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30<sup>th</sup> June 2016

The Board of Directors  
Senkadagala Finance PLC  
No 267,  
Galle Road,  
Colombo 03

Dear Sirs,

## **ACCOUNTANTS' REPORT FOR INCLUSION IN THE PROSPECTUS OF SENKADAGALA FINANCE PLC**

This report has been prepared for the purpose of the Prospectus issued in connection with the issuance of 20,000,000 Senior, Unsecured, Listed Redeemable, Rated Debentures of LKR 100/- each, aggregating to a value of LKR 2,000,000,000 (Rupees Two Billion) with an option to issue up to a further 10,000,000 Debentures to the value of LKR 1,000,000,000 (Rupees One Billion), in the event the initial 20,000,000 Debentures are oversubscribed.

We have examined the financial statements of Senkadagala Finance PLC from the financial years ended 31<sup>st</sup> March 2012 to 31<sup>st</sup> March 2016, and report as follows;

### **1. INCORPORATION**

Senkadagala Finance PLC ("the Company") is a public quoted company incorporated in Sri Lanka on 29<sup>th</sup> December 1968 under the Companies Act No. 17 of 1982, and re-registered as per Section 5 of Companies Act No. 7 of 2007, under the registration No. PB238PQ. The shares of the Company have a secondary listing on the Colombo Stock Exchange.

It is licensed by Central Bank of Sri Lanka to conduct finance and related activities such as accepting customer deposits, savings, finance leasing, hire purchase finance, etc, under the provisions of Finance Business Act No. 42 of 2011.

### **2. FINANCIAL STATEMENTS OF THE COMPANY**

#### **2.1 Five Years Summary of Financial Statements**

A summary of the income statement and statement of financial position of the Company for the financial years ended 31<sup>st</sup> March 2012 to 31<sup>st</sup> March 2016, based on the audited financial statements are set out on Annexure 01 to 04 of the Accountants' Report.



## 2.2 Audit Reports

We have audited the financial statements of the Company for the financial years ended 31<sup>st</sup> March 2012 to 31<sup>st</sup> March 2016. Unqualified audit opinions have been issued for the said financial years.

## 2.3 Application of Accounting Standards and Accounting Policies

The financial statements of the Company for the financial years ended 31<sup>st</sup> March 2012 to 31<sup>st</sup> March 2016 comply with Sri Lanka Accounting Standards.

The accounting policies of the Company are stated in detail in the Audited Financial Statements of Senkadagala Finance PLC for the year ended 31<sup>st</sup> March 2016. The adoption of revised/new accounting standards and related amendments to the accounting policies of the Company from financial years ended 31<sup>st</sup> March 2012 to 31<sup>st</sup> March 2016 are given below.

<b>Financial Year</b>	<b>Adoption of revised/new accounting standards and related changes in Accounting Policies</b>
31 <sup>st</sup> March 2012	There were no material changes.
31 <sup>st</sup> March 2013	The Company has adopted Sri Lanka Accounting Standards comprising of SLFRSs and LKASs with effect from 01 <sup>st</sup> April 2012, during the year.
31 <sup>st</sup> March 2014	There were no material changes.
31 <sup>st</sup> March 2015	The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards with an initial application date of 1 April 2014. <ul style="list-style-type: none"><li>a) SLFRS 10 Consolidated Financial Statements</li><li>b) SLFRS 12 Disclosure of Interest in Other Entities</li><li>c) SLFRS 13 – Fair Value Measurement</li><li>d) Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to SLFRS 7)</li><li>e) Presentation of Items of Other Comprehensive Income (Amendments to LKAS 1)</li></ul>
31 <sup>st</sup> March 2016	There were no material changes.



#### 2.4. Dividends

The Company has paid the following dividends in respect of ordinary shares during the five financial years ended up to 31<sup>st</sup> March 2016.

Financial Year	Gross Dividend (Rs.)	Weighted Average Number Of Shares	Dividend Per Share(Rs.)
2012	127,015,840	53,368,000	2.38
2013	172,912,320	53,368,000	3.24
2014	108,165,076	60,427,417	1.79
2015	107,625,466	65,227,555	1.65 *
2016	166,330,265	65,227,555	2.55 *

\* The dividend for the years 2015 and 2016 are based on Dividend paid and excluded proposed dividend

#### 2.5. Events after Reporting Date

The Board of Directors has declared and approved an interim dividend of Rs. 0.60 per share for the nine month period ended 31st December 2015 to be paid on 15th June 2016. Further a final dividend of Rs. 0.75 per share for the year ended 31st March 2016 is recommended by the Board of Directors subject to the approval from the shareholders at the Annual General Meeting for the financial year ended 2015/16.

#### 2.6. Restriction on Use

This report is made solely for the purpose of the Board of Directors of Senkadagala Finance PLC in usage in the Application for the purpose of issuance of 20,000,000 Senior, Unsecured, Listed Redeemable, Rated Debentures of LKR 100/- each, aggregating to a value of LKR 2,000,000,000 (Rupees Two Billion) with an option to issue up to a further 10,000,000 Debentures (Value of Rupees One Billion), in the event the initial 20,000,000 Debentures are oversubscribed. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Addressee, for our audit work, for this report we have formed. This report should not to be used, circulated, quoted or otherwise referred to for any other purpose.

Yours faithfully,

**Chartered Accountants**  
Kandy, Sri Lanka  
RHR



For the year ended 31st March

	Note	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
Interest income		3,746,373,737	3,584,165,290	3,528,336,289	2,861,922,955	1,884,501,510
Interest expense		(1,701,766,490)	(1,750,531,743)	(1,868,498,663)	(1,524,287,968)	(841,034,415)
Net interest income		2,044,607,247	1,833,633,547	1,659,837,626	1,337,634,987	1,043,467,095
Fee and commission income		85,404,531	35,172,125	27,562,744	77,003,906	76,240,679
Fee and commission expense		(35,764,382)	(24,371,279)	(22,459,884)	(18,487,783)	(13,318,783)
Net fee and commission income		49,640,149	10,800,846	1,664,940,486	58,516,123	62,921,896
Net gain from trading		5,254,914	4,146,462	2,200,750	(539,847)	892,143
Net gain/ (loss) from financial instruments designated at fair value through profit or loss		(12,579,446)	15,761,153	6,579,963	6,523,785	(13,630,045)
Other operating income		127,513,059	76,139,913	58,606,183	30,689,870	68,019,780
Total operating income		2,214,435,923	1,940,481,921	1,732,327,382	1,432,824,918	1,161,670,869
Impairment charge on individual impairment		(133,229,696)	(67,433)	(3,981,203)	689,508	(225,234)
Impairment charge/(reversal) on collective impairment		159,543,539	(73,567,087)	(111,801,021)	(44,655,866)	26,645,719
Other loan losses charge		(84,297,878)	(94,320,114)	(21,492,599)	32,040,858	20,140,182
Net operating income		2,156,451,888	1,772,527,287	1,595,052,559	1,420,899,418	1,208,231,536
Personnel expenses		(411,534,539)	(362,361,297)	(302,156,842)	(232,456,542)	(186,227,247)
Depreciation of property, plant and equipment		(206,935,307)	(169,685,868)	(143,308,034)	(113,122,274)	(90,225,228)
Amortization of intangible assets		(14,318,984)	(12,604,089)	(9,793,311)	(9,046,369)	(7,065,502)
Impairment loss of property, plant and equipment		-	(5,470,240)	(7,359,365)	-	-
Other expenses		(552,546,986)	(525,376,403)	(475,380,556)	(330,728,939)	(231,753,732)
Profit before tax on financial services		971,116,072	697,029,390	657,054,451	735,545,294	692,959,827
Tax on financial services		(88,566,497)	(49,585,791)	(34,637,168)	(55,063,608)	(58,088,174)
Profit before income tax		882,549,575	647,443,599	622,417,283	680,481,686	634,871,653
Income tax expense		(269,368,025)	(107,804,557)	(87,475,250)	(102,618,329)	(158,421,177)
Profit for the year		613,181,550	539,639,042	534,942,033	577,863,357	476,450,476
Earnings per share		9.40	8.27	9.83	10.83	8.93

*Senkadagala Finance PLC*  
*Statement of financial position*

*Annexure 02*  
*Company*

<i>As at 31st March</i>	<i>Note</i>	<i>2016</i> <i>Rs.</i>	<i>2015</i> <i>Rs.</i>	<i>2014</i> <i>Rs.</i>	<i>2013</i> <i>Rs.</i>	<i>2012</i> <i>Rs.</i>
<b>Assets</b>						
Cash and cash equivalents		457,725,318	404,636,587	404,047,840	333,440,165	233,762,127
Deposits with licensed commercial banks		1,234,016,418	748,158,081	-	1,061,779,016	637,118,275
Repurchase agreements		972,624,516	581,421,556	1,114,280,206	75,762,008	102,801,138
Financial assets held at fair value through profit or loss		82,237,016	91,529,199	74,912,285	67,627,657	60,121,242
Finance leases		13,975,552,388	8,151,414,340	6,001,775,609	5,707,068,373	4,349,702,727
Hire purchases		2,024,520,342	4,925,414,552	6,167,957,766	5,446,674,892	4,410,021,518
Other loans and receivables		908,067,048	506,098,773	505,808,366	406,192,720	208,841,480
Financial assets available for sale		16,400,083	12,171,887	11,999,283	1,419,713	1,177,861
Financial assets held to maturity		832,030,919	1,062,632,291	554,773,253	389,855,927	304,111,412
Investments in subsidiaries		320,000,000	320,000,000	20,000,000	20,000,000	-
Investment property		79,024,933	79,327,971	79,631,009	79,934,047	80,237,085
Property, plant and equipment		1,047,079,572	961,508,782	738,368,098	509,374,424	432,609,378
Intangible assets		68,558,945	82,027,681	39,732,996	40,514,509	44,911,478
Amounts due from related company		6,990,797	1,452,369	-	-	-
Current tax recoverable		20,044,397	1,384,413	-	-	-
Other assets		225,072,014	143,839,814	156,389,778	120,938,666	152,085,920
<b>Total assets</b>		<b>22,269,944,706</b>	<b>18,073,018,296</b>	<b>15,869,676,489</b>	<b>14,260,582,117</b>	<b>11,017,501,641</b>
<b>Liabilities</b>						
Due to banks		4,806,174,120	2,928,337,801	1,406,252,190	3,762,547,920	-
Deposits from customers		6,510,033,106	6,541,895,759	5,624,399,485	3,412,464,090	2,732,030,627
Other borrowings		3,885,511,133	1,859,354,847	2,092,465,288	2,373,604,344	4,805,838,401
Debt securities issued		1,800,155,870	2,319,430,013	2,897,074,338	2,618,281,394	1,771,752,949
Deferred tax liability		434,104,236	197,115,561	155,731,632	199,092,927	178,788,239
Current tax liabilities		-	-	39,915,676	19,865,236	43,050,194
Other liabilities		521,473,770	372,039,311	239,667,292	266,456,865	328,729,590
Employee benefits		59,440,712	60,691,494	52,115,958	34,222,639	30,608,056
Subordinated liabilities		1,259,692,805	1,260,306,634	1,260,272,122	-	-
<b>Total liabilities</b>		<b>19,276,585,752</b>	<b>15,539,171,420</b>	<b>13,767,893,981</b>	<b>12,686,535,415</b>	<b>9,890,798,057</b>
<b>Equity</b>						
Stated capital		1,008,062,200	1,008,062,200	747,152,000	533,680,000	533,680,000
Statutory reserve fund		265,036,033	230,036,033	195,036,033	165,036,033	130,036,033
Investment fund account		-	-	170,628,603	154,759,694	97,059,153
Available for Sale Reserve		3,774,586	-	-	-	-
Retained earnings		1,716,486,135	1,295,748,643	988,965,872	720,570,975	365,928,398
<b>Total equity</b>		<b>2,993,358,954</b>	<b>2,533,846,876</b>	<b>2,101,782,508</b>	<b>1,574,046,702</b>	<b>1,126,703,584</b>
<b>Total liabilities and equity</b>		<b>22,269,944,706</b>	<b>18,073,018,296</b>	<b>15,869,676,489</b>	<b>14,260,582,117</b>	<b>11,017,501,641</b>

For the year ended 31st March

	Note	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
Interest income		3,747,454,172	3,584,910,846	3,529,357,482	2,861,922,955	1,884,501,510
Interest expense		(1,698,353,218)	(1,746,294,517)	(1,864,955,704)	(1,524,265,046)	(841,034,415)
Net interest income		2,049,100,954	1,838,616,329	1,664,401,778	1,337,657,909	1,043,467,095
Fee and commission income		184,184,219	108,314,672	84,132,853	82,654,830	76,240,679
Fee and commission expense		(35,764,382)	(24,371,279)	(22,459,884)	(18,487,783)	(13,318,783)
Net fee and commission income		148,419,837	83,943,393	61,672,969	64,167,047	62,921,896
Net gain from trading		5,254,914	4,146,462	2,200,750	(539,847)	892,143
Net gain/ (loss) from financial instruments designated at fair value through profit or loss		(12,579,446)	15,761,153	6,579,963	6,523,785	(13,630,045)
Other operating income		74,160,059	25,799,913	26,806,183	30,671,141	68,019,780
Total operating income		2,264,356,318	1,968,267,250	1,761,661,643	1,438,480,035	1,161,670,869
Impairment charge on individual impairment		(133,229,696)	(67,433)	(3,981,203)	689,508	(225,234)
Impairment charge / (reversal) on collective impairment		159,543,539	(73,567,087)	(111,801,021)	(44,655,866)	26,645,719
Other loan losses charge		(84,297,878)	(94,320,114)	(21,492,599)	32,040,858	20,140,182
Net operating income		2,206,372,283	1,800,312,616	1,624,386,820	1,426,554,535	1,208,231,536
Personnel expenses		(414,484,110)	(364,871,212)	(304,280,843)	(235,043,875)	(186,227,247)
Depreciation of property, plant and equipment		(210,743,092)	(179,776,393)	(144,356,741)	(113,795,099)	(90,225,228)
Amortization of intangible assets		(14,318,984)	(28,809,143)	(9,793,311)	(9,046,369)	(7,065,502)
Impairment loss of property, plant and equipment		-	(5,470,240)	(7,359,365)	-	-
Other expenses		(560,058,449)	(565,002,919)	(481,544,120)	(331,793,638)	(231,753,732)
Profit before tax on financial services		1,006,767,648	665,382,709	677,052,440	736,875,554	692,959,827
Tax on financial services		(88,566,497)	(49,585,791)	(34,637,168)	(55,063,608)	(58,088,174)
Profit before income tax		918,201,151	615,796,918	642,415,272	681,811,946	634,871,653
Income tax expense		(306,093,594)	(133,432,491)	(103,100,604)	(103,179,061)	(158,421,177)
Profit for the year		612,107,557	482,364,427	539,314,668	578,632,885	476,450,476
Earnings per share		9.38	7.40	9.91	10.84	8.93



As at 31st March	Note	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
<b>Assets</b>						
Cash and cash equivalents		486,127,789	427,833,458	420,155,384	340,643,331	233,762,127
Deposits with licensed commercial banks		1,234,016,418	748,158,081	-	1,061,779,016	637,118,275
Repurchase agreements		972,624,516	581,421,556	1,114,280,206	75,762,008	102,801,138
Financial assets held at fair value through profit or loss		82,237,016	91,529,199	74,912,286	67,627,657	60,121,242
Finance leases		13,975,552,388	8,151,414,340	6,001,775,609	5,707,068,373	4,349,702,727
Hire purchases		2,024,520,342	4,925,414,552	6,167,957,766	5,446,674,892	4,410,021,518
Other loans and receivables		908,067,048	506,098,773	505,808,366	406,192,720	208,841,480
Financial assets available for sale		16,400,083	12,171,887	11,999,283	1,419,713	1,177,861
Financial assets held to maturity		832,030,919	1,062,632,291	554,773,253	389,855,927	304,111,412
Investments in subsidiaries		-	-	-	-	-
Investment property		276,414,697	264,327,971	79,631,009	79,934,047	80,237,085
Property, plant and equipment		1,049,508,428	965,032,417	742,932,333	513,622,096	432,609,378
Intangible assets		133,379,159	146,847,895	39,732,996	40,514,509	44,911,478
Amounts due from related company		-	-	-	-	-
Current tax recoverable		-	-	-	-	-
Other assets		225,304,445	144,117,918	156,524,777	120,938,666	152,085,920
<b>Total assets</b>		<b>22,216,183,248</b>	<b>18,027,000,338</b>	<b>15,870,483,268</b>	<b>14,252,032,955</b>	<b>11,017,501,641</b>
<b>Liabilities</b>						
Due to banks		4,819,887,580	2,940,860,735	1,330,546,001	3,762,547,920	-
Deposits from customers		6,486,010,917	6,519,521,274	5,587,138,393	3,402,441,169	2,732,030,627
Other borrowings		3,885,511,133	1,859,354,847	2,092,465,288	2,373,604,346	4,805,838,402
Debt securities issued		1,800,155,870	2,319,430,013	2,897,074,338	2,618,281,392	1,771,752,949
Deferred tax liability		436,663,479	197,139,903	155,767,756	199,094,368	178,788,239
Current tax liabilities		282,276	13,655,300	59,561,835	20,424,527	43,050,194
Other liabilities		528,167,030	374,248,214	328,616,905	266,600,364	328,729,590
Employee benefits		59,659,648	60,768,994	52,115,958	34,222,639	30,608,056
Subordinated liabilities		1,259,692,805	1,260,306,634	1,260,272,122	-	-
<b>Total liabilities</b>		<b>19,276,030,738</b>	<b>15,545,285,914</b>	<b>13,763,558,596</b>	<b>12,677,216,725</b>	<b>9,890,798,057</b>
<b>Equity</b>						
Stated capital		1,008,062,200	1,008,062,200	747,152,000	533,680,000.00	533,680,000.00
Statutory reserve fund		265,036,033	230,036,033	195,036,033	165,036,033.00	130,036,033.00
Investment fund account		-	-	170,628,603	154,759,694.00	97,059,153.00
Available for Sale Reserve		3,774,586	-	-	-	-
Retained earnings		1,663,279,691	1,243,616,191	994,108,036	721,340,503.00	365,928,398.00
<b>Total equity</b>		<b>2,940,157,510</b>	<b>2,481,714,424</b>	<b>2,106,924,672</b>	<b>1,574,816,230</b>	<b>1,126,703,584</b>
<b>Total liabilities and equity</b>		<b>22,216,183,248</b>	<b>18,027,000,338</b>	<b>15,870,483,268</b>	<b>14,252,032,955</b>	<b>11,017,501,641</b>