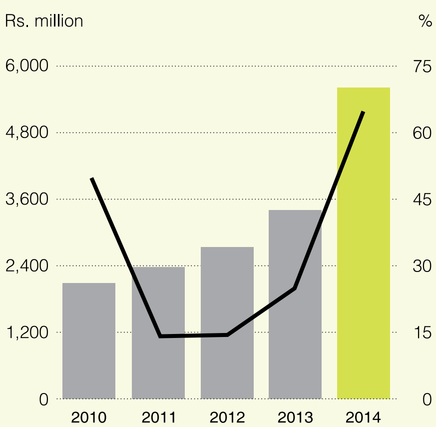
We provide loans and advances to customers in the form of commercial and personal loans. Commercial loans are granted to individuals and small to medium-term enterprises to fulfil their short to mid-term financing requirements whereas personal loans are granted to individuals who need to finance their short and medium-term financial requirements. Average commercial loan size is slightly higher than the personal loan size. Both these products are secured.

Pawning

Pawning is the latest addition to the array of lending products of the Company. The Company commenced its operations in the pawning business in late 2012 and this is the third year since commencing this business. By the end of March 2014 the pawning portfolio had increased to Rs. 106 million a YoY growth of 51%. From the commencement the management was skeptical of this line of business hence due care was observed when disbursements were made. Stringent controls were put in place from the beginning of operations. With the crash of the gold prices in the market the Company managed to safeguard itself due to these procedures.

Deposits

As a registered finance company Senkadagala Finance PLC is authorised to accept deposits from the general public. We mobilise deposits in the form of Certificates of Deposit, Savings Deposits and Fixed Deposits.



Analysis of Deposit Base

65%

2013: **Rs. 3,412 million** 2014: **Rs. 5,624 million**

Deposit Base (Rs. million)

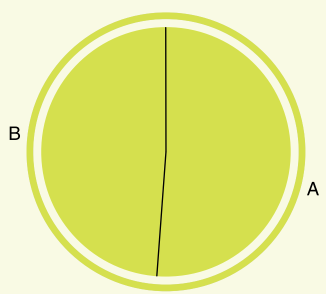
YoY Growth (%)

Fixed Deposits

Fixed deposits, also known as term deposits, are accepted for a fixed period of time ranging from 1 month to five years, interest payable at monthly, quarterly in accordance with the customer's preference. Rates of interest are governed by the ceiling rates imposed by the CBSL.

During the year fixed deposit base of the Company experienced a notable growth of 67%. The advertising campaigns carried out in the early period of the financial year together with the comparatively high rates offered by Finance Companies as opposed to banks contributed to this growth. The loyalty of the customer base is a strong point for Senkadagala Finance which enabled it to be resilient in volatile economic conditions. A notable portion of the deposit base is from senior citizens, therefore while granting higher rates compared to ordinary deposits, the staff is continuously trained to provide an extended level of customer service to these customers. As a supplementary product the Company offers loans against the fixed deposits. As at 31st March 2014, Rs. 37 million was disbursed holding the fixed deposit certificate as a security.

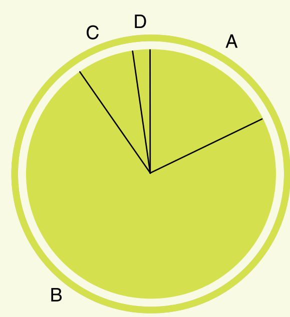
Analysis of Deposits on Customer Age



A - 51% Normal Customers

B - 49% Senior Citizens

Analysis of Fixed Deposits Based on Maturity Period



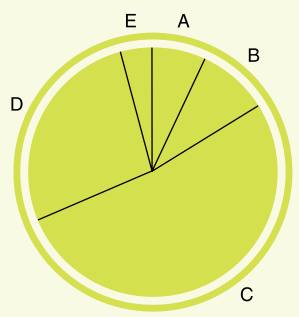
A - 18% 1 to 6 Months

B - 73% 6 to 12 Months

C - 7% 12 to 36 Months

D - 2% More than 36 Months

Analysis of Fixed Deposits Based on Interest Rate



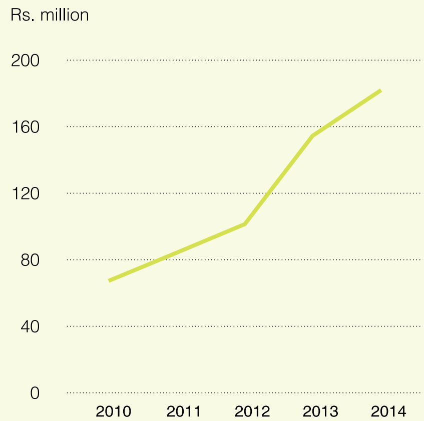
A -	7%	Less than 10%
B -	9%	More than or equal to 10% and less than 12%
C -	53%	More than or equal to 12% and less than 14%
D -	27%	More than or equal to 14% and less than 16%
E -	4%	More than 16%

Fixed deposits also provide a good source of funding, however, most of these deposits are for one year or less. Hence, it is necessary to meticulously manage the asset and liability mismatch. The interest rates on these are comparatively lower than the borrowings and other forms of funding.

Savings Deposits

The savings deposits as opposed to fixed deposits are not standardised. Customers can deposit any amount for a period of their liking, and no penalties are imposed at the point of withdrawal. The Company, subject to the directions issued by the Central Bank of Sri Lanka offer attractive rates for deposit holders. However, due to the short-term nature of these deposits it is not considered a reliable source of funding.

The savings deposits base of the Company maintained a gradual increase throughout the past years reaching Rs. 182 million by the end of the year. To further increase the benefits enjoyed by the customers new facilities such as enabling online transactions, SMS alert system, etc. were introduced during this year.



Savings Deposits

18%

2013: **Rs. 154 million** 2014: **Rs. 182 million**

Creating Synergies

Senkadagala Insurance Brokers (Pvt) Ltd.

Senkadagala Insurance Brokers (Pvt) Ltd. is a fully-owned subsidiary of the entity. Since incorporating and commencing its operations in 2012 it has witnessed notable growth. With an asset base of Rs. 58 million as at 31st March 2014, the insurance brokering arm of the entity has raised Rs. 39 million as profits for the current year.

At present, its objective is to provide intermediary services to Senkadagala Finance in insuring its lease and hire purchase asset portfolio. Through its services Senkadagala Insurance will retain the customers who would otherwise server ties with the Group once their leases/hire purchase commitments with Senkadagala Finance are fulfilled for a much longer duration of time. This strategy has enabled the Insurance Brokering arm to extend their services through the existing customers of Senkadagala Finance and record a huge growth within one year.

In years to come, the insurance brokering activities will be extended to facilitate life and general insurance as well. Initially this will be provided to the existing customer base of the entity and the customer range will be extended with the development of the business.

Review Candidates for Acquisition

In view of the Financial Sector Consolidation Plan the Company is in the process of screening potential Category 'B' companies for amalgamation. The management is keen on acquiring a company which will create synergistic value to all the stakeholders. In order to achieve this, parameters such as profitability, portfolio yield, operational efficiency, asset quality, historical default rates, etc. are closely reviewed. Purchase consideration is a key deciding factor for the acquisition. The management is keen to contribute towards the financial sector consolidation programme initiated by the Central Bank while maintaining shareholder value creation.

Financial Review

Overview

The year started with an economic background of high interest rates and a plunge in the vehicle market due to the increase in import duties for motor vehicles. Even though the market interest rates came down dramatically from the inception of the financial year the sluggish credit demand hampered the growth potential.

In the midst of all the economic turbulence, the Company managed to record a total income of Rs. 3,623 million, a growth of 22%. However, the profit after tax for the year declined by 8%. The increasing defaults were a key reason for the drop in profitability. The Company continued the expansion strategy adopted in 2011, the effects of which is seen in the bottom line.

The asset base of the Company grew by 11% to reach Rs. 16 billion in 2014. The loans and advances experienced a growth of 10% in the current year. The slowdown of credit demand is a main reason for this.

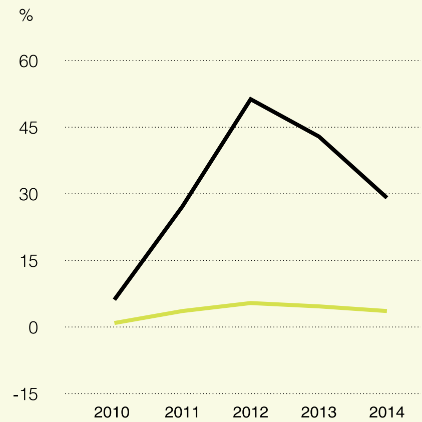
The insurance brokering arm of the Group initiated as a measure of business diversification completed a full year of operations during the period under review. The intention behind opening a subsidiary was to develop the existing fee based income stream of commission on insurance into a new business venture. During the year Senkadagala Insurance Brokers generated profits of Rs. 39.3 million, the asset base of the Company grew from Rs. 21.9 million to Rs. 58.1 million, a year on year (YoY) growth of 165%.

Profitability

The Company recorded a post tax profit of Rs. 535 million, compared to Rs. 579 million of last year. This decline of 8% can mainly be attributed to the deterioration of the asset quality and the increased level of operating expenses as a result of the expansion of the branch network. Profit for the year as a percentage of total income stood at 15% in 2014 compared to 19% in 2013. Pre-tax profit of the Company for 2014 was Rs. 622 million, a decline of 9% from Rs. 680 million recorded last year.

Consequent to the drop in post-tax profits, the profitability ratios too came down, a characteristic that was evident across the industry. However, we at Senkadagala Finance managed to maintain the profitability ratios at a level exceeding the industry average. Return on Assets (ROA), which is net income as a percentage of average assets was 3.55% for this financial year, which is a drop form 4.58% of 2013. When compared against the average industry ratio which declined from 4.2% in 2013 to 2.1% in the current year, it is evident that the Company managed to maintain its profitability exceeding the industry average levels.

In order to remedy declining capital adequacy the Company successfully concluded a rights issue in December 2013, which improved the capital base of the Company. However, as a result the Return on Equity (ROE) ratio declined, from 42.84% in 2013 to 29.11% in 2014. The comparable industry ratios are 18.9% and 8.2% respectively, another indication that Senkadagala Finance has managed to outperform the industry averages.

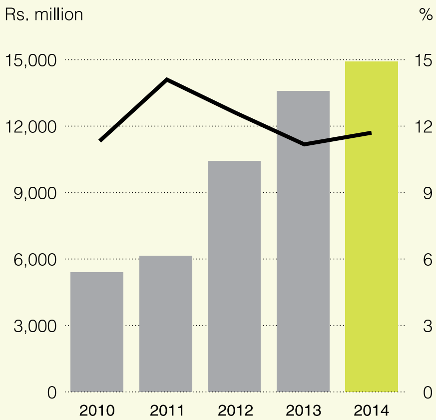


Senkadagala Finance Profitability Indicators

Net Interest Income

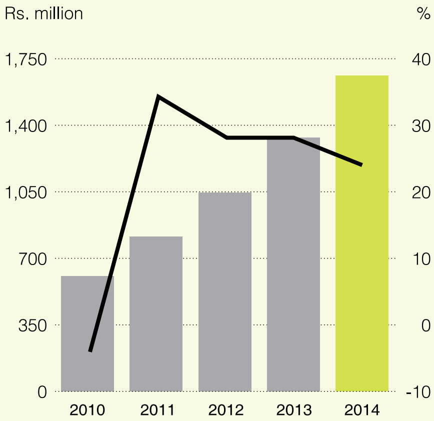
Net interest income of the Company increased by Rs. 322 million reaching Rs. 1,660 million by the end of March 2014 against Rs. 1,338 million by end March 2013, a year to year growth of 24%. By re-pricing our borrowings to be on par with the declining market interest rates and by maintaining ideal interest margins the Company managed to record a growth in net interest income.

The Net Interest Margin (NIM), which is the net interest income as a percentage of average interest earning assets increased. In the year 2014 the Company managed to record a Net Interest Margin of 11.78% compared to 11.30% in 2013, an increase of 48 basis points. Senkadagala Finance enjoyed a 4% growth in the NIM when the industry experienced a declining trend from 7.4% in 2013 to 6.6% in 2014.

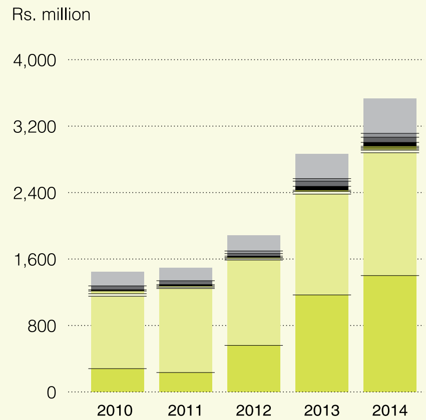


Income

Total income of the Company comprises of interest income, fee and commission income and other operating income, out of which interest income is 97%. The Company recorded an income of Rs. 3,623 million for this financial year compared to Rs. 2,976 million in 2013. The YoY growth in total income was 22% in 2014, compared to the YoY growth of 46% in the previous year. Key reasons for this notable drop in income growth were the gradual decrease in lending interest rates coupled with the sluggish credit growth. Somewhat similar YoY growth of net interest income confirms that the rapid interest rates decline was a key reason for the notable decline in the income growth.



The Company recorded an interest income of Rs. 3,528 million for the financial year 2013/14. It is a growth of 23% from Rs. 2,862 million in 2013. 95% of interest income is generated through loans and advances. Interest generated on finance leases and hire purchases increased by Rs. 239 million and Rs. 259 million respectively. Being the two key products of the Company, both these advances generated 21% more income than the previous year. Compared to the 107% YoY growth in interest income from financial leases recorded in 2013, the corresponding figure for the current year marks a notable drop. However, hire purchases witnessed a marginal increase of 120 basis points in YoY growth from 19.8% in 2013. A notable year to year growth is evident in interest earned on pawning advances, an increase of 196% compared to Rs. 6 million in 2013 to reach Rs. 19 million by 2014. Due to the slow credit growth experienced throughout the year, the Company had to deal with excess liquidity frequently. Hence the interest earned on REPO and money market instruments displays a notable growth of 61%, from Rs. 31 million in 2013 to Rs. 49.7 million in 2014.



23%

2013: Rs. 2,862 million 2014: Rs. 3,528 million

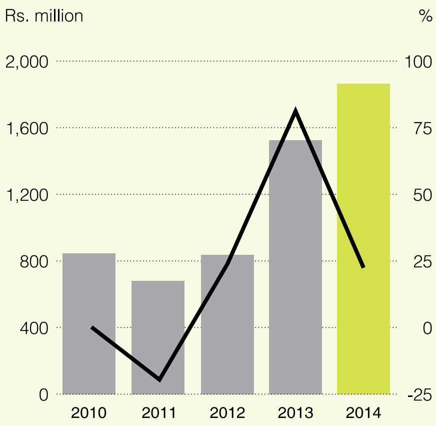
- Other Interest Income
- Repurchase Agreements
- Money Market Instruments
- Government Securities
- Fixed Deposit Loans
- Pawning Advances
- Commercial Loans
- Personal Loans
- Hire Purchases
- Finance Leases

Fee and commission income of the Company declined by 64% in the current year from Rs. 77 million in 2013 to Rs. 28 million in 2014. The reason for this is that the Company transferred its stream of commission income from insurance brokering activities to its subsidiary. When fee and commission income for the Group is considered there is an increase of 2%.

Through trading and other operating activities the Company managed to generate Rs. 67 million income and this is a growth of 81% compared to Rs. 37 million of 2013. During the year the Company earned income of Rs. 34 million as dividend and the gain from sale of investment in associate, Senkadagala Hotels is also recorded under this category.

Interest and Other Direct Expenses

Interest expenses incurred increased by Rs. 344 million in 2014, a growth of 23% when compared against Rs. 1,524 million for the year ended March 2013. In accordance with the changes in the funding structure of the Company the composition of the interest expenses has changed. Accordingly the interest on securitised bank and other borrowings which was 53% of interest expenses in 2013 decreased to 38% of total interest expenses. The YoY drop is 12% from Rs. 808 million in previous year to Rs. 704 million in 2014. On the other hand interest expenses on debt securities increased to Rs. 560 million, a growth of 94% from Rs. 288 million of 2013. During the financial year the Company raised Rs. 2.25 billion by way of issue of listed debentures, which caused the peak of interest on debt securities. Interest on customer deposits increased by Rs. 158 million a growth of 39%, reaching Rs. 558 million by the end of the current financial year. Downward trend in the market interest rates enabled the Company to minimise interest expenses while maintaining adequate funding levels to facilitate the business growth during the year.



Analysis of Interest Expenses

Fee and commission expenses increased by 21% to reach Rs. 22 million against Rs. 18 million of last year. These expenses were incurred in the intention of boosting loan disbursements.

Impairment and Other Loan Losses

Although there was a gradual decline in the market interest rates, the number of defaults recorded industry wide was in the rise. The majority of these loans were those that were disbursed during the previous financial year at higher interest rates prevalent at the time. Senkadagala Finance experienced a similar trend. The impairment and loan loss charge for the period increased by Rs. 125 million from Rs. 12 million in 2013 to Rs. 137 million. While impairment on individually significant loans recorded a charge of Rs. 3.9 million against a reversal of Rs. 0.7 million of last year, this segment was only 3% of total loan loss charge. Impairment charge on collectively assessed loans increased to Rs. 112 million in 2014 against Rs. 45 million in 2013, a growth of 150%. However, these ratios reveal that the increased level of impairment was mainly a result of the general trend of deteriorating credit quality. The default charge for the industry increased to Rs. 8.1 billion when compared to Rs. 1.5 billion of previous year, an increase of 436%. Compared to the industry average Senkadagala Finance has managed to maintain the default charges within tolerable limits.

Collective basis impairment charge is calculated product wise and the highest charge is allocated to finance leases. The collective impairment charge for this product increased by 79%, reaching Rs. 88 million in the current year compared against Rs. 49 million in the previous year. The growth of impairment charge for hire purchases was Rs. 26 million, however it is notable that this is against an impairment reversal of Rs. 2.5 million in 2013.

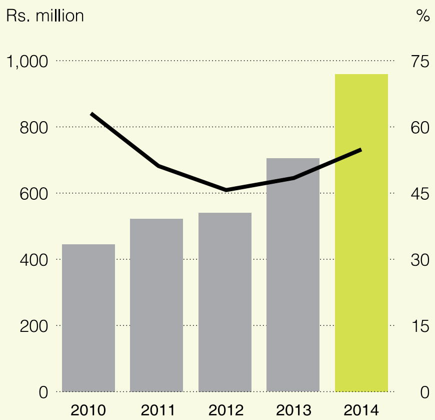
There were no loans which satisfied the criteria for write-offs during the year. The net loss on sale of seized assets increased by Rs. 51 million a notable increase from Rs. 11 million in 2013, to reach Rs. 62 million by the end of 2014. Senkadagala Finance ventured into pawning business by the end of the financial year 2011/12 but the management was aware of the potential risks of the business, hence adopted stringent controls over the activities. In light of the recent gold price trends, the skepticism adopted proved to be fruitful. Senkadagala Finance incurred Rs. 12 million as loss on pawning auction sales. Compared to the total income it is a marginal loss of 33 basis points.

Personnel and Other Expenses

Personnel and other operating expenses increased by 37% during the financial year, from Rs. 685 million in March 2013 to reach Rs. 938 million in the financial year 2014. Personnel expenses accounted for 32% of this total. During the financial year Senkadagala Finance paid Rs. 302 million as personnel expenses, a growth of 30% against Rs. 232 million in the previous financial year. When personnel expenses are considered as a percentage of total income, for the current year it is 8.3% against 7.8% in previous year, a marginal increase.

Depreciation and amortisation charged for the period was Rs. 153 million. Compared against Rs. 122 million of last year, it is an increase of 25%. This is a result of the increasing branch numbers and consequential increase in fixed assets. Likewise other operational expenses have increased by 44%, from Rs. 331 million in 2013 to Rs. 475 million, out of which 65% is on establishment expenses with a YoY growth of Rs. 80 million. Selling and other financial expenses has increased by 90%. This is a result of the issuing expenses incurred on the two listed debentures issued during the year and costs incurred for advertising on deposits, which in turn helped to develop the deposit base of the Company.

Due to the augmented level of operations and new branch openings the cost to income ratio of the Company deteriorated, from 48.5% in 2013 to 54.7% in the year 2014.



Operational Efficiency

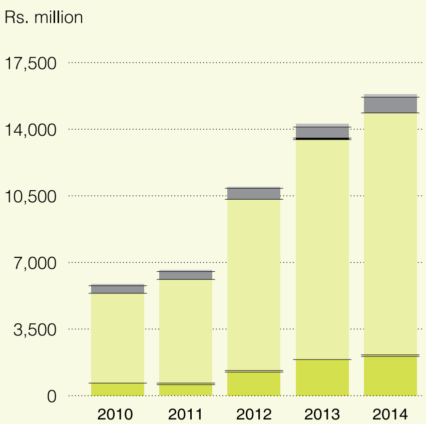
Operational Expenses (Rs. million)
Cost to Income Ratio (%)

Taxation

During the financial year the Company provided income tax of Rs. 87 million, a drop of 14% when compared to Rs. 102 million in 2013. Expansion of the branch network increasing the property, plant and equipment of the Company created a deferred tax reversal for the period. Value added tax on financial services decreased from Rs. 55 million to Rs. 35 million by March 2014, a fall of 37%.

Assets

Total assets of the Company as at end March 2014 was Rs. 15,870 million, a growth of 11% when compared against Rs. 14,270 million in March 2013. Loans and advances of Rs. 12,676 million constituted 79.8% of total assets, a marginal decline from 81% of total assets in the previous year. However, a YoY growth of 10% is evident in loans and advances. Repurchase agreements and cash and near cash items accounted for 7% and 2.5% of total assets respectively. Financial assets held-to-maturity which consists of Government Securities accounted for 3.5% of total assets against 2.7% in the previous year. Due to developments in underlying directions and regulations, the Company improved the level of Government Securities held to ensure compliance. Interest earning assets of the Company as at end March 2014 is Rs. 14,748 million, which is 93% of total assets. A major component of non-earning assets is property, plant and equipment which is 4.6% of total assets, a year to year growth of 45% evident in this asset category.



Total Assets

11%

2013: **Rs. 14,270 million** 2014: **Rs. 15,870 million**

- Other Assets
- Property and Equipment
- Investment in Subsidiary
- Loans and Advances
- Investments
- Cash and Near Cash Items

Liquid Assets

By the end of the financial year the cash and cash equivalents of the Company reached Rs. 404 million from Rs. 333 million in the previous year, a growth of 21%. In the current financial year excess liquid assets of Rs. 1,114 million has been invested in repurchase agreements, as opposed to investing with commercial banks causing significant year to year variances in these assets. In addition, the Company invested in Government Securities, in the form of Treasury Bills and Treasury Bonds mainly to satisfy various supervisory requirements.

During the financial year, the Central Bank of Sri Lanka issued a new direction defining the limits and requirements to be satisfied by a finance company, by which finance companies were required to maintain 5% of unsecured borrowings in the form of liquid assets in addition to the earlier specifications. Accordingly, it was necessitated to maintain higher levels of liquid assets.

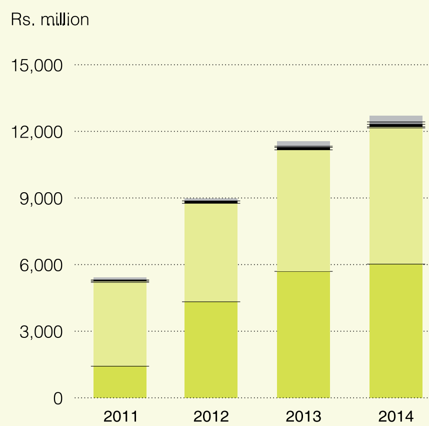
Loans and Advances

Due to the moderate credit growth experienced by the industry, the year to year growth of our loan portfolio was 9.7%, when compared against the 29% growth recorded in last year. Net loans and advances increased from Rs. 11,560 million in 2013 to Rs. 12,676 million by the end of March 2014. Likewise the growth in gross loans and advances was 10.4%, from Rs. 11,727 million in previous year to Rs. 12,950 million in current financial year. Total impairment provision increased by Rs. 107 million from Rs. 167 million in 2013 to Rs. 274 million in 2014, a notable growth of 64%.

Net advances on finance leases experienced a growth of 5%, from Rs. 5,707 million in 2013 to Rs. 6,002 million in 2014. Despite the setback in volume growth, the Company managed to maintain the return earned on average lease portfolio at 24%, compared to 23% return in the previous year.

Hire purchase portfolio increased to Rs. 6,168 million in the current year from Rs. 5,447 million, a growth of 13%. Despite the fall in market interest rates, return on the HP portfolio has been maintained on par with the previous year at 25%.

Other loans and advances consist of commercial loans, personal loans, pawning advances, loans against deposits, etc. Out of these, the pawning portfolio has experienced the highest YoY growth, from Rs. 69.9 million in 2013 to Rs. 102.9 million at year-end 2014 with a growth rate of 48%. Due to fluctuating gold prices in the market, the Company was cautious in disbursing pawning advances. However, the losses were inevitable and the Company provided for impairment on pawning advances Rs. 3.5 million. Return from pawning advances stood at 22.2% in 2014.



Loans and Advances

10%

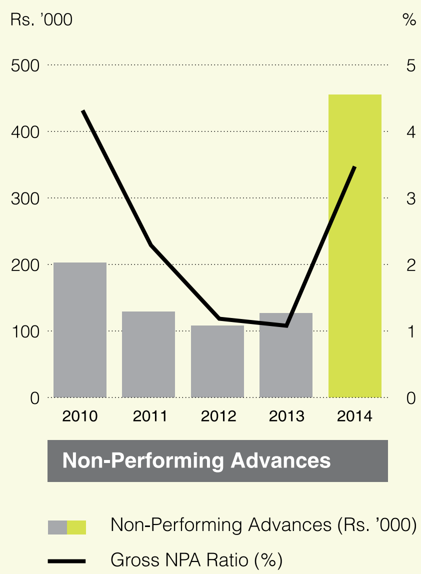
2013: **Rs. 11,560 million** 2014: **Rs. 12,676 million**

- Other Advances
- Pawning Advances
- Personal Loans
- Commercial Loans
- Hire Purchases
- Finance Leases

Asset Quality

Senkadagala Finance strives to maintain the quality of its loan portfolio, by practicing stringent screening together with sound internal controls, We have managed to limit our Gross Non-Performing Assets Ratio, which is gross non-performing advances as a percentage of total loans and advances at 3.48% by end of March 2014. Compared against 1.07% of previous year, this is a notable deterioration, However, when compared against the industry average ratio of 6.7% it is evident that the Company has managed to maintain the quality of its asset base at a satisfactory level. With the downward trend of interest rates in the market, managing advances disbursed in 2012/13 period at relative high rates became problematic. As a result higher NPAs were evident across the industry.

With the introduction of the new accounting standard, the loans and advances portfolio of the Company was tested for impairment. Rs. 51 million of loans were subjected to individual impairment. In the absence of any objective evidence, the balance portfolio together with what was not individually impaired was categorised into homogeneous groups with similar risk characteristics and was collectively impaired. The impairment provisions were Rs. 12.7 million and Rs. 261 million for individually and collectively considered receivables respectively. Impairment provision as a percentage of gross total advances increased from 1.42% in the previous year to 2.12% in the current year to provide for the deteriorated level of asset quality.



Non-Performing Advances

Property, Plant and Equipment and Other Investments

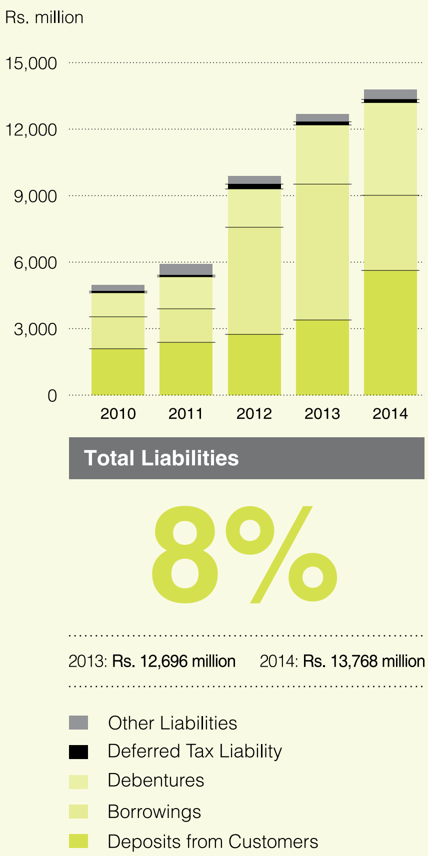
Due to the ongoing branch expansion, the Company increased its investments in property, plant and equipment by 45%, a growth from Rs. 509 million in 2013 to reach Rs. 738 million by March 2014. Compared against the 19% growth in the previous year this is a notable growth. Further, a notable year to year growth in other advances is evident mainly due to the pre-payments done on behalf of the construction work undertaken for branch expansion process.

During the financial year Senkadagala Finance PLC, entered into a share transaction with its Parent E. W. Balasuriya & Company (Pvt) Ltd. divesting 17.94% of its holding of Senkadagala Hotels Ltd. This divestment resulted in a capital gain of Rs. 5.5 million. Accordingly, the 14.34% holding of Senkadagala Hotels Ltd. is accounted as an unquoted share investment under financial instruments available-for-sale.

Liabilities

During the financial year total liabilities of the Company grew by 8%, from Rs. 12,696 million to Rs. 13,768 million as at 31st March 2014. As opposed to 48% in the previous year, the borrowings is only 25% of total liabilities in the current year. Customer deposits and debt securities issued has increased to 41% and 30% respectively from 27% and 21% of previous year, portraying a distinctive shift in the method of funding utilised by the Company.

Employee benefits increased by Rs. 17.8 million, to reach Rs. 52 million from Rs. 34 million in the previous year, a growth of 52%. The growth is mainly due to the increasing number of eligible employees, and changes in the underlying assumptions.



Borrowings

Total borrowings of the Company declined by Rs. 2,713 million a drop of 44%, from Rs. 6,136 million, in the last year to Rs. 3,423 by the end of year 2014. The decrease is primarily evident in borrowings from banks, which is a decline of Rs. 1,331 million compared to Rs. 3,763 million of last year. A key reason for this is the declining interest rate trend evident from the beginning of the year in the market, which made it sensible for the Company to switch to lower rated funds available in the market by re-financing. The moderate credit growth evident in the year reduced the need to raise funds. With the drop of securitised borrowing the unencumbered portfolio of the Company increased, which had a favourable impact on the risk profile of the Company.

Deposits

Deposits from customers increased by Rs. 2,212 million during the year from Rs. 3,412 to Rs. 5,624 million by the end of the current financial year. Proportion of saving deposits out of total customer deposits dropped from 4.5% in 2013 to 3.2% in the year 2014. This is mainly due to the above average growth in fixed deposits, a growth of 67%, from Rs. 3,255 million in 2013 reaching Rs. 5,440 million by the end of March 2014. With the collapse of a rival industry player in the beginning of the year the management was skeptical about the growth in deposit base in the industry. However, it was evident that the Company was able to enjoy the unwavering loyalty of its customer base yet again.

The savings deposit base experienced a growth of 18%, to reach Rs. 154 million by the end of the financial year. The lower market interest rates created an opportunity to the NBFIs. With comparatively higher interest rates offered to deposits they were able to attract more deposit customers as opposed to banks.

Debt Securities Issued

During the financial year the Company managed to successfully complete two listed debenture issues, first an unsecured, senior, redeemable debenture raising Rs. 1 billion and the other a subordinate, unsecured, redeemable debenture raising Rs. 1.25 billion which was primarily intended to improve the capital structure of the Company. Subsequent to the easing of tax regime applicable to debt markets, the Company with the intention of raising low cost funds while enabling our investors to benefit from the developments in the debt markets issued these debentures, by way of listing in the main board of the Colombo Stock Exchange. The debt securities issued increased to 59%, reaching Rs. 4,157 million against Rs. 2,618 million in the year 2013.

Shareholders' Funds

Total equity of the Company grew by Rs. 528 million (34%) when compared to Rs. 1,574 million of the previous year reaching Rs. 2,102 million. This growth is marginally lower than the growth of 39% experienced in the previous year.

During the year the Company issued shares by way of a rights issue for a consideration of Rs. 40 per share in the proportion of 1 share for every 10 held, raising Rs. 213,472,000/-. Consequently, the stated capital of the entity experienced a growth of 40%, increasing up to Rs. 747 million by the year end. The number of shares in issue increased to 58 million.

In accordance with the CBSL Direction No. 1 of 2003, the Company transferred Rs. 30 million to the statutory reserve fund, hence it increased by 18%, reaching Rs. 195 million by the end of the financial year.

Retained earnings of the Company increased to Rs. 989 million, a growth of 37% when compared against the Rs. 721 million in the previous year. Capitalisation of undistributed earnings accounted for the growth in retained earnings, the retention ratio being 79.78% of total earnings for the year.

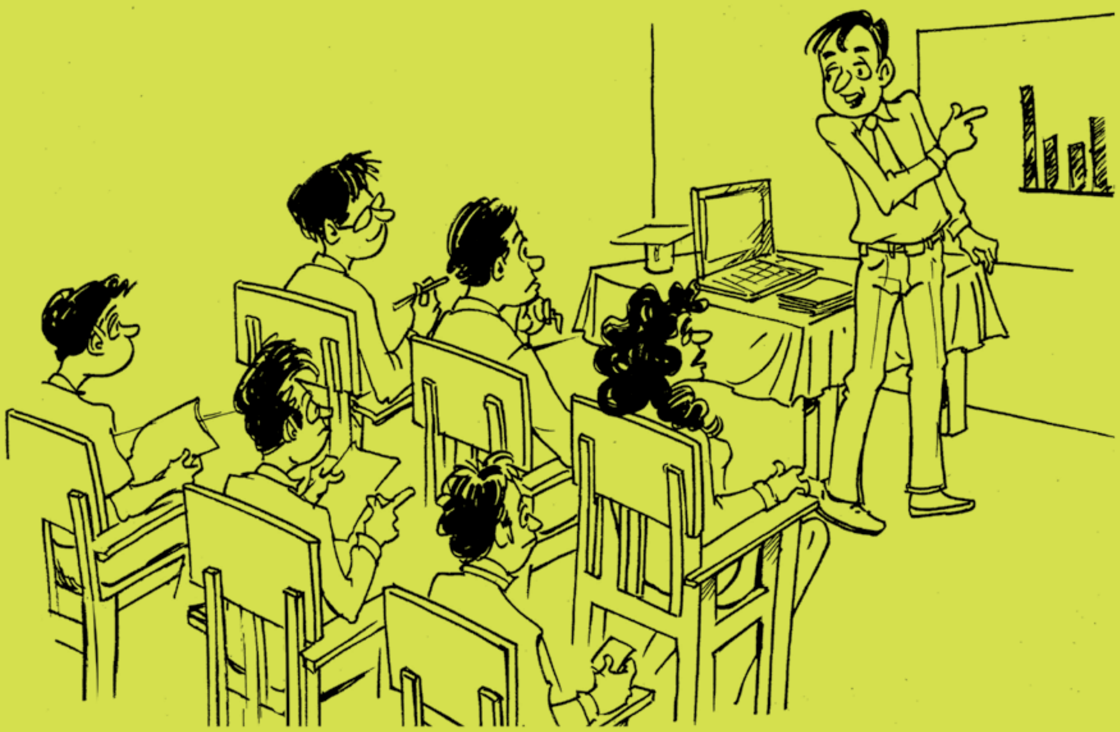
Earnings per share witnessed a drop of 7.6% for the year from Rs. 10.64 in 2013 to Rs. 9.83 in the current year. Corresponding dividends per share drop was 44%, from Rs. 3.24 in last year to Rs. 1.79 in the current year. However, the net assets of the Company experienced a 21% growth from Rs. 29.49 per share to Rs. 35.80 per share by the end of the current financial year end.

Cash Flows

During the current financial year, the Company managed to increase its cash and cash equivalents by Rs. 93.9 million. Against Rs. 31.3 million in the last year, this is a growth of 200%. The operational cash flows of the entity showed a notable growth of Rs. 3,359 million, recording a positive cash flow of Rs. 1,588 million against the negative cash flow of Rs. 1,771 million in the previous year. The main contributor for the increased cash flow is the deposits from the customers, with Rs. 2,212 million cash inflows. Interest and commission receipts also increased by 22%, reaching Rs. 3,394 million by the end of the current financial year.

During the year the Company spent Rs. 408 million as capital expenditure, a growth of 90% from Rs. 209 million in the previous year. The number of new branches and service centres opened during the year were 11 against 7 of the previous year, which caused the augmented level of cash outflow on capital expenditure. This was the key reason for the increased cash flow on investing activities. Cash used in investing activities increased to Rs. 333 million against Rs. 195 million in year 2013.

Cash flows on financing activities have also worsened regardless of the Company successfully raising Rs. 2,250 million by way of issuing debt securities. The repayment of borrowings amounting to Rs. 4,612 million caused the cash flow deterioration. With the intention of refinancing at favourable interest rates the Company paid off expensive borrowings during the year. Due to the subdued credit growth experienced the requirement to raise additional funds was limited.



...Empowerment

The Company conducted a full training curriculum across a wide spectrum of subject matter designed to empower and develop our staff.

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.

Dr. Prathap Ramanujam

B.Sc. (Hons), M.Sc. (UK), Ph.D. (Aus.)

Chairman

(Appointed interim Chairman with effect from 6th June 2013)

Dr. Ramanujam holds a first class B.Sc. (Hons.) Degree from the University of Peradeniya and a M.Sc. Degree in Economics from the University of Bristol (UK). He obtained his Ph.D. 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 and 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. Lakshman Balasuriya

B.Sc. (Lond.), M.Sc. (Lancaster)

Managing Director/Chief Executive Officer

Mr. Lakshman Balasuriya is a Director of Senkadagala Hotels Ltd., E.W. Balasuriya & Co. (Pvt) Ltd. and Thompsons Beach Hotels Ltd. He holds a B.Sc. (Lond.) and M.Sc. (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

B.Sc. (Lond.), Ph.D. (Lond.)

Director

Dr. Balasuriya holds a B.Sc. (Lond.) and a Ph.D. (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

B.Sc. (Hons.)

Director

Ms. Fernando holds a B.Sc. (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

B.V.Sc.

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)
Independent Non-Executive 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 25 years' experience in the capital markets of Sri Lanka. He founded Capital Alliance in 2000 and currently serves as the Group CEO. The Capital Alliance Group includes 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), Capital Alliance Investments Ltd. (a licensed Unit Trust manager) and Capital Alliance Finance PLC.

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

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

Mr. Sanath Divale Bandaranayake
B. Sc. (University of Sri Lanka)
Executive Director
(Appointed with effect from 1st January 2014)

Mr. Bandaranayake joined the Company after his retirement from Commercial Bank of Ceylon PLC, the largest and the most awarded Bank in Sri Lanka, having completed 36 years of service.

He has served the Bank in various capacities such as Branch Manager (Kandy, City Office), Chief Manager, Assistant General Manager and Deputy General Manager (Operations) and was a core member of the Management teams which led the Bank to important milestones: i.e. introducing the Banking Software to the Bank's operations which is used even today, introduction of Holiday Banking, Supermarket Banking and a 24 hour banking service.

During his career at the Bank he was appointed as Director at LankaClear and also served as Director of Commex Sri Lanka S.R.L (subsidiary of Commercial Bank based in Italy) and OneZero Company Ltd. (subsidiary of Commercial Bank engaged in the business of Information Technology).

Mr. Bandaranayake holds a Bachelor's Degree in Physical Sciences from the University of Sri Lanka, Vidyodaya Campus.

Mr. Tilak Collure
B.Sc. (Colombo)
Independent Non-Executive Director
(Appointed with effect from 1st June 2014)

Mr. Collure is a former Senior Public Servant from the Sri Lanka Administrative Service, who has held a number of high level positions during 35 years in the Government Service mainly in the areas of Trade, Commerce and Logistics.

He retired as Secretary of the Ministry of Industry and Commerce in 2012, prior to which, he served as Secretary, Ministry of Transport (2008-2010) and Secretary, Ministry of Ports and Aviation (2005-2008).

During his career, he has headed several Public Sector institutions such as the Ceylon Shipping Corporation, Ceylon Fertilizer Corporation, Ceylon Petroleum Corporation, National Insurance Corporation and Sri Lanka Standards Institute.

Mr. Collure holds a B.Sc. in Natural Sciences (Colombo) and a Masters in Public Administration (PIM/University of Sri Jayawardenepura).

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, customers, employees, suppliers, 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.

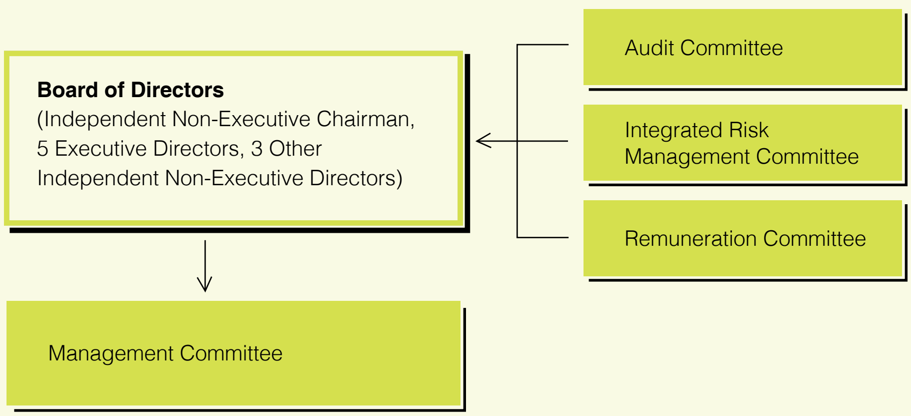
The overall responsibility for governing the Company has been assumed by the Board of Directors, followed by the Management Committee who takes leadership and performs a supervisory role in ensuring that the business is conducted in a transparent, sound and prudent manner. In governing the operations of the Company, the Board ascertains its core objectives and devises strategic plans in keeping in line with its corporate vision, mission and corporate values. The Board as part of its duties establishes policies, procedures and practices for smooth conduct of operations while providing financial, human and other resources for the attainment of its corporate objectives. Company continues to excel in the area of financial reporting which enhances transparency, one of the key features of an enterprise practicing sound corporate governance.

The Company's corporate governance structure has been designed based on recommended best practices, regulatory requirements and industry standards. It has further developed in the recent past in order to accommodate additional requirements of the regulators. The governance structure adopted by the Company is a standard top down approach which in parallel has formed several subcommittees to monitor and provide feedback to the Board on key areas of concern as given in the below diagram.

Recent Corporate Governance Initiatives

- Setting up an overall business strategy for the Company including a three-year strategic plan
- Assigning Ernst & Young to carry out a quarterly review on corporate governance and other compliance requirements of the Company with a view to bridge the gaps on a timely manner
- Approval of a policy on obtaining non-audit services from External Auditors
- Scheme of self-assessment on Board performance by Directors individually

Corporate Governance Structure of the Company



- Schedule of matters specifically reserved to the Board of Directors for decision-making
- Amending manual of operations in order to accommodate current requirements and keep it up-to-date
- Setting up an AML and CFT policy document for the Company
- Setting up an environmental and social management system for the Company in order to comply with the IFC requirement

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 there to which was 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 (CA - Sri Lanka).

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 operations 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 the 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 Non-Executive Chairman and the Managing Director/CEO have been in line with the Section 7 of the Direction. The Chairman is required to provide leadership to the Board to ensure that the Board effectively discharges its responsibilities. The Managing Director/CEO on the other hand being an Executive Director is responsible for effective running of day-to-day operations of the Company.
2.3	Independent professional advice	Complied	Independent professional advice could be obtained by the Directors as and when required at the Company's expense.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
2.4	Voting for resolutions in matters of interests	Complied	There had been no such circumstances that arose during the year and procedure is in place to avoid conflict of interest in relation to matters of interests. There is proper identification and disclosure of Directors Interest in Contracts and Related Party Transactions through proper recording and disclosure in Financial Statements.
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 it, which was approved by the Board during the financial year.
2.6	Situation of Insolvency	Complied	Such situation has not arisen as Company fulfilled all its obligations accordingly. Company makes payment of interest and capital on due maturity dates to its depositors and its borrowers when they fall due.
2.7	Corporate Governance Report	Complied	This report satisfies the stipulated requirement.
2.8	Scheme of self-assessment	Complied	This was implemented during the year and annual self-assessment by each Director on Board performance will be carried out accordingly.
3. Meetings of the Board			
3.1	Number of meetings	Complied	Please refer table of Directors attendance for the Board meetings given later in this section. Board papers and other matters which require Board's consent had been taken up directly at Board meetings as much as possible.
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 the risk management of the Company.
3.3	Notice of Meetings	Complied	Directors are given adequate time and minimum notice period for all Board Meetings.
3.4	Attendance of Directors	Complied	All Directors have attended the Board meetings as stipulated by the Direction. Attendance of Directors at Board meetings is given later on in this Annual Report.
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. Prior to circulation, Board Secretary obtains Chairman's approval for the Notice of Meeting and the agenda.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
3.7	Access to the Company Secretary	Complied	All Directors have the opportunity to obtain advice and services of the Company secretary without any restriction.
3.8	Minutes of Board Meetings	Complied	Duly perfected minutes of the Board meetings are available with the Board Secretary and those are accessible by any Director at any point in time.
3.9	Details of Minutes	Complied	Minutes of all Board meetings are duly recorded in sufficient details and retained by the Board Secretary under the direct supervision of the Chairman.

4. Composition of the Board

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
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.

Name of Director	Directorship Status	Number of years in position as at 31st March 2014
Dr. P. Ramanujam	Chairman - Independent Non-Executive Director	Completed 1 year
Mr. W. A. T. Fernando	Independent Non-Executive Director	Completed 3 years
Mr. S. Kulatunga	Independent Non-Executive Director	Completed 1 year

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
4.3	Appointment of an employee as a Director	Complied	Additional CEO of the Company has been appointed as a Director with effect from 1st January 2014 after taking the approval from CBSL.
4.4	Number of Independent Non-Executive Directors	Complied	Board comprised of three Independent Non-Executive Directors out of total of eight Directors in the Board as at the end of the financial year. Mr. T. Collure was appointed to the Board with effect from 1st June 2014, who serves as a Non-Executive Director
4.5	Alternate Director	Complied	No such situation has arisen during the year.
4.6	Skills and Experience of Non-Executive Directors	Complied	Three Non-Executive Directors of the Board possess adequate skills and experience to contribute to the Board in effectively discharging of its obligations. The details of qualifications and experience of each Non-Executive Director have been set out in pages 36 and 37 in this Report.
4.7	Meetings without Non-Executive Directors	Complied	Audit Committee had a meeting with the External Auditors without the presence of the Executive Directors in May 2014.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
4.8	Directors Information	Complied	Composition of the Board by category of Directors, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has been disclosed in this Report in page 46.
4.9	Appointment of new Directors	Complied	There has been a formal and transparent procedure for the appointment of new Directors to the Board.
4.10	Filling a casual vacancy of a Director	Complied	Dr. P. Ramanujam was appointed as Interim Chairman in order to fill the casual vacancy due to attainment of retirement age of the former Chairman.
4.11	Resignation/Removal of a Director	Complied	All new appointments and resignations are informed to the Director, Department of Supervision of Non-Banking Financial Institutions and also to the Colombo Stock Exchange on a timely manner.
5. Criteria to Assess the Fitness and Propriety of Directors			
5.1	Directors over 70 years of age	Complied	Mr. C. L. de Alwis, Former Chairman of the Company resigned during the year after reaching 70 years of age as per the requirement of the Direction on Corporate Governance.
5.2	Holding of office in companies	Complied	Holding of office by the 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 being 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, Dr. P. Ramanujam is an Independent Non-Executive Director.
7.3	Relationship between Chairman and CEO and other Directors	Complied	There are no material relationships, including financial, business or family between the Chairman and the CEO and other members of the Board which impair their respective roles and functions as members of the Board.

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. The agenda with notice of meeting is duly circulated to the Directors at least seven days prior to the meeting. 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 are three Board appointed subcommittees namely Audit Committee, Integrated Risk Management Committee and Remuneration Committee. Minutes are kept for each of the above committees under the supervision of the Chairman relating to each committee. A report on the performance, duties and functions of each committee has been made available in this Annual Report.
8.2	Audit Committee	Complied	Mr. W. A. T. Fernando, a qualified Chartered Management Accountant and an Independent Non-Executive Director of the Company acts as the Chairman of the Audit Committee. Other member of the committee is also an Independent Non-Executive Director and possesses multifaceted experience including finance background. The details of the Audit Committee are set out in the Audit Committee Report on page 47.
8.3	Integrated Risk Management Committee (IRMC)	Complied	IRMC consists of one Non-Executive Director, two Executive Directors including CEO and Key Management Personnel. All key business risks are addressed and assessed on a continuous basis by the IRMC through its periodic meetings.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
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 treatments to related parties. Particulars relating to related party transactions have been disclosed in the Notes to the Financial Statements. The Company has not entered in to any transaction in a manner that would grant the related party 'more favourable treatment' than if dealt with an unrelated customer.
10. Disclosures			
10.2	Disclosures in the Annual Report	Complied (Sections (c) and (j) has been certified by the Independent Internal Auditors of the Company)	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 is given on page 73. b. Statement of internal control by the Board is given on page 79. c. The statement referred on Section (b) above has been certified by Messrs Ernst & Young, Independent Internal Auditors of the Company. d. Names and other information of Directors are provided on page 36 and 37 e. Fees and remuneration paid by the Company to the Directors in aggregate is given on page 128. f. There were no accommodation granted to related parties during the year. g. The details of aggregate values of remuneration paid by the Company to its Key Management Personnel are disclosed on page 128. h. There were no non-compliances to prudential requirements, regulations, laws and internal controls. i. There were no regulatory and supervisory concerns on lapses in the finance 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. j. The Independent Internal Auditors have submitted a factual finding report on the corporate governance status and its compliance with the Directions issued by the Director, Department of Non-Bank Supervision of the Central Bank of Sri Lanka.

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, Criterion for Defining Independence, Remuneration and Audit Committees. Following table depicts the level of compliance of the Company under each area.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
7.10.1	Non-Executive Directors	Complied	There were three Non-Executive Directors and it was more than one third of the Board of Directors.
7.10.2	Independent Directors	Complied	All three 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 46). Brief résumé of each Director has been set out on pages 36 and 37. 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 49 of this Annual Report.
7.10.6	Audit Committee	Complied	The Audit Committee is comprised of two Independent Non-Executive Directors. The Report of the Audit Committee including its' composition, policy and scope has been set out on page 47 of this Annual Report.

Board and Committee Meetings - Attendance

Names	Directorship Status	Board	Audit Committee	Integrated Risk Management Committee*	Remuneration Committee
Number of Meetings held		12	03	04	04
Mr. C. L. de Alwis	Former Chairman Independent Non-Executive Director (Resigned w.e.f. 5th June 2013)	03	03	–	–
Dr. P. Ramanujam	Chairman Independent Non-Executive Director	11	01	–	04
Mr. L. Balasuriya	Managing Director/Chief Executive Officer	11	03	03	04
Dr. A. Balasuriya	Executive Director - Operations	10	–	–	–
Dr. M. Balasuriya	Executive Director - Planning	11	–	–	–
Mrs. L. Fernando	Executive Director - Human Resources	09	–	–	–
Mr. W. A. T. Fernando	Independent Non-Executive Director	12	03	–	04
Mr. S. Kulatunga	Independent Non-Executive Director	11	03	–	04
Mr. S. Bandaranayake	Executive Director - Additional Chief Executive Officer (Appointed w.e.f. 1st January 2014)	03	03	03	04
Mr. T. Collure	Independent Non-Executive Director (Appointed w.e.f. 1st June 2014)	–	–	–	–

** Key Management Personnel have attended the meetings.*

Report of the Audit Committee

The Audit Committee has been established by the Board of Directors to assist 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 make 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 two 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. S. Kulatunga is the other member of the Audit Committee (Brief profiles of Directors have been set out on pages 36 and 37 in this Report).

The Managing Director/Chief Executive Officer, Executive Director/Additional Chief Executive Officer, Assistant General Manager - Accounts, Senior Financial Officer, Internal Auditor, representatives of the firms of 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 discharges its responsibilities through a series of meetings during the year. At these meetings, the Committee reviews 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 46 of the 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. And also Audit Committee had a meeting with the External Auditors without the presence of Executive Directors as per the corporate governance requirements.

Mr. W. A. T. Fernando
Chairman

21st July 2014

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. W. A. T. Fernando -
Independent Non-Executive Director

Mr. L. Balasuriya -
Executive Director - CEO/Managing Director

Mr. S. D. Bandaranayake -
Executive Director - Additional CEO

Senior Management representatives who attend the meetings are:

Mr. P. Ikiriwatte - Deputy CEO

Mr. J. Jayatilake - GM - Operations

Mr. T. De Silva - DGM - IT

Mr. T. K. Aturupana - AGM - Accounts

Mr. A. D. Hettiarachchi - AGM - Credit Control

Mr. K. Rajapakshe - Senior Financial Officer

Mr. S. Supramaniam - Senior Manager - Treasury

Mr. S. D. R. S. Fernando - Senior Manager - Personnel and Administration

Mr. N. Rasingolla - Senior Manager IT

Mr. N. Karunaratne - Chief Manager - Legal/Customer Services

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.

Mrs. L. Fernando
Chairperson

21st July 2014

Report of the Remuneration Committee

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

Composition

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 36 and 37 of the 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 remuneration framework for the Managing Director/CEO 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 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 for such meetings are set-out in page 46 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

21st July 2014

...Trust

The Company is an exemplary depository of trust…of its depositors…and the IFC in disbursing financing for micro and small businesses across the country.

Risk Management

Risk is an integral part of business, the nature of the business and the changes in the operating environment could cause deviations from the expected objective, severity of which could affect the continuity of the business itself. Due to the fact that finance companies deal with money and due to the severity of repercussion in the event of a failure, risk management is considered an important factor for a financial institute.

The importance of sound risk management is frequently emphasised by regulators, which obliges to initiate proactive mechanisms to manage risk. Nevertheless we see leading industry players collapse due to lapses of risk management.

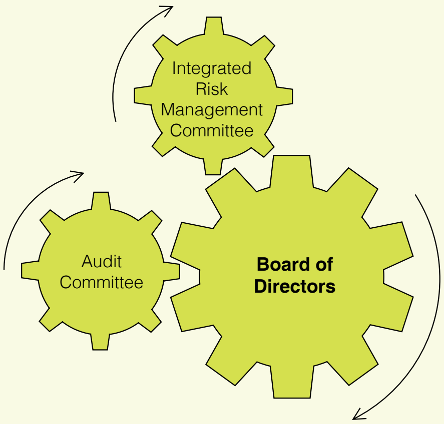
We at Senkadagala Finance have incorporated a risk strategy to facilitate the overall business strategy of the Company which has enabled us to strike a balance between the risk and reward trade off. Risk strategy is communicated to the operational level staff by way of risk policies and frameworks, which defines the risk appetite of the entity and instigates a risk culture for the organisation.

Risk Governance

Responsibility for risk management is assumed at the Board level hence the risk objectives are set at this level. The Integrated Risk Management Committee, a subcommittee of the Board assesses the overall risk strategy of the Company in the context of various changes in the environment and ensures that the policies are set accordingly, further they advise the Board on course of action to be taken for potential risks.

Policies are effectively communicated to the operational level management and controls are put in place to minimise deviations from the desired objectives. The responsibility to achieve the risk parameters are shared among the risk assuming managers and the higher level management, which enables the Company to react to the risk in an effective manner.

Periodically senior managers and other department heads gather in conjunction with the Integrated Risk Management Committee in order to discuss the effectiveness of the risk management process, evaluate current business activities in the context of risk and identify developments in the environment for potential new risks and mechanisms to curtail these risks. Periodical reports are submitted to the meeting assessing the risk parameters against the predetermined risk indicators. Reasons for variances are discussed while evaluating suggestions for mitigating such risks.



Setting Objectives

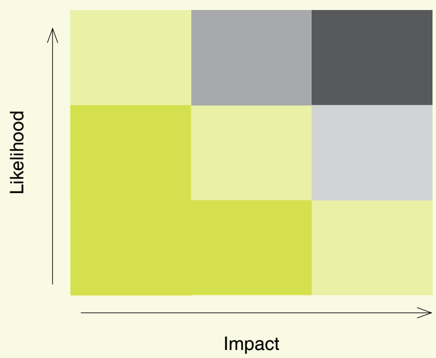
Key objectives of the organisation, with regard to risk management are -

- Identify potential risks that hinder the profitability of the entity.
- Manage the Statement of Financial Position in order to strike a balance between assets and liabilities to optimise the value creation for the entity.
- Ensure that set parameters are adequate to curtail downside of risk while exploiting the returns.

Identification and Measurement of Risk

Potential risks are identified and analysed for the likelihood of occurrence and the severity of impact, control actions will be decided based on both factors. Accordingly parameters are set to ensure that risk is managed within the tolerable levels, which will enable the Company to maximise returns. For exposures which exceed the tolerable limits appropriate measures will be decided based on the probability of occurrence.

Collective dialogue amongst different department managers at the Integrated Risk Management Committee ensures a comprehensive assessment of potential risks and its impact. This process has enabled the Company to establish a robust risk management mechanism.



Risk Policies and Framework

Risk objectives are cascaded down to functional levels by way of policies, frameworks and internal controls. Procedure manuals are used to setup the framework for effective risk management while communicating the risk tolerance levels to functional managers and operational staff. The management has taken steps to establish a risk culture within the organisation, which is expected to create awareness among staff on potential risks, control actions to be taken when faced with risk and a sense of risk responsibility which will enable the Company to manage risk proactively.

Risk Controls and Review

To optimise the risk return trade-off it is vital to ensure the adequacy of the risk management process, therefore periodical reviews and control mechanisms play an important part in this process. The Audit Committee, a subcommittee of the Board plays a key role in this. This Committee has been established to assist the Board of Directors with the general oversight of financial reporting, affairs with the External and Internal Auditors and most importantly they hold the responsibility to ensure adequacy and efficiency of the internal controls adopted by the Company. Report of the Audit Committee on page 47 of this report contains a detailed description of the composition and the functionality of the Audit Committee.

A periodic Risk Assessment Report is submitted to the Board summarising the actual risk indicators against the risk tolerance levels set by the risk policy of the Company. This report is compiled at the Integrated Risk Management Committee meetings, analysing reasons for the variances and identifying probable causes. This Report suggests remedial actions for high variances while identifying adequate control measures.

We have in place a process of continuous internal audit, utilising the co-sourced services of Ernst & Young Advisory Services (Pvt) Ltd., reporting directly to the Audit Committee and the Board of Directors. Monthly reports are submitted, communicating deviations from the standard operating procedures, misconducts and lapses in the internal control process while identifying the severity of impact.

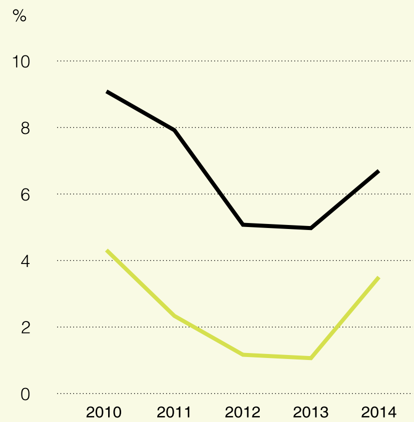
Credit Risk

Credit risk is the risk arising due to failure of the counterparty to meet the contractual obligations or in simpler terms it is losses as a result of defaults. This may arise not only due to deteriorated credit worthiness of the borrower but also due to adverse fluctuations in the market. However, credit risk is inseparable from the finance business, eliminating credit risk is improbable. Therefore, credit risk should be meticulously managed to optimise the returns while restricting the losses within tolerable parameters.

How We Manage Credit Risk

Credit Risk Objective	Course of Action
Attain a healthy portfolio	- A vigorous credit evaluation process is in place which comprehensively assesses the customer rating in accordance with the potential default risk - Loan officer, branch manager and/or a higher level officer approves the facility in accordance with the approval hierarchy - Employees are regularly trained in credit evaluation techniques - Risk tolerance levels are set for identified key risk parameters and strict adherence to these levels - Exposure limits are set for economic sector based on the historical loss experience - Exposure limits are set for asset category based on past loss given default experience - Exposure to individuals are restricted for tolerable limits - Ensure that the extended finance is in conformity with the Company's Environmental and Social Management System
Maintain a low non-performing asset ratio	- Responsibility for recovery is retained with the loan officer - Recovery department oversees the recovery process ensuring that exposure is within tolerable limits
Maintain a low infection ratio	- Identify defaults and take prompt recovery action - Identify potential defaulters proactively by maintaining close links with customers and thereby analysing payment patterns - Set performance objectives in line with the Company's risk objectives
Minimise the loss given default	- Comprehensive review of securities undertaken before extending the loan facilities - Centralised valuation of motor vehicles to prevent judgmental deviations at loan disbursements - Strict controls over the loan to value ratio, specially in identified high risk asset categories - Continuous auction sale of seized assets through an online system which enables us to sell for the highest bidder - Insure the underlying asset for probable losses
Control the movements in arrears buckets	- Recovery responsibility is held with the loan officer - Identify individually significant customers and constantly review them against risk parameters

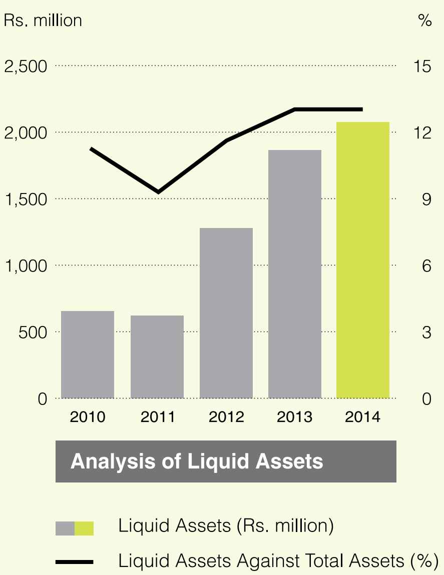
The Company has managed to continuously maintain its NPA ratio at a lower level. In 2013, we managed to record a gross NPA ratio of 1.07%. However, by 2014 due to unavoidable economic conditions the ratio increased to 3.48%, but compared against the industry average ratio of 6.7% Senkadagala Finance is at a commendable position.



Gross NPA Ratio

Liquidity Risk

Liquidity risk is the inability of the entity to honour its financial obligations as they fall due without incurring unexpected losses. Liquidity and solvency risk are inevitable for financial institutions due to probable Statement of Financial Position mismatches. This could also hinder the growth potential of an entity when adequate funding is unavailable for new lending. Excess liquidity results in opportunity cost which is a loss for the entity. Hence it is necessary to maintain the right amount of liquid assets to maintain profitability.

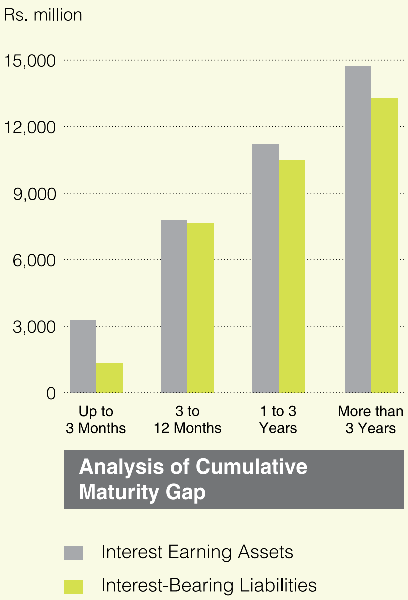


Analysis of Liquid Assets

Central Bank from its Finance Companies (Liquid Assets) Direction No. 04 of 2013 governs the level of liquid assets a finance company should maintain. To complying with these levels Senkadagala Finance pursue the following objectives:

Liquidity Risk Objective	Course of Action
Maintain adequate levels of liquid assets to promote portfolio growth	- Set disbursement targets in line with the budgeted profitability level for a reporting period - Set target levels and tolerable deviation levels for recovery ratios - Budget for the likely cash flows - Identify potential cash shortages and plan for funding those shortages - The management strategise techniques to get optimum return from temporary excess liquidity situations
Generate funds when required for loan repayments	- Analyse the available loans and other borrowings of the entity and strategise methods of refinancing with adequate time - Maintain the loan recovery rates at tolerable levels to facilitate smooth cash flows
Optimise the short-to long-term funding ratio	- Managing the maturity mismatch, set tolerable levels of mismatch for various maturity buckets - Continuously review and report on the tolerance levels - Readjust the tolerance levels in turbulent economic conditions and vice versa
Cumulative maturity gap management	- Set risk tolerance levels for cumulative maturity gap ratios - Continuously review and control against the tolerance levels

Senkadagala Finance has continuously adhered to Central Bank regulation on liquidity management, further the Company has been able to capitalise on emerging market opportunities due to maintaining healthy liquidity levels. Due to meticulous liquid management Senkadagala Finance has been able to achieve a short-term surplus in the cumulative maturity mismatch.



Analysis of Cumulative Maturity Gap

Operational Risk

Losses arising from inadequate or failed internal processes, people and systems due to internal and external events are operational risks. It is difficult to assess the level of operational risk exposed to as it covers a broad spectrum of activities and functions within an organisation; however a robust internal control mechanism needs to be in place to evade losses due to this risk.

Following are certain examples of operational risk types and mitigatory controls practiced by Senkadagala Finance,

Operational Risk Types	Steps Taken to Evade Operational Risk
Internal fraud	- A robust internal control system is in place with stringent controls over sensitive functional areas - A panel of skilled line managers who are accountable for the risk parameters in the relevant operational section - Control mechanisms are incorporated in to the information system of the entity to enable good governance - Authority limits are enforced for high exposure transactions - A strong risk culture is created within the organisation which strengthen the risk policies and frameworks - During the financial year the Company reviewed and updated its procedure manual to streamline with the developments in new business areas and the information system
External fraud	- Continuously review and upgrade the customer screening process - Regularly update and upgrade information system security to deter fraud
Employment practices and work place safety	- Comprehensive employee screening policies - Provision of continuous training and development to our staff internally as well as externally - Issuing Circulars and Memorandums by way of e-mails to all staff regarding changes in controls promptly - Continuous development to our systems, processes and procedures as and when necessary to accommodate new requirements and controls
Client, products and business practices	- 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 - Regional managers are given the opportunity to do market surveys and come up with product changes and new viable promotions as to capitalise market changes from time to time
Damage to physical assets	- All buildings and assets are comprehensively insured - All cash within the premises and in transit are insured - Staff are trained regularly on the fire escape plans, and workplace safety measures
Business disruption and system failures	- We have in place a Disaster Recovery Site which enable us to continue operations with minimal down time - The Company has in place a Business Continuity Plan
Execution, delivery and process management	- Company has a comprehensive operations manual which is updated accordingly with environmental and business process changes - Continuously educate the staff on changes to market conditions and business processes via Email

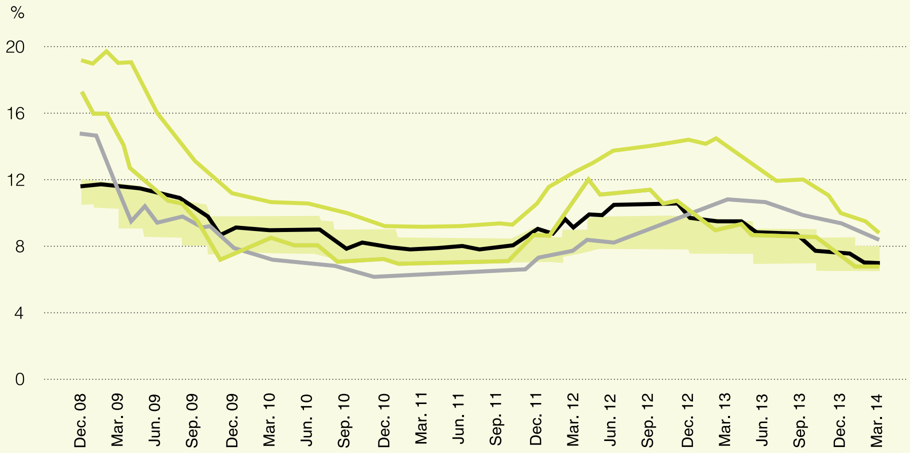
In addition to these, the Company is maintaining adequate capital funds to provide buffer in volatile circumstances. By the end of March 2014 the Company had a core capital base of Rs. 1,931 million and total capital of Rs. 2,887 million.

Market Risk

Market risk is the possibility of risk due to uncertainty of movement in market factors such as interest rate, tradable equities, currencies and commodities. Probable loss exposure varies with underlying risk factors. Hence they are evaluated separately.

Interest Rate Risk

Finance institutions in the business of financial intermediation, are vulnerable to interest rate risk. Interest rate fluctuation being an external factor is beyond the control of the entity's management. This can be controlled only by meticulous management of assets and liabilities of the entity by which optimising the net interest return.

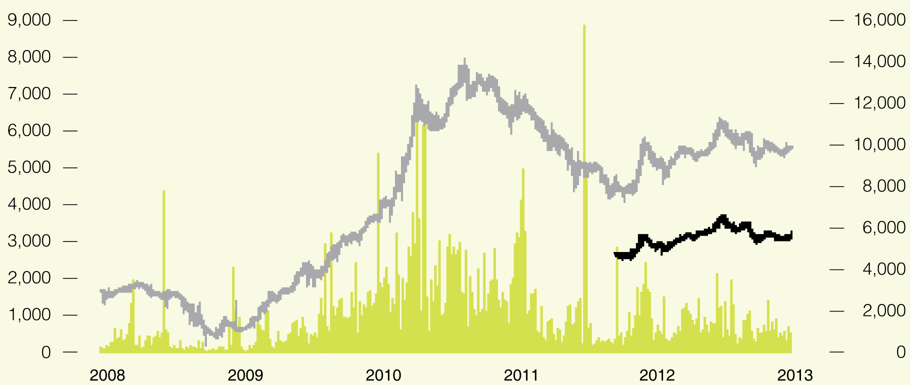


Policy Interest Rate Corridor and Selected Market Interest Rates

How We Manage Interest Rate Risk

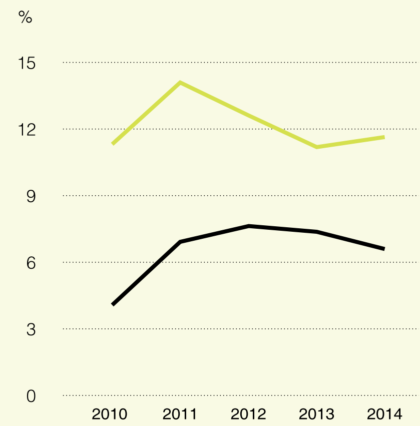
Interest Rate Risk Objective	Course of Action
Maintain the net interest spread	- Set risk tolerance levels for interest spread and continuously review it in light of prevailing market trends - Continuous scanning of the changes in the market interest rates, and identify trends and patterns in market fluctuations which help in deciding future strategies - Carryout yield curve analysis - Periodical review of the pricing of loans, leases and other products, based on the market trends and competitor rates - Identify optimum sources of funding in light of the current market trends, and setting risk parameters and budgetary targets to achieve them - Reprise assets and liabilities to make use of favourable movements in the market

Interest Rate Risk Objective	Course of Action
Strike a balance between floating and fixed rated borrowings	- Floating rated loans enable the entity reprise its liabilities in accordance with market trends, while fixed rated loans help to be resilient in a rising interest rate environment. Hence an optimal ratio of fixed to floating rated funding is maintained to improve net interest margins - Earning assets of Senkadagala Finance PLC, is primarily fixed rated, hence maintaining adequate levels of fixed rated funding is important. An optimal parameter is set for fixed rated funding - Optimal level of fixed to floating rated borrowings help to maximise profitability, the set parameters are regularly reviewed
Maintain an optimal gearing ratio	- Identify and maintain the optimum mix of equity and borrowing which gives a lower rate of Weighted Average Cost of Capital (WACC)



ASPI, S&P SL 20 Index and Daily Turnover at the CSE

S&P SL20 Index (Index Points)
ASPI (Index Points)
Daily Turnover (Rs. million)

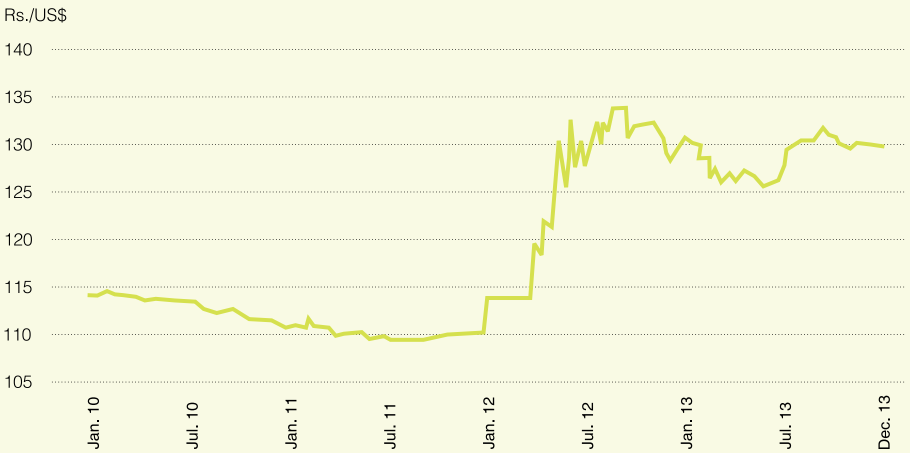


Net Interest Margin

0.8%pt

2013: 7.4% 2014: 6.6%

Senkadagala Finance
Industry



Exchange Rate Movements - Rupees per US$

Equity Risk

Equity risk is another form of market risk where the entity is exposed to losses due to volatility of exchange traded equity and debt instruments. Due to high volatility in the market losses from this array of risk could be severed.

Senkadagala Finance has small exposure to this risk as we have only Rs. 75 million which is 0.47% of total assets as equity investments trading in the Colombo Stock Exchange. During the year the Company recorded Rs. 2 million gains on trading from these assets, also recorded a capital gain of Rs. 6.5 million on mark to market of assets held at Statement of Financial Position date. Due to the minimal exposure the Company had outsourced the management of these funds to a specialised fund manager as a portfolio investment.

Foreign Exchange Risk

Foreign exchange risk is the risk exposure due to adverse movements in the currency exchange rates. In the financial year 2012/13 Senkadagala Finance commenced operation of its foreign currency exchange function, however the Company does not hold any currency positions through this operation. Hence we are not exposed to any currency risk.

By the latter of the financial year the management entered in to an agreement with the International Finance Corporation (IFC) for a US Dollar borrowing. This venture will expose the Company to both translation and transaction risks. The management is actively involved in formulating a method to minimise the risk exposure, by utilising locally available resources and hedging mechanisms.

Regulatory Risk

Regulatory risk is the loss that could arise due to failure of the Company to comply with applicable rules, regulations and codes of conduct. The loss may be financial, loss of opportunity or damages to the reputation of the entity. Due to its vulnerable nature the finance business is a highly regulated industry.

The department of supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka governs and supervises the finance companies. As a listed company Senkadgala Finance is required to follow the Continuous Listing Requirements of the Colombo Stock Exchange and regulations of the Securities and Exchange Commission as well. In addition, the Company is obliged to comply with accounting standards issued by The Institute of Chartered Accountants of Sri Lanka, rules and regulations enforced by Local and National Government Authorities and various other regulations, standards and directives which govern the industry.

The management has taken the following steps to mitigate regulatory risk and ensure sound governance,

- The management has incorporated limits and restrictions enforced by the regulations in to the business system of the entity.
- Responsibility is assigned to the functional managers and department heads to maintain relevant ratios within the stipulated limits.

- A compliance function is in place, a compliance officer who directly reports to the Board closely monitors and periodically reports of the status of conformity of the entity with all the requirements of the applicable regulatory bodies.
- A quarterly compliance audit function is in place with the expertise of Ernst & Young Advisory Services, which ensures that the Company is in compliance with respective regulations and directives.

Regulatory Requirements Against SF PLC Ratios

Column 1	CBSL Stipulated Limit	SF PLC
Capital		
Core capital ratio (%)	5.00	14.00
Total capital ratio (%)	10.00	20.93
Minimum core capital (Rs. million)	400	1,931
Liquidity		
Total liquid assets required* (Rs. million)	716	1,898
Government Securities as a % of average deposit liabilities	7.50	8.41

** Total of 10% of fixed deposits and certificates of deposit, 15% of savings deposits and 5% of unsecured borrowings*

Strategic Risk

Strategic risk is losses arising due to strategic decisions, this may occur due to external or internal events. Internal events being misguided decisions causing financial losses, improper implementation of business decisions, etc. The external events such as changes in underlying economic conditions unfavourably, or unexpected moves of competitors could also lead to financial losses.

The Company has in place a Vision and a Mission in order to outline the general strategic direction, strategic objectives are thoroughly reviewed against these. Critical analysis is done before a strategic decision is implemented, robust strategic planning and budgetary processes are carried out before activation. Periodical review and continuous control action is undertaken in order to ensure the success of the strategic decision.

An overall business strategy including a four year financial forecast is in place to govern the future direction of the Company.

The entity has in place a continuous environmental scanning system, which maintains a watchful eye over changes in the macro economic conditions, potential trends and competitor behaviour.

Reputation Risk

Reputation risk is the loss of earning, profitability, capital or brand image due to negative publicity. Losses due to tarnished reputation may arise due to lapses in internal controls, failure to deliver up to customer expectations, system failures, non-compliance with regulatory requirements, unethical business practices, labour unrest, etc.

By effective management of all the other risks the Company has been able to mitigate this risk as well.

...Consciousness

The Company's internship programme provides valuable workplace experience to the youth of our country. We also have a long running CSR programme that supports education and child care at a day care/pre-school in Colombo North. We introduced an Environment and Social Management System (ESMS), which will help us integrate sound environmental and social management to the core business processes of the Company.

Sustainability Report

Introduction

Senkadagala Finance PLC (SFPLC) takes pride in announcing its intention to keep in vogue with trendy financial reporting developments around the globe.

As such, SFPLC departs from the Corporate Social Responsibility (CSR) report published in previous annual reports and has opted to publish its inaugural Sustainability Report this year.

The bold step taken on this occasion by SFPLC highlights its commitment towards greater transparency and accountability in its everyday activities and its belief in achieving organisational success while upholding the sustainability of the environment it operates in. This will also be a stepping stone for SFPLC to enter into the arena of the latest reporting criteria in the corporate world, such as the Global Reporting Initiative *(www.globalreporting.org)* and integrated reporting in the not so distant future.

Known as triple bottom line reporting, it is widely believed today that a corporate needs to report its performance in the context of economic, social and environmental aspects for the stakeholders to make a meaningful assessment of its sustainability. SFPLC has numerous interactions with its stakeholders, in the process, delivering value to and deriving value from them, which lead to value creation, the reason for our being. It also goes without saying that economic performance has to be sound for a corporate to support the other two aspects; i.e. society and environment. The following discussion attempts to demonstrate our current year's performance and the future potential in terms of these three dimensions.

Economic Performance

Throughout its 45 years of history, SFPLC's economic performance has been sound and consistent beyond any doubt. This was amply demonstrated when the Company was able to secure a medium-term loan directly from the International Finance Corporation (IFC), the investment arm of the World Bank which is to be channelled for developing micro and small businesses across Sri Lanka.

Although IFC has been continuously supporting the growth and development of our country through its process of granting loans to banking and large corporate institutions, this is the first time it has invested in a Non-Banking Financial Institution in Sri Lanka since 1999.

SFPLC is also a part of the Central Bank initiated financial sector consolidation programme which was initiated with the goal of creating a strong and resilient financial sector in Sri Lanka. As a first step to the programme the Central Bank has categorised all the NBFIS operating in the country into Groups as A and B where Category A companies are expected to absorb a suitable company from Category B. SFPLC takes pride in being recognised as a Category A company by the Central Bank which is the main regulatory body of Financial Institutions in the Country. The defining criteria adopted by Central Bank for this purpose includes having an asset base worth more than Rs. 8 million with a core capital of Rs. 1 billion and having a high degree of compliance with Directions issued by the Central Bank.

The Company constantly evaluates all available opportunities for growth and engages in business in an ethical manner. As a business policy, SFPLC does not fund or party to any socially unacceptable projects such as drug dealing, money laundering and human/animal/plant trafficking. Thus, SFPLC continues to fulfil its part as a responsible corporate citizen while contributing in its fullest capacity to the growth of the Country's economy by its business operations and prudent management of resource portfolio.

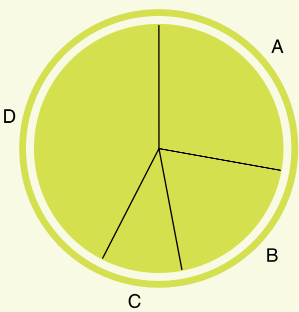
As customary and in compliance with the disclosure requirements, a detailed review of the Company's financial and operational performance in its economic context is given in the Management Discussion and Analysis on pages 14 to 34. Further, detailed Financial Statements are given on pages 81 to 146.

Statement of Value Added and Distributed

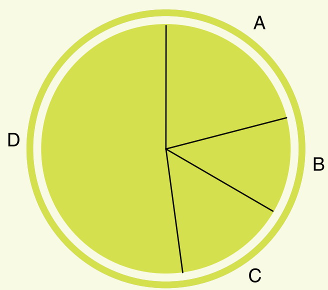
	2014 Rs. '000	%	2013 Rs. '000	%	% change
Value Added					
Gross income	3,623,286		2,976,141		22
Less					
Cost of borrowings	(1,868,499)		(1,524,288)		23
Payments towards support services	(497,840)		(349,757)		42
Provisions for loan losses and other provisions	(137,275)		(11,926)		1,051
	1,119,672		1,090,170		3
Distribution of Value Addition					
To employees					
as salaries and wages	223,415	19.95	191,528	17.57	17
as other benefits	86,766	7.75	38,562	3.54	125
To providers of capital as dividends	214,901	19.19	132,886	12.19	62
To Government					
as income taxation	85,229	7.61	102,618	9.41	-17
as VAT on financial services	34,637	3.09	55,064	5.05	-37
Retained within the business					
as depreciation for replenishment of assets	160,461	14.33	122,169	11.21	31
as reserves for investments	314,264	28.07	447,343	41.03	-30
	1,119,672		1,090,170		3

Distribution of Value Additions

2014



2013



	2014	2013	
A -	28%	21%	To employees
B -	19%	12%	To providers of capital
C -	11%	14%	To Government
D -	42%	53%	Retained within the business

Environmental Performance

SFPLC's focus in this instance would be on the organisation's impact on both living and non-living natural systems including ecosystems and the elements of land, air and water. Although SFPLC's operations do not have a significant negative impact on the various environmental aspects, the Company is mindful that its customers through their businesses may be contributing to environmental degradation. Hence, we consciously take steps to mitigate the indirect impact caused by the businesses we facilitate. Our environmental indicators include performance related to environmental compliance which becomes an integral part of SFPLC's business, social and environmental management policy, described in more detail later in this chapter.

Environment and Social Management System (ESMS)

The Company initiated an ESMS during the financial year under review, which is intended to integrate environmental and social risk management into the business process of the Company. The ESMS was formulated as a prerequisite of the loan agreement signed with IFC.

The ESMS ensures that the Company's activities are in compliance with its environmental and social standards. It helps the Company to avoid and/or manage potential environmental and social risks by conducting environmental and social due diligence prior to commitment and adequate supervision of facilities or accommodations during the term of such facility or accommodation.

SFPLC's Commitment Towards Environmental and Social Issues

When considering the broad spectrum of entrepreneurs, specific environmental and social risks cannot be overlooked. Examples of such social risks are the use of child labour, underground water and air pollution by use of agro-chemicals and soil pollution caused by most of the small-time automotive repair and service workshops. The adverse environmental and social impacts of a single micro-entrepreneur may be considered minimal, but as the number of clients served is usually large there can be a proportionately significant negative impact with a cumulative effect.

SFPLC recognises the importance and relevance of environmental and social risk management in finance institutions category. In this regard, the Company is committed to identifying and addressing all short, medium and long-term environmental and social risks associated with its activities by introducing sound environmental and social risk management practices into its dealings with the public at large, mainly its existing and potential clients.

To meet this goal and to ensure the proper execution of the Environmental and Social Management System the Company has appointed a responsible officer to take charge of the system and steer it forward. The Company's focus in this regard is:

- To develop an ESMS which screens lending against the exclusion list and to ensure the business' adherence to the applicable local legislation on environmental protection and international best practices connected to safeguarding the environment as far as they are relevant and applicable.
- To assist clients in identifying, mitigating and managing environmental and social risks.
- To monitor, supervise and assist in the effective implementation of the ESMS.

Environmental and Social Policy

SFPLC constantly endeavours to ensure effective environmental and social management practices in all its activities and services with a special focus on the following:

Ensure that relevant local, national as well as international best practices on environmental and social protection are followed by any customer who has/intends to obtain financing facilities from SFPLC. All activities undertaken by the Company are consistent with its own environmental and social standards, as well as applicable requirements and that all activities are reviewed against those requirements.

It has attached greater importance to the subject by integrating environmental and social risk management into the Company's internal risk management analysis.

Every opportunity is made use of to Influence stakeholders; i.e. customers, employees, business partners, shareholders and the public at large, to promote environmental safety and be responsible in their activities that are capable of having an impact on the environment and/or society.

Ensuring transparency and promoting accountability in its Environmental and Social Management System & Procedures (ESMS & P) which has been communicated to all staff members of the Company.

Investing on new methodologies/systems that ensure sustainable use of resources available to us is a continuous obligation SFPLC has taken upon itself. For example, SFPLC has in place an Online Document Retrieval System, with ready access to required employees which has aided the Company to significantly reduce the reproducing of copies of documents for various requirements. Furthermore by using this system, SFPLC has been able to reduce the down time connected to the process of loan approval which in turn has significantly contributed to increasing the productivity of the Company.

Keeping abreast with technological advances and latest market trends, SFPLC launched an SMS alert system during the period under review. This facility is intended mainly to keep the customers informed of transactions (payments) carried out by them with their SFPLC VISA Debit Card. This system was also linked with other areas of the business such as alerting customers regarding instalment payment due dates etc which has created value, convenience and ease to the parties involved. SFPLC intends to further develop this SMS alert system, aiming at predominantly automating the communication with the customer thus minimising the need to generate printouts for the purpose, thereby reduce paper consumption.

Social Performance

An organisation's impact on the social systems within which it operates would come under the social dimension of sustainability concerns.

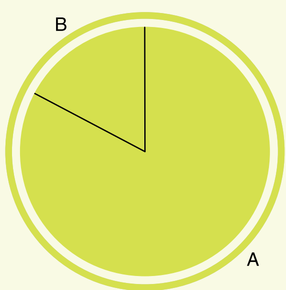
As a responsible corporate citizen, SFPLC takes its commitment towards society very seriously and constantly strives to formulate internal policies and implement projects that would impact society in a positive manner. While our sustainability approach focuses on the betterment of all stakeholders, the discussion under the current topic will mainly consist of the employment in the Company and the benefits provided for our staff for the improvement of their life standards. Human resource is our best asset and a fully engaged workforce is our key strength in achieving success. The Company recognises and respects the rights of employees that are guaranteed by national legislation as well as international conventions (as applicable) and does not engage in or promote child labour, forced labour, harassment or discrimination of any kind. The recruitment policy of SFPLC is aimed at attracting the best talent available in the market and the reward schemes are designed taking into account the applicable market rates depending on the respective grade of the employee. A passionate and committed workforce is the key to enhance the brand image of the Company and hence a comprehensive budgetary allocation for training and development of staff as well as compensation and benefits.

Under the current company expansion strategy, SFPLC is in the process of opening new branches in dispersed locations in Sri Lanka. When recruiting new employees to operate these branches, priority is given to those applicants who are domiciled in those localities. The Company believes in local hiring as employees so recruited would understand the local needs better and their input would result in tailoring the service delivery to reach the masses in the respective locality.

Some important statistics relating to the current employee force is depicted below for reference.

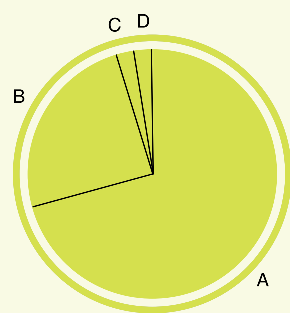
Analysis of Employees

Staff Gender Analysis



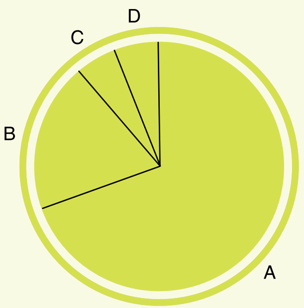
A - 81% Male
B - 19% Female

Analysis of Years in Service



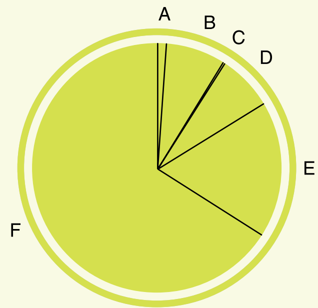
A - 71% <5
B - 24% 5 - 10
C - 2% 10 - 20
D - 3% >20

Staff Age Analysis



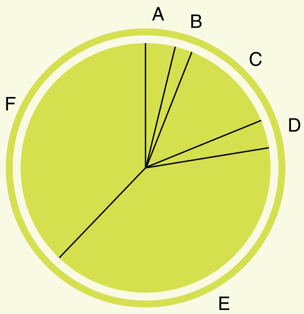
A - 69% 20 - 30
B - 19% 31 - 40
C - 5% 41 - 50
D - 6% >50

Staff Qualification Analysis



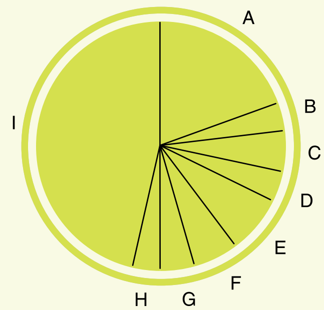
A - 1% Full Professional
B - 8% Part Professional
C - 0% Postgraduate
D - 7% Graduate
E - 18% Diploma
F - 66% A/L

Staff Hierarchy Analysis



A - 4% Senior Managers
B - 2% Managers
C - 13% Branch Managers
D - 4% Assistant Managers
E - 40% Executives
F - 38% Trainee Executives and Others

Geographical Analysis



A - 19% Central Province
B - 4% Eastern Province
C - 5% North Central
D - 4% Northern Province
E - 8% North Western
F - 6% Sabaragamuwa
G - 5% Southern Province
H - 4% Uva Province
I - 46% Western Province

Benefits Provided to Full-Time Staff

Employees' Provident Fund (EPF)

The Company and employees contribute 12% and 8% respectively of the employees' salary, to the Employees' Provident Fund which is currently the largest Social Security Scheme in Sri Lanka. The administrative aspect of the fund is handled by the Labour Department of Sri Lanka and the handling of funds is done by the EPF Department of the Central Bank of Sri Lanka.

Employees' Trust Fund (ETF)

The Company contributes 3% of the employees' basic salary to Employees' Trust Fund which is administered by the Employees' Trust Fund Board functioning under the Ministry of Finance at present.

Gratuity

The Company makes gratuity payments to its employees as per the provisions of the Payment of Gratuity Act No. 12 of 1983.

Staff members will be entitled to a half a month's salary for each completed year of service at the time of leaving the Company, provided that the member has worked for over five years continuously at the time of resignation.

Medical Benefits

Hospitalisation expenses could be claimed subject to a maximum amount specified in the Hospital and Surgical Expenses Insurance Policy.

Personal Accident Cover

All employees of the Company are covered by a Personal Accident Insurance Policy and the payment limits will depend on the respective Grades of the employees.

Staff Loan

The Company has a staff loan scheme in place where employees who have completed five years in service become eligible to apply for same. This loan is subjected to a maximum of sixty months repayment period.

Salary Advance

All employees confirmed in service are eligible to apply for a salary advance equivalent to one month's salary subject to a maximum six months repayment period.

Festival Advance

Employees confirmed in service are also eligible to apply for a festival advance equivalent to the one months salary subject to a maximum of a ten month's repayment period. Festival advances are paid to employees in respective months in accordance with their religion and ethnic background.

Company Vehicle and Mobile SIM

SFPLC provides a motor car or a motor bicycle to required staff such as Managers and Sales Executives. The Company also provides a mobile connection with an allowance to all its employees.

Staff Training and Development

SFPLC believes in strengthening the knowledge, skills and competencies of its workforce and hence affords highest priority for training and development of its staff. This is considered a mutually beneficial investment which has a direct bearing on the quality of the services the Company provides to customers. Identifying the skill gaps and directing staff for suitable training to bridge the gaps identified is an ongoing exercise carried out by our Human Resource Team.

Training is done in-house and by external parties/institutions on all areas of operations as well as essential soft skills to better perform one's job at the Company. Our training and development initiatives focus on new recruits as well as the existing employees and are geared towards enhancing the knowledge on products, procedural aspects and regulatory requirements. The Company also enrolls staff in specific training programmes offered by the Central Bank as and when such programmes are organised by the Bank.

In house training programmes conducted at Wattala training centre.

The table below gives a glimpse of the various training programmes conducted during the period under review and the employee participation at the respective programmes.

Training Programme	Participation	Number of Employees Participated
Staff Training - Analysing of CRIB, Reporting details to CRIB and its errors, Audit & Compliance, Valuation of vehicles	Executives	32
Total Customer Care Culture	Executive	1
Foreign Currency Training - CBSL	Executives	2
Staff Training - Analysing of CRIB, Reporting details to CRIB and its errors, Audit & Compliance, Valuation of vehicles	Executives	32
Workshop on Emerging Issues for Finance Companies - CASL	Manager	1
Debit Workshop	Executives	2
Staff Training (Legal)	Executives	13
Communication & External Relationship Management for Banks - CBSL	Board Secretary	1
Evolving e-Commerce Landscape	Managers	3
Marketing of Financial Products, Recovery & Litigation Process in the Financial Industry - FHA	Managers	3
Certificate Programme on Treasury & Foreign Exchange Operations - CBSL	Managers	2
Aspects of Microfinancing, Speedy Recovery of Personal & Vehicle Loans FHA	Manager	1
Lending Against Pawn Brokering CBSL	Executives	3
Staff Training - Analysing of CRIB, Reporting Details to CRIB and its Errors, Audit & Compliance, Valuation of Vehicles	Executives	27
Compliance Officers' Symposium - CRIB	Managers & Executives	3
Legal Staff Training - Emphasising the Importance of Accounting Procedures	Executives	11
Operational Risk Management for Financial Institutions - CBSL	Managers	2
Staff Training - Analysing of CRIB, Reporting Details to CRIB an its Errors, Audit & Compliance, Valuation of Vehicles	Executives	22
MYSQC Training - Oracle University	Managers	4
Compliance for Financial Institutions - CBSL	Manager	1
Exchange Control Regulations - CBSL	Manager & Secretary	2
Managers' Training - Analysing of CRIB and Credit Evaluation, All Recovery Aspects, Vehicle Insurance, Reporting Details to CRIB & its Errors and Valuation of Vehicles	Managers	29
Treasury Operations, Asset and Liability Management for Banking Institutions - CBSL	Executive	1
Managers' Training - Analysing of CRIB & Credit Evaluation, All Recovery Aspects, Vehicle Insurance, Reporting Details to CRIB and its Errors & Valuation of Vehicles	Managers	30
Regulatory Compliance - CSE	Manager	1
Hedging Currency Risk in Sri Lanka - Soft Logic Finance/The Currency Exchange Fund	Manager	1
Staff Training - Work Related to Fixed Deposits & Savings Accounts	Executives & Secretaries	36
Staff Training - Work Related to Foreign Currency, Fixed Deposits & Savings Accounts	Executives & Secretaries	35

Along its journey towards achieving business targets, the Company makes a concerted effort to give back to the society at large through its CSR activities. The main focus areas of this initiative are education, welfare and health care with special attention to children.

The Company also has made various donations to recognised institutions and charities during the year which amounts to around approximately Rs. 475,000 thereby touching many lives and causes invariably. These donations are made in addition to the CSR activities undertaken by the Company. As a policy, donations are not made to political parties or political propaganda related projects.

As in the previous years, SFPLC continued its support towards '*Kusum Sevena*' which is a Day Care/pre-school managed by the Kotahena Good Shepherd's Convent.

SFPLC undertook the above project as an ongoing project with the aim of supporting the most vulnerable and desolate elements of the society. *'Kusum Sevena'* houses impoverished children from its neighbouring areas who had been marginalised by society due to either the lack of basic resources or the absence of a stable family support system.

During the time SFPLC has been involved in the activities of this Centre it has witnessed a considerable change in the quality of life of the children attached to the Centre and is a motivation for the Company to continue its support to the Centre for more years to come.

In addition to *Kusum Sevana*, during the year under review, SFPLC chose to further extend its commitment towards social responsibility by donating essential equipment/furniture to Dompe Primary School which operates a Special Unit, accommodating twenty (20) differently abled children. An inventory of items including a special wheelchair which has the ability to hold a child, who is not capable of using a normal wheelchair, a ceiling fan and furniture for the school in general was presented as part of this initiative.

Further, as a part of the CSR initiatives, SFPLC began offering six (6) months internships at the Company to prospective young undergraduates and those having professional qualifications in the fields of Business Management, Law, Marketing and Accounting.

The interns were given practical training in the various operational areas of the Company covering the Finance Department, Treasury Department, Information Technology, Human Resources Department and Savings and Deposits Department together with Branch Operations and Compliance.

The main aim of this Programme is to afford the young adults entering the job market an understanding of what a Corporate would expect from a professional and how actual work is done in an Institution. Since, they interact with the staff members and also with the customers they are able to improve their soft skills such as communication, business and telephone etiquette and how to become successful team players in the corporate environment. The ultimate goal of SFPLC is to increase the employability of the younger generations and enable them to successfully pass the hurdle of finding suitable employment.

Depending on the availability of vacancies SFPLC is also willing to offer employment to interested candidates who complete the programme satisfactorily.

SFPLC hopes to increase the intake of interns during the next financial year and has made arrangements to make the programme more structured and formalised. The Company has prepared a work schedule manual which covers all core areas of the Company functions. It now forms part of the course material of the Internship Programme and will be reviewed and updated periodically to incorporate system and process changes/ enhancements introduced into the business in future.

Handing over the equipment donated to Special Education Unit at Dompe Primary School.

Conclusion

The Company would be glad to clarify/ answer any concerns or issues its stakeholders may have on any matters referred to in this Sustainability Report. For this purpose, your point of contact in the Company would be:

The ESMS Planning Manager,
Senkadagala Finance PLC,
2nd Floor,
267, Galle Road,
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Financial Reports

Contents

Annual Report of the Board of Directors of Senkadagala Finance PLC

The Board of Directors of Senkadagala Finance PLC has pleasure in presenting this Annual Report together with the Audited Financial Statements of the Company and the Audited Consolidated Financial Statements for the year ended 31st March 2014 to the shareholders, which was approved by the Board of Directors on 4th June 2014.

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 bearing Registration No. PB 238 PQ 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 was re-registered under the Companies Act No. 07 of 2007. 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 the Inner Front Cover of this Annual Report.

Principal Activities and Nature of Operations

The principal lines of business of the Company include providing financial accommodation in the form of finance leases, hire purchases and commercial loans. Additional lines of business include pawn brokering, foreign exchange transactions, 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 6 to 8), the Managing Director/CEO's review (on pages 10 to 12) and the Management Discussion and Analysis (on pages 14 to 34). 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 24 service centres. During the financial year, 11 service centres were opened. Ground work is being carried out to further improve the number of outlets of the Company in the future.

Financial Statements and Directors' Responsibility

The Financial Statements of the Company and the Group duly approved by two Directors are given on pages 81 to 146.

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 of the view that the Financial Statements presented give a true and fair view of the affairs of the Company as at 31st March 2014 and the profit of the year then ended, and has been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs and LKASs) 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.

Auditors' Report

The Auditors' of the Company Messrs KPMG performed the audit on the Consolidated Financial Statements for the year ended 31st March 2014. The Auditors' Report issued thereon is given on page 80 of this Annual Report.

Accounting Policies

The accounting policies adopted in preparing and presenting of these Financial Statements are given on pages 88 to 99 of this Annual Report.

The Company and the Group prepared the Financial Statements for all periods up to and including the year ended 31st March 2014 in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) as issued by The Institute of Chartered Accountants of Sri Lanka.

Remuneration and other Benefits of Directors

Directors' remunerations in respect of the Company and the Group for the financial year under review is Rs. 15,375,000/- (2013 - Rs. 14,032,500/-).

Donations

A sum of Rs. 475,025/- (2013 - Rs. 814,857/-) was paid out by way of donations during the year under review.

Income

The income generated by the Company during the financial year comprise of the following:

	Company		Group	
	2014 Rs.	2013 Rs.	**2014 Rs.**	2013 Rs.
Interest income	**3,528,336,289**	2,861,922,955	**3,529,357,482**	2,861,922,955
Fee and commission income	**27,562,744**	77,003,906	**84,132,853**	82,654,830
Other operating income	**67,386,896**	37,213,655	**35,586,896**	37,194,926
Total	**3,623,285,929**	2,976,140,516	**3,649,077,231**	2,981,772,712

Further analysis of which is given in Notes 4,6 and 8 to 10 of the Financial Statements on pages 100 and 101 of this Annual Report.

Profit and Appropriations

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

	2014 Rs.	2013 Rs.
Profit before income taxation	**622,417,283**	680,481,686
Income tax expense	**(87,475,250)**	(101,955,826)
Profit for the period	**534,942,033**	578,525,860
Other comprehensive income net of income tax	**(5,777,150)**	1,703,578
Balance brought forward net of adjustments arising from conversion to SLFRS/LKAS	**720,570,975**	365,928,398
Profit available for appropriation	**1,249,735,858**	946,157,836

	2014 Rs.	2013 Rs.
Appropriated as follows:		
Transfers to statutory reserve fund	**30,000,000**	35,000,000
Transfers to investment fund account	**15,868,909**	57,700,541
Dividends paid	**214,901,076**	132,886,320
Unappropriated profit carried forward	**988,965,873**	720,570,975

Dividends

The Directors recommended a final dividend of Rs. 0.80 per share for the financial year ended 31st March 2014. In accordance with the Guideline No. 01 of 2013, the Company obtained approval for the Director of the NBFIS of the Central Bank of Sri Lanka.

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

	2014			2013		
Dividend Payment	Amount Rs.	DPS Rs.	Paid Date	Amount Rs.	DPS Rs.	Paid Date
1st interim dividend paid	**21,347,200**	**0.40**	**15.10.2013**	24,015,600	0.45	14.11.2012
2nd interim dividend paid	**34,635,832**	**0.59**	**31.01.2014**	42,160,720	0.79	14.02.2012
3rd interim dividend paid	**52,182,044**	**0.80**	**09.06.2014**	42,694,400	0.80	19.04.2013
Final dividend proposed/paid	**52,182,044**	**0.80**	**Subject to AGM approval**	64,041,600	1.20	08.08.2013

The total dividend pay-out ratio amounted to 29.97% in 2014 compared to 29.89% of 2013.

Taxation

The Company accounts for deferred taxation under the liability method on all timing differences. Details are disclosed in Note 16 on page 103 and Note 37 on page 122 of this Annual Report.

Capital and Reserves

The aggregate capital and reserves of the Company as at 31st March 2014 amounted to Rs. 2,102 million, the aggregate reserves as at 31st March 2013 were Rs. 1,574 million. Movement in capital and reserves during the year are given in Statement of Changes in Equity on page 85 of this Annual Report.

The composition of the aggregate capital and reserves is set out below:

	2014 Rs.	2013 Rs.
Stated capital	**747,152,000**	533,680,000
Statutory reserve fund	**195,036,033**	165,036,033
Investment fund account	**170,628,603**	154,759,694
Retained earnings	**988,965,873**	720,570,975
Total capital and reserves	**2,101,782,509**	1,574,046,702

Capital Expenditure

The total expended on capital expenditure amounted to Rs. 407.5 million (2012/13 - Rs. 213.8 million). Details of property, plant and equipment are available on pages 114 to 117 of this Annual Report. Details relating to the depreciation charge for the year are also available on page 114.

Market Value of Freehold Assets

The values of the freehold properties of the Company have been obtained from the reports issued by qualified valuers Mr. C. Palamakumbura (FSI) dated 19th February 2014 and Mr. Tudor S. Siriwardana (FSI) dated 3rd March 2014 respectively. The valuation has been carried out based on open market value of similar properties. These values have not been incorporated in the Financial Statements. Details of freehold property owned by the Company are given in Note 29.1 and Note 30.5 of the Financial Statements on pages 113 and 117 of this Annual Report.

Issue of Shares and Debentures

Stated Capital

During the year, the Company issued shares by way of a Rights Issue. 5,336,800 ordinary shares were issued in the proportion of one new ordinary share for every ten existing shares held, at a price of Rs. 40/- per share, by which the Company raised new funds of Rs. 213,472,000/-. The primary objective of the rights issue was to strengthen the Capital Base of the Company.

Debentures

Company issued Senior, Unsecured, Redeemable, Rated Debentures to the value of Rs. 1 billion in May 2013 and Subordinated, Unsecured, Redeemable, Rated Debentures to the value of Rs. 1.25 billion in December 2013. Both these debentures are listed in the Main Board of the Colombo Stock Exchange.

Further, the Company raised Rs. 160 million through a private placement of 5-year Redeemable Debentures of Rs. 100/- each during the year 2013/14. Details of the debentures in issue as at 31st March 2014 are given in Note 36 and Note 41 of the Financial Statements on pages 120 and 125 respectively. Further information on the Listed Debenture are given on page 157 of this Annual Report.

Shareholdings

The stated capital as at 31st March 2014 was Rs. 747 million, consisting of 58,704,800 shares in issue. Details of the stated capital are given in Note 42 of the Financial Statements on page 126 of this Annual Report.

Share Information

Information relating to earnings per share, dividends per share, net assets per share, market price per share and the distribution of shareholding is indicated on pages 154 to 156 under Shareholder Information.

The twenty largest shareholders as at 31st March 2014 together with an analysis of the shareholding are also indicated on page 155 of this Annual Report.

Equitable Treatment to Shareholders

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

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 36 and 37 of this Annual Report.

The following were Directors of the Company during the year:

- Mr. C. L. de Alwis (Resigned w.e.f. 5th June 2013)
- Dr. P. Ramanujam (Appointed Interim Chairman w.e.f. 6th June 2013)
- Mr. L. Balasuriya
- Dr. A. Balasuriya
- Mrs. L. Fernando
- Dr. M. Balasuriya
- Mr. W. A. T. Fernando
- Mr. S. S. Kulatunga
- Mr. S. D. Bandaranayake (Appointed w.e.f. 1st January 2014)
- Mr. T. Collure (Appointed w.e.f. 1st June 2014)

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 and Remuneration Committee meetings were held during the year at the Registered Office of the Company. Members of each of these committees have attended the meetings on a regular basis. Details of the members and the attendance is given on pages 46 to 49 of this Annual Report.

Recommended for Re-election

In accordance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, none of the present Directors of the Company are coming up for re-election.

Directors and Shareholdings

The Directors of the Company are shown below together with their respective shareholdings of the Company at the beginning and end of the financial 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

The Board of Directors has recommended to the shareholders the issue of 6,522,755 shares in the proportion of one (1) ordinary new share for every nine (9) ordinary shares, credited as fully paid at a consideration of Rs. 40/- per share, by way of Capitalisation of Reserves.

Pursuant to the approval of the shareholders at the EGM on 30th April 2014, 6,522,755 ordinary voting shares of the Company were listed on the *Diri Savi* Board of the Colombo Stock Exchange on 12th May 2014. There were no other material events occurring after the reporting period that require adjustment to or disclose in the Financial Statements.

	2014		2013	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Dr. A. Balasuriya	3,372,415	5.74	3,065,832	5.74
Dr. M. Balasuriya	3,372,415	5.74	3,065,832	5.74
Mrs. L. Fernando	2,827,002	4.82	2,570,002	4.82
Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,686,207	2.87	1,532,916	2.87
Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,686,207	2.87	1,532,916	2.87
Mr. L. Balasuriya - The Trustee of the Capitalisation Issue	4	0.00	4	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
Mr. S. D. Bandaranayake	–	0.00	–	0.00
Mr. T. Collure	–	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.

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.

Appointment of Auditors

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

Auditors' Remuneration, Other Fees and Payables

The Auditors, Messrs KPMG was paid audit fees of Rs. 810,000/- (2012/13 - Rs. 700,000/-) for the Company and Rs. 50,000/- (2012/13 - Rs. 57,714/-) for the subsidiary company for the period under review.

Amounts pertaining to the audit fee of Rs. 810,000/- of the Company and Rs. 50,000/- 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 51 to 59 of this Annual Report.

Corporate Governance

The Board places great emphasis on maintaining effective corporate governance practices. Policies and systems are structured accordingly and reviewed from time to time to enhance transparency and accountability. The Report on Corporate Governance is given on pages 38 to 44 of this Annual Report.

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 seeks 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 492 employees as at 31st March 2014 (2013 - 414).

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
21st July 2014

Directors' Statement on Internal Control Over Financial Reporting

In line with the Finance Companies Corporate Governance Direction No. 03 of 2008, section 10(2)(b), the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Senkadagala Finance PLC ('Company').

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board. The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. The management has started the process of documenting the system of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS. Processes applied to adopt the said accounting standards were strengthened during the year 2013 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee.

Progressive improvements on processes to comply with new Sri Lanka Accounting Standards requirements of recognition measurement, classification and disclosure are being made whilst some processes were not fully completed at the reporting date. In particular, due to time constraints, areas with respect to the related party transactions, monthly impairment computation and IT controls were being implemented as at the reporting date. Company was also in the process of updating relevant procedure manuals pertaining to the new Sri Lanka Accounting Standards requirements.

Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Independent Internal Auditors' Certification

Messrs Ernst & Young has submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting through its monthly internal audit engagements. The matters addressed by the Auditors in this respect, are being looked into.

By order of the Board

Mr. Sanath D. Bandaranayake
Director/Additional CEO

Dr. Pratap Ramanujam
Chairman

Mr. Ajith Fernando
Director/Chairman of the Board Audit Committee

Colombo
21st July 2014

Independent Auditors' Report

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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 31st March 2014, 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 set out on pages 88 to 146 of the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st March 2014 and the financial statements give a true and fair view of the financial position of the Company as at 31st March 2014, 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 subsidiaries dealt with thereby as at 31st March 2014, 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

4th June 2014

Income Statement

For the year ended 31st March	Notes	Company		Group	
		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Interest income	4	3,528,336,289	2,861,922,955	3,529,357,482	2,861,922,955
Interest expense	5	(1,868,498,663)	(1,524,287,968)	(1,864,955,704)	(1,524,265,046)
Net interest income		1,659,837,626	1,337,634,987	1,664,401,778	1,337,657,909
Fee and commission income	6	27,562,744	77,003,906	84,132,853	82,654,831
Fee and commission expense	7	(22,459,884)	(18,487,783)	(22,459,884)	(18,487,783)
Net fee and commission income		5,102,860	58,516,123	61,672,969	64,167,048
Net gain/(loss) from trading	8	2,200,750	(539,847)	2,200,750	(539,847)
Net gain from financial instruments designated at fair value through profit and loss	9	6,579,963	6,523,785	6,579,963	6,523,785
Other operating income	10	58,606,183	30,689,870	26,806,183	30,671,141
Total operating income		1,732,327,382	1,432,824,918	1,761,661,643	1,438,480,036
Impairment (charge)/reversal on individual impairment	11	(3,981,203)	689,508	(3,981,203)	689,508
Impairment charge on collective impairment	12	(111,801,021)	(44,655,866)	(111,801,021)	(44,655,866)
Other loan losses (charge)/reversal	13	(21,492,599)	32,040,858	(21,492,599)	32,040,858
Net operating income		1,595,052,559	1,420,899,418	1,624,386,820	1,426,554,536
Personnel expenses	14	(302,156,842)	(232,456,542)	(304,280,843)	(235,043,875)
Depreciation of property, plant and equipment		(143,308,034)	(113,122,274)	(144,356,741)	(113,795,099)
Amortisation of intangible assets		(9,793,311)	(9,046,369)	(9,793,311)	(9,046,369)
Impairment loss of property, plant and equipment		(7,359,365)	–	(7,359,365)	–
Other expenses	15	(475,380,556)	(330,728,939)	(481,544,120)	(331,793,639)
Profit before VAT on financial services and income tax		657,054,451	735,545,294	677,052,440	736,875,554
Value added tax on financial services		(34,637,168)	(55,063,608)	(34,637,168)	(55,063,608)
Profit before income tax		622,417,283	680,481,686	642,415,272	681,811,946
Income tax expenses	16	(87,475,250)	(101,955,826)	(103,100,604)	(102,516,558)
Profit for the year		534,942,033	578,525,860	539,314,668	579,295,388
Earnings per share	17	9.83	10.64	9.91	10.66
Dividends per share	18	1.79	3.24		

Figures in brackets indicate deductions.

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 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Profit for the year		534,942,033	578,525,860	539,314,668	579,295,388
Other Comprehensive Income					
Actuarial (loss)/gain on defined benefit plans	14.2	(8,023,818)	2,366,081	(8,023,818)	2,366,081
Deferred tax on actuarial loss/(gain)		2,246,668	(662,503)	2,246,668	(662,503)
Total other comprehensive income		(5,777,150)	1,703,578	(5,777,150)	1,703,578
Other comprehensive income for the year net of tax		(5,777,150)	1,703,578	(5,777,150)	1,703,578
Total comprehensive income for the year net of tax		529,164,883	580,229,438	533,537,518	580,998,966

Figures in brackets indicate deductions.

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

Statement of Financial Position

As at 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Assets					
Cash and cash equivalents	19	404,047,840	333,440,165	420,155,384	340,643,331
Deposits with licensed commercial banks	20	–	1,061,779,016	–	1,061,779,016
Repurchase agreements		1,114,280,206	75,762,008	1,114,280,206	75,762,008
Financial assets held at fair value through profit or loss	21	74,912,286	67,627,657	74,912,286	67,627,657
Finance leases	22	6,001,775,609	5,707,068,373	6,001,775,609	5,707,068,373
Hire purchases	23	6,167,957,766	5,446,674,892	6,167,957,766	5,446,674,892
Other loans and receivables	24	505,808,366	406,192,720	505,808,366	406,192,720
Financial assets available-for-sale	25	11,999,283	1,419,713	11,999,283	1,419,713
Financial assets held-to-maturity	26	554,773,253	389,855,927	554,773,253	389,855,927
Investment in subsidiary	27	20,000,000	20,000,000	–	–
Investment in associate	28	–	–	–	–
Investment property	29	79,631,009	79,934,047	79,631,009	79,934,047
Property, plant and equipment	30	738,368,098	509,374,424	742,932,333	513,622,096
Intangible assets	31	39,732,996	40,514,509	39,732,996	40,514,509
Other assets	32	156,389,777	129,935,086	156,524,777	129,935,086
Total assets		15,869,676,489	14,269,578,537	15,870,483,268	14,261,029,375
Liabilities					
Due to banks	33	1,330,546,001	3,762,547,920	1,330,546,001	3,762,547,920
Deposits from customers	34	5,624,399,485	3,412,464,090	5,587,138,393	3,402,441,169
Other borrowings	35	2,092,465,288	2,373,604,344	2,092,465,288	2,373,604,346
Debt securities issued	36	2,897,074,338	2,618,281,394	2,897,074,338	2,618,281,392
Deferred tax liability	37	155,731,632	199,092,927	155,767,756	199,094,368
Current tax liabilities	38	39,915,676	19,865,236	59,561,835	20,424,527
Other liabilities	39	315,373,479	275,453,285	328,616,905	275,596,784
Employee benefits	40	52,115,958	34,222,639	52,115,958	34,222,639
Subordinated liabilities	41	1,260,272,122	–	1,260,272,122	–
Total liabilities		13,767,893,979	12,695,531,835	13,763,558,596	12,686,213,145

As at 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Equity					
Stated capital	42	**747,152,000**	533,680,000	**747,152,000**	533,680,000
Statutory reserve fund	43	**195,036,033**	165,036,033	**195,036,033**	165,036,033
Investment fund account	44	**170,628,603**	154,759,694	**170,628,603**	154,759,694
Retained earnings		**988,965,873**	720,570,975	**994,108,036**	721,340,503
Total equity		**2,101,782,509**	1,574,046,702	**2,106,924,672**	1,574,816,230
Total liabilities and equity		**15,869,676,489**	14,269,578,537	**15,870,483,268**	14,261,029,375

Figures in brackets indicate deductions.

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.

Dr. P. Ramanujam
Chairman

Mr. L. Balasuriya
Managing Director/Chief Executive Officer

Kandy, Sri Lanka
4th June 2014

Statement of Changes in Equity

	Stated Capital Rs.	Statutory Reserve Fund Rs.	Investment Fund Account Rs.	Retained Earnings Rs.	Total Rs.
Company					
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:					
Profit for the year	–	–	–	578,525,860	578,525,860
Other comprehensive income, net of tax	–	–	–	1,703,578	1,703,578
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
Balance as at 1st April 2013	533,680,000	165,036,033	154,759,694	720,570,975	1,574,046,702
Total comprehensive income:					
Profit for the year	–	–	–	534,942,033	534,942,033
Other comprehensive income, net of tax	–	–	–	(5,777,150)	(5,777,150)
Rights issue of shares	213,472,000	–	–	–	213,472,000
Transfers to reserves	–	30,000,000	15,868,909	(45,868,909)	–
Dividends paid	–	–	–	(214,901,076)	(214,901,076)
Balance as at 31st March 2014	**747,152,000**	**195,036,033**	**170,628,603**	**988,965,873**	**2,101,782,509**
Group					
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:					
Profit for the year	–	–	–	579,295,388	579,295,388
Other comprehensive income, net of tax	–	–	–	1,703,578	1,703,578
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
Balance as at 1st April 2013	533,680,000	165,036,033	154,759,694	721,340,503	1,574,816,230
Total comprehensive income:					
Profit for the year	–	–	–	539,314,668	539,314,668
Other comprehensive income, net of tax	–	–	–	(5,777,150)	(5,777,150)
Rights issue of shares	213,472,000	–	–	–	213,472,000
Transfers to reserves	–	30,000,000	15,868,909	(45,868,909)	–
Dividends paid	–	–	–	(214,901,076)	(214,901,076)
Balance as at 31st March 2014	**747,152,000**	**195,036,033**	**170,628,603**	**994,108,036**	**2,106,924,672**

Figures in brackets indicate deductions.

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

Statement of Cash Flows

	Company		Group	
For the year ended 31st March	**2014**	2013	**2014**	2013
	Rs.	Rs.	**Rs.**	Rs.
Cash flows from operating activities				
Interest and commission receipts	**3,393,655,916**	2,778,769,517	**3,451,247,218**	2,784,420,442
Interest payments	**(1,829,539,217)**	(1,476,169,896)	**(1,825,996,255)**	(1,476,146,974)
Recoveries of bad debts	**38,542,988**	46,302,181	**38,542,988**	46,302,181
Other operating income	**8,319,390**	9,258,098	**8,019,390**	9,258,098
Operating expenditure	**(594,402,108)**	(415,388,119)	**(600,565,674)**	(416,452,819)
Cash payments to employees	**(291,104,599)**	(225,159,691)	**(293,228,600)**	(227,747,024)
Operating cash flow before changes in operating assets and liabilities (Note A)	**725,472,370**	717,612,090	**778,019,067**	719,633,904
(Increase)/Decrease in operating assets and liabilities				
Net funds advanced to customers	**(1,081,213,507)**	(2,478,332,808)	**(1,081,213,506)**	(2,478,332,807)
Deposits from customers	**2,211,935,395**	680,433,463	**2,184,697,224**	670,410,542
Deposits with licensed commercial banks	**1,061,779,016**	(424,660,741)	**1,061,779,016**	(424,660,741)
Investments in Government and other Securities	**(1,203,435,524)**	(58,705,385)	**(1,203,435,524)**	(58,705,385)
Gratuity paid	**(1,182,742)**	(1,316,187)	**(1,182,742)**	(1,316,187)
Trade and other receivables	**(26,454,691)**	22,150,834	**(26,589,691)**	22,150,834
Other liabilities	**6,797,596**	(122,908,998)	**11,731,087**	(122,765,499)
	968,225,543	(2,383,339,822)	**945,785,864**	(2,393,219,243)
Net cash inflow/(outflow) from operating activities before taxation	**1,693,697,913**	(1,665,727,732)	**1,723,804,931**	(1,673,585,339)
Taxes paid	**(105,786,833)**	(105,498,599)	**(107,016,274)**	(105,498,600)
Net cash (used in)/generated from operating activities	**1,587,911,080**	(1,771,226,331)	**1,616,788,657**	(1,779,083,939)
Cash flows from investing activities				
Investment in subsidiary company	**–**	(20,000,000)	**–**	–
Net investment in trading securities	**1,380,653**	(1,535,179)	**1,380,653**	(1,535,179)
Net investment in investment securities	**9,086,315**	–	**9,086,315**	–
Purchase of financial assets available-for-sale	**(166,150)**	(241,852)	**(166,150)**	(241,852)
Dividend receipts on investments	**33,595,081**	1,994,173	**2,095,081**	1,994,173
Purchase of property, plant and equipment	**(398,502,230)**	(209,231,469)	**(399,867,501)**	(214,080,793)
Purchase of intangible assets	**(9,011,798)**	(4,649,400)	**(9,011,798)**	(4,649,400)
Proceeds from sale of property, plant and equipment	**30,409,161**	39,097,488	**30,409,161**	39,007,586
Net cash used in investing activities	**(333,208,968)**	(194,566,239)	**(366,074,239)**	(179,505,465)

For the year ended 31st March	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Cash flows from financing activities				
Shares issued	213,472,000	–	213,472,000	–
Subordinated liabilities	1,250,000,000	–	1,250,000,000	–
Securitised loans obtained	1,860,000,000	3,703,345,152	1,860,000,000	3,703,345,152
Repayment of loans	(4,612,100,421)	(2,421,149,361)	(4,612,100,423)	(2,421,149,359)
Debentures issued	1,164,065,066	1,263,528,445	1,164,065,068	1,263,528,443
Redemption of debenture	(875,000,000)	(417,000,000)	(875,000,000)	(417,000,000)
Dividends paid	(161,253,503)	(131,665,862)	(161,253,503)	(131,665,862)
Net cash (used in)/generated from financing activities	(1,160,816,858)	1,997,058,374	(1,160,816,858)	1,997,058,374
Net increase in cash and cash equivalents	93,885,254	31,265,804	89,897,560	38,468,970
Cash and cash equivalents at the beginning of the year	234,456,396	203,190,592	241,659,562	203,190,593
Cash and cash equivalents at the end of the year	328,341,650	234,456,396	331,557,122	241,659,563
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	404,047,840	333,440,165	420,155,384	340,643,332
Bank overdraft	(75,706,190)	(98,983,769)	(88,598,262)	(98,983,769)
	328,341,650	234,456,396	331,557,122	241,659,563
Note A				
Reconciliation of operating profit				
Profit before income tax	622,417,283	680,481,686	642,415,272	681,811,946
Depreciation	153,101,346	122,168,643	154,150,052	122,841,468
Dividend receipts on investments	(33,595,081)	(1,994,173)	(2,095,081)	(1,994,173)
Profit on disposal of motor vehicles	(11,264,964)	(19,450,301)	(11,264,964)	(19,431,572)
Provision for defined benefit plan	11,052,243	7,296,851	11,052,243	7,296,851
Impairment of financial assets	115,782,223	43,966,358	115,782,223	43,966,358
Impairment of investment of associate company	(13,957,555)	–	(13,957,555)	–
Loan losses and write off	12,068,645	3,153,534	12,068,645	3,153,534
Gain on mark to market valuation of shares	(6,579,963)	(6,523,785)	(6,579,963)	(6,523,785)
Capital (gain)/loss on sale of shares	(2,085,318)	552,549	(2,085,318)	552,549
Gain from sale of group investments	(5,542,180)	–	(5,542,180)	–
Interest accrued on loans and advances	(162,243,118)	(160,157,344)	(162,243,118)	(160,157,344)
Accrued interest on borrowings	21,050,856	31,532,788	21,050,858	31,532,788
Amortisation of structural fees	17,908,588	16,585,284	17,908,588	16,585,284
Impairment loss of property, plant and equipment	7,359,365	–	7,359,365	–
	725,472,370	717,612,090	778,019,067	719,633,904

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-Banking 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 492 (2013 - 414).

1.3 Consolidated Financial Statements

The Consolidated Financial Statements of Senkadagala Finance PLC for the year ended 31st March 2014 comprise those of the Company (parent company) and its subsidiary (together referred to as the 'Group').

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 (Pvt) 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 (SLFRSs and LKASs) 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.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Non-Banking Financial Institutions.

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 2014 where authorised for issue in accordance with a resolution of the Board of Directors on 04th June 2014.

These Financial Statements include the following components:

- An Income Statement providing the information on the financial performance of the Company and Group for the year under review.
- A Consolidated Statement of Comprehensive Income providing the other comprehensive income of the Company and Group for the year under review.
- A Statement of Financial Position providing the information on the financial position of the Company and Group as at the year-end.
- A Statement of Changes in Equity providing the information on all changes in shareholders' equity of the Company and Group 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 Senkadagala Finance PLC ('the Company') and subsidiary consolidated ('Group') are prepared in Sri Lankan 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 or 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.

2.4 Functional and Presentation Currency

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

2.5 Preparation of Financial Statements

The Company and 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 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of Financial Statements'.

2.7 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:

2.7.1 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, 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.

2.7.2 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 market, 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.

The valuation and measurement of fair value of financial instrument is described in more details in Note 51.

2.7.3 Financial Assets and Liabilities Classification

The Company classifies financial assets and liabilities into different accounting categories in certain circumstances. In classifying financial assets as held-to-maturity, the Company has determined that it has both the positive intention and the ability to hold the assets until their maturity date.

2.7.4 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.). The impairment of financial assets is disclosed in more detail in Note 3.7.

2.7.5 Impairment of Available-for-Sale Investments

The Company reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar 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.

2.7.6 Defined Benefit Obligation

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discounting rates, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.7.7 Events After the Reporting Date

Events after the reporting date 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 date have been considered and appropriate disclosures are made in Note 47 where necessary.

3. Significant Accounting Policies

3.1 Basis of Consolidation

The Financial Statements of the Company and Group comprise the Financial Statements of the Company and its subsidiary for the year ended 31st March 2014. 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 PLC, 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.

Investment of associates are accounted using the equity method. Accordingly, investment 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 or loss.

(iii) Classification and Subsequent Measurement of Financial Assets

At initial recognition financial assets are classified into one of the following categories:

- At fair value through profit or loss account
  - Held-for-trading; or
  - Designated at fair value through profit or loss.
- Loans and receivables
- Available-for-sale; or
- Held-to-maturity

Subsequent measurement depends on the financial asset category.

(a) 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.

(b) Financial assets and Financial Liabilities Designated at Fair Value Through Profit or 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 or 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 or 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 or loss'. Interest earned or incurred is accrued in 'interest income' or 'interest expense', respectively, using effective interest rate (EIR), while dividend income is recorded in 'other operating income' when the right to the payment has been established.

(c) Loans and Receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than-

- Those that the Company intends to sell immediately or in the near term and those that the Company at initial recognition designates as at fair value through profit or loss.
- Those that the Company upon initial recognition, designates as available-for-sale.
- Those for which the Company may not recover substantially all its initial investment, other than because of credit deterioration.

When the Company is the lessor in a lease agreement that transfers substantially all risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amount receivable under finance leases net of initial rentals received, unearned lease income and provision for impairment are classified as lease receivable and presented under loans and receivables in the Statement of Financial Position.

Subsequent to the initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR, less provision for impairment except when the Company recognises loans and receivable at fair value through profit or loss. Amortised cost is calculated by taking into account any discounts or premium on acquisition and fees and costs that are integral part of the EIR. The amortisation is included in Interest Income in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in impairment charges for loans and other losses.

(d) 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 or 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.

Insignificant investments in security that do not have a quoted market price in an active market and whose fair value can be reliably measured are stated at cost.

(e) 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.

(f) 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.

iv. Classification and Subsequent Measurement of Financial Liabilities

At initial recognition financial liabilities are classified into one of the following categories:

- At fair value through profit or loss
  - Held for trading; or
  - Designated at fair value through profit or loss.
- At amortised cost

Subsequent measurement depends on the financial liability category.

(a) Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities acquired principally for the purpose of selling or repurchasing in the near term or hold as a part of a portfolio that is managed for short-term profit or position taking are classified as financial liabilities at fair value through profit or loss.

Gains or losses on liabilities held at fair value through profit or loss are recognised in the statement of Comprehensive Income.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

(b) Financial Liabilities at Amortised Cost

Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'due to banks', 'other borrowings' or 'subordinated liability' as appropriately, 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 recognition, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

(v) 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 fair value through profit or 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 Agreements

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 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

Fair value is the amount for which an asset could be exchanged or liability settled, between knowledgeable willing parties in an arm's length transaction on the measurement date.

Level 1

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.

Level 2

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, option pricing models, credit models and other relevant valuation models.

Level 3

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 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 51.

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 and 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 Lease, Hire Purchase, Loans and Advances

For all lease, hire purchase, loans and advances that are considered individually significant, the Company assesses on a case-by-case basis at each 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 lease, hire purchases, loans and advances 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.

Collectively Assessed Lease, Hire Purchase, Loans and Advances

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 lease, hire purchase, loans and advances subject to individual assessment; and
- for homogeneous groups of lease, hire purchase, loans and advances that are not considered individually significant.

Incurred But Not Yet Identified Impairment

Individually assessed lease, hire purchase, loans and advances 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 reporting date is likely to be greater or less than that suggested by historical experience.

Homogeneous Groups of Lease, Hire Purchase, Loans and Advances

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

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 future cash flows for the purpose of measuring the impairment loss.

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

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(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.

(iii) Fee Income Earned from Services that are Provided Over a Certain Period of Time

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

(iv) Dividend Income

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

(v) 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 Statement of Cash Flow comprises cash on hand, non-restricted current accounts with central Company's and amounts due from Company's on demand or 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 subsidiary are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

3.11 Property, Plant and Equipment

Property and equipment is stated at cost 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, plant 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, plant 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.

3.15 Employee benefits

(i) Defined Benefit Plan

The cost of providing benefits under the defined benefit plan is determined separately using the Projected Unit Credit method. This method involves estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

The past service cost is recognised as an expense on a straight line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

The latest actuarial valuation was carried out as at 31st March 2014, by Piyal S. Gunatilleke F.S.A. (USA), a Fellow of the Society of Actuaries (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation are:

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

The actuarial gain 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 made by the Company according to the Payment of Gratuity Act No. 12 of 1983. Accordingly, the Company is liable to pay gratuity to employees who have completed a minimum of five-year 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 Employees' Provident Fund managed by the Central Bank of Sri Lanka.

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 of the Central Bank of Sri Lanka.

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 consists of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the 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 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.

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 asset are reassessed at each reporting date and are recognised to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

(iii) Value Added Tax on Financial Services

Company's total value addition is subject to a 12% Value Added Tax as per section 25A 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 Accounting 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 comprises 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.

For the year ended 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
4. Interest Income					
Cash and short-term funds		65,592,210	63,245,493	66,613,403	63,245,493
Repurchase agreements	4.1	49,721,749	30,907,457	49,721,749	30,907,457
Finance leases		1,398,979,560	1,159,613,170	1,398,979,560	1,159,613,170
Hire purchases		1,486,218,967	1,227,157,296	1,486,218,967	1,227,157,296
Personal loans		27,448,230	23,993,983	27,448,230	23,993,983
Commercial loans		12,963,192	9,084,496	12,963,192	9,084,496
Pawning advances		19,137,515	6,458,683	19,137,515	6,458,683
Fixed deposit loans		8,321,379	5,814,415	8,321,379	5,814,415
Insurance premium receivable		29,367,807	23,727,472	29,367,807	23,727,472
Financial investments - held-to-maturity	4.1	49,766,391	42,326,076	49,766,391	42,326,076
Other interest income		380,819,289	269,594,414	380,819,289	269,594,414
		3,528,336,289	2,861,922,955	3,529,357,482	2,861,922,955

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. 4,976,639/- (2013 - Rs. 4,232,608/-) and Rs. 4,972,175/- (2013 - Rs. 3,090,746/-) respectively for the Company.

For the year ended 31st March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
5. Interest Expense				
Due to banks	419,889,101	513,651,862	419,889,101	513,651,862
Deposits from customers	557,564,618	400,032,063	554,021,659	400,009,141
Securitisations	284,417,006	294,641,994	284,417,006	294,641,994
Commercial paper	28,792,509	11,424,425	28,792,509	11,424,425
Debt securities issued	503,421,842	287,952,340	503,421,842	287,952,340
Subordinated liabilities	56,504,999	–	56,504,999	–
Amortisation of loan structuring fee	17,908,588	16,585,284	17,908,588	16,585,284
	1,868,498,663	1,524,287,968	1,864,955,704	1,524,265,046

	Company		Group	
For the year ended 31st March	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.

6. Fee and Commission Income

Finance charges	20,636,846	18,952,728	20,636,846	18,952,728
Commission income	635,669	50,922,899	57,205,778	56,573,824
Legal fees	6,724,113	6,742,825	6,724,113	6,742,825
Inspection fees	(433,884)	385,454	(433,884)	385,454
	27,562,744	77,003,906	84,132,853	82,654,831

Commission income 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 was transferred to the fully-owned subsidiary Senkadagala Insurance Brokers (Pvt) Ltd. from 2012/13. This segment did not involve any asset, liability or any operation and it is only a line of income.

	Company		Group	
For the year ended 31st March	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.

7. Fee and Commission Expense

Commission paid	13,093,025	2,851,377	13,093,025	2,851,377
Other	9,366,859	15,636,406	9,366,859	15,636,406
	22,459,884	18,487,783	22,459,884	18,487,783

8. Net Gain/(Loss) from Trading

Equities	2,085,318	(552,549)	2,085,318	(552,549)
Foreign exchange	115,432	12,702	115,432	12,702
	2,200,750	(539,847)	2,200,750	(539,847)

9. Net Gain from Financial Instruments Designated at Fair Value Through Profit or Loss

Financial assets designated at fair value through profit or loss	6,579,963	6,523,785	6,579,963	6,523,785
	6,579,963	6,523,785	6,579,963	6,523,785

10. Other Operating Income

Dividend income	33,595,081	1,994,173	2,095,081	1,994,173
Gains from sale of fixed assets	11,264,964	19,450,301	11,264,964	19,431,572
Gains from sale of group investments	5,542,180	–	5,542,180	–
Rent income	1,959,821	1,714,286	1,659,821	1,714,286
Other income	6,244,137	7,531,110	6,244,137	7,531,110
	58,606,183	30,689,870	26,806,183	30,671,141

For the year ended 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
11. Impairment Charge/(Reversal) on Individual Impairment					
Finance leases	22.1	(1,486,906)	4,798,947	(1,486,906)	4,798,947
Hire purchases	23.1	1,260,494	423,367	1,260,494	423,367
Commercial loans	24.1.1	4,207,615	–	4,207,615	–
Other advances	24.4.1	–	(5,911,822)	–	(5,911,822)
		3,981,203	(689,508)	3,981,203	(689,508)
12. Impairment Charge/(Reversal) on Collective Impairment					
Finance leases	22.2	87,613,640	48,818,029	87,613,640	48,818,029
Hire purchases	23.2	23,776,140	(2,502,484)	23,776,140	(2,502,484)
Commercial loans	24.1.2	(1,015,321)	(3,279,447)	(1,015,321)	(3,279,447)
Pawning advances	24.3.1	2,604,646	913,550	2,604,646	913,550
Other advances	24.4.2	(1,178,084)	706,218	(1,178,084)	706,218
		111,801,021	44,655,866	111,801,021	44,655,866
13. Other Loan Losses Charge/(Reversal)					
Direct write-off		–	3,153,534	–	3,153,534
Net loss on sale of repossessed assets		61,924,497	11,107,789	61,924,497	11,107,789
Loss on auction of pawned articles		12,068,645	–	12,068,645	–
Recovery of loans previously written-off		(38,542,988)	(46,302,181)	(38,542,988)	(46,302,181)
Impairment reversal on investment in associates		(13,957,555)	–	(13,957,555)	–
		21,492,599	(32,040,858)	21,492,599	(32,040,858)
14. Personnel Expenses					
Salaries and wages		208,460,085	177,495,605	210,307,586	179,926,938
Directors' emoluments		14,955,000	14,032,500	14,955,000	14,032,500
Employee provident fund		25,859,161	22,013,653	26,069,161	22,138,453
Employee trust fund		6,464,790	5,503,413	6,517,290	5,534,613
Contribution for defined benefit plan	14.1	11,052,243	7,296,851	11,052,243	7,296,851
Staff bonus		28,225,429	–	28,225,429	–
Other personnel costs		7,140,134	6,114,520	7,154,134	6,114,520
		302,156,842	232,456,542	304,280,843	235,043,875
14.1 Contribution for Defined Benefit Plan Recognised in the Income Statement					
Current service cost		5,799,738	3,850,951	5,799,738	3,850,951
Interest cost		5,252,505	3,445,900	5,252,505	3,445,900
		11,052,243	7,296,851	11,052,243	7,296,851

		Company		Group	
For the year ended 31st March	Notes	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
14.2 Contribution for Defined Benefit Plan Recognised in the Statement of Comprehensive Income					
Actuarial loss/(gain) at the end of the year		8,023,818	(2,366,081)	8,023,818	(2,366,081)
		8,023,818	(2,366,081)	8,023,818	(2,366,081)
15. Other Expenses					
External Auditors' remuneration - Audit fee		810,000	700,000	860,000	757,714
- Audit related services		–	915,929	139,154	915,929
Internal Auditors' remuneration		5,400,000	5,400,000	5,400,000	5,400,000
Legal expenses		10,159,445	7,641,436	10,159,445	7,641,436
Contribution to deposit Insurance scheme of CBSL		2,527,805	4,356,521	2,527,805	4,356,521
Other administrative expenses		57,930,931	36,005,482	58,282,854	36,858,196
Establishment expenses		308,418,679	228,311,478	309,415,786	228,362,295
Selling expenses		90,133,696	47,398,093	94,759,076	47,501,548
		475,380,556	330,728,939	481,544,120	331,793,639
16. Income Tax Expenses					
Current tax expense					
Current year income tax	16.1	115,557,739	82,313,641	131,148,408	82,872,933
Adjustment in respect of income tax of prior years		13,032,139	–	13,032,139	–
		128,589,878	82,313,641	144,180,547	82,872,933
Deferred tax expense					
Effects of changes in tax rates		–	–	–	–
Temporary differences		(41,114,628)	19,642,185	(41,079,943)	19,643,625
Total income tax expenses		87,475,250	101,955,826	103,100,604	102,516,558
16.1 Reconciliation of the Total Tax Charge					
Net profit before tax		622,417,283	680,481,686	642,415,272	681,811,946
Adjustments:					
Non-taxable income		(98,296,310)	(1,453,388,901)	(63,296,310)	(1,453,388,901)
Disallowable expenses		334,521,866	295,240,811	335,570,572	295,932,357
Allowable expenses		(445,936,628)	771,643,693	(446,302,361)	771,619,358
Total statutory income		412,706,211	293,977,289	468,387,173	295,974,760
Income tax rate		28%	28%	28%	28%
Income tax		115,557,739	82,313,641	131,148,408	82,872,933
Income tax on profit for the year		115,557,739	82,313,641	131,148,408	82,872,933
Effective Tax Rate		18.57%	12.10%	20.41%	12.15%

17. Earnings Per Share

Basic earnings per share have 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		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Profit attributable to ordinary shareholders of the Company	534,942,033	578,525,860	539,314,668	579,295,388
Weighted average number of ordinary shares	54,439,692	54,356,296	54,439,692	54,356,296
Basic earnings per ordinary share	9.83	10.64	9.91	10.66

18. 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	
	2014 Rs.	2013 Rs.
18.1 Dividend Paid for the Period		
1st interim dividend paid (2013/14 - Rs. 0.40, 2012/13 - Rs. 0.45)	21,347,200	24,015,600
2nd interim dividend paid (2013/14 - Rs. 0.59, 2012/13 - Rs. 0.79)	34,635,832	42,160,720
Total dividends paid	55,983,032	66,176,320
18.2 Dividend Proposed for the Period		
Proposed 3rd interim dividend (2013/14 - Rs. 0.80, 2012/13 - Rs. 0.80)	52,182,044	42,694,400
Proposed final dividend (2013/14 - Nil, 2012/13 - Rs. 1.20)	–	64,041,600
Total dividends proposed	52,182,044	106,736,000
Dividend per share	1.79	3.24

As at 31st March	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
19. Cash and Cash Equivalents				
Cash in hand held in local currency	68,936,990	77,177,895	68,961,990	77,182,954
Cash in hand held in foreign currency	1,075	108,602	1,075	108,602
Balances with licensed commercial banks	335,109,775	256,153,668	351,192,319	263,351,775
	404,047,840	333,440,165	420,155,384	340,643,331

As at 31st March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
20. Deposits with Licensed Commercial Banks					
Bank of Ceylon		–	505,159,589	–	505,159,589
People's Bank		–	556,619,427	–	556,619,427
		–	1,061,779,016	–	1,061,779,016
21. Financial Assets held at Fair Value Through Profit or Loss					
Quoted equity	21.1	74,912,286	67,627,657	74,912,286	67,627,657
		74,912,286	67,627,657	74,912,286	67,627,657

As at 31st March	Company						Group					
	2014			2013			2014			2013		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
21.1 Quoted Equity												
Bank, Finance and Insurance												
Central Finance Company PLC	22,387	243,207	4,052,047	22,387	243,207	4,029,660	22,387	243,207	4,052,047	22,387	243,207	4,029,660
National Development Bank PLC	668	500	119,305	668	500	110,220	668	500	119,305	668	500	110,220
Commercial Bank of Ceylon PLC	2,764	258,096	339,972	2,719	258,096	307,247	2,764	258,096	339,972	2,719	258,096	307,247
Beverage, Food and Tobacco												
Ceylon Tobacco PLC	3,100	142,017	3,273,600	3,100	142,017	2,420,170	3,100	142,017	3,273,600	3,100	142,017	2,420,170
Hotels and Travels												
Aitken Spence PLC	495	3,355	48,461	495	3,355	59,202	495	3,355	48,461	495	3,355	59,202
Investment Trust												
NAMAL Acuity Value Fund	25,000	1,250,000	1,710,000	25,000	1,250,000	1,605,000	25,000	1,250,000	1,710,000	25,000	1,250,000	1,605,000
Manufacturing												
Royal Ceramics Lanka PLC	20	273	1,585	20	273	1,990	20	273	1,585	20	273	1,990
Diversified Holdings												
John Keells Holdings PLC	3,085	101,825	700,295	2,582	13,800	637,754	3,085	101,825	700,295	2,582	13,800	637,754
Hayleys PLC	113	7,175	32,205	113	7,175	33,753	113	7,175	32,205	113	7,175	33,753
Trading												
Lanka Indian Oil Corporation PLC	5,500	148,500	211,750	5,500	148,500	112,200	5,500	148,500	211,750	5,500	148,500	112,200
Portfolio Investment (Note 21.2)		55,705,508	64,423,066		55,093,592	58,310,461		55,705,508	64,423,066		55,093,592	58,310,461
Total cost and market value		57,860,456	74,912,286		57,160,515	67,627,657		57,860,456	74,912,286		57,160,515	67,627,657

As at 31st March	Company						Group					
	2014			2013			2014			2013		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
21.2 Portfolio Investment												
Bank Finance & Insurance												
Ceylinco Insurance PLC	10,000	1,560,322	4,230,000	10,000	1,560,322	3,272,000	10,000	1,560,322	4,230,000	10,000	1,560,322	3,272,000
Commercial Bank of Ceylon PLC	–	–	–	67	4,722	7,571	–	–	–	67	4,722	7,571
Hatton National Bank PLC (Non-voting)	–	–	–	23,657	1,997,328	3,117,993	–	–	–	23,657	1,997,328	3,117,993
Union Assurance PLC	–	–	–	3,000	257,856	257,100	–	–	–	3,000	257,856	257,100
Seylan Bank PLC (Non-voting)	27,351	1,144,859	1,011,987	26,666	1,144,859	946,643	27,351	1,144,859	1,011,987	26,666	1,144,859	946,643
Beverage Food & Tobacco												
Ceylon Cold Stores PLC	17,500	1,824,310	2,462,250	17,000	1,753,425	2,310,300	17,500	1,824,310	2,462,250	17,000	1,753,425	2,310,300
Distilleries Company of Sri Lanka PLC	65,000	10,061,377	13,195,000	65,000	10,061,377	10,822,500	65,000	10,061,377	13,195,000	65,000	10,061,377	10,822,500
Kotmale Holdings PLC	–	–	–	85,000	3,583,710	3,051,500	–	–	–	85,000	3,583,710	3,051,500
Lanka Milk Foods (CWE) PLC	65,888	6,376,747	7,056,605	65,888	6,376,747	7,135,670	65,888	6,376,747	7,056,605	65,888	6,376,747	7,135,670
Renuka Shaw Wallace PLC	200	3,084	2,480	200	3,084	3,600	200	3,084	2,480	200	3,084	3,600
Renuka Agri Foods PLC	50,000	214,880	155,000	50,000	214,880	205,000	50,000	214,880	155,000	50,000	214,880	205,000
Chemicals & Pharmaceuticals												
CIC Holdings PLC (Non-voting)	50,000	2,226,039	1,865,000	50,000	2,226,039	2,330,000	50,000	2,226,039	1,865,000	50,000	2,226,039	2,330,000
Haycarb PLC	13,300	2,049,981	2,407,300	13,300	2,049,981	2,340,800	13,300	2,049,981	2,407,300	13,300	2,049,981	2,340,800
Plantation												
Kegalle Plantation PLC	2,500	235,104	262,500	2,500	235,104	280,000	2,500	235,104	262,500	2,500	235,104	280,000
Kotagala Plantation PLC	10,000	556,151	350,000	–	–	–	10,000	556,151	350,000	–	–	–
Footwear & Textile												
Hayleys Mgt Knitting Mills PLC	34,400	747,603	350,880	34,400	747,603	350,880	34,400	747,603	350,880	34,400	747,603	350,880

As at 31st March	Company						Group					
	2014			2013			2014			2013		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
Healthcare												
Ceylon Hospitals PLC (Non-voting)	38,838	1,205,012	2,990,526	38,838	1,205,012	2,916,734	38,838	1,205,012	2,990,526	38,838	1,205,012	2,916,734
Hotels & Travels												
Eden Lanka Hotel PLC	–	–	–	1,502	48,603	52,570	–	–	–	1,502	48,603	52,570
Taj Lanka Hotels PLC	114,432	3,478,514	3,318,528	70,000	2,112,198	1,750,000	114,432	3,478,514	3,318,528	70,000	2,112,198	1,750,000
John Keells Hotels PLC	251,000	3,197,111	3,137,500	–	–	–	251,000	3,197,111	3,137,500	–	–	–
Investment Trusts												
Renuka Holdings PLC (Non-voting)	50,000	1,284,224	1,085,000	40,000	1,071,872	856,000	50,000	1,284,224	1,085,000	40,000	1,071,872	856,000
Land & Property												
C T Land Development PLC	5,000	111,570	145,500	5,000	111,570	120,500	5,000	111,570	145,500	5,000	111,570	120,500
Manufacturing												
Dipped Products PLC	50,000	6,177,582	4,355,000	50,000	6,177,582	5,550,000	50,000	6,177,582	4,355,000	50,000	6,177,582	5,550,000
Pelwatte Sugar Industries PLC	31,000	1,064,794	3,100	31,000	1,064,794	3,100	31,000	1,064,794	3,100	31,000	1,064,794	3,100
Tokyo Cement Company (Lanka) PLC (Non voting)	85,000	2,138,016	2,465,000	65,000	2,059,005	1,137,500	85,000	2,138,016	2,465,000	65,000	2,059,005	1,137,500
Power & Energy												
Hemas Power PLC	172,832	3,292,951	3,076,410	25,000	543,019	522,500	172,832	3,292,951	3,076,410	25,000	543,019	522,500
Lanka IOC PLC	185,000	3,442,775	7,122,500	175,000	3,182,897	3,570,000	185,000	3,442,775	7,122,500	175,000	3,182,897	3,570,000
Telecommunications												
Dialog Axiata PLC	375,000	3,312,502	3,375,000	600,000	5,300,003	5,400,000	375,000	3,312,502	3,375,000	600,000	5,300,003	5,400,000
Total cost and market value		55,705,508	64,423,066		55,093,592	58,310,461		55,705,508	64,423,066		55,093,592	58,310,461

As at 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
22. Finance Leases					
Gross investment in leases receivable within one year		3,167,959,272	2,844,549,493	3,167,959,272	2,844,549,492
Gross investment in leases receivable between one and five years		4,440,220,464	4,910,328,655	4,440,220,464	4,910,328,656
Gross investment in leases receivable in respect of non-performing leases		67,441,286	14,813,668	67,441,286	14,813,668
Repossessed lease receivable		327,931,672	104,438,893	327,931,672	104,438,893
Leases receivable in arrears		298,930,390	188,529,752	298,930,390	188,529,752
		8,302,483,084	8,062,660,461	8,302,483,084	8,062,660,461
Unearned lease income		(2,088,333,909)	(2,232,903,343)	(2,088,333,909)	(2,232,903,343)
Initial lease rental		(11,340,662)	(12,573,776)	(11,340,662)	(12,573,776)
Pre-paid lease rental		(26,291,560)	(14,930,630)	(26,291,560)	(14,930,630)
Net investment in finance leases		6,176,516,953	5,802,252,712	6,176,516,953	5,802,252,712
Impairment losses					
Provision for individual impairment	22.1	(4,589,227)	(6,076,133)	(4,589,227)	(6,076,133)
Provision for collective impairment	22.2	(170,152,117)	(89,108,206)	(170,152,117)	(89,108,206)
Net investment in finance leases after impairment		6,001,775,609	5,707,068,373	6,001,775,609	5,707,068,373
22.1 Movement in Allowance for Individual Impairment					
Opening balance		6,076,133	1,277,186	6,076,133	1,277,186
(Reversal)/charge for the period	11	(1,486,906)	4,798,947	(1,486,906)	4,798,947
Closing balance		4,589,227	6,076,133	4,589,227	6,076,133
Gross amount of loans individually determined to be impaired		29,037,738	28,770,194	29,037,738	28,770,194
22.2 Movement in Allowance for Collective Impairment					
Opening balance		89,108,206	55,948,547	89,108,206	55,948,547
Charge for the period	12	87,613,640	48,818,029	87,613,640	48,818,029
Net write-offs for the period		(6,569,729)	(15,658,370)	(6,569,729)	(15,658,370)
Closing balance		170,152,117	89,108,206	170,152,117	89,108,206
Total of individual and collective impairment		174,741,344	95,184,339	174,741,344	95,184,339

		Company		Group	
As at 31st March	Notes	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
23. Hire Purchases					
Gross investment in hire purchases receivable within one year		3,128,178,310	2,772,199,629	3,128,178,310	2,772,199,629
Gross investment in hire purchases receivable between one and five years		5,218,491,084	4,882,776,370	5,218,491,084	4,882,776,370
Gross investment in hire purchases receivable in respect of non-performing hire purchases		42,566,246	9,091,869	42,566,246	9,091,869
Repossessed hire purchases receivable		150,799,514	28,076,583	150,799,514	28,076,583
Hire purchases receivable in arrears		238,341,227	155,733,812	238,341,227	155,733,812
		8,778,376,381	7,847,878,263	8,778,376,381	7,847,878,263
Unearned hire purchases income		(2,506,237,498)	(2,340,288,394)	(2,506,237,498)	(2,340,288,394)
Pre-paid hire purchases rental		(35,712,122)	(15,517,541)	(35,712,122)	(15,517,541)
Net investment in hire purchases		6,236,426,761	5,492,072,328	6,236,426,761	5,492,072,328
Impairment losses					
Provision for individual impairment	23.1	(2,034,563)	(774,069)	(2,034,563)	(774,069)
Provision for collective impairment	23.2	(66,434,432)	(44,623,367)	(66,434,432)	(44,623,367)
Net investment in hire purchases after impairment		6,167,957,766	5,446,674,892	6,167,957,766	5,446,674,892
23.1 Movement in Allowance for Individual Impairment					
Opening balance		774,069	350,702	774,069	350,702
Charge for the period	11	1,260,494	423,367	1,260,494	423,367
Closing balance		2,034,563	774,069	2,034,563	774,069
Gross amount of loans individually determined to be impaired		13,921,861	3,673,503	13,921,861	3,673,503
23.2 Movement in Allowance for Collective Impairment					
Opening balance		44,623,367	69,525,934	44,623,367	69,525,934
Charge/(reversal) for the period	12	23,776,140	(2,502,484)	23,776,140	(2,502,484)
Net write-offs for the period		(1,965,075)	(22,400,083)	(1,965,075)	(22,400,083)
Closing balance		66,434,432	44,623,367	66,434,432	44,623,367
Total of individual and collective impairment		68,468,995	45,397,436	68,468,995	45,397,436

		Company		Group	
As at 31st March	Notes	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.

24. Other Loans and Receivables

	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Commercial loans	24.1	46,196,979	33,229,652	46,196,979	33,229,652
Personal loans	24.2	88,000,842	72,154,272	88,000,842	72,154,272
Pawning advances	24.3	102,884,961	69,635,416	102,884,961	69,635,416
Other advances	24.4	268,725,584	231,173,380	268,725,584	231,173,380
		505,808,366	406,192,720	505,808,366	406,192,720

24.1 Commercial Loans

	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Gross investment in commercial loans receivable within one year		32,627,533	22,097,732	32,627,533	22,097,732
Gross investment in commercial loans receivable between one and five years		35,203,060	28,253,480	35,203,060	28,253,480
Gross investment in commercial loans receivable in respect of non-performing loans		–	–	–	–
Commercial loans receivable in arrears		3,135,730	791,409	3,135,730	791,409
		70,966,323	51,142,621	70,966,323	51,142,621
Unearned commercial loans income		(19,760,495)	(16,327,243)	(19,760,495)	(16,327,243)
Pre-paid commercial loan rentals		(690,132)	(459,303)	(690,132)	(459,303)
Net investment in commercial loans		50,515,696	34,356,075	50,515,696	34,356,075
Impairment losses					
Provision for individual impairment	24.1.1	(4,207,615)	–	(4,207,615)	–
Provision for collective impairment	24.1.2	(111,102)	(1,126,423)	(111,102)	(1,126,423)
Net investment in commercial loans after impairment		46,196,979	33,229,652	46,196,979	33,229,652

24.1.1 Movement in Allowance for Individual Impairment

	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Opening balance		–	–	–	–
Charge for the period	11	4,207,615	–	4,207,615	–
Closing balance		4,207,615	–	4,207,615	–
Gross amount of loans individually determined to be impaired		4,207,615	–	4,207,615	–

24.1.2 Movement in Allowance for Collective Impairment

	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
Opening balance		1,126,423	16,809,255	1,126,423	16,809,255
Reversal for the period	12	(1,015,321)	(3,279,447)	(1,015,321)	(3,279,447)
Net write-offs for the period		–	(12,403,385)	–	(12,403,385)
Total collective impairment		111,102	1,126,423	111,102	1,126,423

As at 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
24.2 Personal Loans					
Gross investment in personal loans receivable within one year		**52,619,163**	42,285,012	**52,619,163**	42,285,012
Gross investment in personal loans receivable between one and five years		**101,798,519**	84,582,599	**101,798,519**	84,582,599
Personal loans receivable in arrears		**193,393**	97,424	**193,393**	97,424
		154,611,075	126,965,035	**154,611,075**	126,965,035
Unearned personal loans income		**(60,914,371)**	(50,533,786)	**(60,914,371)**	(50,533,786)
Prepaid personal loans rentals		**(5,695,862)**	(4,276,977)	**(5,695,862)**	(4,276,977)
Net investment in personal loans		**88,000,842**	72,154,272	**88,000,842**	72,154,272
24.3 Pawning Advances					
Gross investment in pawning advances		**97,783,586**	65,721,484	**97,783,586**	65,721,484
Unearned income from pawning advances		**8,619,571**	4,827,482	**8,619,571**	4,827,482
Net investment in pawning advances		**106,403,157**	70,548,966	**106,403,157**	70,548,966
Impairment losses					
Provision for collective impairment	24.3.1	**(3,518,196)**	(913,550)	**(3,518,196)**	(913,550)
Net investment in pawning advances after impairment		**102,884,961**	69,635,416	**102,884,961**	69,635,416
24.3.1 Movement in Allowance for Collective Impairment					
Opening balance		**913,550**	–	**913,550**	–
Charge for the period	12	**2,604,646**	913,550	**2,604,646**	913,550
Total collective impairment		**3,518,196**	913,550	**3,518,196**	913,550
24.4 Other Advances					
Loans against fixed deposits		**36,639,505**	54,159,530	**36,639,505**	54,159,530
Discounting of cheques		**490,000**	490,000	**490,000**	490,000
Insurance		**238,299,028**	185,743,435	**238,299,028**	185,743,435
Staff debtors		**12,742,601**	11,748,836	**12,742,601**	11,748,836
Sundry debtors		**3,807,190**	3,462,403	**3,807,190**	3,462,403
		291,978,324	255,604,204	**291,978,324**	255,604,204
Impairment losses					
Provision for individual impairment	24.4.1	**(1,906,394)**	(1,906,394)	**(1,906,394)**	(1,906,394)
Provision for collective impairment	24.4.2	**(21,346,346)**	(22,524,430)	**(21,346,346)**	(22,524,430)
Net investment in other advances after impairment		**268,725,584**	231,173,380	**268,725,584**	231,173,380

As at 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
24.4.1 Movement in Allowance for Individual Impairment					
Opening balance		1,906,394	7,818,216	1,906,394	7,818,216
Reversal for the period	11	–	(5,911,822)	–	(5,911,822)
Closing balance		1,906,394	1,906,394	1,906,394	1,906,394
Gross amount of loans individually determined to be impaired		4,297,190	3,952,403	4,297,190	3,952,403
24.4.2 Movement in Allowance for Collective Impairment					
Opening balance		22,524,430	21,818,212	22,524,430	21,818,212
(Reversal)/Charge for the period	12	(1,178,084)	706,218	(1,178,084)	706,218
Closing balance		21,346,346	22,524,430	21,346,346	22,524,430
Total of individual and collective impairment		23,252,740	24,430,824	23,252,740	24,430,824

25. Financial Assets Available-for-Sale

Credit Information Bureau of Sri Lanka		90,586	90,586	90,586	90,586
Finance House Consortium (Pvt) Ltd.		200,000	200,000	200,000	200,000
National Equity Fund		1,295,277	1,129,127	1,295,277	1,129,127
Senkadagala Hotels Ltd.	28.1	10,413,420	–	10,413,420	–
		11,999,283	1,419,713	11,999,283	1,419,713

26. Financial Assets Held-to-Maturity

Treasury Bills		379,859,389	389,855,927	379,859,389	389,855,927
Treasury Bonds		174,913,864	–	174,913,864	–
		554,773,253	389,855,927	554,773,253	389,855,927

27. Investment in Subsidiary

Unquoted					
Senkadagala Insurance Brokers (Pvt) Ltd.					
(2,000,000 Ordinary shares)					
Holding (%)		100	100	–	–
Directors' valuation		25,142,164	20,710,363	–	–
Cost		20,000,000	20,000,000	–	–

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

		Company		Group	
As at 31st March		2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.

28. Investment in Associate

Senkadagala Hotels Ltd.	28.1	–	–	–	–

28.1 Senkadagala Hotels Ltd.

Percentage of Holding (%)	–	32.27	–	32.27
Cost of the investment	–	13,957,555	–	13,957,555
Impairment loss	–	(13,957,555)	–	–
Share of (loss)/profit of associate	–	–	–	(13,957,555)
	–	–	–	–

During the financial year Senkadagala Finance PLC, entered in to a share transaction with E. W. Balasuriya & Co. (Pvt) Ltd. divesting 17.93% of its holding of Senkadagala Hotels Ltd. This divestment resulted in a capital gain of Rs. 5.5 million. Accordingly, the 14.34% holding of Senkadagala Hotels Ltd. is accounted as an unquoted share investment under financial instruments available-for-sale.

	Company		Group	
As at 31st March	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.

29. Investment Property

Cost				
Balance at the beginning of the year	87,782,655	87,782,655	87,782,655	87,782,655
Balance at the end of the year	87,782,655	87,782,655	87,782,655	87,782,655
Depreciation				
Balance at the beginning of the year	7,848,608	7,545,570	7,848,608	7,545,570
Charge for the period	303,038	303,038	303,038	303,038
Balance at the end of the year	8,151,646	7,848,608	8,151,646	7,848,608
Net book value	79,631,009	79,934,047	79,631,009	79,934,047

29.1 Information on Freehold Investment Property of the Company

	Extent of Land	2014 Rs.	Current Valuation Rs.	2013 Rs.
Land and Building				
98, Deans Road, Colombo 10	6.000 P	3,500,000	28,512,000	3,500,000
12, Kotugodella Veediya, Kandy Lot 1	9.875 P	7,542,068	90,733,500	7,542,068
12, Kotugodella Veediya, Kandy Lot 2	18.000 P	70,679,827	124,740,000	70,679,827
98, Yatinuwara Veediya, Kandy	7.000 P	6,060,760	61,776,000	6,060,760
		87,782,655	305,761,500	87,782,655

The values of the properties set out above have been obtained from the reports issued by qualified values Mr. C. Palamakumbura (FSI) dated 19th February 2014 and Mr. Tudor S. Siriwardana (FSI) dated 3rd March 2014 respectively. The Valuation has been carried out based on open market value of similar properties. These values have not been incorporated in the Financial Statements.

30. Property, Plant and Equipment

30.1 Company

	As at 01.04.2013 Rs.	Additions Rs.	Impairment Rs.	Disposals Rs.	As at 31.03.2014 Rs.
Cost					
Land and buildings	31,985,489	28,213,684	(7,359,365)	–	**52,839,808**
Furniture and fittings	78,953,014	4,735,806	–	(28,240)	**83,660,580**
Office equipment	115,738,073	91,008,283	–	(1,044,236)	**205,702,120**
Air conditioners	35,811,286	9,971,409	–	–	**45,782,695**
Computers and accessories	152,762,115	38,354,665	–	–	**191,116,780**
Facsimile machines	1,271,650	187,000	–	–	**1,458,650**
Generators	38,061,649	3,601,284	–	–	**41,662,933**
Motor vehicles	356,305,349	135,072,875	–	(45,927,544)	**445,450,680**
Photostat machines	7,959,626	1,323,000	–	–	**9,282,626**
Fixtures and fittings	129,531,596	81,894,888	–	–	**211,426,484**
Printers	22,632,293	4,139,336	–	–	**26,771,629**
	971,012,140	398,502,230	(7,359,365)	(47,000,020)	**1,315,154,985**

	As at 01.04.2013 Rs.	Charge for the Period Rs.	Charge on Disposals Rs.	As at 31.03.2014 Rs.
Depreciation				
Buildings	4,220,834	898,276	–	**5,119,110**
Furniture and fittings	54,522,587	6,338,125	(28,240)	**60,832,472**
Office equipment	45,277,804	15,379,267	(1,002,270)	**59,654,801**
Air conditioners	25,707,475	5,129,531	–	**30,837,006**
Computers and accessories	109,254,092	18,650,825	–	**127,904,917**
Facsimile machines	659,153	113,972	–	**773,125**
Generators	25,042,878	4,006,792	–	**29,049,670**
Motor vehicles	90,812,042	68,521,727	(26,825,314)	**132,508,455**
Photostat machines	6,275,736	845,624	–	**7,121,360**
Fixtures and fittings	82,532,803	20,634,750	–	**103,167,553**
Printers	17,332,312	2,486,106	–	**19,818,418**
	461,637,716	143,004,995	(27,855,824)	**576,786,887**
Net book value	509,374,424			**738,368,098**

30.2 Group

	As at 01.04.2013 Rs.	Additions Rs.	Impairment Rs.	Disposals Rs.	As at 31.03.2014 Rs.
Cost					
Land and buildings	31,985,489	28,213,684	(7,359,365)	–	**52,839,808**
Furniture and fittings	78,962,338	4,992,285	–	(28,240)	**83,926,383**
Office equipment	115,738,073	91,142,983	–	(1,044,236)	**205,836,820**
Air conditioners	35,811,286	9,971,409	–	–	**45,782,695**
Computers and accessories	152,852,015	38,772,665	–	–	**191,624,680**
Facsimile machines	1,271,650	241,880	–	–	**1,513,530**
Generators	38,061,649	3,601,284	–	–	**41,662,933**
Motor vehicles	361,145,349	135,072,875	–	(45,927,544)	**450,290,680**
Photostat machines	7,959,626	1,454,040	–	–	**9,413,666**
Fixtures and fittings	129,531,596	82,171,060	–	–	**211,702,656**
Printers	22,632,293	4,233,336	–	–	**26,865,629**
	975,951,364	399,867,501	(7,359,365)	(47,000,020)	**1,321,459,480**

	As at 01.04.2013 Rs.	Charge for the Period Rs.	Charge on Disposals Rs.	As at 31.03.2014 Rs.
Depreciation				
Buildings	4,220,834	898,276	–	**5,119,110**
Furniture and fittings	54,523,053	6,365,894	(28,240)	**60,860,707**
Office equipment	45,277,804	15,390,497	(1,002,270)	**59,666,031**
Air conditioners	25,707,475	5,129,531	–	**30,837,006**
Computers and accessories	109,272,821	18,769,091	–	**128,041,912**
Facsimile machines	659,153	119,001	–	**778,154**
Generators	25,042,878	4,006,792	–	**29,049,670**
Motor vehicles	91,484,399	69,328,559	(26,825,314)	**133,987,644**
Photostat machines	6,275,736	857,636	–	**7,133,372**
Fixtures and fittings	82,532,803	20,680,780	–	**103,213,583**
Printers	17,332,312	2,507,646	–	**19,839,958**
	462,329,268	144,053,703	(27,855,824)	**578,527,147**
Net book value	513,622,096			**742,932,333**

30.3 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 Statement of Financial Position date.

	2014 Rs.	2013 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

30.4 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 Statement of Financial Position date is as follows:

	2014 Rs.	2013 Rs.
Buildings	3,000,000	3,000,000
Furniture and fittings	23,493,829	18,169,557
Office equipment	7,764,019	3,434,485
Air conditioners	23,052,967	17,240,070
Computers and accessories	95,652,543	68,698,012
Facsimile machines	302,050	192,750
Generators	14,321,098	8,049,848
Motor vehicles	5,183,333	2,204,167
Photostat machines	5,478,676	5,353,676
Printers	15,305,233	14,818,870
Fixtures and fittings	64,091,893	51,937,737

30.5 Information on Freehold Land and Buildings of the Company

	Extent	Cost 2014 Rs.	Carrying Value 2014 Rs.	Current Valuation Rs.	Cost 2013 Rs.
Land					
7/4, Mawilmada Road, Kandy	0 A. 1 R. 12.27 P	7,779,960	7,779,960	29,661,349	7,779,960
Highway Park, Amunugama, Pothuhera	0 A. 2 R. 23 P	6,240,000	6,240,000	20,600,000	6,240,000
92, Deans Road, Colombo 10	0 A. 0 R. 20.507 P	24,600,000	24,600,000	24,600,000	–
Highway Park, Amunugama, Pothuhera	0 A. 1 R. 0 P	3,613,684	3,613,684	3,613,684	–
		42,233,644	42,233,644	78,475,033	14,019,960
Building					
7/4, Mawilmada Road, Kandy	1,327 sq ft	5,230,914	3,057,053	5,978,651	5,230,914
Highway Park, Amunugama, Pothuhera	885 sq ft	8,222,998	2,430,000	2,430,000	8,222,998
433, Negombo Road, Hendala Junction, Wattala	–	4,511,617	–	–	4,511,617
		17,965,529	5,487,053	8,408,651	17,965,529
Total		60,199,173	47,720,697	86,883,684	31,985,489

The values of the properties set out above other than the property situated at Deans Road have been obtained from a report issued by qualified valuer Mr. C. Palamakumbura (FSI) dated 19th February 2014. The Valuation has been carried out based on open market value of similar properties. These values have not been incorporated in the Financial Statements. The Deans Road Property has been acquired during the year and is stated at its purchase price.

30.6 Property, Plant and Equipment Pledged as Security for Liabilities

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

	Company		Group	
As at 31st March	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
31. Intangible Assets				
Software programme				
Cost				
Balance at the beginning of the year	145,455,817	140,806,417	145,455,817	140,806,417
Additions during the period	9,011,798	4,649,400	9,011,798	4,649,400
Balance at the end of the year	154,467,615	145,455,817	154,467,615	145,455,817
Amortisation				
Balance at the beginning of the year	104,941,308	95,894,939	104,941,308	95,894,939
Amortised during the period	9,793,311	9,046,369	9,793,311	9,046,369
Balance at the end of the year	114,734,619	104,941,308	114,734,619	104,941,308
Carrying amount	39,732,996	40,514,509	39,732,996	40,514,509

As at 31st March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
32. Other Assets					
Search fee and seizing charges receivable		5,016,305	3,944,133	5,016,305	3,944,133
Stock of gold specimen		259,200	259,200	259,200	259,200
Western Union MMBL		191,089	1,007,013	191,089	1,007,013
Goods and service tax recoverable		–	8,720,525	–	8,720,525
Prepaid building rent		73,230,573	44,872,786	73,230,573	44,872,786
Prepaid WHT on loans and debentures		18,720,425	33,430,733	18,720,425	33,430,733
Advance payments		51,057,397	32,253,387	51,057,397	32,253,387
Funds held at Orion Fund Management		1,489,707	21,029	1,489,707	21,029
Deposits		3,567,283	3,567,284	3,567,283	3,567,284
Cash cover		1,452,906	1,858,996	1,452,906	1,858,996
Other		1,404,892	–	1,539,892	–
		156,389,777	129,935,086	156,524,777	129,935,086
33. Due to Banks					
Asset securitised loans	33.1	1,330,546,001	3,762,547,920	1,330,546,001	3,762,547,920
		1,330,546,001	3,762,547,920	1,330,546,001	3,762,547,920

Securities Pledged

Lease and hire purchase aggregate portfolio amounting to Rs. 1,250,892,988/- have been pledged as security for the above loans.

As at 31st March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
33.1 Asset Securitised Loans				
Assets securitisation loans capital outstanding	1,330,546,001	3,762,547,920	1,330,546,001	3,762,547,920
	1,330,546,001	3,762,547,920	1,330,546,001	3,762,547,920

As at 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
34. Deposits from Customers					
Savings deposits		181,944,217	154,044,107	181,944,217	154,044,107
Certificates of deposit	34.1	2,792,494	3,521,454	2,792,494	3,521,454
Fixed deposits	34.2	5,439,662,774	3,254,898,529	5,402,401,682	3,244,875,608
		5,624,399,485	3,412,464,090	5,587,138,393	3,402,441,169
34.1 Certificates of Deposit					
Face value		3,000,000	3,800,000	3,000,000	3,800,000
Interest in suspense		(207,506)	(278,546)	(207,506)	(278,546)
		2,792,494	3,521,454	2,792,494	3,521,454
34.2 Fixed Deposits					
Fixed deposits		5,281,783,954	3,128,963,278	5,246,603,128	3,118,963,278
Amortised interest payable		157,878,820	125,935,251	155,798,554	125,912,330
		5,439,662,774	3,254,898,529	5,402,401,682	3,244,875,608
35. Other Borrowings					
Commercial paper	35.1	365,812,427	97,019,917	365,812,427	97,019,919
Asset securitised loans	35.2	1,812,801,109	2,330,731,294	1,812,801,109	2,330,731,294
Loan arranger fee paid		(86,148,248)	(54,146,867)	(86,148,248)	(54,146,867)
		2,092,465,288	2,373,604,344	2,092,465,288	2,373,604,346

Securities Pledged

Lease and hire purchase aggregate portfolio amounting to Rs. 2,466,190,150/- has been pledged as security for the above loans.

As at 31st March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
35.1 Commercial Paper				
Commercial paper capital outstanding	341,074,092	86,550,000	341,074,092	86,550,000
Amortised interest payable	24,738,335	10,469,917	24,738,335	10,469,919
	365,812,427	97,019,917	365,812,427	97,019,919
35.2 Asset Securitised Loans				
Assets securitisation loans capital outstanding	1,614,192,045	2,153,173,088	1,614,192,045	2,153,173,088
Amortised interest payable	198,609,064	177,558,206	198,609,064	177,558,206
	1,812,801,109	2,330,731,294	1,812,801,109	2,330,731,294

As at 31st March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.

36. Debt Securities Issued

As at the beginning of the year	**2,469,000,000**	1,670,000,000	**2,469,000,000**	1,670,000,000
Redemptions	**(875,000,000)**	(417,000,000)	**(875,000,000)**	(417,000,000)
New debt instruments issued	**1,160,000,000**	1,216,000,000	**1,160,000,000**	1,216,000,000
Balance before amortised interest payable	**2,754,000,000**	2,469,000,000	**2,754,000,000**	2,469,000,000
Amortised interest payable	**143,074,338**	149,281,394	**143,074,338**	149,281,392
As at the end of the year	**2,897,074,338**	2,618,281,394	**2,897,074,338**	2,618,281,392

As at 31st March	Interest Payable	Year of Issue	Year of Maturity	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.

36.1 Unlisted Secured Debentures

2012 - 2013 - Fixed rated 19% p.a.	Semi Annually	2012/13	2014/15	**120,000,000**	285,000,000	**120,000,000**	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	**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				**13,213,662**	25,805,123	**13,213,662**	25,805,123
				433,213,662	760,805,123	**433,213,662**	760,805,123

Securities pledged

Lease and hire purchase aggregate portfolio amounting to Rs. 410,337,413/- has been pledged as security for the above debentures.

As at 31st March	Interest Payable	Year of Issue	Year of Maturity	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.

36.2 Rated Debentures

2011/2012 - Fixed rated 11.75% p.a.	Quarterly	2011/12	2014/15	**–**	67,000,000	**–**	67,000,000
2011/2012 - Fixed rated 11.5% p.a	Quarterly	2011/12	2014/15	**34,000,000**	67,000,000	**34,000,000**	67,000,000
Amortised interest payable				**324,941**	1,280,345	**324,941**	1,280,342
				34,324,941	135,280,345	**34,324,941**	135,280,342

As at 31st March	Interest Payable	Year of Issue	Year of Maturity	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
36.3 Unlisted Unsecured Redeemable Debentures							
2008/09 - Fixed rated 16% p.a.	Annually	2008/09	2013/14	–	240,000,000	–	240,000,000
2009/10 - Fixed rated 16% p.a.	Annually	2009/10	2014/15	–	160,000,000	–	160,000,000
2009/10 - Fixed rated 14.5% p.a.	Annually	2009/10	2014/15	20,000,000	80,000,000	20,000,000	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	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	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	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	121,000,000	121,000,000
2013/14 - Fixed rated 15.25% p.a.	Annually	2013/14	2018/19	160,000,000	–	160,000,000	–
Amortised interest payable				104,018,244	122,195,926	104,018,244	122,195,926
				1,404,018,244	1,722,195,926	1,404,018,244	1,722,195,926
36.4 Listed Unsecured Redeemable Senior Debentures							
2013/14 - Fixed rated 17% p a	Quarterly	2013/14	2016/17	414,246,500	–	414,246,500	–
2013/14 - Fixed rated 17.25% p a	Quarterly	2013/14	2017/18	585,253,500	–	585,253,500	–
2013/14 - Floating rated	Semi Annually	2013/14	2017/18	500,000	–	500,000	–
Amortised interest payable				25,517,492	–	25,517,492	–
				1,025,517,492	–	1,025,517,492	–

As at 31st March	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
37. Deferred Tax Liability					
Balance at the beginning of the year		199,092,927	178,788,239	199,094,368	178,788,239
Deferred tax (reversal)/charge for the period		(43,361,295)	20,304,688	(43,326,612)	20,306,129
Balance at the end of the year	37.1	155,731,632	199,092,927	155,767,756	199,094,368
37.1 Reconciliation of Net Deferred Tax Liability					
Deferred tax - liability					
Accelerated depreciation for tax purposes - Own Assets		44,053,818	31,604,416	44,089,942	31,605,857
Accelerated depreciation for tax purposes - Leased Assets		126,270,282	177,070,850	126,270,282	177,070,850
		170,324,100	208,675,266	170,360,224	208,676,707
Deferred tax - assets					
Retirement benefit obligation		14,592,468	9,582,339	14,592,468	9,582,339
Net deferred tax liability		155,731,632	199,092,927	155,767,756	199,094,368

Company

	Statement of Financial Position 2014 Rs.	Statement of Financial Position 2013 Rs.	Income Statement 2014 Rs.	Income Statement 2013 Rs.	Statement of Comprehensive Income 2014 Rs.	Statement of Comprehensive Income 2013 Rs.
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes - Own Assets	44,053,818	31,604,416	12,449,402	7,638,899	–	–
Accelerated depreciation for tax purposes - Leased Assets	126,270,282	177,070,850	(50,800,568)	14,402,309	–	–
	170,324,100	208,675,266	(38,351,166)	22,041,208	–	–
Deferred tax assets on:						
Retirement benefit obligation	14,592,468	9,582,339	(2,763,462)	(2,399,023)	(2,246,668)	662,503
	14,592,468	9,582,339	(2,763,462)	(2,399,023)	(2,246,668)	662,503
Deferred tax effect on comprehensive income			(41,114,628)	19,642,185	(2,246,668)	662,503
Net deferred tax liability	155,731,632	199,092,927				

Group

	Statement of Financial Position		Income Statement		Statement of Comprehensive Income	
	2014 Rs.	2013 Rs.	**2014 Rs.**	2013 Rs.	**2014 Rs.**	2013 Rs.
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes - Own Assets	**44,089,942**	31,605,857	**12,484,087**	7,640,339	**–**	–
Accelerated depreciation for tax purposes - Leased Assets	**126,270,282**	177,070,850	**(50,800,568)**	14,402,309	**–**	–
	170,360,224	208,676,707	**(38,316,481)**	22,042,648	**–**	–
Deferred tax assets on:						
Retirement benefit obligation	**14,592,468**	9,582,339	**(2,763,462)**	(2,399,023)	**(2,246,668)**	662,503
	14,592,468	9,582,339	**(2,763,462)**	(2,399,023)	**(2,246,668)**	662,503
Deferred tax effect on comprehensive income			**(41,079,943)**	19,643,625	**(2,246,668)**	662,503
Net deferred tax liability	**155,767,756**	199,094,368				

	Company		Group	
As at 31st March	**2014 Rs.**	2013 Rs.	**2014 Rs.**	2013 Rs.

38. Current Tax Liabilities

Income tax				
Balance at the beginning of the year	**(2,565,501)**	(13,978,577)	**(2,006,210)**	(13,978,578)
Income tax payable for the year	**115,557,739**	82,313,641	**131,148,408**	82,872,933
Income tax payment	**(75,897,134)**	(57,358,569)	**(76,875,896)**	(57,358,569)
Withholding tax on interest income	**(16,857,560)**	(13,541,996)	**(17,108,239)**	(13,541,996)
Balance at the year end	**20,237,544**	(2,565,501)	**35,158,063**	(2,006,210)
Other tax liabilities	**19,678,132**	22,430,737	**24,403,772**	22,430,737
	39,915,676	19,865,236	**59,561,835**	20,424,527

39. Other Liabilities

Accrued expenditure - Non-interest	**1,037,446**	991,410	**1,164,549**	1,049,124
Payables to trade suppliers	**162,497,300**	156,928,568	**162,497,300**	156,928,568
Over drawn bank accounts	**75,706,190**	98,983,769	**88,598,262**	98,983,769
Dividend payable	**57,295,200**	3,647,627	**57,295,200**	3,647,627
Value Added Tax recoverable	**7,664,848**	8,996,420	**7,664,848**	8,996,420
Deposit insurance premium	**665,272**	–	**665,272**	–
Other liabilities	**10,507,224**	5,905,491	**10,731,474**	5,991,276
	315,373,479	275,453,285	**328,616,905**	275,596,784

As at 31st March	Notes	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
40. Employee Benefits					
Present value of defined benefit obligations		44,092,140	36,588,720	44,092,140	36,588,720
Actuarial (loss)/gain		(8,023,818)	2,366,081	(8,023,818)	2,366,081
Net retirement benefit obligations		52,115,958	34,222,639	52,115,958	34,222,639
40.1 Movement of the Employee Benefit Obligation					
Balance at the beginning of the year		34,222,639	30,608,056	34,222,639	30,608,056
Retirement benefit expense recognised in the income statement	40.2	11,052,243	7,296,851	11,052,243	7,296,851
Retirement benefit expense recognised in the statement of comprehensive income	40.3	8,023,818	(2,366,081)	8,023,818	(2,366,081)
Benefits paid during the year		(1,182,742)	(1,316,187)	(1,182,742)	(1,316,187)
Balance at the end of the year		52,115,958	34,222,639	52,115,958	34,222,639
40.2 Retirement Benefit Expense Recognised in the Income Statement					
Current service cost		5,799,738	3,850,951	5,799,738	3,850,951
Interest cost		5,252,505	3,445,900	5,252,505	3,445,900
Total		11,052,243	7,296,851	11,052,243	7,296,851
40.3 Retirement Benefit Expense Recognised in the Statement of Comprehensive Income					
Actuarial loss/(gain) at the end of the year	40.4	8,023,818	(2,366,081)	8,023,818	(2,366,081)
		8,023,818	(2,366,081)	8,023,818	(2,366,081)
40.4 Actuarial (Loss)/Gain					
Present value of defined benefit obligations at the beginning of the year		34,222,639	30,608,056	34,222,639	30,608,056
Current service cost		5,799,738	3,850,951	5,799,738	3,850,951
Interest cost		5,252,505	3,445,900	5,252,505	3,445,900
Benefits paid during the year		(1,182,742)	(1,316,187)	(1,182,742)	(1,316,187)
Expected total present value of defined benefit obligations at the end of the year		44,092,140	36,588,720	44,092,140	36,588,720
Actual present value of defined benefit obligations at the end of the year		52,115,958	34,222,639	52,115,958	34,222,639
Actuarial (loss)/gain at the end of the year		(8,023,818)	2,366,081	(8,023,818)	2,366,081

Mr. Piyal S. Goonathilake FSA (USA), a member of the American Academy of Actuaries has carried out an independent actuarial valuation of the defined benefit obligation as at 31st March 2014. The valuation was carried out using the Projected Unit Credit Method, the method recommended by Sri Lanka Accounting Standard - LKAS 19 on 'Defined Benefit Obligations'.

	2014	2013
Discount rate	10%	11%
Salary scale	10%	10%
Retirement age	55 Years	55 Years

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Income Statement and Employment Benefit Obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	Sensitivity Effect on Income Statement Increase/(Reduction) In Result for the year Rs. '000	Sensitivity Effect on Employment Benefit Obligation Increase/(Reduction) in the Liability Rs. '000
+1%	–	2,198	(2,198)
-1%	–	(2,524)	2,524
–	+1%	(2,419)	2,419
–	-1%	2,150	(2,150)

	Company		Group	
As at 31st March	**2014 Rs.**	2013 Rs.	**2014 Rs.**	2013 Rs.
41. Subordinated Liabilities				
As at the beginning of the year	–	–	–	–
Redemptions	–	–	–	–
New debt instruments issued	1,250,000,000	–	1,250,000,000	–
Balance before amortised interest payable	1,250,000,000	–	1,250,000,000	–
Amortised interest payable	10,272,122	–	10,272,122	–
As at the end of the year	1,260,272,122	–	1,260,272,122	–

Outstanding debentures as at 31st March 2014, consists of 12,500,000 (2013 - 0) Listed Unsecured Redeemable Subordinated debentures of Rs. 100 each issued by the Company in December 2013, details of which are given below:

	Interest Payable	Issue Date	Maturity Date	Effective annual yield (%)		Value (Rs.)	
				2014	2013	**2014**	2013
2013/14 - Fixed Rated 15% p.a.	Quarterly	2013/14	2018/19	15%	–	1,250,000,000	–

As at 31st March	Company		Group	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
42. Stated Capital				
Ordinary shares				
58,704,800 ordinary shares	747,152,000	533,680,000	747,152,000	533,680,000
Allotted and fully-paid				
Balance as at 01.04.2013 - 53,368,000 ordinary shares	533,680,000	533,680,000	533,680,000	533,680,000
Rights issue in December 2013				
1 for every 10 held - 5,336,800 ordinary shares	213,472,000	–	213,472,000	–
Balance as at 31.03.2014 - 58,704,800 ordinary shares	747,152,000	533,680,000	747,152,000	533,680,000
43. Statutory Reserve Fund				
Balance at the beginning of the year	165,036,033	130,036,033	165,036,033	130,036,033
Transfers during the period	30,000,000	35,000,000	30,000,000	35,000,000
Balance at the end of the year	195,036,033	165,036,033	195,036,033	165,036,033

The Reserve Fund is maintained in compliance with direction No. 1 of 2003 of the 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 fund 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	Note	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
44. Investment Fund Account					
Balance at the beginning of the year		**154,759,694**	97,059,153	**154,759,694**	97,059,153
Transfers during the period	44.1	**15,868,909**	57,700,541	**15,868,909**	57,700,541
Balance at the end of the year		**170,628,603**	154,759,694	**170,628,603**	154,759,694

The investment Fund Account is credited in accordance with the Central Bank guidelines issued to create an Investment Fund Reserve which comprise, 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.

As at 31st March	Company 2014 Rs.	Company 2013 Rs.	Group 2014 Rs.	Group 2013 Rs.
44.1 Transfers during the Period				
8% of profits calculated for the payment of Value Added Tax on financial services	**8,913,196**	41,629,830	**8,913,196**	41,629,830
5% of profit before tax calculated for the payment of income tax	**6,955,713**	16,070,711	**6,955,713**	16,070,711
	15,868,909	57,700,541	**15,868,909**	57,700,541

45. Related Party Transactions

Name of the Company	Nature of Transaction	Transaction Amount 2014 Rs.	Transaction Amount 2013 Rs.	Balance Outstanding as at 31st March 2014 Rs.	Balance Outstanding as at 31st March 2013 Rs.
Parent Company					
E. W. Balasuriya and Company (Pvt) Ltd.	Payment of rent expenses	(2,624,997)	(3,292,407)	–	–
	Dividend payment	(91,466,411)	(74,802,809)	–	–
	Rent income	1,920,000	1,714,286	–	–
	Net fund paid/(received)	92,171,408	68,380,930	–	–
Subsidiary Company					
Senkadagala Insurance Brokers (Pvt) Ltd.	Fixed deposit made	–	–	37,261,091	10,000,000
	Interest expense	(3,542,959)	(22,921)	–	–
	Rent income	300,000	–	–	–
	Dividend income	35,000,000	–	–	–
	Net fund paid	38,842,959	22,921	–	–
	Balance payable	–	–	(37,261,091)	(10,000,000)
Associate Company					
Senkadagala Hotels Ltd.	Payment of rent expenses	(787,800)	(787,800)	–	–
	Fixed deposits	–	–	–	–
	Payment of interest for fixed deposits with the Company	–	–	–	–
	Fixed deposit made	–	–	–	–
	Net fund paid/(received)	787,800	787,800	–	–

45.1 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.

45.1.1 Compensation of Key Management Personnel

	2014 Rs.	2013 Rs.
Short-term employee benefits		
Board of Directors	15,375,000	14,032,500
Other Key Management Personnel	22,800,000	18,594,900

45.1.2 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 2014 is amounting to Rs. 17,877,885/- (2012/13 - Rs. 8,085,221/-).

45.1.3 Deposits Held by Key Management Personnel

	2014 Rs.	2013 Rs.
Deposits held with the Company	12,962,116	6,202,634

46. Commitments and Contingencies

46.1 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:

	2014 Rs.	2013 Rs.
Approved but not contracted for	120,000,000	85,000,000
Approved and contracted for	18,000,000	4,000,000
	138,000,000	89,000,000

46.2 Contingent Liabilities

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

47. Events After the Reporting Period

47.1 Capitalisation of Reserves

The Board of Directors has recommended to the shareholders the issue of 6,522,755 shares in the proportion of one (1) ordinary new share for every nine (9) ordinary shares, credited as fully paid at a consideration of Rs. 40/- per share, by way of Capitalisation of Reserves.

The issue of shares credited as fully paid up by way of Capitalisation of Reserves is subject to the obtaining of shareholder approval.

There were no material events occurring after the reporting period that require adjustment to or disclose in the Financial Statements other than that what is disclosed above.

48. Maturity Analysis

48.1 Company

An analysis of the total assets employed and the total liabilities of the Company as at 31st March 2014, 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 2014 Rs.**
Interest Earning Assets					
Cash and cash equivalents	404,047,840	–	–	–	**404,047,840**
Investments in government and other securities	1,114,280,206	386,931,355	–	167,841,898	**1,669,053,459**
Loans and advances	1,718,518,950	4,123,819,115	3,499,343,572	3,333,860,103	**12,675,541,741**
Total interest earning assets	3,236,846,996	4,510,750,470	3,499,343,572	3,501,702,001	**14,748,643,040**
Non-Interest Earning Assets					
Financial assets held at fair value through profit and loss	74,912,286	–	–	–	**74,912,286**
Financial assets available-for-sale	–	2,999,821	5,999,641	2,999,821	**11,999,283**
Investment in subsidiary	–	–	–	20,000,000	**20,000,000**
Property, plant and equipment	–	–	–	857,732,103	**857,732,103**
Other receivables	36,047,184	52,542,587	30,650,333	37,149,674	**156,389,777**
Total assets	3,347,806,466	4,566,292,878	3,535,993,546	4,419,583,599	**15,869,676,489**
Percentage as at 31.03.2014 (%)	21.10	28.77	22.28	27.85	**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 31st March 2014 Rs.**
Interest-Bearing Liabilities					
Deposits from customers	740,110,887	4,355,940,490	400,661,764	127,686,345	**5,624,399,485**
Over drawn bank accounts	75,706,190	–	–	–	**75,706,190**
Borrowings	488,167,708	1,580,546,334	1,290,678,310	63,618,937	**3,423,011,289**
Debentures	20,765,966	367,557,604	1,197,413,900	2,571,608,990	**4,157,346,460**
Total interest-bearing liabilities	1,324,750,750	6,304,044,428	2,888,753,974	2,762,914,272	**13,280,463,424**
Non-Interest-Bearing Liabilities	84,074,478	105,343,332	118,807,924	179,204,822	**487,430,556**
Total liabilities	1,408,825,228	6,409,387,760	3,007,561,898	2,942,119,094	**13,767,893,980**
Percentage as at 31.03.2014 (%)	8.88	40.39	18.95	18.54	**86.76**
Shareholders' funds	–	–	–	2,101,782,509	**2,101,782,509**
Total shareholders' funds and liabilities	1,408,825,228	6,409,387,760	3,007,561,898	5,043,901,603	**15,869,676,489**

48.2 Group

An analysis of the total assets employed and the total liabilities of the Group as at 31st March 2014, 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 2014 Rs.
Interest Earning Assets					
Cash and cash equivalents	420,155,384	–	–	–	**420,155,384**
Deposit with licensed commercial banks	–	–	–	–	**–**
Investments in government and other securities	1,114,280,206	386,931,355	–	167,841,898	**1,669,053,459**
Loans and advances	1,718,518,950	4,123,819,115	3,499,343,572	3,333,860,103	**12,675,541,741**
Total interest earning assets	3,252,954,540	4,510,750,470	3,499,343,572	3,501,702,001	**14,764,750,584**
Non-Interest Earning Assets					
Financial assets held at fair value through profit or loss	74,912,286	–	–	–	**74,912,286**
Financial assets available-for-sale	–	2,999,821	5,999,641	2,999,821	**11,999,283**
Investment in subsidiary	–	–	–	–	**–**
Property, plant and equipment	–	–	–	862,296,338	**862,296,338**
Other receivables	36,182,184	52,542,587	30,650,333	37,149,674	**156,524,777**
Total assets	3,364,049,010	4,566,292,878	3,535,993,546	4,404,147,834	**15,870,483,268**
Percentage as at 31.03.2014 (%)	21.20	28.77	22.28	27.75	**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 31st March 2014 Rs.
Interest-Bearing Liabilities					
Deposits from customers	740,110,887	4,318,679,395	400,661,767	127,686,345	**5,587,138,393**
Over drawn bank accounts	88,598,262	–	–	–	**88,598,262**
Borrowings	488,167,708	1,580,546,335	1,290,678,309	63,618,937	**3,423,011,289**
Debentures	20,765,966	367,557,604	1,197,413,900	2,571,608,990	**4,157,346,460**
Total interest-bearing liabilities	1,337,642,823	6,266,783,334	2,888,753,976	2,762,914,272	**13,256,094,404**
Non-Interest-Bearing Liabilities	101,540,982	107,706,152	118,920,050	179,297,008	**507,464,192**
Total liabilities	1,439,183,805	6,374,489,486	3,007,674,026	2,942,211,280	**13,763,558,596**
Percentage as at 31.03.2014 (%)	9.07	40.17	18.95	18.54	**86.72**
Shareholders' funds	–	–	–	2,106,924,672	**2,106,924,672**
Total shareholders' funds and liabilities	1,439,183,805	6,374,489,486	3,007,674,026	5,049,135,952	**15,870,483,268**

49. Segment Report

As at 31st March	Leasing		Hire Purchases		Pawning Advances	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Revenue						
Interest	1,398,979,560	1,159,613,170	1,486,218,967	1,227,157,296	19,137,515	6,458,683
Trading	–	–	–	–	–	–
Commissions	–	–	–	–	–	–
Rent	–	–	–	–	–	–
Dividends	–	–	–	–	–	–
Other income	–	–	–	–	–	–
Total revenue	1,398,979,560	1,159,613,170	1,486,218,967	1,227,157,296	19,137,515	6,458,683
Profit before tax						
Taxation						
Profit after tax						
Segment assets	6,001,775,609	5,707,068,373	6,167,957,766	5,446,674,892	102,884,961	69,635,416
Segment liabilities	5,265,476,790	4,925,316,308	5,593,828,316	5,212,201,792	72,029,745	27,432,473
Information on Cash flows						
Operating activities	898,460,889	(403,691,408)	1,005,938,465	(208,443,179)	8,991,112	(12,944,045)
Investing activities	–	–	–	–	–	–
Capital expenditure	(154,312,787)	(85,660,972)	(158,585,528)	(81,752,562)	(2,645,295)	(1,045,202)
Financing activities	–	–	–	–	–	–
Net cash flow	744,148,102	(489,352,380)	847,352,937	(290,195,741)	6,345,817	(13,989,247)
Depreciation and amortisation	(69,285,478)	(57,845,574)	(71,203,912)	(55,206,284)	(1,187,721)	(705,809)

Other Advances		Investments/Property		Insurance		Unallocated		Total	
2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
78,100,608	62,620,366	166,101,543	136,479,026	–	–	–	–	3,148,538,193	2,592,328,541
–	–	8,665,281	5,971,236	–	–	115,432	12,702	8,780,713	5,983,938
–	–	–	–	57,205,778	56,573,824	–	–	57,205,778	56,573,824
–	–	1,659,821	1,714,286	–	–	–	–	1,659,821	1,714,286
–	–	2,095,081	1,994,173	–	–	–	–	2,095,081	1,994,173
–	–	16,807,144	19,431,572	–	–	470,197,944	365,215,205	487,005,088	384,646,777
78,100,608	62,620,366	195,328,870	165,590,293	57,205,778	56,573,824	470,313,376	365,227,907	3,705,284,674	3,043,241,539
								642,415,272	681,811,946
								(103,100,604)	(102,516,558)
								539,314,668	579,295,388
402,923,405	336,557,304	2,613,697,131	2,226,267,301	20,806,779	11,450,838	560,437,617	463,375,251	15,870,483,268	14,261,029,375
293,954,930	265,972,410	735,178,456	703,324,688	32,925,707	704,232	1,770,164,652	1,551,261,242	13,763,558,595	12,686,213,145
37,574,162	(30,614,963)	(232,676,316)	(965,484,454)	25,634,615	(7,843,351)	(127,134,270)	(150,062,539)	1,616,788,657	(1,779,083,939)
–	–	12,395,899	217,142	–	(89,902)	30,409,161	39,097,489	42,805,060	39,224,729
(10,359,640)	(5,051,600)	(67,201,261)	(33,415,443)	(1,365,270)	(4,849,325)	(14,409,517)	(6,955,089)	(408,879,297)	(218,730,193)
–	–	–	–	–	–	(1,160,816,858)	1,997,058,374	(1,160,816,858)	1,997,058,374
27,214,523	(35,666,563)	(287,481,679)	(998,682,755)	24,269,345	(12,782,578)	(1,271,951,484)	1,879,138,235	89,897,560	38,468,970
(4,651,414)	(3,411,270)	(303,038)	(303,038)	(1,048,707)	(672,825)	(6,469,783)	(4,696,668)	(154,150,052)	(122,841,468)

50. Classification of Financial Assets and Financial Liabilities

50.1 Classification of Financial Assets and Financial Liabilities of the Company

The table below provides reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Company.

50.1.1

As at 31st March 2014	Notes	Designated at Fair Value Rs.	Amortised Cost Rs.	Available-for-Sale Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	19	–	404,047,840	–	404,047,840
Deposits with licensed commercial banks	20	–	–	–	–
Repurchase agreements		–	1,114,280,206	–	1,114,280,206
Financial assets held at fair value through profit or loss	21	74,912,286	–	–	74,912,286
Finance leases	22	–	6,001,775,609	–	6,001,775,609
Hire purchases	23	–	6,167,957,766	–	6,167,957,766
Other loans and receivables	24	–	505,808,366	–	505,808,366
Financial assets available-for-sale	25	–	–	11,999,283	11,999,283
Financial assets held-to-maturity	26	–	554,773,253	–	554,773,253
Total financial assets		74,912,286	14,748,643,040	11,999,283	14,835,554,609
Financial Liabilities					
Due to banks	33	–	1,330,546,001	–	1,330,546,001
Deposits from customers	34	–	5,624,399,485	–	5,624,399,485
Other borrowings	35	–	2,092,465,288	–	2,092,465,288
Debt securities issued	36	–	2,897,074,338	–	2,897,074,338
Over drawn bank accounts	39	–	75,706,190	–	75,706,190
Subordinated liabilities	41	–	1,260,272,122	–	1,260,272,122
Total financial liabilities		–	13,280,463,424	–	13,280,463,424

50.1.2

As at 31st March 2013	Notes	Designated at Fair Value Rs.	Amortised Cost Rs.	Available-for-Sale Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	19	–	333,440,165	–	333,440,165
Deposits with licensed commercial banks	20	–	1,061,779,016	–	1,061,779,016
Repurchase agreements		–	75,762,008	–	75,762,008
Financial assets held at fair value through profit or loss	21	67,627,657	–	–	67,627,657
Finance leases	22	–	5,707,068,373	–	5,707,068,373
Hire purchases	23	–	5,446,674,892	–	5,446,674,892
Other loans and receivables	24	–	406,192,720	–	406,192,720
Financial assets available-for-sale	25	–	–	1,419,713	1,419,713
Financial assets held-to-maturity	26	–	389,855,927	–	389,855,927
Total financial assets		67,627,657	13,420,773,101	1,419,713	13,489,820,471

As at 31st March 2013	Notes	Designated at Fair Value Rs.	Amortised Cost Rs.	Available-for-Sale Rs.	Total Rs.
Financial Liabilities					
Due to banks	33	–	3,762,547,920	–	3,762,547,920
Deposits from customers	34	–	3,412,464,090	–	3,412,464,090
Other borrowings	35	–	2,373,604,344	–	2,373,604,344
Debt securities issued	36	–	2,618,281,394	–	2,618,281,394
Subordinated liabilities	41	–	–	–	–
Total financial liabilities		–	12,166,897,748	–	12,166,897,748

50.2 Classification of Financial Assets and Financial Liabilities of the Group

The table below provides reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Group.

50.2.1

As at 31st March 2014	Notes	Designated at Fair Value Rs.	Amortised Cost Rs.	Available-for-Sale Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	19	–	420,155,384	–	420,155,384
Deposits with licensed commercial banks	20	–	–	–	–
Repurchase agreements		–	1,114,280,206	–	1,114,280,206
Financial assets held at fair value through profit or loss	21	74,912,286	–	–	74,912,286
Finance leases	22	–	6,001,775,609	–	6,001,775,609
Hire purchases	23	–	6,167,957,766	–	6,167,957,766
Other loans and receivables	24	–	505,808,366	–	505,808,366
Financial assets available-for-sale	25	–	–	11,999,283	11,999,283
Financial assets held-to-maturity	26	–	554,773,253	–	554,773,253
Total financial assets		74,912,286	14,764,750,584	11,999,283	14,851,662,153
Financial Liabilities					
Due to banks	33	–	1,330,546,001	–	1,330,546,001
Deposits from customers	34	–	5,587,138,393	–	5,587,138,393
Other borrowings	35	–	2,092,465,288	–	2,092,465,288
Debt securities issued	36	–	2,897,074,338	–	2,897,074,338
Over drawn bank accounts	39	–	88,598,262	–	88,598,262
Subordinated liabilities	41	–	1,260,272,122	–	1,260,272,122
Total financial liabilities		–	13,256,094,404	–	13,256,094,404

50.2.2

As at 31st March 2013	Notes	Designated at Fair Value Rs.	Amortised Cost Rs.	Available-for-Sale Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	19	–	340,643,331	–	340,643,331
Deposits with licensed commercial banks	20	–	1,061,779,016	–	1,061,779,016
Repurchase agreements		–	75,762,008	–	75,762,008
Financial assets held at fair value through profit or loss	21	67,627,657	–	–	67,627,657
Finance leases	22	–	5,707,068,373	–	5,707,068,373
Hire purchases	23	–	5,446,674,892	–	5,446,674,892
Other loans and receivables	24	–	406,192,720	–	406,192,720
Financial assets available-for-sale	25	–	–	1,419,713	1,419,713
Financial assets held-to-maturity	26	–	389,855,927	–	389,855,927
Total financial assets		67,627,657	13,427,976,267	1,419,713	13,497,023,637
Financial Liabilities					
Due to banks	33	–	3,762,547,920	–	3,762,547,920
Deposits from customers	34	–	3,402,441,169	–	3,402,441,169
Other borrowings	35	–	2,373,604,346	–	2,373,604,346
Debt securities issued	36	–	2,618,281,392	–	2,618,281,392
Subordinated liabilities	41	–	–	–	–
Total financial liabilities		–	12,156,874,827	–	12,156,874,827

51. Fair Value of Financial Instruments

51.1 Financial Assets and Liabilities at Fair Value through Profit or 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 2014	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial assets designated at fair value through profit or loss				
Dealing securities	74,912,286	–	–	74,912,286
	74,912,286	–	–	74,912,286
Financial Liabilities	–	–	–	–
	–	–	–	–

51.2 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 2014	Carrying Amount Rs.	Fair Value Rs.
Financial Assets		
Cash and cash equivalents	404,047,840	404,047,840
Deposits with licensed commercial banks	–	–
Repurchase agreements	1,114,280,206	1,114,280,206
Loans and advances	12,675,541,741	12,683,629,054
Financial assets available-for-sale	11,999,283	11,999,283
Financial assets held-to-maturity	554,773,253	554,773,253
	14,760,642,323	14,768,729,636
Financial Liabilities		
Due to banks	1,330,546,001	1,330,546,001
Deposits from customers	5,624,399,485	5,624,399,485
Borrowings	2,092,465,288	2,092,465,288
Debentures	2,897,074,338	2,897,074,338
	11,944,485,112	11,944,485,112

Methodologies and Assumptions

Financial assets and liabilities that have a short-term maturity (less than three months) are assumed that the carrying amounts 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 is 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 are estimated carrying amounts approximate their fair value if there is no situation of impairments.

52. Risk Management

52.1 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.

52.2 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.

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

Allowances appropriate for each individually significant loan or advance is determined on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty. Projected receipts and the expected payout 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 for held-to-maturity debt investments that are not individually significant.

Generally it is based on historical experience. However, when there are significant market developments, macroeconomic 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 and recoveries once impaired) or economic conditions 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 overall policy.

52.2.1 Credit Quality by Class of Financial Assets

As at 31st March 2014	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Assets				
Cash and cash equivalents	1,518,328,046	–	–	1,518,328,046
Financial investments - Held at fair value through profit or loss	74,912,286	–	–	74,912,286
Loans and advances	5,640,605,898	6,983,471,440	51,464,403	12,675,541,741
Financial investments Available-for-sale	11,999,283	–	–	11,999,283
Financial investments Held-to-maturity	554,773,253	–	–	554,773,253
Total financial assets	7,800,618,766	6,983,471,440	51,464,403	14,835,554,609

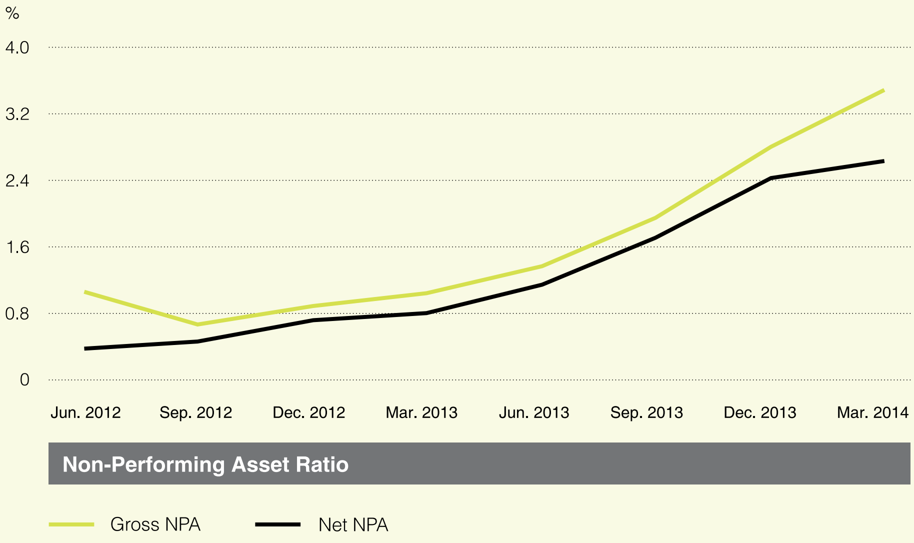
52.2.1.1 Age Analysis of Past Due (i.e. Facilities in arrears of 1 day and above) but not Impaired Loans by Class of Financial Assets

	Past Due But Not Impaired				
As at 31st March 2014	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	2,175,222,162	1,836,435,853	2,395,379,994	576,433,431	6,983,471,440
	2,175,222,162	1,836,435,853	2,395,379,994	576,433,431	6,983,471,440

52.2.2 Non-Performing Asset Ratio

Non-performing assets percentage movement which depicts the quality of the loan portfolio of the Company during the financial period.

The gross non-performing assets ratio includes loans and advances receivable net of interest in suspense which are in arrears for more than six months as the numerator and total advances net of interest in suspense as the denominator. To arrive at the net non-performing assets ratio specific provision is deducted from the numerator of the above formula.



52.2.3 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	–	7,435,600	254,117,237	–	–	261,552,837
Manufacturing	–	14,823,676	51,205,260	–	–	66,028,936
Construction	–	145,500	205,183,783	–	–	205,329,283
Financial Services	1,518,328,046	12,548,311	73,801,626	1,295,277	–	1,605,973,260
Trading	–	944,250	4,752,197,533	–	–	4,753,141,783
Retail	–	–	1,454,196,159	–	–	1,454,196,159
Government	–	–	–	–	554,773,253	554,773,253
Hotels	–	32,649,423	110,509,239	10,413,420	–	153,572,082
Services	–	6,365,526	5,774,330,904	290,586	–	5,780,987,016
Total	1,518,328,046	74,912,286	12,675,541,741	11,999,283	554,773,253	14,835,554,609

*** 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	2,182,553,863
Eastern	342,965,495
North-Central	222,214,731
North-Western	1,237,534,998
Northern	300,048,398
Sabaragamuwa	1,054,377,923
Southern	832,965,124
Uva	326,753,982
Western	6,176,127,227
Total	12,675,541,741

52.3 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 another 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.

52.3.1 Statutory Liquid Assets Ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 04 of 2013, 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 deposit received by the Company at a given day; and 5% of total outstanding borrowings excluding borrowings which are included in the capital funds of the finance company and borrowings which are secured by mortgage of any asset of the Company.

Further, in accordance with the Finance Companies (Liquid Assets) Direction No. 04 of 2013 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 and borrowings of the twelve months of the proceeding financial year.

As at 31st March 2014, the Company maintained Government Securities to Average Deposit Liabilities and Borrowings Ratio at 12.47%.

52.3.2 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 2014.

	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	404,047,840	–	–	–	404,047,840
Deposits with licensed commercial banks	–	–	–	–	–
Repurchase agreements	1,114,280,206	–	–	–	1,114,280,206
Financial investments - Fair value through profit or loss	74,912,286	–	–	–	74,912,286
Loans and advances	1,718,518,950	4,123,819,115	3,499,343,572	3,333,860,103	12,675,541,741
Financial investments Available-for-sale	–	2,999,821	5,999,641	2,999,821	11,999,283
Financial investments Held-to-maturity	–	379,859,389	–	174,913,864	554,773,253
Total financial assets	3,311,759,282	4,506,678,325	3,505,343,213	3,511,773,788	14,835,554,609
Financial Liabilities					
Bank overdraft	75,706,190	–	–	–	75,706,190
Deposits from customers	740,110,887	4,355,940,490	400,661,764	127,686,345	5,624,399,485
Debt instruments issued and other borrowed funds	508,933,674	1,948,103,938	2,488,092,210	2,635,227,927	7,580,357,749
Total financial liabilities	1,324,750,750	6,304,044,428	2,888,753,974	2,762,914,272	13,280,463,424
Total net financial assets/(liabilities)	1,987,008,532	(1,797,366,102)	616,589,239	748,859,516	1,555,091,185

52.3.3 Capital Management and Capital Adequacy

In order to be resilient in volatile economic conditions it is important to maintain an adequate capital base. Central Bank of Sri Lanka has laid down directions to promote the strengthening of the capital base of NBFIs.

In accordance with the Finance Companies (Capital Funds) Direction No. 01 of 2003, the Company transferred Rs. 30 million of net profits for the year, to the Statutory Reserve Fund. Since the capital base of the Company is greater that 25% of total deposit liabilities only 5% of profits for the year was transferred to this reserve.

Further, in accordance with the Finance Companies (Risk-Weighted Capital Adequacy Ratio) Direction No. 02 of 2006, all the NBFIs are required to maintain, at all times its Capital at a level not less than 10% of its Risk-Weighted Assets and the Core Capital at a level not less that 5% of Risk-Weighted Assets. The ratios as at 31st March 2014 were 20.93% and 14% respectively. Detailed calculation is given below:

Risk-Weighted Assets

As at 31st March	2014 Rs.	2013 Rs.	Risk Weighting %	2014 Rs.	2013 Rs.
On-Statement of Financial Position - total assets	**15,869,676,489**	14,269,578,537		**13,791,905,923**	12,440,300,408
Cash & current accounts with banks	**404,047,840**	333,440,165	0	**–**	–
Deposits with banks	**1,114,280,206**	1,137,541,024	20	**222,856,041**	227,508,205
Sri Lanka Government treasury bills	**554,773,253**	389,855,927	0	**–**	–
Loans & advances	**12,675,541,741**	11,559,935,985		**12,448,016,433**	11,363,986,767
Loans against deposits with the Company	**124,640,347**	126,313,802	0	**–**	–
Loans against gold and gold jewellery	**102,884,961**	69,635,416	0	**–**	–
Other loans & advances	**12,448,016,433**	11,363,986,767	100	**12,448,016,433**	11,363,986,767
Fixed assets	**857,732,103**	629,822,980	100	**857,732,103**	629,822,980
Other assets	**263,301,346**	218,982,456	100	**263,301,346**	218,982,456

Capital Base

As at 31st March	2014 Rs.	2013 Rs.
Tier I: Core Capital		
Issued and paid-up ordinary shares	747,152,000	533,680,000
Statutory reserve fund	195,036,033	165,036,033
Published retained profits	988,965,873	720,570,975
Total Tier 1 Capital	1,931,153,906	1,419,287,008
Tier 2: Capital		
Eligible revaluation reserves	–	–
Eligible general provisions	–	–
Approved hybrid capital instruments	–	–
Eligible approved unsecured subordinated term debt	965,576,953	–
Total Tier 2 Capital	965,576,953	–
Deductions		
Equity investments in unconsolidated financial and banking subsidiaries	(9,753,311)	(12,048,435)
Total Capital Base	2,886,977,548	1,407,238,573
Core Capital Ratio (minimum requirement 5%)		
Total Core Capital	1,931,153,906	1,419,287,008
Total Risk-Weighted Assets	13,791,905,923	12,440,300,408
	14.00%	11.41%
Total Capital Ratio (minimum requirement 10%)		
Total Capital Base	2,886,977,548	1,407,238,573
Total Risk-Weighted Assets	13,791,905,923	12,440,300,408
	20.93%	11.31%

During the year the Company made a Rights Issue, by which Rs. 213 million was infused to the Core Capital Base of the Company. In order further, strengthen the capital base and to strike a balance between the Tier I capital and Tier II capital, the Company issued an Unsecured, Subordinated Term Debt, with the approval of CBSL for a sum of Rs. 1,250 million of which Rs. 965 million is included under Tier II capital

52.4 Market Risk

Market risk is the risk of potential losses accruing through adverse fluctuation in market interest rates, equity prices and exchange rates. Of these markets 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.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

52.5 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.

52.6 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.

52.7 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.

52.8 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.

52.9 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.

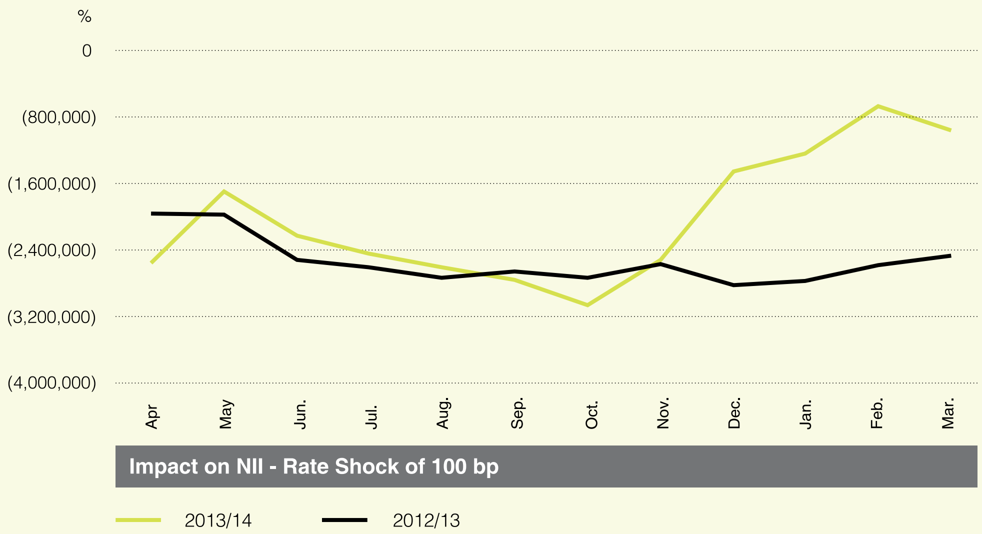
In this latter process, the Compliance Officer is supported and assisted by the Company's Internal Auditors, Messrs Ernst & Young Advisory Services (Pvt) Ltd. who also reports on any issues of non-compliance, with both internal and external regulations. Compliance with regulatory requirements is also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

52.10 Reputation Risk

Reputation risk is the risk to earning, 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, earning and capital. Credit, liquidity, interest rate, operational and regulatory risk must all be managed effectively in order to safeguard the Company's reputation.

53. Sensitivity Analysis

The graph below depicts the sensitivity analysis carried out on the Statement of Financial Position as at 31st March 2014, on the changes of interest rate right across the market in a hypothetical situation. The Company is exposed to sudden interest rate fluctuations due to the availability of short-term and floating rate funding. The exposure will partly diminish by the short-term, rate sensitive investments. The time horizon of the study is restricted to a 12 months period. The Company undertakes varying degrees of such rate shocks and evaluate them to ensure that the risk exposures are within the risk appetite of the Company as compared to the anticipated market rate movements.



Sensitivity to Projected Net Interest Income	100 bp Parallel Increase/Decrease*	
	2014 Rs. '000	2013 Rs. '000
As at March 31	+/- 961	+/- 2,474
Average for the year	+/- 2,016	+/- 2,537
Maximum for the year	+/- 3,065	+/- 2,821
Minimum for the year	+/- 669	+/- 1,962

** - Parallel increase in rates would have a positive impact on earning whereas parallel decrease have a negative effect.*

In arriving at the above result the Company considered only rate sensitive assets and liabilities.

Ten Year Summary

Rs. '000

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Results										
Interest income	**3,528,336**	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
Interest expense	**1,868,499**	1,524,288	841,034	679,358	845,696	931,904	668,737	499,471	268,693	126,496
Net interest income	**1,659,838**	1,337,635	1,043,467	813,730	605,864	628,220	591,156	559,399	376,640	181,190
Other operating income	**94,950**	113,678	131,523	177,868	100,671	87,309	101,899	104,487	108,974	60,036
Profit before taxation and VAT	**657,054**	735,545	692,960	435,584	172,614	132,807	283,098	260,671	210,918	101,481
Profit before income taxation	**622,417**	680,482	634,872	349,626	138,485	113,583	256,132	257,750	207,369	93,628
Profit for the year	**534,942**	578,526	476,450	222,400	54,951	61,364	241,092	277,547	205,595	95,685
Dividends paid	**108,165**	172,912	127,016	63,508	19,212	29,886	75,783	82,400	26,150	19,749
Balance Sheet										
Assets										
Cash and near cash items	**2,073,101**	1,860,837	1,277,793	617,647	659,489	379,798	520,140	387,240	453,039	96,566
Investments	**86,912**	69,047	61,299	66,126	37,742	32,305	30,398	26,459	16,319	16,319
Loans and advances	**12,675,542**	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
Investments in subsidiary	**20,000**	20,000	–	–	–	–	–	–	–	–
Property and equipment	**857,732**	629,823	557,758	429,969	422,658	401,969	359,627	206,853	139,763	105,590
Other assets	**156,390**	129,935	152,086	107,544	60,948	51,986	86,454	509,271	405,380	188,712
Total assets	**15,869,676**	14,269,579	11,017,502	6,619,454	5,865,128	5,748,200	5,785,883	4,784,210	4,182,885	2,108,120
Liabilities										
Deposits from customers	**5,624,399**	3,412,464	2,732,031	2,386,821	2,094,478	1,398,151	937,315	764,349	686,740	522,985
Borrowings	**3,423,011**	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
Debentures	**4,157,346**	2,618,281	1,771,753	1,425,524	1,090,000	840,000	750,000	509,000	250,000	–
Deferred tax liability	**155,732**	199,093	178,788	103,560	70,968	65,240	40,394	34,099	67,793	10,065
Dividends payable	**57,295**	3,648	2,427	1,684	1,340	1,016	1,125	–	189	11,744
Other liabilities	**350,110**	325,894	399,961	439,996	275,061	156,471	278,941	256,459	221,890	133,876
Total liabilities	**13,767,894**	12,695,532	9,890,798	5,886,117	4,960,228	4,861,961	4,928,987	4,130,385	3,724,206	1,741,835
Equity										
Stated capital	**747,152**	533,680	533,680	533,680	213,472	213,472	213,472	213,472	213,472	53,368
Statutory reserve fund	**195,036**	165,036	130,036	100,036	86,536	83,536	79,536	61,026	43,594	27,074
Investment fund account	**170,629**	154,760	97,059	16,752	–	–	–	–	–	–
Retained earnings	**988,966**	720,571	365,928	82,870	604,892	589,231	563,888	379,327	201,613	285,843
Total equity	**2,101,783**	1,574,047	1,126,704	733,337	904,900	886,239	856,896	653,825	458,679	366,285
Total liabilities and equity	**15,869,676**	14,269,579	11,017,502	6,619,454	5,865,128	5,748,200	5,785,883	4,784,210	4,182,885	2,108,120

Key Ratios and Indicators

Rs. '000	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Performance Indicators										
Return on average total assets (%)	**3.55**	4.58	5.40	3.56	0.95	1.06	4.56	6.19	6.54	5.30
Return on average shareholders' funds (%)	**29.11**	42.84	51.23	27.15	6.14	7.04	31.92	49.90	49.84	29.67
Net interest margin (%)	**11.67**	11.17	12.63	14.12	11.30	11.73	11.89	13.04	12.53	10.67
Growth of income (%)	**23.29**	51.87	26.22	2.86	-6.96	23.83	18.98	64.08	109.74	28.84
Growth of profit for the year (%)	**-7.53**	21.42	114.23	304.73	-10.45	-74.55	-13.13	35.00	114.87	51.76
Growth of loans and advances (%)	**9.65**	28.89	66.14	15.24	-4.05	1.94	31.06	15.34	86.27	41.13
New advances disbursed (Rs. '000)	**6,861,202**	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
Net flow of deposits (Rs. '000)	**2,211,935**	680,433	345,210	298,264	696,327	460,836	172,966	77,609	136,757	40,197
Borrowings obtained (Rs. '000)	**1,860,000**	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
Debentures issued (Rs. '000)	**2,410,000**	1,216,000	565,229	300,000	350,000	240,000	241,000	259,000	250,000	–
Capital expenditure incurred (Rs. '000)	**407,514**	213,881	243,266	103,066	103,682	116,993	216,888	122,612	71,118	71,937
Gross non-performing assets as a % of total advances	**3.48**	1.07	1.18	2.30	4.31	3.53	6.25	6.35	2.87	0.20
Investor Information										
Earnings per share (Rs.)	**9.83**	10.64	8.93	4.17	1.03	1.15	4.52	5.20	3.85	1.79
Dividends per share (Rs.)	**1.79**	3.24	2.38	1.19	0.90	1.40	3.55	3.86	1.23	3.70
Net assets per share (Rs.)	**35.80**	29.49	21.11	13.74	42.39	41.52	40.14	30.63	21.49	68.63
Interest cover (times)	**1.29**	1.38	1.57	1.33	1.06	1.07	1.36	1.56	1.77	1.76
Dividends cover (times)	**4.95**	3.35	3.75	3.50	2.86	2.05	3.18	3.37	7.86	4.85
Dividend payout ratio (%)	**20.22**	29.89	26.66	28.56	34.96	48.70	31.43	29.69	12.72	20.64
Capital and Leverage										
Core capital (%)	**14.00**	11.41	10.51	12.07	17.56	16.67	16.84	15.85	14.34	18.16
Total capital (%)	**20.93**	11.31	10.51	12.07	17.56	16.67	16.84	15.85	14.34	18.16
Equity as a % of total assets (%)	**13.24**	11.03	10.23	11.08	15.43	15.42	14.81	13.67	10.97	17.37
Equity as a % of total deposits and borrowings (%)	**15.92**	12.94	12.10	13.73	19.62	19.10	18.59	17.03	13.36	23.09
Growth of total assets (%)	**11.21**	29.52	66.44	12.86	2.03	-0.65	20.94	14.38	98.42	40.59
Growth of net assets (%)	**33.53**	39.70	53.64	-18.96	2.11	3.42	31.06	42.55	25.22	31.47
Earnings retention ratio (%)	**79.78**	70.11	73.34	71.44	65.04	51.30	68.57	70.31	87.28	79.36
Total deposit liabilities to capital (%)	**37.37**	46.13	41.24	30.72	43.20	63.39	91.42	85.54	66.79	70.04
Debt to equity ratio (times)	**3.61**	5.56	5.84	4.03	2.78	3.66	4.28	4.70	5.99	2.90
Liquidity										
Liquid assets as a % of total assets	**13.06**	13.04	11.60	9.33	11.24	6.61	8.99	8.09	10.83	4.58
Liquid assets as a % of total deposit liability	**36.86**	54.53	46.77	25.88	31.49	27.16	55.49	50.66	65.97	18.46
Operational										
Number of branches	**39**	39	30	30	30	30	26	18	14	8
Growth in branch numbers (%)	**–**	30	–	–	–	15	44	29	75	100
Number of service centres	**24**	13	15	–	–	–	–	–	–	–
Number of staff	**492**	414	347	235	213	211	185	146	105	63
Staff productivity (Rs. '000)	**1,265**	1,644	1,830	1,488	650	538	1,384	1,765	1,975	1,486

Depositor Information

Value of Deposit Base

	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Term deposits	5,439,663	3,254,899	2,627,293	2,299,937	2,027,465
Certificates of deposit	2,792	3,521	2,925	2,897	69
Savings deposits	181,944	154,044	101,813	83,986	66,944

Term Deposits Analysed on Rate of Interest Basis as at 31st March 2014

	No. of Deposits	Value Rs. '000	Percentage of Total
Less than 10%	467	373,076	6.86
More than or equal to 10% and less than 12%	559	495,877	9.12
More than or equal to 12% and less than 14%	1,878	2,864,440	52.65
More than or equal to 14% and less than 16%	2,309	1,474,541	27.11
More than 16%	386	231,729	4.26
	5,599	5,439,663	100.00

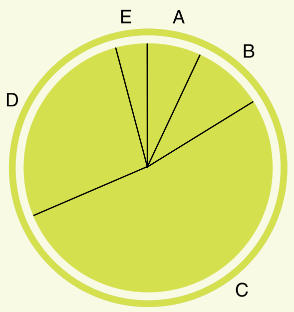
Term Deposits Analysed on Deposit Period Basis as at 31st March 2014

	No. of Deposits	Value Rs. '000	Percentage of Total
1 to 6 months	1,295	967,164	17.78
6 to 12 months	3,339	3,946,405	72.55
12 to 36 months	743	398,952	7.33
More than 36 months	222	127,142	2.34
	5,599	5,439,663	100.00

Depositor Indicators

	2014	2013	2012	2011	2010
Deposit interest expenses (Rs. '000)					
Term deposits	542,635	391,358	261,904	262,605	267,089
Certificates of deposit	469	376	325	180	582
Savings deposits	14,460	8,298	5,711	4,982	4,978
Total deposit interest paid	557,565	400,032	267,940	267,767	272,649
Deposit interest cover (times)	2.12	2.70	3.37	2.31	1.51
Liquid assets as a % of term and certificates of deposit	38	57	49	27	33
CBSL minimum requirement (%)	10	10	10	10	10
Liquid assets as a % of savings deposits	1,139	1,208	1,255	735	985
CBSL minimum requirement (%)	15	15	15	15	15

Analysis of Fixed Deposits Based on Interest Rate



A - 7% Less than 10%

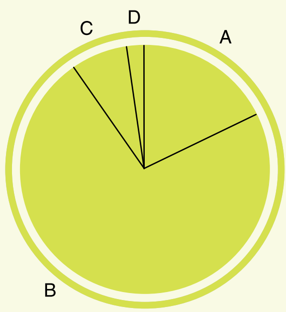
B - 9% More than or equal to 10% and less than 12%

C - 53% More than or equal to 12% and less than 14%

D - 27% More than or equal to 14% and less than 16%

E - 4% More than 16%

Analysis of Fixed Deposits Based on Maturity Period



A - 18% 1 to 6 Months

B - 73% 6 to 12 Months

C - 7% 12 to 36 Months

D - 2% More than 36 Months

Capital Adequacy

In order to be resilient in volatile economic conditions it's important to maintain adequate capital funds. Central Bank of Sri Lanka has issued the following directives to regulate the capital structure of NBFIs:

- Finance Companies (Capital Funds) Direction No. 01 of 2003
- Finance Companies (Risk-Weighted Capital Adequacy Ratio) Direction No. 02 of 2006
- Finance Companies (Minimum Core Capital) Direction No. 01 of 2011

Finance Companies (Capital Funds) Direction No. 01 of 2003 specifies,

- that every finance company shall maintain capital funds which shall at all time be more than 10% of its total deposit liabilities
- also every finance company shall maintain a Statutory Reserve Fund, transferring a specified fraction of its net profit for the year based on the ratio of capital funds to total deposit liabilities.

Finance Companies (Risk-Weighted Capital Adequacy Ratio) Direction No. 02 of 2006 specifies,

- that every finance company shall, at all times maintain its capital at a level not less than 10% of its risk weighted assets, with the core capital constituting not less than 5% of its risk-weighted assets.

Where,

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 revaluation reserves, general provisions and other capital instruments which combine characteristics of equity and debt instruments and unsecured subordinated term debts.

Risk-Weighted Assets - Central Bank defines 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 on page 152.

Finance Companies (Minimum Core Capital) Direction No. 01 of 2011 specifies,

- that every finance company shall at all times maintain an unimpaired core capital not less than Rs. 400 million.

Our Commitment

Senkadagala Finance has continuously adhered to these levels of capital, understanding the importance of maintaining adequate buffer to shield from market volatility. During the year we managed to raise our Core Capital ratio to 14% from 11.41% in 2013. Also improved the Total Capital ratio from 11.31% in 2013 to 20.93%.

Following were the initiatives taken during the year:

- During the year the Company issued 12,500,000 Subordinated Five-Year Debentures of Rs. 100 each with prior approval of the Central Bank of Sri Lanka, which qualifies to be included in the Tier 2 of the capital base.
- In December 2013 the Company successfully completed a Rights Issue, by which Rs. 213 million was infused to the capital base of the Company
- The Company maintains a Statutory Reserve Fund, which amounts to Rs. 195,036,033 as at 31st March 2014. Rs. 30 million of funds were transferred to this fund during the year.
- Out of profits for the year Rs. 314,263,806 was retained within the Company to strengthen the capital base of the Company and to support future growth.

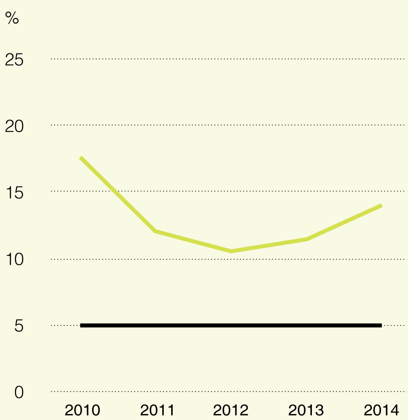
Calculation of Risk-Weighted Capital Adequacy Ratios

Risk-Weighted Assets

Rs. '000	2014	2013	2012	2011	2010	Risk-Weights	2014	2013	2012	2011	2010
On-Balance sheet - total assets	15,869,676	14,269,579	11,017,502	6,619,454	5,865,128		13,791,906	12,440,300	9,797,980	5,935,343	5,154,471
Cash and current accounts with banks	404,048	333,440	233,762	343,998	343,263	0%	–	–	–	–	–
Deposits with banks	1,114,280	1,137,541	739,919	75,139	153,034	20%	222,856	227,508	147,984	15,028	30,607
Deposits with finance companies	–	–	–	–	–	20%	–	–	–	–	–
Due from Central Bank of Sri Lanka	–	–	–	–	–	0%	–	–	–	–	–
Sri Lanka Government Treasury Bills	554,773	389,856	304,111	198,510	163,192	0%	–	–	–	–	–
Sri Lanka Government/ Central Bank Securities	–	–	–	–	–	0%	–	–	–	–	–
Other securities guaranteed by Sri Lanka Government	–	–	–	–	–	0%	–	–	–	–	–
Loans and advances	12,675,542	11,559,936	8,968,566	5,398,168	4,684,292		12,448,016	11,363,987	8,878,853	5,316,676	4,602,517
Against deposits with the Company	124,640	126,314	88,347	81,492	81,775	0%	–	–	–	–	–
Loans against Sri Lanka Government Guarantee/ Securities	–	–	–	–	–	0%	–	–	–	–	–
Loans against dues/ Securities/Guarantees of CBSL	–	–	–	–	–	0%	–	–	–	–	–
Loans against gold and gold jewellery	102,885	69,635	1,366	–	–	0%	–	–	–	–	–
Other loans and advances	12,448,016	11,363,987	8,878,853	5,316,676	4,602,517	100%	12,448,016	11,363,987	8,878,853	5,316,676	4,602,517
Property and equipment	857,732	629,823	557,758	429,969	422,658	100%	857,732	629,823	557,758	429,969	422,658
Other assets	263,301	218,982	213,385	173,671	98,690	100%	263,301	218,982	213,385	173,671	98,690

	2014	2013	2012	2011	2010
Capital Base					
Tier I: Core Capital	1,931,154	1,419,287	1,029,644	716,586	904,900
Issued and paid up ordinary shares	747,152	533,680	533,680	533,680	213,472
Statutory reserve fund	195,036	165,036	130,036	100,036	86,536
Published retained profits/ (accumulated losses)	988,966	720,571	365,928	82,870	604,892
Tier 2: Supplementary Capital	965,577	–	–	–	–
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	965,577	–	–	–	–

Rs. '000	2014	2013	2012	2011	2010	Risk-Weights	2014	2013	2012	2011	2010
Deductions											
Equity investments in unconsolidated financial and banking subsidiaries							**(9,753)**	(12,048)	–	–	–
Total Capital Base							**2,886,978**	1,407,239	1,029,644	716,586	904,900
Core Capital Ratio											
Core capital ratio	Core Capital		x 100								
	Risk-Weighted Assets										
Senkadagala Finance PLC							**14.00%**	11.41%	10.51%	12.07%	17.56%
CBSL minimum requirement							**5.00%**	5.00%	5.00%	5.00%	5.00%
Total Capital Ratio											
Total capital ratio	Total Capital Base		x 100								
	Risk-Weighted Assets										
Senkadagala Finance PLC							**20.93%**	11.31%	10.51%	12.07%	17.56%
CBSL minimum requirement							**10.00%**	10.00%	10.00%	10.00%	10.00%



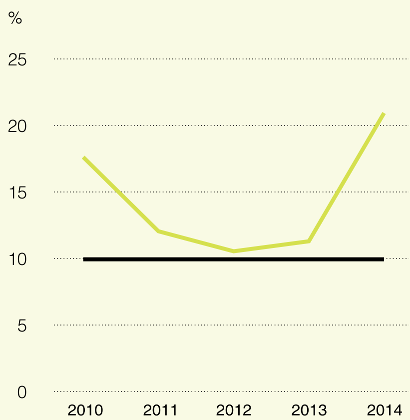
Core Capital Ratio

2.59%pt

2013: **11.41%** 2014: **14.00%**

Senkadagala Finance PLC

CBSL Minimum Requirement



Total Capital Ratio

9.62%pt

2013: **11.31%** 2014: **20.93%**

Senkadagala Finance PLC

CBSL Minimum Requirement

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.

During the year the Company raised funds by way of a Rights Issue. 5,336,800 ordinary shares were issued in the proportion of one new ordinary share for every ten existing shares held, at a price of Rs. 40.00 per share, by which the Company raised new funds of Rs. 213,472,000/-. The primary objective of the rights issue was to strengthen the Capital Base of the Company.

A further capital introduction during the year was through a capitalisation of earnings. During the year the Company capitalised 70.03% of its earnings compared to 70.11% of last year.

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

	2014			2013		
Dividend Payment	Amount Rs.	DPS Rs.	Paid Date	Amount Rs.	DPS Rs.	Paid Date
1st interim dividend paid	21,347,200	0.40	15.10.2013	24,015,600	0.45	14.11.2012
2nd interim dividend paid	34,635,832	0.59	31.01.2014	42,160,720	0.79	14.02.2013
3rd interim dividend paid	52,182,044	0.80	09.06.2014	42,694,400	0.80	19.04.2013
Final dividend proposed	52,182,044	0.80	Subject to AGM Approval	64,041,600	1.20	08.08.2013
Total dividends	160,347,120			172,912,320		
Earnings during the year	534,942,033			578,525,860		
Dividends pay-out ratio (%)	29.97			29.89		
Earnings retention ratio (%)	70.03			70.11		

In accordance with the Guideline No. 01 of 2013 on adoption of Sri Lanka Accounting Standards (LKAS) 32, 39 and Sri Lanka Financial Reporting Standards (SLFRS) 7 by Licensed Finance Companies, the Company has obtained approval from the Director of Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka for a final dividend of Rs. 0.80 per share for the financial year ended March 2014 on 4th July 2014.

1. Twenty Largest Shareholders as at 31st March

	2014		2013	
	Number of Shares	% of Holding	Number of Shares	% of Holding
E. W. Balasuriya & Co. (Pvt) Ltd.	33,017,714	56.24	29,994,150	56.20
Hallsville Trading Group Inc.	4,648,000	7.92	4,180,000	7.83
Dr. (Mrs.) G. Madan Mohan	3,372,415	5.74	3,065,832	5.74
Dr. A. Balasuriya	3,372,415	5.74	3,065,832	5.74
Mr. R. Balasuriya	3,372,415	5.74	3,065,832	5.74
Dr. M. Balasuriya	3,372,415	5.74	3,065,832	5.74
Mrs. L. Fernando	2,827,002	4.82	2,570,002	4.82
Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,686,207	2.87	1,532,916	2.87
Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,686,207	2.87	1,532,916	2.87
Mr. D. K. C. R. Fernando	545,413	0.93	495,830	0.93
Mrs. S. Thaha	389,000	0.66	389,000	0.73
Mrs. C. Fernando	155,600	0.27	155,600	0.29
Estate of the late Mr. D. G. K. Hewamallika	155,600	0.27	155,600	0.29
Mr. E. W. Balasuriya (Deceased)	41,660	0.07	41,660	0.08
Mr. M. M. Ariyaratne	25,640	0.04	22,400	0.04
Mr. P. P. K. Ikiriwatte	13,752	0.02	12,502	0.02
Mr. J. K. Jayatileke	13,741	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
Total shares	58,704,800	100.00	53,368,000	100.00

2. The percentage of shares held by the public on 31st March 2014 was 21.71% (2013 - 21.75%).

3. The Company has 58,704,800 (2013 - 53,368,000) number of voting shares in issue, with right to vote allocated at one vote per share.

4. Directors' Shareholdings as at 31st March

	2014		2013	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Dr. A. Balasuriya	3,372,415	5.74	3,065,832	5.74
Dr. M. Balasuriya	3,372,415	5.74	3,065,832	5.74
Mrs. L. Fernando	2,827,002	4.82	2,570,002	4.82
Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,686,207	2.87	1,532,916	2.87
Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,686,207	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
Mr. S. D. Bandaranayake	–	0.00	–	0.00
Mr. T. Collure	–	0.00	–	0.00

5. Shareholding as at 31st March

	2014			2013		
	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	9,600	0.02
10,001 - 100,000	4	94,793	0.16	4	89,054	0.17
100,001 - 1,000,000	4	1,245,613	2.12	4	1,196,030	2.24
Over 1,000,000 shares	9	57,354,790	97.70	9	52,073,312	97.57
		58,704,800	100.00		53,368,000	100.00

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

	2014			2013		
	Number of Holders	Number of Shares	%	Number of Holders	Number of Shares	%
Resident shareholders	19	54,056,800	92.08	19	49,188,000	92.17
Non-resident shareholders	1	4,648,000	7.92	1	4,180,000	7.83
		58,704,800			53,368,000	

7. Institutional and Individual Shareholding as at 31st March

	2014			2013		
	Number of Holders	Number of Shares	%	Number of Holders	Number of Shares	%
Institutions	3	37,821,314	64.43	3	34,329,750	64.33
Individuals	17	20,883,486	35.57	17	19,038,250	35.67
		58,704,800			53,368,000	

8. Information on Ratios, Market Prices Per Share

As at 31st March	2014	2013
Earnings per share (Rs.)	9.83	10.64
Dividends per share (Rs.)	2.59	3.24
Net assets per share (Rs.)	35.80	29.49
Price earning ratio (times)*	5.09	4.70
Price to book value ratio (times)*	1.40	1.70
Dividends yield (%)*	5.36	6.48
Market Prices		
Highest price (Rs.)	Not traded	Not traded
Lowest price (Rs.)	Not traded	Not traded
Last traded price (Rs.)	Not traded	Not traded

** Calculated based on the last traded price.*

Information on Listed Debentures

During the year the Company raised funds by way of issuing listed debentures. In light of recent relaxation of tax regime applicable to capital markets, the Company decided to raise funds through listed debentures, which will enable our investors to reap the benefits of the relaxed tax regulations while providing the Company a cost effective form of funding. Accordingly, Senkadagala Finance issued following listed debentures during the year.

	May 2013			December 2013
	Type 1	Type 2	Type 3	
Instrument	Senior, Unsecured, Redeemable			Subordinated, Unsecured, Redeemable
Listing	Main board of the Colombo Stock Exchange			Main board of the Colombo Stock Exchange
Redemption	Redeemable	Redeemable	Redeemable	Redeemable
Number of debentures	4,142,465	5,852,535	5,000	12,500,000
Issue price	Rs. 100.00	Rs. 100.00	Rs. 100.00	Rs. 100.00
Tenure	3 Years	4 Years	4 Years	5 years
Date of issue	May 2013	May 2013	May 2013	December 2013
Date of maturity	May 2016	May 2017	May 2017	December 2018
Interest rate	17.00%	17.25%	6 Month Gross T Bill + 2.50%	Fixed coupon of 15.00% p.a.
Frequency of interest	Quarterly	Quarterly	Semi-Annually	Quarterly
Effective annual yield	18.11%	18.40%	–	15.87%
Interest of comparable Government securities	8.30%	8.90%	8.90%	9.18%
Rating	BBB+ by Fitch Ratings Lanka Ltd.			BBB by Fitch Ratings Lanka Ltd.
Total amount	Rs. 414,246,500	Rs. 585,253,500	Rs. 500,000	Rs. 1,250,000,000
Market information				
Market value - Highest	Rs. 100	Rs. 100	Not traded	Rs. 112.31
Market value - Lowest	Rs. 100	Rs. 100	Not traded	Rs. 107.17
Market value - Closing	Rs. 100	Rs. 100	Not traded	Rs. 110.69
Current yield	17%	17.25%	–	12.04%
Yield to maturity	4.25%	4.31%	–	2.91%

Proceeds from the Debenture issue in May 2013 was primarily utilised for the on-going lending activities of the Company. These proceeds also helped to minimise the funding mismatch of the Company.

The subordinated debenture issue in December 2013 was primarily objected to strengthen the capital structure of the Company. The approved subordinated debenture helped to improve the Total Capital Ratio of the Company to 20.93% by March 2014. The proceeds of this issue was also used to finance the growth of the lending portfolio of the Company. The interest rate risk for the Company was reduced consequent to the issue of this debenture, as the five year fixed rated funds raised helped to reduce the mismatch between the assets and liabilities on the Statement of Financial Position.

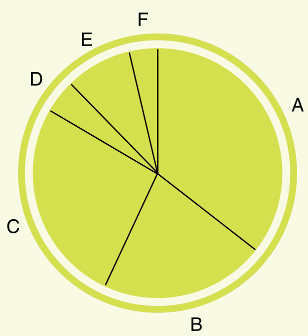
Other Financial Information

	2014	2013
Debt to equity ratio (Times)	**3.61**	5.56
Interest cover (Times)	**1.29**	1.38

Sources and Utilisation of Funds

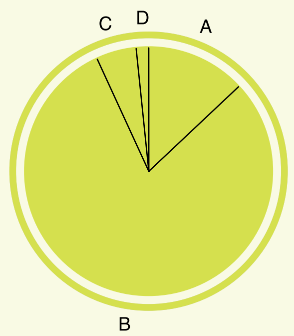
	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Sources of Funds					
Depositor funds	5,624,399	3,412,464	2,732,031	2,386,821	2,094,478
Borrowings from banks and other institutions	3,423,011	6,136,152	4,805,838	1,528,532	1,428,382
Funding through issue of debt instruments	4,157,346	2,618,281	1,771,753	1,425,524	1,090,000
Funds from shareholders	747,152	533,680	533,680	533,680	213,472
Internally generated funds	1,354,631	1,040,367	593,024	199,657	691,428
Other sources	563,137	528,634	581,176	545,239	347,369
Total	15,869,676	14,269,579	11,017,502	6,619,454	5,865,128
Utilisation of Funds					
Liquid assets	2,073,101	1,860,837	1,277,793	617,647	659,489
Interest earning assets	12,675,542	11,559,936	8,968,566	5,398,168	4,684,291
Property and equipment	857,732	629,823	557,758	429,969	422,658
Other assets	263,301	218,982	213,385	173,671	98,690
Total	15,869,676	14,269,579	11,017,502	6,619,454	5,865,128

Sources of Funds



A - 34% Depositor Funds
B - 22% Borrowings from Banks and Other Institutions
C - 26% Funding Through Issue of Debt Instruments
D - 5% Funds from Shareholders
E - 9% Internally Generated Funds
F - 4% Other Sources

Utilisation of Funds



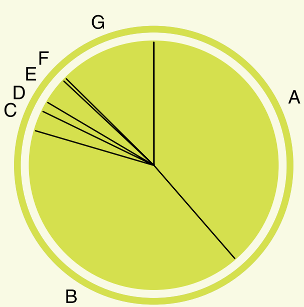
A - 13% Liquid Assets
B - 80% Interest Earning Assets
C - 5% Property and Equipment
D - 2% Other Assets

Sources and Utilisation of Income

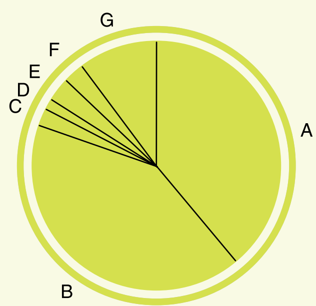
	2014 Rs. '000	%	2013 Rs. '000	%
Sources of Income				
Interest income from leases	1,398,980	38.61	1,159,613	38.96
Interest income from hire purchases	1,486,219	41.02	1,227,157	41.23
Interest income from other loans and advances	97,238	2.68	69,079	2.32
Interest income from Government Securities	49,766	1.37	42,326	1.42
Income from other investments	115,314	3.18	94,153	3.16
Commission income	27,563	0.76	77,004	2.59
Other income	448,206	12.37	306,808	10.31
Total	3,623,286		2,976,141	
Utilisation of Income				
Suppliers of funds as interest	1,868,499	51.57	1,524,288	51.22
Employees	302,157	8.34	232,457	7.81
Other suppliers	803,600	22.18	481,485	16.18
Government as taxes	119,866	3.31	157,682	5.30
Shareholders as dividends	214,901	5.93	132,886	4.47
Invested in the business	314,264	8.67	447,343	15.03
Total	3,623,286		2,976,141	

Sources of Income

2014



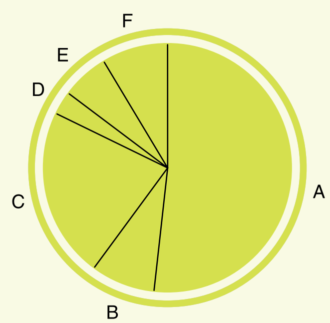
2013



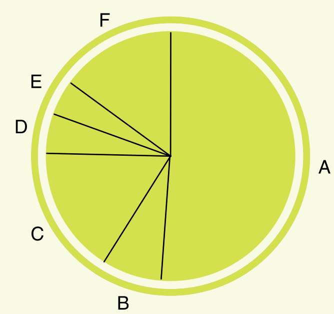
	2014	2013	
A -	39%	39%	Interest Income from Leases
B -	41%	42%	Interest Income from Hire Purchases
C -	3%	2%	Interest Income from Other Loans and Advances
D -	1%	1%	Interest Income from Government Securities
E -	3%	3%	Income from Other Investments
F -	1%	3%	Commission Income
G -	12%	10%	Other Income

Utilisation of Income

2014



2013



	2014	2013	
A -	52%	52%	Suppliers of Funds as Interest
B -	8%	8%	Employees
C -	22%	16%	Other Suppliers
D -	3%	5%	Government as Taxes
E -	6%	4%	Shareholders as Dividends
F -	9%	15%	Invested in the Business

Branch/Service Centre Network

Branches

	Address	Telephone	Fax
Aluthgama	No. 168, Galle Road, Kaluwamodara, Aluthgama	034-2270573	034-2270578
Ampara	Ground Floor, No. 778 a, D.S. Senanayaka Mawatha, Ampara	063-2224057	063-2224093
Anuradhapura	No. 561/4, New Bus Stand, Anuradhapura	025-2237969	025-2237989
Badulla	No. 2, Riverside Road, Badulla	055-2224401	055-2224407
Colombo	2nd Floor, No. 267, Galle Road, Colombo 3	011-2301301	011-2301937
Dambulla	No. 358 (First & Second) Matale Road, Dambulla	066-2285530	066-2285535
Embilipitiya	No. 325B, Ratnapura Road, Pallegama, Embilipitiya	047-2261991	047-2261996
Galle	No. 143, Colombo Road, Kaluwela, Galle	091-2248111	091-2248116
Gampaha	No. 560 A, Colombo Road, Gampaha	033-2233555	033-2233560
Gampola	No. 240, (First Floor) Kandy Road, Gampola	081-2350100	081-2351850
Homagama	No. 94/1 (First Floor) Highlevel Road, Homagama	011-2857878	011-2857880
Horana	No. 246, Panadura Road, Horana	034-2262770	034-2262776
Ja-Ela	No. 67, Negombo Road, Ja-Ela.	011-2247861	011-2247866
Jaffna	No. 62/3, New Stanley Road, Jaffna	021-2219960	021-2219965
Kaduruwela	No. 292, Saw Mill Junction, Kaduruwella	027-2224739	027-2224743
Kaduwela	Kumara Building, No. 502/10, Colombo Road, Kaduwela	011-2538180	011-2538186
Kandy	No. 12, Kotugodella Veediya, Kandy	081-2201201	081-2201207
Katugastota	No. 437 B, Katugastota Road, Kandy	081-2213860	081-2213867
Kegalle	No. 263, Colombo Road, Kegalle	035-2221277	035-2221281
Kelaniya	No. 457, Kandy Road, Dalugama, Kelaniya	011-2914714	011-2914887
Kotahena	No. 178, (Third Floor) George R. De Silva Mawatha, Colombo 13	011-2441261	011-2441267
Kuliyapitiya	No. 74/1/1, Hettipola Road, Kuliyapitiya	037-2284630	037-2284635
Kurunegala	No. 34, Kandy Road, Kurunegala	037-2220402	037-2220405
Maharagama	No. 161/1/A, High Level Road, Maharagama	011-2896888	011-2896052
Matale	No. 97, 97A, King Street, Matale	066-2222954	066-2222960
Matara	No. 558, Anagarika Dharmapala Mawatha, Pamburana, Matara	041-2233891	041-2233896
Mawanella	No. 10 (First Floor), Rankothdiwela, Mawanella	035-2247626	035-2247655
Mount Lavinia	No. 246, 1/1, Galle Road, Ratmalana South, Mount Lavinia	011-2715001	011-2715002
Negombo	No. 149, 1st Floor, Rajapaksha Broadway, Negombo	031-2223456	031-2223462
Nittambuwa	No. 538/3, 38 Kilometer Post, Malwatta, Nittambuwa	033-2297030	033-2297035
Nugegoda	No. 257 C, D, C 1/2, Stanley Thilakaratne Mawatha, Nugegoda	011-2856600	011-2856650
Nuwara-Eliya	No. 26, Upper Lake Road, Nuwara-Eliya	052-2224123	052-2224128
Panadura	No. 229, Galle Road, Panadura	038-2243990	038-2243995
Pelawatte	No. 1067, Pannipitiya Road, Battaramulla	011-2774140	011-2774145
Puttalam	Nos. 1,2,3,4 (up stairs), Kurunegala Road, Puttalam	032-2266783	032-2266789
Ratnapura	No. 19, Kudugalawatte, Ratnapura	045-2226890	045-2226895
Vavuniya	No. 8, 1st Cross Street, Vavuniya	024-2226340	024-2226345
Wattala	No. 264, Negombo Road, Wattala	011-2949611	011-2949616
Wennappuwa	No. 272, Chilaw Road, Wennappuwa	031-2245266	031-2245271

Service Centres

	Address	Telephone	Fax
Ambalangoda	No. 118B, Galle Road, Ambalangoda	091-2254901	091-2254906
Avissawella	No.19, Kudagama Road, Avissawella	036-2222800	036-2222805
Batticaloa	No. 221 (Ground & First Floor), Trinco Road, Batticaloa	065-2229200	065-2229205
Chilaw	No. F12,1st Floor, New Shopping Complex, Urban Council, Chilaw	032-2224043	032-2224048
Digana	No. 2004/18/7, Kandy Road, Digana	081-2376623	081-2376643
Eheliyagoda	No. 320, Main Street, Eheliyagoda	036-2257341	036-2257346
Galewela	No. 87/3A, Kurunegala Road, Galewela	066-2288025	066-2288075
Giriulla	No. 101, Negombo Road, Giriulla	037-2288700	037-2288770
Hanwella	No. 40, Pahala Hanwella, Hanwella	036-2252190	036-2252195
Jampettah Street	No. 124, Jampettah Street, Colombo 13	011-2380804	011-2380809
Kadawatha	No. 316 H, Kandy Road, Kadawatha	011-2929010	011-2929090
Kalutara	No. 443,443/1, First Floor, Galle road, Kalutara	034-2227101	034-2227106
Kekirawa	No. 55, Main Road, Kekirawa	025-2263234	025-2263239
Kilinochchi	Opposite Commercial Bank, Kandy Road, Kilinochchi	021-2283720	021-2283725
Mahiyanganaya	No. 205/5, Padiyathalawa Road, Mahiyanganaya	055-2258280	055-2258285
Maradana	No. 92, Deans Road, Colombo 10, Maradana	011-2683600	011-2683222
Meerigama	No. 71, Negombo Road, Meerigama	033-2276868	033-2276911
Moneragala	No. 112, Wellawaya Road, Moneragala	055-2055421	055-2055426
Nikaweratiya	No. 245/A, Puttalam Road, Nikaweratiya	037-2260117	037-2260217
Pilimatalawa	No. 96/07, Colombo Road, Pilimathalawa	081-2579622	081-2579623
Seeduwa	No. 394, Negombo Road, Seeduwa	011-2251863	011-2251869
Tangalle	No. 35, Sea Road, Tangalle	047-2241902	047-2241907
Trincomalee	No. 346, (Ground Floor) Main Street, Trincomalee	026-2225115	026-2225119
Wellawatta	No. 55, 55A, 55B, Manning Place, Wellawatta	011-2363634	011-2363680

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 45th Annual General Meeting of Senkadagala Finance PLC will be held at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 03, on 17th September 2014 at 10.00 a.m. for the following purposes:

1. To receive and consider the Statement of Accounts for the year ended 31st March 2014 with the Annual Report of the Board of Directors and Auditors' Report thereon.
2. To declare a final dividend of Rs. 52,182,044/- (Rs. 0.80 per share) to the shareholders of the Company as recommended by the Board of Directors.
3. 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
21st July 2014

Notes

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. Sanath Bandaranayake of Colombo or failing him*

Mr. Tilak Collure of Colombo or failing him*

Mr./Mrs./Dr..

of .... as my/our* proxy to attend and

vote at the 45th Annual General Meeting of the Company to be held at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 03 on 17th September 2014 at 10.00 a.m. and at any adjournment thereof.

		For	Against
1.	To adopt the Financial Statements of the Company for the year ended 31st March 2014		
2.	To declare a final dividend of Rs. 0.80 per share for the financial year ended 31st March 2014		
3.	To reappoint the Auditors Messrs KPMG, Chartered Accountants and authorise the Board of Directors to determine their remuneration.		

Signed on this..day of....................................2014.

....

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 03, 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. 06 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 03, 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
B.Sc. (Hons.), M.Sc., Ph.D. in Economics
Independent Non-Executive Director
(Appointed Interim Chairman with effect from 6th June 2013)

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

Dr. Asoka Balasuriya
B.Sc. (Lond.), Ph.D. (Lond.)
Executive Director - Operations

Dr. Mahendra Balasuriya
B.V.Sc.
Executive Director - Planning

Ms. Lakshmi Fernando
B.Sc. (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.Comm., ACMA, CFA
Independent Non-Executive Director

Mr. Sanath Bandaranayake
B.Sc. (University of Sri Lanka)
Executive Director - Additional CEO

Mr. Tilak Collure
B.Sc. (Colombo)
Independent Non-Executive Director

Secretaries
Managers and Secretaries (Pvt) Ltd.
8, Tickell Road, Colombo 08

Auditors
KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha,
Colombo 03

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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