

Creating Upward Mobility

**ANNUAL REPORT 2011/12**



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At LOFC, we are in the business of creating opportunities by introducing easy, accessible finance to those who recognize quality and comprehensive service. Given the scope of our activities in the industry, we are proud to empower and introduce the masses to a secure future, while establishing stakeholder confidence through the trust and stability we have maintained over the years. Our leading position and pioneering spirit in the financial arena ensures that the personalized needs of businesses and individuals are met, as we assist in creating upward mobility for those who trust in our brand of business.

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**VISION**

We believe in an inclusive financial service that requires client advocacy and stewardship, a passion for leading-edge solutions and the delivery of services that exceed customer expectations.

**MISSION**

Our mission is to help set the industry standard in Non-Bank Financial Services. We reach out to all Small and Medium Enterprises and provide them with affordable and convenient Financial Services tailored to their specific needs.

**CORPORATE VALUES**

We are committed to the highest standards of ethical conduct in all that we do. We believe that honesty and integrity engenders trust, which is the cornerstone of our business. We abide by the laws of the land and strive to be good citizens and we take responsibility for our actions. We recognise that our success as an enterprise depends on the talent, skills and expertise of our staff and our ability to function as a closely integrated team. We appreciate our diversity and believe that respect – for our employees, customers, partners, regulators and all those with whom we interact – is an essential element of all positive and productive business relationships. We understand the importance of our mission and the trust our customers place in us. With this in mind we strive to excel in every aspect of our business and approach, every challenge, with a determination to succeed.

Growth in Deposits - Financial Year 2011/12

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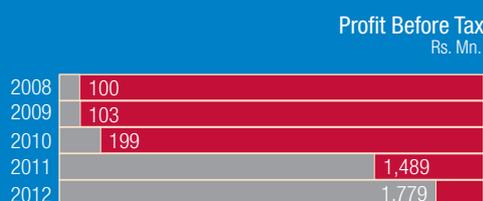
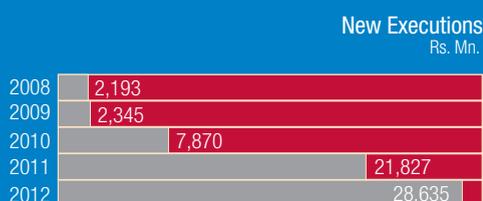
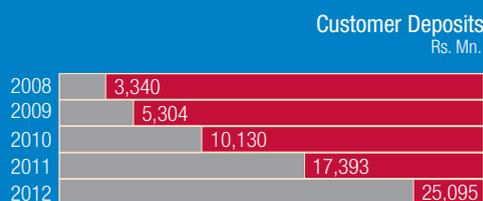
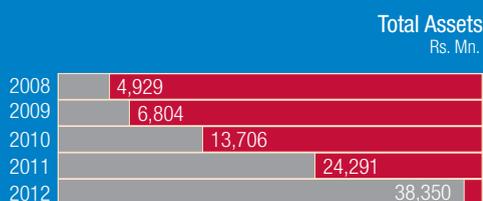
44%

Growth in Total Income - Financial Year 2011/12

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37%

# Financial Highlights



| As at 31 March 2012                                    | 2012       | 2011       |
|--|------------|------------|
| <b>Results for the year (Rs'000)</b>                   |            |            |
| Total Income   | 6,346,756  | 4,617,407  |
| Profit Before VAT on Financial Services and Income Tax | 1,959,357  | 1,626,151  |
| Profit Before Income Tax (PBT)                         | 1,779,436  | 1,488,866  |
| Provision for Income Tax                               | 533,648    | 242,773    |
| Profit After Tax (PAT)                                 | 1,245,788  | 1,246,093  |
| <b>At the year end (Rs'000)</b>                        |            |            |
| Shareholders' Funds (Capital and Reserves)             | 4,760,174  | 3,514,386  |
| Total Deposits   | 25,094,723 | 17,393,187 |
| Total Loans and Advances                               | 32,974,503 | 20,764,152 |
| Total Assets   | 38,349,596 | 24,290,950 |
| <b>Information per ordinary share (Rs.)</b>            |            |            |
| Earnings (Basic)                                       | 0.44       | 0.63       |
| Net Assets Value per Share                             | 1.70       | 1.26       |
| Market Value at the Year end - Ordinary voting Shares  | 4.50       | N/A        |
| <b>Ratios</b>  |            |            |
| Return on Average Shareholders' Funds (%)              | 30%        | 52%        |
| Return on Average Assets (%)                           | 4%         | 7%         |
| Price Earnings (times) - Ordinary voting Shares        | 10.11      | N/A        |
| Price to Book Value (times)                            | 2.65       | N/A        |
| <b>Statutory Ratios</b>                                |            |            |
| Liquid Assets (%)                                      | 13.2%      | 14.1%      |
| <b>Capital Adequacy Ratio</b>                          |            |            |
| Tier I (%) - Minimum Requirement (5%)                  | 14.4%      | 17.0%      |
| Tier II (%) - Minimum Requirement (10%)                | 14.4%      | 17.0%      |

## Chairman's Review



It gives me great pleasure to present to you the Annual Report of your company for the financial year 2011/12 and to announce yet another profitable year that has strengthened LOFC's position as a premier financial institution in Sri Lanka.

Despite a sluggish global economy, Sri Lanka's economy maintained strong growth during the financial year 2011/12, supported by a low interest rate regime and single digit inflation during the first half of the year. The vigorous domestic growth was spearheaded by the sectors of financial services, leisure, construction and agriculture. By end 2011, Sri Lanka reported a GDP rate that was the highest since independence, at 8.3%, supported by an agriculture sector growth of 1.5%, industry growth of 10.3%, and services growth of 8.6%. The 'Construction' sub sector recorded a 14.2% expansion while 'Hotels and Restaurants' grew by 26.4%. The 'Banking, Insurance, and Real Estate' sector grew by 7.9%. Your Company was well placed to take advantage of this robust economic growth due to a strategic re-positioning. As part of an operational strategy re-alignment, LOFC has now been positioned as a key provider of agriculture credit and SME financing for Sri Lanka's regional economies, including the emerging North and East. As a consequence, your Company has been able to show strong overall performance during the year under review.

With the end of conflict your Company embarked on a dedicated expansion drive in the North and East, to facilitate conflict recovery and to increase LOFC's presence and market share. This rapid response to the needs of the people of the North and East has generated first mover advantages, giving LOFC an edge over the intensifying financial sector competition in these regions. During the year, the LOFC service network in the North and East was expanded from 8 service points to 25. LOFC's presence in regional economies in other parts of the country too, has been strengthened during the year. As the growth of the country's rural sectors gain momentum, surpassing the growth rates of urban centres, your company's enhanced visibility in emerging regional economies are beginning to generate encouraging results.

In addition, the unique combination of stringent credit appraisal and flexible collection mechanisms are reflected in the Non-Performing Loans (NPL), as your company records one of the lowest NPL ratios in the industry.

Proactive fund management, consistent financial stability, dedicated management, coupled with the strategically positioned branch network has led your company to gain investor confidence even in volatile market conditions. Thus, LOFC ended the year as one of the largest deposit taking institutions in the country, with a deposit base of Rs. 25.1 Bn. The unique channel mechanism has contributed towards deposit growth.

During the financial year under review the total amount of deposits increased by 44%, out of which, deposits under the Islamic Business Unit constituted 14% of total deposits. Meanwhile, Company revenues increased by 37% to Rs. 6.3 Bn, from the previous financial year, while Profit before tax increased by 20% to Rs. 1.8 Bn, from Rs. 1.5 Bn. Profit after tax remained at Rs. 1.2 Bn.

Al Falaah – the Islamic Business Unit (IBU) of LOLC that operates under your company completed a phenomenal year, with a profit before tax of Rs. 237 million and a portfolio increase of 34%. It is heartening to note the consistent performance of Al Falaah that vindicates the goals and strategies we had developed for the IBU to grow its business, by promoting the concept of Islamic financing across the length and breadth of Sri Lanka. In this connection, your company initiated a special market penetration programme where it opened a number of branches dedicated towards Islamic financing. As part of this expansion programme, IBU branches were opened in Akurana, Kattankudy, Kalmunai and Oddamavadi during the year under review.

Another significant contributory factor towards overall operational success has been the corporate strategy to diversify LOFC's business portfolio into the foreign exchange market. LOFC is the only finance company in the country thus far authorised by the Central Bank of Sri Lanka to offer foreign currency services. Foreign currency deposits increased by 173% to Rs. 2 Bn during the year under review and accounted for 8% of the total deposit base. Our other unique approval is being the only finance company in Sri Lanka to access the interbank swap market. This approval has largely facilitated our foreign funding as we do not maintain an open position.

Reinstating the sustainable performance of the Company, ICRA Lanka, an associate of the international rating agency Moody's Investor Services, awarded LOFC with an investment grade A- rating with a stable outlook, confirming the company's strong fundamentals, sound financial management and overall stability.

#### **Future forecast**

We expect to sustain our growth momentum in the new financial year, while being cognisant of the impacts of rising interest rates coupled with rising inflation. We will also remain watchful of developments in European markets that may have an impact on the Sri Lankan economy. As LOFC's main orientation is towards domestic SMEs and rural financing, we do not expect external global occurrences to have a material impact on our operations. Nevertheless, we will remain alert to any domestic spill over effects stemming from global economic developments.

We will continue our endeavour to further penetrate Sri Lanka's deep rural markets, including key locations in the North, such as Mannar and Mullaitivu.

#### **Appreciations**

I would like to extend my appreciation to the Board of Directors for their unfailing support and guidance throughout the year and the management and staff of LOFC for their invaluable contributions in driving the company towards success.



**Mr W D K Jayawardena**

*Chairman/Non Executive Director*

## CEO/MD's Review



### It gives me great pleasure to present the annual report of LOFC for the financial year 2011/12.

While the year began on a note of strong credit demand, supported by a comparatively low rate of inflation and a stable exchange rate, policy changes during the latter part of the year had both a direct and indirect impact on our operations. Exchange rate volatility and increased taxes on motor vehicles, experienced during the latter part of the year, had an indirect impact on our lending operations due to increased prices of motor vehicles dampening demand. The trend of rising interest rates, from October 2011, had a significant impact by increasing our cost of funds.

However, I am happy to announce that your Company has performed commendably during the year under review, demonstrating strong growth in almost all areas of operation. Our interest income increased by 93% to Rs. 6.0 Bn, compared to the interest income of Rs. 3.1 Bn in the previous financial year. Profit before tax grew by 20% to Rs. 1.8 Bn, from Rs. 1.5 Bn, while profit after tax stood at Rs. 1.2 Bn.

This strong growth in profits can be attributed to the expansion of our business operations, largely supported by the transfer of the leasing franchise of our parent company LOLC. Improvements in the net interest margin were another significant contributory factor. The integrated operational structure of the LOLC Group too, has continued to generate synergies that have resulted in financial benefits for LOFC, while enhancing public confidence in the Company.

During the year, our deposit base increased by 44% to reach Rs. 25.1 Bn, making LOFC one of the largest non-bank deposit taking institutions in Sri Lanka and reflecting consumer confidence in the Company. We are licensed by the Central Bank of Sri Lanka to issue ATM and debit cards and we provide ATM and debit card facilities for all our savings account holders through the Maestro Network, in collaboration with the Commercial Bank of Ceylon. As a result, our customers are assured of easy access to their savings accounts, with no additional charges for using the Commercial Bank's ATM network. Our customers can also access their accounts through the Maestro Network, globally.

We are also the only non-bank institution in Sri Lanka authorised to engage in the foreign currency business and we maintain NRFC, RFC & SFIDA (Special Foreign Investment Deposit Accounts) accounts, further enhancing our market share in the domestic financial sector. During the year, our foreign currency deposit base shot up by a remarkable 173% to Rs. 2 Bn, from Rs. 0.72 Bn a year ago.

To facilitate secure inward remittances for the large Sri Lankan population employed abroad, we have entered into agreements with three exchange houses in the EU and the Middle East. We are also the only non-bank financial institution in Sri Lanka to have joined the global SWIFT (Society for Worldwide Interbank Financial Telecommunication) network, resulting in LOFC being listed in the Bankers Almanac. By providing a convenient and secure channel for inward remittances, we hope to improve formal remittances into the country and also encourage the savings habit, among migrant workers. In addition, we have introduced credit facilities for income generation activities, to facilitate economic progress of migrant workers and their families.

In a significant development, we have also obtained a US\$ 245,000 grant from the Financing Facility for Remittances (FFR), of the International Fund for Agricultural Development (IFAD), to implement a special programme for migrant workers, called 'Economic Prosperity for Rural Poor Through Remittances via Lanka ORIX Finance'. Under this programme, we offer a range of support services for migrant workers and their families. They are encouraged to save for the long

term and we provide an insurance cover for each migrant worker, which includes a life insurance, cover for loss of employment, and funding to cover part of the cost of travel to attend a family bereavement back home. To enhance their financial management, in collaboration with the Sri Lanka Bureau of Foreign Employment (SLBFE), we conduct training programmes on financial management, for migrant workers and their families. These educational programmes are aimed at enhancing awareness about money management and investments, to enable migrant workers to attain their economic goals through the process of investing their funds in suitable methods. We hope to reach over 10,000 migrant worker families through this project.

In addition to our specialised services targeting migrant worker families, we are happy to announce that we have continued to support the economic recovery of people in the North and East. Although we did not have a single outlet in the North and East prior to 2009, currently we have 27 outlets, inclusive of branches and services centres, within these regions. As at 31 March 2012, out of our total accommodations of Rs. 33 Bn, over 7%, or Rs. 2.4 Bn, have been disbursed in the North and East. Out of our deposit base of Rs. 25 Bn, nearly 1% is from the North and East. We are proud to announce that our services have contributed towards the post conflict resurgence of the North and East and have assisted these communities take their first step in the economic ladder, through employment generation, educational development and access to finance.

As at end March 2012, our market presence across the country was represented by a total of 134 service points, including branches, savings centres at selected LIOC Fuel Stations, and service centres in post offices. While all our branches are equipped to cater to specialised Shari'ah compliant transactions, our Islamic Business Unit (IBU), has five branches, four in the East and one in Akurana, that caters exclusively to requirements of the country's Muslim population. Islamic financial services currently represent around 10% of overall business of the company. During the year, deposits under our IBU increased to Rs. 3.6 Bn.

#### **Future outlook**

During the new financial year, we will continue our drive to expand our share of the inward remittance market, which represents about 24% of Sri Lanka's total working population. Given the increasing number of Sri Lankans working outside the country, we recognise that a convenient and low cost channel to transfer money is a national priority that will contribute directly towards individual and overall national development. To enhance our position in this market, we are currently in the process of upgrading our membership with

the SWIFT network, to include the worker remittance platform. We are confident that this initiative, together with our overall services package, will enhance our competitive advantage against existing informal remittance systems.

We are in the process of entering into an agreement with the Visa payment and technology company, to issue Visa debit cards through our strategic alliance with Commercial Bank. This move will increase transactional convenience for our customers by providing a choice between Maestro and Visa cards, while also strengthening our market position.

During the new financial year, we will continue to explore innovative means to enhance our services and increase convenience for our customers. We are currently exploring ways and means of providing m-commerce transaction facilities, to allow our customers to use their mobile phones to access their savings accounts and conduct transactions. This area of development will be a priority in the new financial year.

We will also continue our physical expansion across the country, particularly to meet market gaps in the North and East. We will continue to focus our lending to support income generating activities and emphasise on the lower end of the SME sector and rural communities across the island.

#### **Appreciations**

Our success as a company and as a group is due to the high priority we place on good governance and ethical conduct. Therefore, we welcome the new Finance Business Act that replaced the Finance Companies Act. We are confident the new regulatory framework will strengthen the industry by encouraging greater consumer confidence in the sector and by containing industry risks.

I would also like to express my gratitude to the Chairman and the Board of Directors for their guidance and support throughout the year. I would like to express my appreciation to the key management personnel of the LOLC Group, as group synergies have contributed immensely towards enhancing both financial and non-financial returns for LOFC. I must also give credit to LOFC's dedicated team of employees for their commitment towards achieving our goals.



**Brindley de Zylva**  
*CEO/Managing Director*

## Board of Directors



**From left to right**

Mr W D K Jayawardena, *Chairman/Non Executive Director*

Mr I C Nanayakkara, *Deputy Chairman/Executive Director*

Mrs K U Amarasinghe, *Executive Director*

Dr H Cabral, PC, *Senior Independent Non Executive Director*

Mrs D P Pieris, *Independent Non Executive Director (awef 27.6.2012)*

Mr B C G de Zylva, *Managing Director/CEO*

Miss C S Emmanuel, *Company Secretary*



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**Mr W D K Jayawardena**

Mr Kapila Jayawardena was appointed as a Director of the Company in June 2007 and was appointed as Chairman in January 2012. He holds a MBA in Financial Management, is an Associate of the Institute of Cost and Executive Accountants and was awarded Fellowship of the Institute of Bankers (IBSL) in 2006.

He has varied experience in the fields of Banking, Audit , Relationship Management, Corporate Finance, Corporate Banking, Investment Banking and Treasury Management.

Mr Jayawardena was appointed as the Chairman of the Sri Lanka Banks Association (SLBA) in 2003/04 and served as President of the American Chamber of Commerce in Sri Lanka in 2006/2007.

He served as a Director of Lanka Clear, National Institute of Business Management (NIBM) and The Institute of Bankers (IBSL).

Mr Jayawardena was appointed to the Financial Sector Reforms Committee (FSRC) by the Prime Minister and was a member of the Finance Sector and Capital markets cluster of the National Council of Economic Development (NCED). He was a key member of the inaugural sovereign rating team and sovereign debt for Sri Lanka appointed by the Governor of the Central Bank.

He was presented with the prestigious Combined Support Group Award by the US Navy for services rendered after the Tsunami in 2005. The Government of Sri Lanka appointed him to the Board of the Sri Lanka Fulbright Commission in 2010.

Mr. Jayawardena was appointed to the Council of the National Chamber of Commerce of Sri Lanka on 27th January 2011.

Mr Jayawardena has over 27 years experience in all areas of banking out of which 9 years was in the capacity of CEO/ Country Head Citibank Sri Lanka and Maldives. He was the first Sri Lankan to be appointed as a Senior Credit Officer (SCO) by Citi Bank in Sri Lanka. During his leadership Citi Bank in Sri Lanka was rated AAA by Fitch Rating in Sri Lanka. Citi Bank Sri Lanka was the first foreign bank to obtain a AAA rating.

Mr Jayawardena is also the Chairman of LOLC Insurance Ltd, LOLC General Insurance Ltd, LOLC Life Insurance Ltd, LOLC Leisure Ltd, LOLC Motors Ltd, LOLC Securities Ltd, Speed Italia (Pvt) Ltd, United Dendro Energy (Pvt) Ltd, Palm Garden Hotels PLC, Riverina Hotels PLC and Eden Hotel Lanka PLC.

He is the Group Managing Director/CEO of Lanka ORIX Leasing Company PLC and serves on the Boards of LOLC Micro Credit Ltd and Commercial Leasing & Finance Ltd. Mr Jayawardena is also a Director of HDFC Bank and Brown & Company PLC.

## Profiles of the Board of Directors

### Mr I C Nanayakkara

Mr Ishara Nanayakkara is an astute businessman who holds directorial positions in many corporates and conglomerates in Sri Lanka.

He ventured into the arena of financial services with the strategic investment in Lanka ORIX Leasing Company PLC and was appointed to the Board of LOFC in November 2002. Today, as Deputy Chairman of LOLC Group, he straddles a conglomerate that encompasses financial services, agriculture and plantation, leisure, renewable energy, construction, manufacturing and trading.

Mr Nanayakkara has extensive exposure in both banking and non-banking financial services sector through his involvement in Lanka ORIX Leasing Company PLC, Commercial Leasing & Finance Limited, and Seylan Bank PLC.

His interest in Micro Finance is evident through his recurrent contribution to PRASAC – the largest microfinance company in Cambodia and in his own initiative, LOLC Micro Credit Ltd - the only regulated private sector microfinance institution with foreign equity in Sri Lanka.

His passion for renewable energy is reflected through the green portfolio of the LOLC Group - comprising hydro power, solar power, agri waste and bio-mass – a promising source of alternate energy. The green investments of the LOLC Group companies are poised to offer their share to the environment.

Mr Nanayakkara is also conversant in sustainable forestry and Plantation through group companies - Maturata, Pussellawa and Gal Oya Plantations. The addition of Agstar Fertilizers Ltd, a leading agri input provider in the country, has further enhanced the Group's contribution to the agriculture and plantation sectors.

The participation in Sierra Constructions (Pvt) Ltd, one of the largest construction companies in the country is timely, considering the contribution of the construction sector to the post war development.

Mr Nanayakkara is focused on the opportunities presented by the leisure sector. With the recent acquisitions of some of the leading hotels in the Southern coast alongside key properties in the North and East, development plans are underway for the leisure subsidiaries of LOLC Group – Eden Hotel Lanka PLC, Riverina Hotels PLC, Palm Garden Hotels PLC, Tropical Villas (Pvt) Ltd and Dickwella Resorts (Pvt) Ltd.

He is also involved at strategic level in Browns Group of Companies, a conglomerate with leading market position in trade, leisure, manufacturing, consumer appliances and agriculture equipment.

He holds a Diploma in Business Accounting from Australia.

### Mrs K U Amarasinghe

Mrs Kaisha Amarasinghe was appointed to the Board of Directors in March 2003. She holds an Honours Degree in Economics.

She serves on the Boards of LOLC Insurance Ltd, LOLC General Insurance Ltd, LOLC Life Insurance Ltd, LOLC Leisure Ltd, LOLC Securities Ltd, Speed Italia (Pvt) Ltd, United Dendro Energy (Pvt) Ltd, Palm Garden Hotels PLC, Riverina Hotels PLC and Eden Hotel Lanka PLC. She also serves as a Director on the Boards of Commercial Leasing & Finance Limited and Brown & Company PLC.

### Dr Harsha Cabral, PC

Dr Harsha Cabral was appointed to the Board as an Independent Director in January 2011. He is a President's Counsel and holds a PhD in Corporate Law (University of Canberra) Australia. Dr Cabral is a Senior Counsel in Corporate Law with 24 years of experience, specialising in Company Law, Intellectual Property Law, Commercial Law, International Trade Law & Commercial Arbitration.

He serves as a Commissioner, Law Commission of Sri Lanka. He is a Member of the Advisory Commission in Company Law, Sri Lanka (key member in drafting the new Companies Act No. 07 of 2007), NCED (National Council for Economic Development –Legal Cluster) Sri Lanka, Ministerial Committee appointed to reform the Law on Commercial Arbitration. He is a Council member of the University of Colombo, member of the Board of Studies - the Council of Legal Education in Sri Lanka, member of the Academic Board of Studies of the Institute of Chartered Accountants of Sri Lanka and a member of the Corporate Governance Committee of the Institute of Chartered Accountants of Sri Lanka.

He is currently serving on the Boards of Diesel & Motor Engineering PLC (DIMO), Union Bank of Colombo PLC, Richard Pieris & Co. Distributors Ltd., Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Co (Private) Ltd., Fuji Cement Co (Lanka) Ltd, Tokyo Cement Power (Lanka) Ltd, Hayleys PLC, Hambana, Petrochemicals Ltd, and Commercial Leasing & Finance Limited.

Dr Cabral is the Course Director of University of Wales - IALS - LLM Programme, a lecturer and examiner of University of Wales-UK, University of Colombo & Sri Lanka Law College, Council member/faculty member of Institute for the Development of Commercial Law & Practice, a lecturer & examiner, Post Graduate Diploma in Advanced Corporate Law, Institute of Advanced Legal Studies, Sri Lanka Law College and the Vice President of Business Recovery & Insolvency Practitioners Association of Sri Lanka.

He is the author of several books on Company Law & Intellectual Property Law.

### Mrs D P Pieris

Mrs Priyanthi Pieris was appointed to the Board as an Independent Non-Executive Director in June 2012.

She is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 33 years of experience in Corporate and Financial Law. Mrs Pieris is also a Solicitor of England & Wales. She is currently in Private Practice.

Mrs Pieris served on the Boards of Forbes & Walker Ltd., Forbes Ceylon Ltd., Forbes Stock Brokers Ltd, Forbes Air Services Ltd. (general sales agent for Emirates), Vanik Corporate Services Ltd., Office Network (Pvt) Ltd., Capital Reach (Holdings) Ltd. and Associated Motorways Ltd.

Mrs Pieris currently serves on the Boards of Associated Electrical Corporation Ltd, Abans Electricals PLC, Asia Asset Finance PLC, PW Corporate Secretarial (Pvt) Ltd., Asian Centre for Lease Education (Pvt) Ltd., MTN Corporate Consultants (Pvt) Ltd., Sithijaya Fund (Pvt) Ltd and as an Alternate Director on the Board of Asia Capital PLC.

Mrs Pieris served as the legal Adviser to the Ministry of Finance from 2002 – 2004 and as Legal Consultant to the Colombo Stock Exchange from 2004 – 2011.

Mrs Pieris is also a member of the Committees set up by the SEC to recommend amendments to the Takeovers & Mergers Code 1995 (as amended) and the Rule for Corporate Governance.

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### Justice R K S Suresh Chandra

Justice Suresh Chandra was appointed to the Board as a Non-Executive Independent Director in July 2012.

He was admitted to the Bar as an Advocate in 1972 after having obtained a Bachelor of Laws (LL.B.) Degree from the University of Colombo. He obtained his Master of Law (LL.M.) Degree from the University of Colombo.

He was a practitioner at the Private Bar from 1972 to 2008 and was a Consultant to several leading banks, private and public institutions. He served as a Member of the Panel of Arbitrators of the National Arbitration Centre.

He was also a Visiting Lecturer, Course Director and Examiner of the Faculty of Graduate Studies of the Colombo University, at the Open University of Sri Lanka, Moratuwa University and the Sri Lanka Law College. Was the Senior Consulting Editor of the Colombo Appellate Law Reports.

He was a Consultant to the World Bank on the Land Titling Project in Sri Lanka, a Consultant to USAID projects and was instrumental in structuring the Coir Council, the Ceramics Council and the Spice Council. He also served as a Legal Consultant to the Tea Sourcing Partnership of London.

He was the Senior Legal Consultant to the Southern Development Authority and the Board of Investments on Industrial Relations. Was a member of the National Labour Advisory Council of Sri Lanka and a member of the Labour Law Reforms Committee.

He served as the Deputy Permanent Representative of Sri Lanka to United Nations in New York in 2009.

He was appointed as a Judge of the Supreme Court of Sri Lanka in June 2010 and retired from that position in July 2012.

He is serving as a Judge of the Supreme Court in Fiji since his appointment in Fiji in 2011.

He has been a Resource Person for the International Labour Organization, the International Organization for Migration, the Judges Training Institute of Sri Lanka and the Bar Association of Sri Lanka.

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### Mr B C G de Zylva

Mr Brindley de Zylva was appointed to the Board as its Managing Director and Chief Executive Officer in April 2003 and was entrusted with the task of launching the Company, which commenced commercial operations in June 2003.

He has been engaged in the Non-Banking Financial Services Sector during the past 27 years and has served in both Licensed Finance Companies and Finance Leasing Establishments in which he has held managerial positions in Marketing and Sales, Credit and Recovery Management and Finance, prior to taking over as the Managing Director and Chief Executive Officer of the Company.

Mr de Zylva, who is a Fellow of the Sri Lanka Institute of Credit Management was also elected a member of the Institute of Business Administration in 1992, an Associate of the Association of Cost and Executive Accountants and the British Institute of Management in 1983.

As a Member of the Council of Management of the Finance Houses Association of Sri Lanka over the last seven years, four of which as one of its Vice Chairmen, the Sri Lanka Institute of Credit Management since 2010 (Currently its Honorary Secretary) and the Financial Ombudsman Sri Lanka (Guarantee) Limited, Mr de Zylva continues to impart his knowledge and experience for the benefit of the industry as a whole.

He also serves in an honorary capacity on the Board of Navajeevana Rehabilitation - Tangalle.

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### Miss C S Emmanuel (Company Secretary)

Miss Chrisanthi Emmanuel is a Fellow of the Institute of Chartered Secretaries and Administrators - UK and a Fellow of the Institute of Chartered Corporate Secretaries (Sri Lanka).

She is Company Secretary of most subsidiaries within the LOLC Group. She is also Secretary of the Leasing Association of Sri Lanka.

# Operational Review

Lanka ORIX Finance PLC, a Licensed Finance Company (LFC) and part of the diversified LOLC Group of Companies, which was listed on the Colombo Stock Exchange (CSE) in June 2011, continued its growth momentum during the financial year 2011/12. During the year under review, the main indicators in respect of capital, profitability, asset quality, credit growth and deposit base, recorded impressive growth. However, a shortage of market liquidity, experienced from October 2011, affected the deposit growth momentum.

## OVERVIEW

Despite a sluggish global growth, Sri Lanka recorded an impressive 8.3% GDP growth in 2011, sustained by 7.9% growth in the first quarter of 2012.

Meanwhile, Sri Lanka's Non-Bank Financial Institutions (NBFI) sector, that comprised of 39 LFCs and 16 Specialised Leasing Companies (SLC), saw a number of regulatory changes. The new Finance Business Act which replaced the Finance Companies Act in November 2011 has strengthened the regulation of LFCs and empowered the regulator with more investigative powers, and enhanced penalties for offences. Directions were issued with respect to assessment of fitness and propriety of directors and officers performing executive functions and reporting requirements. All LFCs were required to list in the CSE by 30th June 2011.

The new Act introduced stronger measures to prevent unauthorized deposit-taking, while improving the regulation of finance companies. It also strengthened the powers of the Central Bank to investigate unauthorised entities. The regulatory framework for LFCs was also upgraded, with enhanced prudential, reporting and compliance requirements. The minimum capital requirement for LFCs was increased to Rs. 400 million.

In addition, a number of policy changes during the financial year 2011/12 impacted the overall operating environment. In February 2012, the Central Bank imposed a cap on bank lending that constrained private sector credit. Higher vehicle import taxes resulted in increased vehicle prices and rising cost of leasing and hire purchase. The Central Bank's decision to limit its interventions in the foreign exchange market resulted in greater exchange rate volatility. However, as these developments occurred during the latter part of the financial year 2011/12, their impact will be felt more significantly in the new financial year.

## INCOME AND PROFITABILITY

Despite the policy changes experienced during the year, LOFC's income and profitability continued to show strong growth, supported by the acquisition of the finance leasing portfolio of its parent, Lanka ORIX Leasing Company PLC (LOLC), as a result of LOLC moving out of the Finance Leasing Business.

Our interest income increased by from Rs. 3.1 Bn in the financial year 2010/11, to Rs. 6.0 Bn, while profit after tax remained at Rs. 1.2 Bn. The portfolio continued to reflect a higher share of loans coupled with a decrease in the share of hire purchase facilities. The Company expects to continue this trend, as loans provide greater re-pricing flexibility that contributes towards safeguarding net interest margins in a scenario of increasing market interest rates.

## EXPANSION

Our market coverage expanded by 80 new customer contact points with the addition of 13 new branches, three savings centres and 64 cash collection centres. Our cash collection centres are strategically located in post offices in rural Sri Lanka, providing a convenient location for customers to pay their rentals on loans / finance leases and hire purchase contracts. The addition of 13 new LOFC branches represented over 12% of the branch expansion experienced by the overall non-bank financial services sector of Sri Lanka during the year.

Our market presence in the Northern and Eastern provinces increased from eight to 25 strategic locations during 2011/12, reflecting the prominence given by the Company to the growth potential in these areas and also towards national reconciliation.

In keeping with our Vision of providing an inclusive financial service for all communities, we currently operate five dedicated, Shari'ah compliant branches, four of which are located in the Eastern Province.

## SAVINGS AND DEPOSITS

Our deposit base recorded a strong growth of 44% during the financial year 2011/12. The Rs. 7.7 Bn growth in deposits over the year strengthened LOFC's deposit base to Rs. 25.1 Bn as at end March 2012, making LOFC one of the largest non-bank deposit holders in Sri Lanka.

Deposits mobilised by our Islamic Business Units (IBU) amounted to Rs. 3.6 Bn, constituting 14% of total deposits, as at 31 March 2012.

Under a special licence granted to the Company, LOFC is authorised to mobilise foreign currency deposits. During the year under review, our foreign currency deposit base increased by an impressive 173% to Rs. 2 Bn from Rs. 0.72 Bn an year ago. As at end March 2012, foreign currency deposits accounted for 8% of our total deposit base.

Savings deposits comprise 10% of our total deposit base, while fixed deposits spanning 1 to 60 months, comprise the balance 90% of the deposit base. A majority of fixed deposits are short

term, with 82% of the deposits being 12 months and below. The balance 18% of fixed deposits extend beyond 12 months up to a maximum of 60 months.

### **INWARD REMITTANCES**

We are happy to report that our entry into the worker remittances sector has shown strong growth, with total inward remittances channelled through LOFC recording slightly over US\$ 5 million, during the financial year. This performance was due to strategic business alliances with three exchange houses covering Europe and the Middle East and the financial literacy workshops conducted for migrant worker families.

During the year, we launched a special programme titled 'Economic Prosperity for Rural Poor Through Remittances,' via Lanka ORIX Finance, partly funded through a grant from the Financing Facility for Remittances (FFR) of the International Fund for Agricultural Development (IFAD), aimed at assisting migrant workers and their families in goal setting and financial literacy. We plan to reach over 10,000 migrant worker families through this project and empower them with knowledge and access to finance in their quest to achieve economic prosperity.

### **FOREIGN EXCHANGE**

On the advice of the Central Bank of Sri Lanka, LOFC has expanded its business activities to include the Money Changing Business. With our reach and acceptance throughout the island, we expect this business segment to expand in the future, complementing the inclusive nature of LOFC's financial services.

### **ASSETS**

The total asset base of the Company grew by 58% during the year, to Rs. 38.3 Bn. The main contributory factor has been the growth of the accommodations portfolio. Accommodations grew by 59% to Rs. 33 Bn, as at 31st March 2012. Finance leases, hire purchases and other secured advances were the major sources of the increase in accommodations. Among the products, secured loans indicated a high growth rate.

### **LIABILITIES**

Deposits were the major source of funding for the Company, representing 75% of total liabilities. During the year under review, our total deposit base recorded a growth of 44% to Rs. 25 Bn, making us one of the largest non-bank deposit holders in the country and reflecting the Company's strong franchise amongst Sri Lanka's LFCs, in addition to its satisfactory financial profile. Deposit mobilisation was mainly through time deposits, which accounted for nearly 90% of the total deposits. Sustained profitability has been instrumental in strengthening the capital funds of the Company.

## **RISK MANAGEMENT**

### **Credit risk**

We are happy to announce that robust collection mechanisms established by the company have contributed towards total non-performing accommodations (NPAs) decreasing by 28% during the year and the Company recorded an NPA ratio that is lower than the industry norm. Total NPAs decreased from Rs. 467 million to Rs. 336 million, while the NPA ratio was 1.01%, as at 31st March 2012, compared to the industry average of 5.1%, as at end 2011.

Inclusive of loan loss provisioning, the net NPA ratio stood at 0.73%, as at 31st March 2012, compared to a 1.9% average NPA ratio reported from the non-bank financial sector as at end 2011. The total provision coverage for NPAs stood at 29% at year end, compared to 15%, as at 31st March 2011.

### **Market risk**

The net interest income of the Company reflected a 123% increase to Rs.3 Bn, from Rs. 1.3 Bn in the previous year. The single digit interest rate regime that prevailed during most of the financial year 2011/12, coupled with increased business volumes, resulted in favourable earnings. The interest margin improved to 9.64% during the year, which was higher than the industry margin of 6.4% for the 12 month period ending December 2011.

### **Liquidity risk**

Liquid assets of the Company as at 31st March 2012 were maintained at Rs. 3.3 Bn, which was 13.2% of the total deposits value, well above the minimum reserve requirement stipulated by the Central Bank of Sri Lanka. The approved securities were maintained at 34%, above the stipulated minimum.

### **Capital**

Total capital funds increased by 35% to Rs.4.8 Bn, compared to Rs 3.5 Bn in the previous year. The statutory capital adequacy ratios of the Company remained above minimum Central Bank requirements. The core capital ratio of 14.4% at year end, compared to the required minimum of 10%, was comparable with the industry average of 14% at end 2011. The ratio of capital funds to total deposits, remained at 19% compared to the statutory minimum level of 10%. Improved profitability and profit retention have been instrumental in strengthening the capital funds of the sector.

# Financial Review

## THE COMPANY

LOFC continued to show robust performance during the year with strong profitability as well as asset growth. LOFC was positioned as the flagship financial service provider of the LOLC Group. The Company underwent many structural changes following LOLC's decision to become a holding company and the resultant transfer of its lending portfolio to LOFC during the year and also extended its full franchise of branches to LOFC. LOFC benefits from the already established infrastructure of LOLC and the branch network strategically covering all parts of the island. During a year of many challenges due to the prevailing global and economic uncertainties, LOFC's performance of strong profitability, strong collections ratio and growth in deposits clearly demonstrates the Company's ability to grow steadily towards becoming stronger within the space of finance companies.

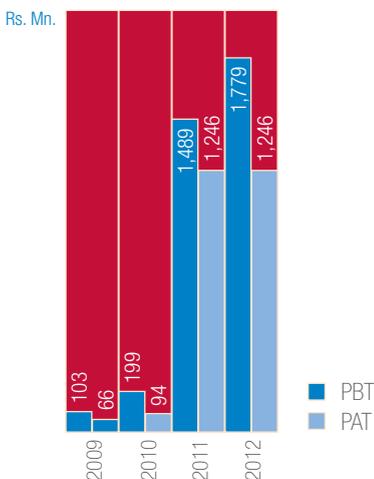
The Company's main business streams, the conventional and the Islamic financing business, both did very well in the year under review with both operations, growing in size as well as in delivering bottom line profits.

During the year, LOFC listed its shares in the Colombo Stock Exchange in line with the ruling issued by the Central Bank of Sri Lanka to all registered finance companies to be listed.

## PROFITABILITY

LOFC concluded an extremely successful year, recording impressive growth in business volumes in all aspects during the financial year. The Company recorded a profit before tax of Rs. 1.8 Bn a growth of 20% from the last year's Rs. 1.4 Bn.

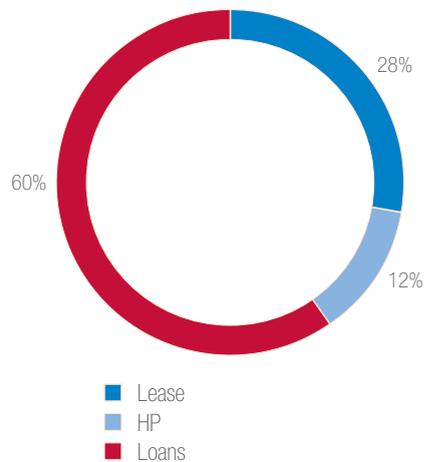
### Profitability



The main contributing factor to the growth was the significant increase in the Interest income, the main source of income for the company, which was Rs. 6 Bn compared to Rs. 3.1 Bn in the last year, recording an increase of 93%.

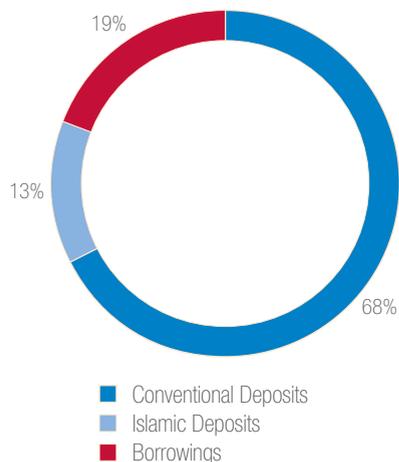
The interest income comprised of the interest income from the company's core products Leases, Hire Purchases and Loans, loans dominating the contribution to the overall interest income.

### Interest Income Composition 2011/12



The interest expense for the year was Rs. 3 Bn, reflecting an increase of Rs. 1.3 Bn (69%) over the previous year. This increase was the result of the increase in the interest payment to depositors and borrowings, which commensurate with the growth in the deposit base and the borrowings made by the company in achieving its lending portfolio growth. The main source of funding of the company has been customer deposits and the interest on deposits was the major expense of the company.

### Interest Expense Composition 2011/12



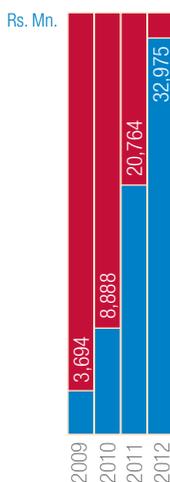
Operating expenses of the company, comprising of staff cost and administrative expenses excluding provision for loan losses totalled to Rs. 1.3 Bn compared to Rs.1 Bn in the previous year. The General administrative expenses increased by 33% to Rs. 890 Mn mainly as a result of expansion activities which saw 13 new fully fledged branches being opened during the financial year.

Provision for the year for bad and doubtful debts on accommodations reduced to Rs. 21 Mn compared with the previous year's charge of Rs. 156 Mn. The Company made Rs. 90 Mn as additional specific provisions towards bad and doubtful debts over and above the CBSL required levels.

### BUSINESS VOLUMES

LOFC's lending portfolio consisting of leases, hire purchases and loans, increased by 59% to Rs. 33 Bn. Growth in loan portfolio was achieved with no compromise on asset quality. LOFC's net non-performing loan ratio was maintained at a superior level of 0.7% at the end of the year. This was achieved by the Company further strengthening its effective collection process and achieved best ever collection ratios. The collection ratio for the year was 85%-90%, which is one of the highest in the industry

#### Lending Portfolio

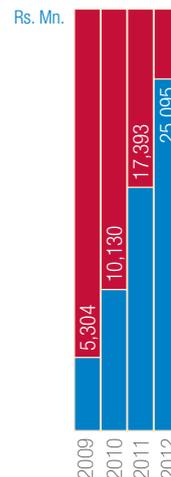


The increase in the lending portfolio was well complemented by mobilizing funding to facilitate the additional disbursements. LOFC's main funding sources are fixed deposits, savings and bank borrowings. The deposit base of the Company consists of conventional, Islamic deposits and foreign currency fixed and savings deposits. The total deposit base grew from Rs. 17.4 Bn to Rs. 25.1 Bn during the year, maintaining the growth experienced over the past few years. Foreign currency deposits grew by 173% to Rs. 1.96 Bn during the year from Rs. 719 Mn in the previous year.

Though the Company had a large foreign currency deposit base, it did not experience a large foreign exchange loss as it follows a very conservative approach in managing foreign exchange risks with zero exposure. LOFC enjoys the special approval received from CBSL to swaps (forward exchange contracts) which safeguarded the Company from any negative impact from the recent depreciation in the rupee.

Borrowings too increased to Rs. 5.9 Bn from Rs. 1.1 Bn during the year, which was in line with the business growth.

#### Deposits



#### REGULATORY RATIOS

The equity of the Company increased to Rs. 4.8 Bn from Rs. 3.5 Bn, further strengthening the capital funds.

The capital adequacy ratio of the Company was at a healthy 14.4% and the capital to deposits ratio was 19% as at the financial year end, well above the regulatory minimum requirement of 10%.

The Company maintained liquid assets at a quantum of Rs. 3.3 Bn well above the required amount of Rs. 2.6 Bn.

# Sustainability Report

The provision of inclusive financial services requires client advocacy and stewardship, and service delivery that meet expectations of all stakeholders. This requires a commitment to the principles of sustainability.

## OUR PROMISE TO THE WORLD

As a member of the UN Global Compact (UNGC), the LOLC Group of Companies has embraced a charter on sustainability in practice. This charter, known as the UNGC Principles, holds members to specific commitments in terms of human rights, labour rights, environmental protection and action against corruption.

## HUMAN RIGHTS

We support and respect international human rights standards and ensure that we are not complicit in human rights abuses.

## LABOUR RIGHTS

We uphold the right to Freedom of Association, the right to Collective Bargaining, elimination of all forms of forced and compulsory labour, abolition of child labour and non-discrimination in respect of employment and occupation.

Our employees enjoy freedom of association and a voice in management deliberations affecting their careers, pay and working conditions.

We are an equal opportunity employer and do not discriminate on recruitment, pay and benefits, training and development opportunities or promotions. Women have strong representation in the company at all levels, including top management. Our recruitment process eliminates discrimination and attracts the best talent through the application of systematic procedures that focus on qualifications, skills, experience and mindset, irrespective of sex, race or religion.

We comply with all national labour laws applicable to the company and our employment policy prohibits recruitment of persons under the age of 18 years. In addition, we enforce a policy against sexual harassment within the workplace.

## ENVIRONMENTAL SUSTAINABILITY

We believe in preserving Sri Lanka's environmental wealth for future generations. Therefore, we conserve vital resources and recycle wherever possible. In addition, we support environmental sustainability initiatives to promote greater environmental responsibility. In keeping with our commitment to the environment, environmental friendliness is a requirement that extends even to the development of new products and services.

We also encourage our customers to go green. Our credit appraisal process requires an environmental assessment report, with local environmental authority clearance, where applicable. Further, the credit process requires a statement on the positive or negative impacts to the environment, on the business activities of clients applying for accommodations.

## ANTI-CORRUPTION

LOFC has in place a comprehensive policy and regulatory framework to pre-empt and guard against corruption. The Company's anti-money laundering policy maintains comprehensive precautions to help prevent the systems and processes of the Company being used for money laundering, or for financing of unlawful activities. Safeguards include customer identification routines and due diligence processes.

In addition, we maintain an inclusive, supportive and confidential whistle-blower system that allows every employee to report irregularities to our Internal Audit and Enterprise Risk Management Divisions, without risk or fear.

We comply with the Convention on Suppression of Terrorist Financing Act No. 25 of 2005, the Financial Transactions Reporting Act No. 6 of 2006, the Prevention of Money Laundering Act No. 5 of 2006, and all other relevant Acts and regulations of the Government.

LOFC also ensures transparency in all communications with stakeholders including its Annual Report, announcements made through the Colombo Stock Exchange, press releases and its website.

## STRATEGIC CSR

As a responsible corporate citizen committed towards the development of the people of Sri Lanka, LOFC has embarked on a project that utilises our expertise in the area of finance, to assist families of migrant workers. The programme provided financial literacy training to beneficiaries of remittances from Europe, in partnership with SEEDs. We have successfully provided training to over 500 migrant worker families.

A second project, in collaboration with the Financing Facility for Remittances (FFR) of the International Fund for Agricultural Development (IFAD), was launched during the year, to facilitate economic prosperity for the rural poor, through remittances affected via LOFC. To support migrant workers, the programme offers a number of benefits to both workers and their families, such as free life insurance cover for migrant workers and insurance against loss of employment. The programme also provides part re-imbursment

of travel expenses for migrant workers in the case of the sudden demise of an immediate family member. We hope to reach out to over 10,000 migrant worker families through this project.

We have also joined LOLC Micro Credit's strategic CSR project, the Isuru Diriya Sisu Upahara scholarship programme. Under this programme, we award savings passbooks to Grade 5 scholarship recipients, with a Rs. 1,000/- initial deposit.

In addition to these strategic CSR initiatives, our branch offices too conduct their own CSR projects, often initiated and partly funded by our employees.

A noteworthy project in 2011/12 was the renovation and resupply of a struggling pre-school in Mullaitivu, attended by 45 toddlers from internally-displaced families in the area. This project was funded entirely by voluntary contributions from employees of LOFC's Horana Branch.

LOFC's Kurunegala Branch office supported a school for differently-abled children, in memory of a deceased colleague.

Our branch offices in Badulla, Kurunegala, Nawalapitiya and Ratnapura too donated equipment and consumables to local schools and hospitals.

LOFC's Hatton Branch and the Head Office in Colombo conducted blood donation campaigns.

# Management of Risk

Enterprise Risk Management at LOLC Group is a centralized operation the Group level mechanisms, Models are replicated for Lanka ORIX Finance PLC as in the case with other subsidiaries. The following is an extract of the Enterprise Risk Management Review for the LOLC Group which was published in the Group Annual Report. The Risk Profile has been amended to depict the entity level position.

## RISK MANAGEMENT WITH A VISION

With the vision of creating an organisational culture where protection, assurance, reliability, accountability, transparency and confidentiality are treasured and lasting values, LOLC considers all employees, including the Board of Directors, as risk managers within the scope of their respective functions.

LOLC defines risk as any circumstance or event that might hinder the achievement of stated corporate objectives. This definition helps all members of the LOLC team to focus on identifying material, minor or even isolated process level risks. It also allows us to identify potential issues at source, enabling us to formulate controls and strategies to align risk with our risk appetite.

## THE RISK MANAGEMENT FRAMEWORK

The LOLC risk management framework permits active synergies between risk management, compliance, internal audit and information systems audit functions under the umbrella of the Group Enterprise Risk Management (ERM) Division, ensuring that risk is a consideration with respect to all operational functions.

Action is guided by the Group risk management policy. Dedicated officers are appointed within the risk management function for each subsidiary in which the Parent Company has a material stake. These officers report to the Chief Risk Officer (CRO). The ERM process retains total independence from other business functions, with the CRO reporting to the Chairperson of the Board through the Integrated Risk Management Committees (IRMC) of every major Group company. These Committees are constituted from an appropriate mix of Independent Directors, Executive Directors and Management Personnel.

Each IRMC evaluates the identified risks that are relevant to it. Group level risks are escalated to the Parent Company IRMC and the Board. The process is simplified by adopting common risk policies across the Group, retaining uniformity and avoiding policy conflict. Risk information is held centrally at Group level, with reporting lines to Group ERM from each subsidiary. Additionally, every regulated subsidiary has its own appointed compliance officer for better focus on the diverse regulatory compliance requirements of each. The Group ERM Division enjoys unrestricted access and auditing rights over all major subsidiaries of the Group.

Despite our broad presence at grass roots level across Sri Lanka, support services of the Group are managed centrally. In order to capture vital risk information, reporting lines run to Group ERM

from every business unit and branch. Tactical level operations are governed by well-defined policies and procedures, which once approved by the Board are owned and protected by Group ERM. Any changes to operating policy or procedures are reviewed for adequacy with respect to internal controls. Internal Audit reviews compliance and the currency of rules when a function is audited.

Accountability and a focus on supervisory functions are maintained by the annual issue, by the heads of each business unit, of certificates testifying compliance with internal controls, with all material exceptions reported. Internal audit also conducts an annual compliance test on key and material controls relating to financial reporting.

## PROPAGATING AWARENESS AND UNDERSTANDING OF RISK

All Group employees undergo training on risk management at induction, while training programmes on risks relating to specific functions are conducted periodically by Group ERM. Should internal audit report a lack of awareness or increased frequency of non-compliance in a certain function or business unit, Group ERM mandates awareness building and training sessions, which are conducted in collaboration with the respective unit and the Human Resources Division.

## HOW WE IDENTIFY RISK

The inherent risk of risk management lies in not identifying a particular risk. LOLC Group practises a three-tier risk identification methodology to help minimise this danger. The three tiers consist of separate assessments by the risk owner, by stakeholders and finally an independent assessment by LOLC Group ERM. This process is augmented by a "whistle-blowers' hotline" whose users enjoy full privacy and confidentiality.

Customers are often the first to detect irregular practices or process efficiency bottlenecks, and they are encouraged to report them to Group ERM using our customer feedback line. Information received is acted upon and followed up until resolution. This practice has greatly helped us in streamlining our processes and procedures, increasing both effectiveness and control.

Supplementing the operational monitoring mechanisms established by business and service units of the Group are compulsory reporting requirements on risk for each unit, as well as field audits by the Group's Internal Auditors. Anti-money laundering precautions and 'know your customer' rules are embedded in all contract and transaction processes, with centralised monitoring by Group compliance officers.

## DEFENCE-IN-DEPTH

LOLC Group takes a defence-in-depth approach in responding to risk. Within the policy and procedural framework, the first line of defence relies on the risk awareness, skills and knowledge of

line staff with respect to their particular functions. The second line of defence is formed by management supervision, embedded information systems and application controls. Risk detection and response may also result from reviews conducted by the internal monitoring functions of each business unit as well as from periodic internal and IT audits. Finally, Group ERM has the mandate and capacity to conduct forensic audits and investigations, including the integrity of our IT platform, if the need arises.

Internal audit adopts a four-step follow-up process on action to mitigate risk. It consists of:

1. Confirmation by the risk owner that the weakness identified by internal audit has been rectified.
2. Follow up review on the effectiveness of rectification by internal audit.
3. Control self-assessment by the risk owner, under the guidance of Group ERM.
4. Follow-up by internal audit based on this self-assessment.

**CAPACITY BUILDING AND QUALITY MANAGEMENT FOR ERM STAFF**

ERM staff possess a diverse array of knowledge and skills covering the entire gamut of operations of the LOLC Group. They are kept updated through continuous training and education. A broad and comprehensive educational resource base, managed by Group ERM, is in frequent use by risk officers as well as Internal Auditors.

**REACHING FOR EXCELLENCE**

In this uncertain world, the complete elimination of risk is impossible. However, we believe there is no limit to continuous improvement in effective risk management. All our risk management processes are continually reviewed and, wherever possible, improved. Internal quality management is strengthened by a rating system adopted to monitor the quality of assignments handled by the department staff, and feedback received from supervisors' drives further improvement.

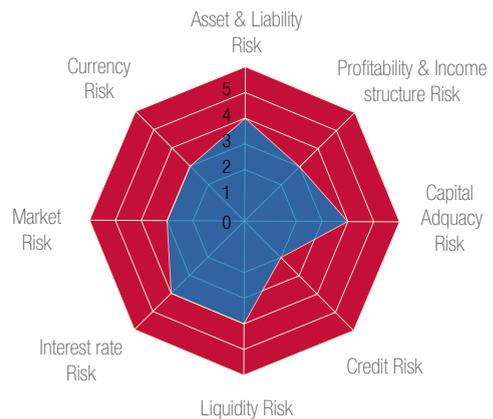
**RISK PROFILE OF LOLC**

This is a high level categorisation based on perceived risk. The table below assigns risk values based on a numerical scale:

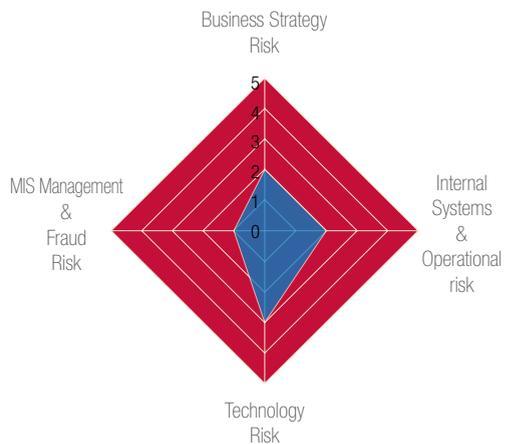
**RISK RATING SCORE**

|           |   |
|-----------|---|
| Very Low  | 1 |
| Low       | 2 |
| Medium    | 3 |
| High      | 4 |
| Very High | 5 |

**Financial Risks**

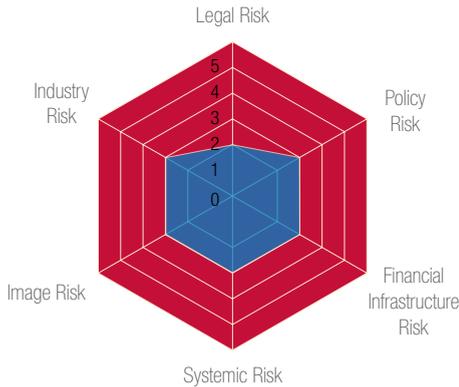


**Operational Risks**



# Management of Risk *Contd.*

## Business Risks



## FUTURE CHALLENGES

The volatile global business environment, a variable macro economic outlook and the Group's exposure to multiple industry sectors call for aggressive and effective risk mitigation strategies. This has necessitated changes in our risk management approach and the adjustment of mitigation mechanisms to meet various regulatory and business requirements. It has also created a need for robust automation to strengthen our processes.

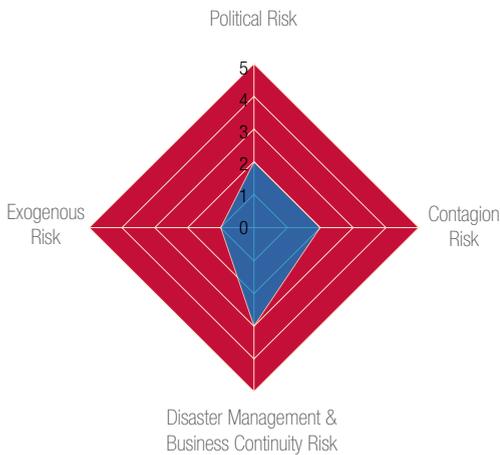
## GLOBAL RECOGNITION

LOLC Group's institutionalisation of good governance, risk management and compliance practices were recognised in the year under review with a global achievement award from the Open Compliance and Ethics Group (OCEG), USA. LOLC is the first Asian business entity to receive this award.

In her congratulatory message to LOLC, Ms. Carole Switzer, President of OCEG observes: "I am writing to extend my personal congratulations to LOLC, as a recipient of the 2012 GRC Achievement Award from OCEG. The award recognizes the great strides that companies, Government agencies and other organisations have made in improving and integrating their approaches to governance, risk management and compliance, to achieve principled performance".

Although elated, we will not rest on our laurels. We are already moving to further improve and consolidate our internationally-acclaimed risk management practices.

## Event Risks



# Corporate Governance

Governance of any institution should be aimed at protecting the interests of all stakeholders. For us at Lanka ORIX Finance PLC (LOFC), corporate governance is about ensuring an effective, transparent and accountable management of affairs by the Board of Directors, the highest governing body. The system of governance at LOFC is built on the basic value of integrity encompassing business principles as well as internal and external control and monitoring mechanisms.

Such clearly defined values and standards of conduct go beyond laws and regulations to deliver the highest standards of corporate governance while also embracing the requirement enumerated in various statutes and directions from regulators.

LOFC firmly believes that good governance alone cannot make the Company successful. To truly benefit the stakeholder, there needs to be performance focused on sustainability. Therefore the Company always strives to strike a balance between conformance and performance. Our performance based on the strategic direction delivers breakthrough corporate results while taking account of all stakeholders of the Company.

LOFC comes within the purview of the Central Bank of Sri Lanka (CBSL), as it is a Licensed Finance Company (LFC) and also a company licensed to engage in Finance Leasing Business. Consequent to its listing on 7th July 2011, the Company is also required to comply with the Listing Rules of the Colombo Stock Exchange (CSE).

As a LFC, LOFC is regulated and monitored by the CBSL, which conducts periodic inspections of the Company's records and operations. The ensuing dialogue between the directors of the Company and the CBSL officials ensures focus and compliance on a continuing basis.

The Company also reports regularly to the CBSL on various aspects of operations, including liquidity and other ratios. This facilitates transparency and accountability.

In accordance with CBSL directions, sub committees of the Board have been appointed to facilitate a more detailed study of relevant issues, including controls.

The Audit Committee is governed by the Audit Charter establishing its duties and responsibilities in financial reporting, business risk management, internal controls, compliance with laws and Company policies, monitoring performance and independence of external and internal auditors. The Committee has acted within the parameters set by its terms of reference. During the year under review the Committee reviewed the scope of internal and external audits, and the internal control mechanisms established to provide the assurance that the assets and integrity of financial reporting have been safeguarded.

The Integrated Risk Management Committee reviews credit, market, liquidity, operational and strategic risks. These risks were

reviewed monthly by the Chief Risk Officer and summarized reports were submitted quarterly to the Committee for concurrence and/or specific directions in order to ensure that the risks were managed appropriately.

In compliance with the listing rules of the Colombo Stock Exchange, a Remuneration Committee was formed to determine the broad policy framework of the remuneration of the executive and non executive directors.

A Nomination Committee was also formed subsequent to the year under review to assist the Board in reviewing regularly the skills needed for the Board and its sub committees to discharge its duties and responsibilities.

Relevant senior management personnel are also invited to the meetings of these board sub committees, so that the gravity of the issues and the need for swift and appropriate action are understood by all. The Minutes of all subcommittee meetings are also submitted to the Board, so that all directors are aware of the discussions and decisions of these sub committees.

A whistle blowing policy has been introduced and the number of the related "hot line" has been publicized to all company (and LOLC Group) employees. This was done to enhance accountability, so that deliberate deviations from controls and / or processes and procedures could be highlighted by any employee and thus addressed promptly.

The Company's 11th Annual General Meeting of the shareholders will be held on 18th September 2012, where, as with every other AGM, the shareholders are provided an opportunity to dialogue with the Board and senior management, on any aspect of the Company's operations.

In accordance with best practices, the offices of Chairperson and Chief Executive Officer are separate, and the Chairperson is a Non-Executive Director. This ensures a balance of power and enhances accountability. To bring in a greater element of independence the Board appointed Dr. Harsha Cabral, PC as the Senior Independent Director.

The agenda of the monthly Board meetings includes reports on performance and on compliance with relevant regulations. This enables the Board to ensure that, the company performs at an optimal level, while being fully compliant.

Mr I C Nanayakkara and Mrs K U Amarasinghe retire by rotation and offer themselves for re-election. The Board recommends their re-election.

Mrs D P Pieris and Justice R K S Suresh Chandra were appointed subsequent to the year under review. They retire and offer themselves for re-election. The Board recommends their re-election.

## Corporate Governance *Contd.*

Mrs R L Nanayakkara was Chairperson of the Company from 02nd August 2004. In accordance with the Direction on Corporate Governance issued by the Central Bank of Sri Lanka, Mrs Nanayakkara who was over 70 years of age stepped down as Director and Chairperson at the end of the transitional period granted by the said Direction. During her tenure, the Company achieved its unique status and leadership position in the Licensed Finance Company sector.

Mr R N Asirwatham also stepped down as a Director at the end of June, as he will be reaching the age of 70 during the financial year 2012/13, to ensure that the company will be well within the Direction on Corporate Governance vis-à-vis the age limit imposed on directors.

There is no financial, business, family or other relationship between the Chairman and the CEO. Mr I C Nanayakkara and Mrs K U Amarasinghe share a family relationship. There is no financial, business, family or other material relationship between any other members of the Board.

The Directors believe that the Company is in a position to continue its operations in the foreseeable future. Accordingly the financial statements are prepared on the basis that the Company is a going concern.

The Company has obtained a certification from its external auditors, M/s Ernst and Young, Chartered Accountants on compliance with the Corporate Governance Direction issued by the Monetary Board.

The Directors confirm that no significant deviations have been observed by the external auditors and that the Company has not engaged in any activity that contravenes any applicable law or regulation. To the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008  | Company's level of compliance   |
|---------------|--|---|
| <b>2</b>      | <b>The Responsibilities of the Board of Directors</b>  |   |
| 2.1           | The Board of Directors shall strengthen the safety and soundness of the finance company by:  |   |
| a.            | approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;   | <b>Complied with</b>  |
| b.            | approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;  | A three year deposit / savings strategy has been established along with a three year rolling budget that includes accommodations, in line with the LOLC Group objectives. |
| c.            | identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;  | <b>Complied with</b>  |
| d.            | approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;  | <b>Complied with</b>  |
| e.            | reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;   | <b>Complied with</b>  |
| f.            | identifying and designating key management personnel, who are in a position to: <ul style="list-style-type: none"> <li>(i) influence policy;</li> <li>(ii) direct activities; and</li> <li>(iii) exercise control over business activities, operations and risk management;</li> </ul> | <b>Complied with</b>  |
| g.            | defining the areas of authority and key responsibilities for the Board and for the key management personnel;   | <b>Complied with</b>  |
| h.            | ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;  | <b>Complied with</b>  |

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| i.            | <p>periodically assessing the effectiveness of its governance practices, including:</p> <ul style="list-style-type: none"> <li>(i) the selection, nomination and election of directors and appointment of key management personnel;</li> <li>(ii) the management of conflicts of interests; and</li> <li>(iii) the determination of weaknesses and implementation of changes where necessary;</li> </ul> | <p><b>Complied with</b></p> <p>Directors are selected and nominated to the Board for skills and experience in order to bring about an objective judgment on issues of strategy, performance and resources. Election of Directors are effected in accordance with the requirements of the Companies Act No. 7 of 2007. Effectiveness of this process is ascertained by their contribution at Board meetings in their respective fields. In addition a Board approved procedure for the appointment of Directors is also in place.</p> <p>KMPs are selected and recruited in terms of the HR policy of the Company. KMPs directly report to the Managing Director or the Group CEO and performance appraisals are completed at least twice a year by the above Directors.</p> <p>Conflicts of interest are managed on a monthly basis where Directors disclose their directorships in other companies. KMPs declare any interest annually.</p> <p>Weaknesses are identified from the above processes and changes may be implemented where necessary.</p> |
| j.            | ensuring that the finance company has an appropriate succession plan for key management personnel;   | <b>Complied with</b>   |
| k.            | meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;  | <b>Complied with</b>   |
| l.            | understanding the regulatory environment;  | <b>Complied with</b>   |
| m.            | exercising due diligence in the hiring and oversight of external auditors.   | <b>Complied with</b>   |
| 2.2           | The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with paragraph 7 of this Direction.   | <p><b>Complied with</b></p> <p>The Chairman and CEO have been duly appointed by the Board. Their functions and responsibilities have been defined in terms of paragraph 7 of this Direction as at the date this report is issued, subsequent to the financial year end.</p>  |
| 2.3           | There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.                     | <b>Complied with</b>   |

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| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008   | Company's level of compliance   |
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| 2.4           | A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.   | <b>Complied with</b>  |
| 2.5           | The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.   | <b>Complied with</b><br>The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agenda of meetings ensure the direction and control of the company is firmly under Board control and authority.   |
| 2.6           | The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action. | No such situation has arisen. In the event of such a possibility the Board will take necessary actions to comply.   |
| 2.7           | The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.   | <b>Complied with</b><br>This report serves the said requirement   |
| 2.8           | The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.   | <b>Complied with</b>  |
| <b>3</b>      | <b>Meetings of the Board</b>  |   |
| 3.1           | The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.  | <b>Complied with</b><br>Please see page 36 for further details.   |
| 3.2           | The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.  | <b>Complied with</b>  |
| 3.3           | A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.  | <b>Complied with</b><br>A calendar notice of all meetings are circulated to all concerned at the end of December or beginning of January followed up by a monthly refresher. In addition, a 7 day notice period is given to the directors in order to enable them to include matters in the Agenda. |
| 3.4           | A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.                                       | <b>Complied with</b><br>Please see page 36 for further details.   |
| 3.5           | The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.  | <b>Complied with</b><br>An experienced Chartered Secretary functions as the Company Secretary. She also ensures that proper board procedures are followed and that applicable rules and regulations are brought to the notice of the Board.   |

| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008   | Company's level of compliance   |
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| 3.6           | If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.   | <b>Complied with</b>  |
| 3.7           | All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.  | <b>Complied with</b>  |
| 3.8           | The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director   | <b>Complied with</b>  |
| 3.9           | Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following:<br>(a) a summary of data and information used by the Board in its deliberations;<br>(b) the matters considered by the Board;<br>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;<br>(d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;<br>(e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and<br>(f) the decisions and Board resolutions. | <b>Complied with</b>  |
| <b>4</b>      | <b>Composition of the Board</b>   |   |
| 4.1           | The number of directors on the Board shall not be less than 5 and not more than 13.   | <b>Complied with</b><br>As at 31st March 2012 the Board comprised 6 Directors.  |
| 4.2           | The total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years. The total period in office of a non executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.   | <b>Complied with</b><br>As they had completed nine years of service, Mr I C Nanayakkara and Mrs K U Amarasinghe could not be categorized as non executive directors. The Board therefore agreed that they should be retained as Executive Directors in view of the beneficial contribution they could make. |
| 4.3           | Subject to the transitional period an employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.   | <b>Complied with</b><br>As at 31st March 2012 the Board comprised 3 Executive Directors (including the Managing Director) and 3 Non Executive Directors on the Board  |

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| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008  | Company's level of compliance   |
|---------------|--|---|
| 4.4           | <p>Subject to the transitional period the number of independent non-executive directors of the Board shall be at least one fourth of the total numbers of directors. A non-executive director shall not be considered independent if such director:</p> <ul style="list-style-type: none"> <li>a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;</li> <li>b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;</li> <li>c) has been employed by the finance company during the two year period immediately preceding the appointment as director;</li> <li>d) has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company.</li> <li>e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;</li> <li>f) is an employee or a director or has a share holding of 10% or more of the paid up capital in a company or business organization: <ul style="list-style-type: none"> <li>(i) which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or</li> <li>(ii) in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or</li> <li>(iii) in which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.</li> </ul> </li> </ul> | <p>As at 31st March 2012 the Board had 1 Independent Director, and 2 more Independent Directors were appointed to the Board subsequent to the financial year end.</p> |
| 4.5           | <p>In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.</p>  | <p>No alternate directors were appointed during the year to represent the Independent Directors.</p>  |
| 4.6           | <p>Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.</p>   | <p><b>Complied with</b><br/>Directors profiles are provided on pages 10-11.</p>   |
| 4.7           | <p>A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half of the number of directors that constitute the quorum at such meeting are non-executive directors.</p>  | <p><b>Complied with</b><br/>Details of attendance at meetings are provided on page 36.</p>  |

| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008   | Company's level of compliance  |
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| 4.8           | The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.   | <p><b>Complied with</b></p> <p>The directors for the year under review are:</p> <ul style="list-style-type: none"> <li>• Mrs R L Nanayakkara, Non Executive Chairperson (r.w.e.f. 31.12.2011)</li> <li>• Mr W D K Jayawardena, Non Executive Chairman</li> <li>• Mr I C Nanayakkara, Executive Deputy Chairman</li> <li>• Mr B C G de Zylva, Managing Director/ Chief Executive Officer</li> <li>• Mrs K U Amarasinghe, Executive Director</li> <li>• Mr R N Asirwatham, Non Executive Director (r.w.e.f. 30.6.2012)</li> <li>• Dr H Cabral, PC, Senior Independent Director</li> <li>• Mrs D P Pieris, Independent Director (a.w.e.f. 27.06.2012 subsequent to the financial year end)</li> <li>• Justice Suresh Chandra, Independent Director (a.w.e.f. 25.7.2012 subsequent to the financial year end)</li> </ul> <p>The Directors profiles are given on pages 10 - 11.</p> |
| 4.9           | There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.   | <b>Complied with</b>   |
| 4.10          | All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.   | <b>Complied with</b>   |
| 4.11          | If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.   | <b>Complied with</b>   |
| <b>5.</b>     | <b>Criteria to assess the fitness and propriety of directors</b>  |  |
| 5.1           | Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a director of a finance company   | <p><b>Complied with</b></p> <p>Mrs R L Nanaykkara stepped down at the end of the transitional period on 31st December 2011.</p>  |
| 5.2           | A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/societies/ bodies corporate, including associate companies and subsidiaries of the finance company. Provided that such director shall not hold office of a director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995. | <p><b>Moving towards conformance</b></p> <p>All Directors are compliant with regard to the number of boards on which they serve. However two of the Directors are currently exceeding the permitted number of specified business entities on which they can serve. They will be resigning from those companies shortly.</p>  |

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| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008  | Company's level of compliance   |
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| <b>6.</b>     | <b>Delegation of Functions</b>   |   |
| 6.1           | The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.  | <b>Complied with</b><br>The Board has established a procedure under which powers have been delegated to the MD/CEO as sanctioned by the Company's Articles of Association.  |
| 6.2           | The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.  | <b>Complied with</b>  |
| <b>7</b>      | <b>The Chairman and the Chief Executive Officer</b>  |   |
| 7.1           | The roles of chairman and chief executive officer shall be separated and shall not be performed by the one and the same person.  | <b>Complied with</b>  |
| 7.2           | The chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.         | <b>Complied with</b><br>The Chairman is a Non-Executive Director.<br><br>The Board has designated Dr. H Cabral, PC, Independent Non-executive Director as the Senior Director as at the date of this report subsequent to the financial year end.   |
| 7.3           | The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board. | <b>Complied with</b><br>There is no financial, business, family or other relationship between the Chairman and the CEO.<br><br>Mr I C Nanayakkara and Mrs K U Amarasinghe share a family relationship.<br><br>There is no financial, business, family or other material relationship between any other members of the Board |
| 7.4           | The chairman shall:<br>(a) provide leadership to the Board;<br>(b) ensure that the Board works effectively and discharges its responsibilities; and<br>(c) ensure that all key issues are discussed by the Board in a timely manner.   | <b>Complied with</b>  |
| 7.5           | The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary.   | <b>Complied with</b>  |
| 7.6           | The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.   | <b>Complied with</b>  |
| 7.7           | The chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.   | <b>Complied with</b>  |
| 7.8           | The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.   | <b>Complied with</b>  |

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| 7.9           | Subject to the transitional provisions contained herein, the chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.   | <b>Complied with</b>   |
| 7.10          | The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.   | <b>Complied with</b>   |
| 7.11          | The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.  | <b>Complied with</b>   |
| <b>8</b>      | <b>Board appointed Committees</b>  |  |
| 8.1           | Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.  | <b>Complied with</b><br>Please refer the reports on pages 44 - 46.   |
| 8.2           | Audit Committee  | Please refer page 44 for the Committee Report  |
| a.            | The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.   | <b>Complied with</b>   |
| b.            | The Board members appointed to the committee shall be non-executive directors.   | <b>Complied with</b><br>As at 31st March 2012 the committee comprised 2 Non-Executive Directors. A Senior Advisor is also invited to be present at meetings.               |
| c.            | The committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> <li>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</li> </ul> | <b>Complied with.</b><br>A formal Agenda for Audit Committee meetings including items prescribed by the Direction is followed for the conduct of Audit Committee meetings. |
| d.            | d) The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.   | <b>Complied with</b>   |

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| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008  | Company's level of compliance   |
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| e.            | <p>e) The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:</p> <ul style="list-style-type: none"> <li>(i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;</li> <li>(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and</li> <li>(iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.</li> </ul> | <p><b>Complied with</b><br/>The Committee has restricted non audit services to consultancy. At present M/s Ernst &amp; Young is providing consultancy services on IFRS.</p> |
| f.            | <p>The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> <li>(i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;</li> <li>(ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and</li> <li>(iii) the co-ordination between auditors where more than one auditor is involved.</li> </ul>  | <p><b>Complied with</b></p>   |
| g.            | <p>The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on:</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption; and</li> <li>(v) the compliance with relevant accounting standards and other legal requirements.</li> </ul>   | <p><b>Complied with</b></p>   |
| h.            | <p>The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary</p>   | <p><b>Complied with</b></p>   |
| i.            | <p>The committee shall review the external auditor's management letter and the management's response thereto.</p>  | <p><b>Complied with</b></p>   |

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| j.            | <p>The committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> <li>(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</li> <li>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>(v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</li> <li>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</li> </ul> | <p><b>Moving towards conformance</b></p> <p>The Audit Committee annually considers the scope of the internal audit function to ensure that adequate resources and the necessary authority have been allocated to carry out its work.</p> <p>The appraisal of performance of the Head of the internal audit function is carried out by the Chairman twice a year. This process will be further strengthened by the establishment of a terms of reference for the internal audit function to fulfill the requirements of this direction.</p> |
| k.            | <p>The committee shall consider the major findings of internal investigations and management's responses thereto;</p>  | <p><b>Complied with</b></p>  |
| l.            | <p>The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the chief executive officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the external auditors without the executive directors being present.</p>   | <p><b>Moving towards conformance</b></p> <p>The Audit Committee shall strengthen this process as specified in this direction and meet with the external auditors at least once in six months, without the Executive Directors being present.</p>   |
| m.            | <p>The committee shall have:</p> <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>   | <p><b>Complied with</b></p>  |
| n.            | <p>The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>  | <p><b>Complied with</b></p>  |
| o.            | <p>The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> <li>(i) details of the activities of the audit committee;</li> <li>(ii) the number of audit committee meetings held in the year; and</li> <li>(iii) details of attendance of each individual member at such meetings.</li> </ul>  | <p><b>Complied with</b></p> <p>Please refer report on page 44.</p>   |
| p.            | <p>The secretary to the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings</p>   | <p><b>Complied with</b></p>  |

## Corporate Governance *Contd.*

| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008  | Company's level of compliance   |
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| q.            | The committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor. | <b>Complied with</b><br>A whistle blowing hot line has been publicized to all employees.  |
| 8.3           | Integrated Risk Management Committee   | Please refer page 45 for the Committee Report   |
| a.            | The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.   | <b>Complied with</b>  |
| b.            | The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis   | <b>Moving towards conformance</b><br>The Committee assesses risks which have been identified on a monthly basis and summarized and submitted to the quarterly Committee meetings by the Chief Risk Officer. This procedure will be further strengthened as specified in this direction. |
| c.            | The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee  | <b>Complied with</b>  |
| d.            | The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.  | <b>Complied with</b>  |
| e.            | The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.  | <b>Complied with</b>  |
| f.            | The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.  | <b>Complied with</b>  |
| g.            | The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.  | <b>Moving towards conformance</b><br>Review and further strengthening will be done as specified in this direction.  |
| h.            | The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.  | <b>Complied with</b><br>A dedicated compliance function/officer has been established.<br><br>This position was included under the Company's list of KMPs as at the date of this report subsequent to the financial year end.  |

| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008   | Company's level of compliance  |
|---------------|---|--|
| <b>9</b>      | <b>Related party transactions</b>   |  |
| 9.1           | The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.  |  |
| 9.2           | <p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> <li>a) A subsidiary of the finance company;</li> <li>b) Any associate company of the finance company;</li> <li>c) A director of the finance company;</li> <li>d) A key management personnel of the finance company;</li> <li>e) A relative of a director or a key management personnel of the finance company;</li> <li>f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;</li> <li>g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.</li> </ul>  | <p><b>9.2-9.4 Complied with</b></p> <p>A Board approved process is in place to ensure that the Company does not engage in related party transactions as stipulated in this direction.</p> <p>The directors shall take steps to avoid a conflict of interest.</p> <p>Transactions with related parties are made with the sanction of the Board subject to such transactions being in the normal course of business. Please refer page 74 for details.</p> |
| 9.3           | <p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> <li>a) Granting accommodation,</li> <li>b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</li> <li>c) providing financial or non-financial services to the finance company or obtaining those services from the finance company,</li> <li>d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</li> </ul>   |  |
| 9.4           | <p>The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean:</p> <ul style="list-style-type: none"> <li>a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.</li> <li>b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty;</li> <li>c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;</li> <li>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</li> <li>e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.</li> </ul> |  |

## Corporate Governance *Contd.*

| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008  | Company's level of compliance   |
|---------------|--|---|
| <b>10</b>     | <b>Disclosures</b>   |   |
| 10.1          | The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.  | <b>Complied with</b>  |
| 10.2          | The Board shall ensure that at least the following disclosures are made in the Annual Report:  |   |
| 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.   | <b>Complied with</b><br>Please refer the Directors' Report on pages 38 - 39.  |
| b.            | A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.  | <b>Complied with</b><br>Please refer the Directors' Statement on Internal Controls over financial reporting on page 42.   |
| c.            | The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.   | <b>Complied with</b><br>The company has obtained a certification from M/s Ernst & Young Chartered Accountants on the effectiveness of the internal controls over financial reporting.   |
| d.            | Details of directors, including names, transactions with the finance company.  | <b>Complied with</b><br>Please refer the Directors' transactions with the Company on page 74 - note 31.2.   |
| e.            | Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.  | <b>Complied with</b><br>Please refer the Directors' Report on pages 38 - 39.  |
| f.            | Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.   | <b>Complied with</b><br>Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year-end;<br><br>Entities in which the Parent of the Company has a substantial interest      2.32%<br>Key Management Personnel                      0.05% |
| g.            | The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.  | <b>Complied with</b><br>Please refer page 74 - note 31.2.   |
| h.            | A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non - compliances.  | <b>Complied with</b><br>Status of compliance with prudential requirements, regulations and laws are in the Directors report set out in pages 38 - 39.   |
| i.            | A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns. | <b>Complied with</b><br>There were no significant supervisory concerns / lapses in the Company's risk management and compliance with this direction to be directed by the Monetary Board to be disclosed to the public.   |

| Direction No. | Reference to the Finance Companies Corporate Governance Direction No. 3 Of 2008   | Company's level of compliance   |
|---------------|---|---|
| j.            | The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.   | <b>Complied with</b><br>The Company has obtained a certification from the external auditors on compliance with the Corporate Governance direction issued by the Monetary Board.   |
| Section No.   | Rules of the Colombo Stock Exchange   | Company's level of compliance   |
| 7.10          | <b>Corporate Governance</b>   |   |
| 7.10          | Statement confirming that as at the date of the annual report that the Company is in compliance with these rules.   | The company is in compliance with the listing rules of Colombo Stock Exchange, as explained below.  |
| 7.10.1        | <b>Non Executive Directors</b><br>The Board of Directors of a listed entity shall include at least : two non executive directors; or such number of non executive directors equivalent to one third of the total number of directors whichever is higher<br><br>Requirement for at least 2 non executive directors or 1/3rd of the Board whichever is higher  | <b>Complied with</b><br>As at 31st March the Board comprised 6 directors of whom 3 were non executive directors   |
| 7.10.2        | <b>Independent Directors</b><br>Where the constitution of the Board of Directors includes only two non executive directors in terms of 7.10.1, both such non executive directors shall be independent. In all other instances two or 1/3rd of the non executive directors appointed to the Board, which ever is higher shall be independent.<br><br>2 or at least 1/3rd of non executive directors to be independent against specified criteria | As at 31st March 2012 the Board had 1 Independent Director – Dr H Cabral, PC from whom a signed declaration of independence was obtained.<br><br>2 more Independent Directors were appointed to the Board subsequent to the financial year end.<br><br>Mrs D P Pieris and Justice R K S Suresh Chandra were appointed on 27.6.2012 and 25.7.2012 respectively.<br><br>Therefore, as at date 3 out of the 4 Non-Executive Directors are independent. |
| 7.10.3-4      | <b>Directors disclosures</b><br>Annual determination as to the independence or non independence of each non executive director  | <b>Complied with</b><br>The Board has determined the independent/ non independent status based on the criteria set out by the CSE.<br><br>Please refer directors profiles on pages 10 - 11.   |
| 7.10.5        | <b>Remuneration Committee</b><br>Shall comprise of a minimum of two independent non executive directors or of non executive directors a majority of whom shall be independent, which ever shall be higher   | <b>Complied with</b><br>Please refer committee report on page 46.   |
| 7.10.6        | <b>Audit Committee</b><br>Shall comprise of a minimum of two independent non executive directors or of non executive directors a majority of whom shall be independent, which ever shall be higher  | <b>Complied with</b><br>Please refer committee report on page 44.   |

# Corporate Governance *Contd.*

## DIRECTORS' ATTENDANCE AT MEETINGS

### Board and board sub committees

|  |                               | Board Meetings | Audit Committee | Integrated Risk Management Committee |
|--|-------------------------------|----------------|-----------------|--------------------------------------|
| No of Meetings   |                               | 12             | 10              | 04                                   |
| <b>Director</b>  | <b>Classification</b>         |                |                 |                                      |
| * Mrs R L Nanayakkara<br>(Resigned with effect from 31.12.11)            | Non-Executive                 | 09             | N/A             | N/A                                  |
| * Mr W D K Jayawardena<br>(Appointed Chairman with effect from 26.01.12) | Non-Executive                 | 11             | N/A             | N/A                                  |
| Mr I C Nanayakkara   | Executive                     | 09             | N/A             | N/A                                  |
| Mrs K U Amarasinghe  | Executive                     | 10             | N/A             | N/A                                  |
| ** Mr R N Asirwatham   | Non-Executive                 | 12             | 09              | 04                                   |
| Dr H Cabral, PC  | Non-Executive,<br>Independent | 8              | 06              | 03                                   |
| Mr B C G De Zylva  | Executive                     | 12             | N/A             | 04                                   |

\* - Chairman of the Board

\*\* - Chairman of the Audit Committee

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# Directors Report

Your Directors have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2012.

## PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

During the year the principal activities of the Company comprised Finance Business, Finance Leasing, Islamic Finance, Foreign Currency Business including Worker Remittances, issue of Payment Cards, Money Changing Business and provision of Advances for Margin Trading in the Colombo Stock Exchange.

## DIRECTORATE

The Directors during the year under review were as follows:

1. Mrs R L Nanayakkara - Non Executive Chairperson  
*(Resigned with effect from 31st December 2011)*
2. Mr W D K Jayawardena - Non Executive Chairman  
*(Subsequently appointed Chairman with effect from 26th January 2012)*
3. Mr I C Nanayakkara - Executive Director
4. Mrs K U Amarasinghe - Executive Director
5. Mr R N Asirwatham - Non Executive Director  
*(Resigned with effect from 30th June 2012)*
6. Dr H Cabral, PC - Senior Independent Director
7. Mr B C G De Zylva - Managing Director /CEO
8. Mrs D P Pieris - Non Executive  
Independent Director  
*(Appointed with effect from 27th June 2012)*
9. Justice R K S Suresh Chandra - Non Executive  
Independent Director  
*(Appointed with effect from 25th July 2012)*

Mrs R L Nanayakkara was Chairperson of the Company from 02nd August 2004. In accordance with the Direction on Corporate Governance issued by the Central Bank of Sri Lanka, she stepped down as Director and Chairperson having reached the age of 70 years, at the end of the transitional period granted by the said Direction. During her tenure, the Company achieved its unique status and leadership position in the licensed finance companies sector.

Mr R N Asirwatham also stepped down as a Director at the end of June, as he will be reaching the age of 70 this year.

The Board wishes to thank these two Directors for their contribution to the growth and progress of the Company.

The Board welcomes Mrs D P Pieris, who was appointed a Non-Executive Independent Director with effect from 27th June 2012.

The Board welcomes Justice R K S Suresh Chandra, who was appointed a Non-Executive Independent Director with effect from 25th July 2012.

## DIRECTORS INTERESTS IN CONTRACTS

The Directors have made the declarations required by the Companies Act No. 7 of 2007. These have been noted by the Board, recorded in the Minutes and entered into the Interest Register which is maintained by the Company.

Lists of other companies on which these Directors serve are included on pages 40 - 41.

## DIRECTORS' REMUNERATION

The company paid Rs. 1,791,326/- as Directors' remuneration for the financial year ended 31st March 2012.

## BOARD SUB COMMITTEES

In compliance with regulatory guidelines and also with best practices, the Board has formed the following sub committees :-

- The Audit Committee
- The Integrated Risk Management Committee
- The Remuneration Committee

The reports of these Committees can be found on pages 44 - 46.

## SHARI'AH SUPERVISORY BOARD

As the Company offers Islamic Finance products, the Board has installed a dedicated Shari'ah Supervisory Board (SSB). The SSB reviews all Islamic products offered, and periodically audits the processes, thereby providing comfort to customers of these products, and further strengthening the Board's control. Two of the three member Shari'ah Supervisory Board are on the Banking and finance sub-committee of the All Ceylon Jamiyyathul Ulama (ACJU) and are based in Sri Lanka. The remaining member is an internationally acclaimed Shari'ah scholar based in South Africa.

## **DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING**

The Directors are responsible for the preparation of financial statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that the financials (appearing on pages 50 - 76) have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and all relevant directions of the Central Bank of Sri Lanka.

## **GOING CONCERN**

The Directors believe that the Company is in a position to continue its operations in the foreseeable future. Accordingly the financial statements are prepared on the basis that the Company is a going concern.

## **FINANCIAL STATEMENTS & AUDITOR'S REPORT**

The financial statements & Auditors Report are given on pages 49 -76.

## **STATUTORY PAYMENTS**

For the year under review, all known statutory payments have been made and all retirement gratuities have been provided for. Further, all management fees and payments to related parties for the year under review have been reflected in the accounts.

## **AUDITORS**

M/s Ernst and Young, the Auditors of the company retire and offer themselves for re-appointment. The Board recommends their re-appointment for the year 2012/2013 at a fee to be decided upon by the Board.

The auditors remuneration for the year ended 31st March 2012 is disclosed under note 26 to the financial statements.

As far as the Directors are aware, the Auditors do not have any other relationship with the Company or any of its subsidiaries nor do they have any interest in contracts with the Company or any of its subsidiaries.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The Company has not engaged in any activity that contravenes any applicable law or regulation, and to the best of the knowledge of the Directors the Company has been in compliance with all prudential requirements, regulations and laws.

## **SHAREHOLDING**

The stated capital of the Company is Rs. 2,000,000,000/- divided into 2,800,000,000 shares.



**B C G De Zylva**

*Managing Director/ CEO*

## Directors Report *Contd.*

### DIRECTORS' DECLARATIONS

| Name                        | Other Directorships held  |
|-----------------------------|---|
| <b>Mr W D K Jayawardena</b> | <p><b>Chairman:</b><br/>LOLC Insurance Company Ltd.<br/>LOLC Motors Ltd.<br/>LOLC Securities Ltd.<br/>LOLC Leisure Ltd.<br/>United Dendro Energy (Private) Ltd.<br/>Lanka ORIX Finance PLC<br/>Eden Hotel PLC<br/>LOLC Life Insurance Ltd.<br/>LOLC General Insurance Ltd.<br/>Palm Garden Hotels PLC<br/>Riverina Hotels PLC<br/>Speed Italia (Pvt) Ltd.</p> <p><b>Managing Director/ Group CEO:</b><br/>Lanka ORIX Leasing Company PLC</p> <p><b>Director:</b><br/>LOLC Micro Credit Ltd.<br/>Commercial Leasing &amp; Finance Ltd.<br/>HDFC Bank<br/>Brown &amp; Co. PLC</p> |
| <b>Mr I C Nanayakkara</b>   | <p><b>Chairman:</b><br/>Commercial Leasing &amp; Finance Ltd.</p> <p><b>Deputy Chairman:</b><br/>Lanka ORIX Leasing Company PLC<br/>Lanka ORIX Finance PLC</p> <p><b>Director:</b><br/>PRASAC Micro Finance Institute<br/>Brown &amp; Company PLC<br/>Diriya Investments (Private) Ltd.<br/>Seylan Bank PLC<br/>Sierra Constructions Ltd.<br/>Agstar Fertilizers (Private) Ltd.<br/>LOLC Micro Credit Ltd.<br/>Agrisil Holdings Ltd.<br/>Free Lanka Capital Holdings (Pvt) Ltd.</p>   |

| Name                        | Other Directorships held  |
|-----------------------------|---|
| <b>Mrs K U Amarasinghe</b>  | <p><b>Director:</b><br/>Commercial Leasing &amp; Finance Ltd.<br/>Lanka ORIX Finance PLC<br/>Lanka ORIX Leasing Company PLC<br/>Lanka ORIX Project Development Ltd.<br/>LOLC Insurance Company Ltd.<br/>LOLC Leisure Ltd.<br/>LOLC Micro Credit Ltd.<br/>LOLC Securities Ltd.<br/>United Dendro Energy (Pvt) Ltd.<br/>Eden Hotel Lanka PLC<br/>Riverina Hotels PLC<br/>Palm Garden Hotels PLC<br/>LOLC Life Insurance Ltd.<br/>LOLC General Insurance Ltd.<br/>Speed Italia (Pvt) Limited<br/>Brown &amp; Co. PLC</p> |
| <b>Dr Harsha Cabral, PC</b> | <p><b>Director:</b><br/>Diesel &amp; Motor Engineering PLC (DIMO)<br/>Union Bank of Colombo PLC<br/>Richard Pieris &amp; Co. Distributors Ltd.<br/>Tokyo Cement Company (Lanka) PLC<br/>Tokyo Super Cement Co (Private) Ltd.<br/>Fuji Cement Co (Lanka) Ltd.<br/>Hayleys PLC<br/>Lanka ORIX Finance PLC<br/>Commercial Leasing &amp; Finance Ltd.<br/>Hambana Petro Chemicals Ltd.<br/>Tokyo Cement Power Co. Ltd.</p>  |

| Name                          | Other Directorships held  |
|-------------------------------|---|
| <b>Mr B C G De Zylva</b>      | <p><b>Managing Director/ CEO:</b><br/>Lanka ORIX Finance PLC</p> <p><b>Director :</b><br/>Financial Ombudsman Sri Lanka Limited<br/>Navajeevana Rehabilitation – Tangalle<br/>Finance Houses Association of Sri Lanka</p>   |
| <b>Mrs D P Pieris</b>         | <p><b>Chairman</b><br/>PW Corporate Secretarial (Pvt) Ltd.</p> <p><b>Director</b><br/>Asia Asset Finance PLC<br/>Sithijaya Fund (Pvt) Ltd.<br/>Asian Centre for Lease Education<br/>Associated Electrical Corporation Ltd.<br/>Abans Electricals PLC<br/>Asia Asset Finance PLC<br/>Lanka ORIX Finance PLC<br/>MTN Corporate Consultants (Pvt) Ltd.</p> <p><b>Alternate Director</b><br/>Asia Capital PLC</p> |
| <b>Justice Suresh Chandra</b> | <p><b>Director</b><br/>Lanka ORIX Finance PLC</p>   |

# Directors' Statement on Internal Controls over Financial Reporting

## RESPONSIBILITY

In line with the Finance Business Act No. 42 of 2011, Finance Companies (Corporate Governance) Direction No 03 of 2008: section 10 (2) b), the Board of Directors present this report on Internal Controls over Financial Reporting.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the system of internal controls over Financial Reporting of Lanka ORIX Finance PLC ("the Company"). However, such a system is designed to manage the Company's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the company. Accordingly, the system of internal controls can only provide reasonable, not absolute, assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process of identifying, evaluating and managing the significant risks faced by the Company and this process includes effecting modifications to the internal control system, to align with constant changes in the business environment or regulatory guidelines. The process is regularly reviewed by the Board and Board appointed sub committees.

The Board is of the view that the system of internal controls in place is sound and 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 policies and procedures on risk and control, by identifying and assessing the risks faced and in the design, operation and monitoring of suitable internal controls to mitigate and control such risks. Management is accountable to the Board for the design, operation and monitoring of Company's internal control system and for providing assurance to the Board that it has done so.

## KEY FEATURES OF THE PROCESS ADOPTED IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROLS OVER FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Several Committees are established by the Board to assist in ensuring the effectiveness of the Company's daily operations and that the Company's operations are

in accordance with the corporate objectives, strategies, policies and guidelines.

- The Internal Audit Division (Enterprise Risk Management/ERM Division) of the Company checks for compliance with policies and procedures and the effectiveness of the internal control system on an on-going basis, using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the ERM Division are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Company reviews internal control issues identified by the ERM Division, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control system. They also review the functions of ERM, with particular emphasis on the scope and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the company on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report.
- In reviewing the internal control system, 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 were observed and checked by the ERM team for suitability of design and effectiveness on an on-going basis. The scope of the internal control review covers significant processes that lead to the financial statements.
- The Board along with the relevant committees will review comments made by the external auditors in connection with the internal control system and will ensure appropriate actions are taken on the recommendations made.

## CONFIRMATION

Based on the above process, 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 has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

#### **REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS**

The external auditors have reviewed the above Directors' Statement on Internal Controls over Financial Reporting included in the annual report of the Company for the year ended 31 March 2012 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Company.

By order of the Board



**B C G de Zylva**  
*Managing Director*



**W D K Jayawardena**  
*Director*



**W D K Jayawardena**  
*Chairman - Audit Committee*

27th June, 2012

# Audit Committee Report

The Audit Committee is a subcommittee of the Board established for the purpose of assisting the Board in fulfilling their responsibilities relating to financial governance. The Committee comprises two non executive directors and one senior advisor.

Mr R N Asirwatham - Committee Chairman

*Resigned with effect from 30/06/2012*

Dr H Cabral, PC - Senior Independent Director

Deshamanya M D D Pieris - Senior Advisor

The Audit Committee is governed by the Audit Charter establishing its duties and responsibilities in financial reporting, business risk management, internal controls, compliance with laws and Company policies, monitor performance and independence of external and internal auditors.

The Committee has acted within the parameters set by its terms of reference.

During the year under review the Committee considered and approved the bi-annual and annual financial statements prior to publication. The Committee checked and approved changes in accounting policies, significant estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements, adequacy of provisioning and issues arising from internal and external audit.

The Committee meets with the Chief Risk Officer quarterly and reviews significant findings related to internal control to identify effectiveness including the monitoring and review of the annual audit plan, results of internal audit processes, follow up action taken on recommendations and effectiveness of the internal audit function as a whole.

Effectiveness of the Company's internal controls is evaluated through reports provided by the management, and by the internal and external auditors. The Committee is satisfied that an effective system of internal control is in place to provide the assurance on safeguarding the assets and the integrity of financial reporting.

The Committee reviewed the independence and objectivity of the external auditors, M/S Ernst & Young, Chartered Accountants and has received a declaration confirming that they do not have any relationship or interest in the Company as required by the Companies Act No. 7 of 2007. The engagement of the external auditors for non audit services is limited to consultancy on IFRS.

The committee meets quarterly and additional meetings are held as and when a need arises. Ten meetings were held during the year and the members' attendance at Audit Committee meetings is provided on page 36.



**R N Asirwatham**

*Chairman*

*Audit Committee*

# Integrated Risk Management Committee

The Integrated Risk Management Committee (IRMC) is a subcommittee of the Board established in compliance with section 8 (3) of the Finance Companies Corporate Governance Direction No. 3 of 2008 and comprises the following members:

|                         |  |
|-------------------------|--|
| Mr R N Asirwatham       | - Committee Chairman<br><i>Resigned with effect from 30/6/2012</i> |
| Dr H Cabral, PC         | - Senior Independent Director                                      |
| Deshamanya M D D Pieris | - Senior Advisor   |
| Mr B C G de Zylva       | - Managing Director/CEO  |
| Mrs S Wickremasekera    | - Chief Risk Officer   |
| Mrs S Kotakadeniya      | - Chief Financial Officer  |
| Mr J Kelegama           | - Chief Credit Officer   |
| Mr R Perera             | - Group Treasurer  |
| Mr C Dias               | - Chief Information Officer  |

The Committee reviews credit, market, liquidity, operational and strategic risks. These risks were reviewed monthly by the Chief Risk Officer and summarized reports were submitted quarterly to the Committee for concurrence and/or specific directions in order to ensure that the risks were managed appropriately.

As delegated by the Committee the Chief Risk Officer submits a risk assessment report to the Board, subsequent to each meeting, stating the risk mitigation actions pursued and seeking the Board's views. In addition the minutes of the Committee meetings are tabled at meetings of the Board to ensure that all Directors are kept informed of the proceedings.

The Committee met four times during the year under review.



**R N Asirwatham**

*Chairman*

*Integrated Risk Management Committee*

# Remuneration Committee Report

The Remuneration Committee is a subcommittee of the Board and comprises three Non-Executive Directors one of whom is an Independent Director.

Mr R N Asirwatham - Committee Chairman  
*Resigned with effect from 30/6/2012*  
Dr H Cabral, PC - Senior Independent Director  
Mr W D K Jayawardena - Non Executive Director

The responsibilities of the Committee include determining the remuneration policy relating to the Managing Director/CEO; periodically evaluating the performance of the Managing Director/CEO against the set targets and goals and determining the basis for revising remuneration, benefits and other payments of performance based incentives; determining the remuneration policy relating to executive and Non-Executive Directors including Alternate Directors; determining the remuneration policy of other key management personnel; and recommending these to the Board for adoption.

All Non-Executive Directors receive a fee for attending Board meetings and committee meetings. They do not receive any performance or incentive payments.

Directors' emoluments are disclosed on page 38.



**R N Asirwatham**

*Chairman*

*Remuneration Committee*

# Directors' Responsibility for Financial Reporting

The Directors confirm that the Company's Financial Statements for the year ended 31st March 2012, are prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards, the Regulations and Directions of the Central Bank of Sri Lanka, and the Companies Act No. 07 of 2007. They believe that the Financial Statements present a true and fair view of the state of the affairs of the Company as at the end of the financial year.

The Directors also accept responsibility for the integrity and accuracy of the Financial Statements presented and confirm that appropriate accounting policies have been selected and applied consistently and reasonable and prudent judgment has been exercised so as to accurately report transactions. The Directors have taken reasonable steps to safeguard the assets of the Company, to prevent, deter and detect fraud, and to ensure the integrity, accuracy and safeguarding of operational and financial records.

The Directors confirm that to the best of their knowledge, all statutory payments due in respect of the Company as at the Balance Sheet date have been paid for, or where relevant, provided for.

The External Auditors, Messrs Ernst & Young, were provided with the opportunity to make appropriate inspections of financial records, minutes and other documents to enable them to form an opinion of the Financial Statements. The Report of the Auditors is set out on page 49.



**Brindley de Zylva**

*Managing Director/Chief Executive Officer*

20th June 2012

# Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 and any other applicable statutes to the extent applicable to the Company. There are no departures from the prescribed accounting standards in their adoption. The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied.

The Board of Directors and the management of your Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in installing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs Ernst & Young, Chartered Accountants, the Company's External Auditors. The Audit Committee of your Company meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

It is also declared and confirmed that the Company has complied with and ensured compliance by the Auditor with the guidelines for the audit of listed companies where mandatory compliance is required. It is further confirmed that all the other guidelines have been complied with.



**Mrs Sunjeevani Kotakadeniya**  
*Chief Financial Officer - LOLC Group*



**Brindley de Zylva**  
*Managing Director/Chief Executive Officer*

20th June 2012

# Independent Auditor's Report



HMAJ/BV/RM/DM

**Chartered Accountants**201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri LankaTel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF LANKA ORIX FINANCE PLC  
Report on the Financial Statements**

We have audited the accompanying financial statements of Lanka ORIX Finance PLC ("Company"), which comprise the balance sheet as at 31 March 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**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**

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Report on Other Legal and Regulatory Requirements**

In our opinion, these financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

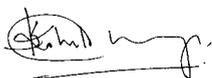
A handwritten signature in black ink, appearing to be 'C. Jayasinghe', written over a horizontal line.

21 June 2012  
Colombo.

# Balance Sheet

| As at 31 March 2012                                  | Note | 2012                  | 2011                  |
|--|------|-----------------------|-----------------------|
|  |      | Rs.                   | Rs.                   |
| <b>ASSETS</b>  |      |                       |                       |
| Cash and Bank Balances                               | 29.1 | 2,100,865,320         | 812,035,127           |
| Deposits with Banks and other Financial Institutions |      | 846,456,510           | -                     |
| Investment in Government Securities                  | 3    | 1,454,951,796         | 2,136,000,000         |
| Rentals receivable on Leased Assets                  | 4    | 11,011,584,720        | 4,324,700,548         |
| Hire Purchases, Loans and Advances                   | 5    | 21,962,918,777        | 16,439,451,634        |
| Amount due from related Companies                    | 6    | 77,066,953            | 150,867,022           |
| Other Receivables                                    | 7    | 787,974,383           | 322,054,711           |
| Margin Trading Receivables                           | 8    | -                     | 79,527                |
| Real Estate Stock                                    | 9    | 16,449,276            | 16,261,676            |
| Inventories  |      | 13,628,500            | -                     |
| Investment Property                                  | 10   | 71,500,000            | 71,500,000            |
| Investments in Shares                                | 11   | 6,200,000             | 18,000,000            |
| <b>Total Assets</b>                                  |      | <b>38,349,596,234</b> | <b>24,290,950,245</b> |
| <b>LIABILITIES</b>                                   |      |                       |                       |
| Bank Overdraft                                       | 29.2 | 989,188,851           | 501,514,500           |
| Interest Bearing Borrowings                          | 12   | 4,954,969,651         | 610,068,325           |
| Deposits from Customers                              | 13   | 25,094,722,906        | 17,393,186,628        |
| Trade Payables                                       | 14   | 211,163,005           | 685,144,389           |
| Accruals and Other Payables                          | 15   | 1,019,563,861         | 667,635,578           |
| Amount due to related Companies                      | 16   | 806,442,272           | 734,560,466           |
| Current Tax Payable                                  |      | 175,447,393           | 72,998,933            |
| Deferred Tax Liability                               | 17.2 | 333,195,522           | 108,574,403           |
| Retirement Benefit Obligations                       | 18   | 4,728,655             | 2,880,900             |
| <b>Total Liabilities</b>                             |      | <b>33,589,422,116</b> | <b>20,776,564,122</b> |
| <b>SHAREHOLDER'S FUNDS</b>                           |      |                       |                       |
| Stated Capital                                       | 19.2 | 2,000,000,000         | 2,000,000,000         |
| Statutory Reserve                                    | 20.1 | 542,181,565           | 293,023,966           |
| Investment Fund Reserve                              | 20.2 | 157,146,018           | 39,539,145            |
| Retained Earnings                                    | 20.3 | 2,060,846,536         | 1,181,823,012         |
| <b>Total Equity</b>                                  |      | <b>4,760,174,118</b>  | <b>3,514,386,123</b>  |
| <b>Total Liabilities and Equity</b>                  |      | <b>38,349,596,234</b> | <b>24,290,950,245</b> |

These financial statements are prepared in compliance with the requirements of the Companies Act No 07 of 2007



Chief Financial Officer - LOLC Group

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the board



Director



Director

The accounting policies and notes on pages 54 through 76 form an integral part of the Financial Statements.

20th June 2012  
Rajagiriya (Greater Colombo)

# Income Statement

| Year ended 31 March 2012                  | Note | 2012            | 2011            |
|---|------|-----------------|-----------------|
|   |      | Rs.             | Rs.             |
| Interest income                           | 21   | 5,999,968,910   | 3,113,150,099   |
| Interest expense                          | 22   | (2,981,878,487) | (1,760,124,183) |
| Net interest income                       |      | 3,018,090,423   | 1,353,025,916   |
| Other operating income                    | 23   | 346,786,680     | 1,504,256,702   |
| Direct expenses excluding interest cost   | 24   | (15,415,486)    | (97,480,661)    |
| Provision for doubtful debts & write offs | 25   | (35,602,734)    | (155,634,339)   |
| Personnel expenses                        |      | (469,305,971)   | (309,594,126)   |
| Depreciation                              |      | -               | (2,048,228)     |
| General & administration expenses         |      | (885,195,694)   | (666,373,791)   |
| <b>Profit from operations</b>             | 26   | 1,959,357,218   | 1,626,151,473   |
| Value added tax on Financial Service      |      | (179,921,265)   | (137,285,440)   |
| <b>Profit before tax</b>                  |      | 1,779,435,953   | 1,488,866,033   |
| Income tax expense                        | 17   | (533,647,957)   | (242,773,309)   |
| <b>Profit for the year</b>                |      | 1,245,787,996   | 1,246,092,724   |
| <b>Basic earnings per share</b>           | 28   | 0.44            | 0.63            |

The accounting policies and notes on pages 54 through 76 form an integral part of the Financial Statements.

## Statement of Changes in Equity

| Year ended 31 March 2012           | Stated<br>Capital    | Statutory<br>Reserve | Investment<br>Fund Reserve | Retained<br>Earnings | Total<br>Equity      |
|------------------------------------|----------------------|----------------------|----------------------------|----------------------|----------------------|
|                                    | Rs.                  | Rs.                  | Rs.                        | Rs.                  | Rs.                  |
| <b>Balance as at 31 March 2010</b> | 1,000,000,000        | 43,805,421           | -                          | 224,487,978          | 1,268,293,399        |
| Share issued during the Year       | 1,000,000,000        | -                    | -                          | -                    | 1,000,000,000        |
| Profit for the Year                | -                    | -                    | -                          | 1,246,092,724        | 1,246,092,724        |
| Transfer during the Year           | -                    | 249,218,545          | -                          | (249,218,545)        | -                    |
| Transfer during the Year           | -                    | -                    | 39,539,145                 | (39,539,145)         | -                    |
| <b>Balance as at 31 March 2011</b> | <b>2,000,000,000</b> | <b>293,023,966</b>   | <b>39,539,145</b>          | <b>1,181,823,012</b> | <b>3,514,386,123</b> |
| Profit for the Year                | -                    | -                    | -                          | 1,245,787,996        | 1,245,787,996        |
| Transfer during the Year           | -                    | 249,157,599          | -                          | (249,157,599)        | -                    |
| Transfer during the Year           | -                    | -                    | 117,606,873                | (117,606,873)        | -                    |
| <b>Balance as at 31 March 2012</b> | <b>2,000,000,000</b> | <b>542,181,565</b>   | <b>157,146,018</b>         | <b>2,060,846,536</b> | <b>4,760,174,118</b> |

The accounting policies and notes on pages 54 through 76 form an integral part of the Financial Statements.

# Cash Flow Statement

| Year ended 31 March 2012  | 2012                   | 2011                   |
|---|------------------------|------------------------|
|   | Rs.                    | Rs.                    |
| <b>Cash Flows From / (Used in) Operating Activities</b>             |                        |                        |
| Net Profit before Income Tax Expense                                | 1,779,435,953          | 1,488,866,033          |
| Adjustments for:  |                        |                        |
| Depreciation  | -                      | 2,048,228              |
| (Profit)/Loss on Sales of Property, Plant & Equipment               | -                      | 137,162                |
| Change in fair value of Forward Contracts                           | (211,713,264)          |                        |
| Provision for Fall / (Increase) in Value of Investments             | 11,800,000             |                        |
| Profit on Disposal of Investments                                   | -                      | (52,356,963)           |
| Profit on Sale of Pawning Portfolio                                 | -                      | (610,000,000)          |
| Allowance for Doubtful Debts  | 35,602,734             | 155,634,339            |
| Change in Fair Value of Investment Property                         | -                      | 20,489,640             |
| Provision for Defined Benefit Plans                                 | 2,122,205              | 652,351                |
| Investment Income   | (178,304,145)          | (740,893,523)          |
| Finance Costs   | 2,981,878,487          | 1,760,124,183          |
| <b>Operating Profit/(Loss) before Working Capital Changes</b>       | <b>4,420,821,970</b>   | <b>2,024,701,450</b>   |
| Change in Other Receivables   | (268,342,278)          | (228,134,871)          |
| Change in Inventories   | (13,628,500)           | -                      |
| Change in Real estate Stocks  | (187,600)              | 6,668,623              |
| Change in Margin Trading Receivables                                | 79,527                 | 8,764,987              |
| Change in Trade and Other Payables                                  | (436,620,700)          | 600,809,009            |
| Change in Amounts due to/ due from related Parties                  | 145,681,875            | 299,887,273            |
| Change in Lease Receivables   | (6,752,745,964)        | (3,069,201,649)        |
| Change in Hire Purchase, Loans and Advances                         | (5,479,072,215)        | (10,174,890,271)       |
| Change in Fixed Deposits from Customers                             | 8,013,204,560          | 5,444,305,540          |
| Change in Savings Deposits from Customers                           | (311,668,282)          | 1,819,197,862          |
| Cash Generated from Operations                                      | (682,477,607)          | (3,267,892,047)        |
| Finance Cost Paid on Deposits                                       | (2,180,672,717)        | (1,368,241,865)        |
| Gratuity Paid   | (274,450)              | (96,688)               |
| Income Tax Paid   | (206,578,378)          | (112,240,433)          |
| <b>Net Cash From/(Used in) Operating Activities</b>                 | <b>(3,070,003,152)</b> | <b>(4,748,471,033)</b> |
| <b>Cash Flows from / (Used in) Investing Activities</b>             |                        |                        |
| Proceeds from Sale of Property, Plant & Equipment                   | -                      | (137,162)              |
| Acquisition of Property, Plant & Equipment                          | -                      | (3,264,080)            |
| Net proceeds from Investments in Term Deposits                      | (800,000,000)          | 143,294,515            |
| Net proceeds from Investments in Treasury Bonds                     | 687,203,041            | 1,013,301,719          |
| Net proceeds from investments                                       | -                      | 34,356,963             |
| Interest Received   | 125,692,798            | 840,404,638            |
| Proceeds from Sale of Pawning Portfolio                             | -                      | 1,784,156,081          |
| <b>Net Cash Flows from/(Used in) Investing Activities</b>           | <b>12,895,839</b>      | <b>3,812,112,673</b>   |
| <b>Cash Flows from (Used in) Financing Activities</b>               |                        |                        |
| Proceeds from issuance of new shares                                | -                      | 1,000,000,000          |
| Net Proceeds from Interest Bearing Loans & Borrowings               | 4,344,901,326          | (491,743,675)          |
| Finance Cost Paid on Bank Loans and Over draft                      | (486,638,171)          | (200,523,837)          |
| <b>Net Cash Flows from/(Used in) Financing Activities</b>           | <b>3,858,263,155</b>   | <b>307,732,488</b>     |
| <b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>         | <b>801,155,842</b>     | <b>(628,625,872)</b>   |
| Cash and Cash Equivalents at the beginning of the Year              | 310,520,627            | 939,146,499            |
| <b>Cash and Cash Equivalents at the end of the Year</b>             | <b>1,111,676,469</b>   | <b>310,520,627</b>     |
| <b>Analysis of Cash and Cash equivalents at the end of the Year</b> |                        |                        |
| Cash and Bank Balances  | 2,100,865,320          | 812,035,127            |
| Bank Overdraft  | (989,188,851)          | (501,514,500)          |
|   | <b>1,111,676,469</b>   | <b>310,520,627</b>     |

The accounting policies and notes on pages 54 through 76 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### General

Lanka ORIX Finance PLC is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011 (formerly the Finance Companies Act No.78 of 1988)

The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

The Company was listed in the Colombo Stock Exchange by way of an introduction in July 2011.

The Financial Statements were authorized for issue by the Directors on 20th June 2012

### Parent entity and Ultimate Parent Company

The immediate and ultimate holding company is Lanka ORIX Leasing Company PLC, which is incorporated in Sri Lanka

### Principal Activities and Nature of Operations

During the year, the principal activities of the Company comprised of leasing, hire purchase, margin trading, loans, property development, mobilization of public deposits and Islamic financing.

### Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

### Address of the Registered Office and the Principal place of Business of the Company

No. 100/1, Sri Jayawardenepura Mawatha, Rajagiriya.

## 2. ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. The Financial Statements are prepared on the historical cost basis except for investment property, investment in shares that has been measured at fair value and provision for defined benefit obligations that has been measured at present value of the liability. Assets and liabilities are grouped by nature and listed in an order that reflect their relative liquidity.

### Statement of Compliance

The Financial Statements of the Company are prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Financial Statements also complies with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No.44 of 2011.

### 2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in conformity with SLASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimate and underlying assumptions are reviewed on an ongoing basis and the management is required to consider, key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- **Impairment Losses on Loans and Advances**

In addition to the provisions made for possible loan losses based on the parameters and directives for specific provisions on Loans and Advances by the Central Bank of Sri Lanka, the Company reviews its Loans and Advances portfolio at each reporting date to assess whether a further allowance for impairment should be provided in the Income Statement. The judgments by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors though actual results may differ, resulting in future changes to the provisions.

- **Defined Benefit Plans**

The cost of defined benefit plans- gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

- **Impairment of non-financial assets**

The Company determines whether assets have been impaired by performing an impairment review. This requires the estimation of the 'value in use' of the cash generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

- **Going Concern**

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease conduct of business.

- **Consistency of Accounting policies and Comparative information**

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year. Comparative information has not been reclassified during the year.

- **Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the original carrying amount in the functional currency and the carrying amount in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

## 2.3 Assets and Bases of their Valuation

### i) Cash and Cash Equivalents

Cash and Cash Equivalents comprise of cash in hand and cash at banks. Bank overdrafts that are repayable on demand, form an integral part of the Company's cash management, are included as a component of Cash and Cash Equivalents for the purpose of cash flows.

### ii) Term deposits

Term deposits are carried at the original invested value and any accrued interest thereon.

### iii) Finance Leases and Hire purchase

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under "Rentals receivable on Leased Assets". Leasing balances are stated in the Balance Sheet after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery.

# Notes to the Financial Statements *Contd.*

## iv) Advances and Other Loans to Customers

Advances and other loans to customers comprised of revolving loans and loans with fixed installments.

Revolving loans to customers are reflected in the Balance Sheet at amounts disbursed less repayments and provision for doubtful debts. Loans to customers with fixed installments are stated in the Balance Sheet net of possible loan losses and net of interest, which is not accrued to revenue.

## v) Provision for Doubtful Debts

The specific provisions for doubtful debts are arrived at using the following bases:

The Company computes its provisioning for bad and doubtful debts in accordance with Direction No. 03 of 2006 of the Finance Business Act No. 42 of 2011 as follows

- Fifty percent (50%) of all lease, hire purchases and loan receivables (net of unearned income) which are in arrears for a period of 06 to 12 months.
- One hundred percent (100%) of all lease, hire purchases and loan receivables (net of unearned income) which are in arrears for a period of 12 months and more.

Additional specific provisions are made upon management review on the performance of the lease, hire purchase and loan portfolios.

Balance receivables on any terminated contracts are provided fully. i.e. One hundred percent (100%) of balance receivables.

Facilities that are fully provided have been written off against the provisions made.

The values of the following items held as collateral for a particular advance have been deducted in arriving at the above provisions.

- With regard to vehicles that have been repossessed by the Company and pending disposal, eighty per cent (80%) of the valuation obtained during the preceding six months from a valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- With regard to land and buildings, the full value, in case of a primary mortgage, such value shall not exceed the value decided by a qualified professional valuer at the time of providing the accommodation.

## vi) Real Estate Stocks

Real estate stocks represent the purchase value of properties acquired and any subsequent expenditure incurred on such for development.

## vii) Inventories

Inventories includes vehicles purchased to be leased out and are carried at lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## viii) Investments in Government Securities

### Investments in Treasury Bills and Bonds

Investment in Treasury Bills and Treasury Bonds are carried at the total of purchase price, accrued interest and amortization/ (accretion) of premium/ (discount) based on the effective interest rate.

Gains/losses on disposal are measured at the difference between the sales proceeds and the carrying amount and are recognized in profit or loss.

### Securities Purchased under Re-sale Agreements

Securities purchased under re-sale agreements are carried at cost and interest accrued thereon.

The difference between the purchase and sale price represents interest income and is recognized in the Income Statement over the period of the re-sale agreement.

**ix) Other Receivables**

Other receivable balances are stated at estimated amounts receivable after providing for doubtful receivables.

**x) Swap Instruments and Forward Contracts**

Company in its ordinary course of business enters into transactions such as currency swaps and foreign exchange contracts and uses derivative instruments to manage exposure to currency risk.

Foreign currency forward contracts are measured at their fair value at the balance sheet date and any change in fair value is recognized in profit or loss.

**xi) Investment Property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

**Determining Fair Value**

An external, independent valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio every 3 years. In financial periods within that period the fair value is determined by the directors.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably

**xii) Investment in Quoted Shares**

Investments in quoted shares are stated at their market values at the balance sheet date. Any difference between the cost and the market value is recognized in profit or loss

**2.4 Liabilities and Provisions**

Liabilities are recognized in the Balance Sheet when there is a present obligation as a result of a past event, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor or within one year of the Balance Sheet date are treated as current liabilities in the Balance Sheet. Liabilities payable after one year from the Balance Sheet date are treated as non-current liabilities in the Balance Sheet.

**i) Deposits from Customers**

Deposits include savings deposits and term deposits. They are brought to account at the gross value of the outstanding balance.

Interest for the period is charged to the profit or loss.

**ii) Income Tax Expense**

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates items recognized directly in equity.

**Current Tax Expense**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

# Notes to the Financial Statements *Contd.*

## Deferred Taxation

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## iii) Employee benefits

### (i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

### (ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by 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. Any unrecognized past service costs are deducted.

The calculation is performed every three years by a qualified actuary using the projected unit credit method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from the defined benefit plan and all expenses related to defined benefit plans in personnel expenses in profit or loss.

### (iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## 2.5 Income Statement

Company income represents the gross income receivable for the year on all performing contracts. It includes all income related to operations such as interest on overdue rentals, profit/loss on contracts terminated and collections on contracts written-off.

## i) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

### a) Income from Leases, Hire Purchases & Loans & Advances

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognized as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

Non-performing loans are those facilities where the rentals are overdue for six months and over. Income accrued is suspended from the date a facility is classified as non-performing and credited to the "Earned Income in Suspense" in compliance with Direction no.15 of 1991 of the Finance Business Act No. 42 of 2011. Thereafter such income is recognized on cash basis.

### b) Fee and other Service Income

Fees and other service related income are recognized when the services are performed.

Profit or loss on contracts terminated, collections on contracts written off, interest on overdue rentals, interest on revolving loans, interest earned on property sale and buy back agreements are accounted for on cash basis.

### c) Income from other Sources

Discount/premium on Treasury Bills/bonds is amortized over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognized on an accrual basis.

Income from all other interest bearing investments is recognized as revenue on an accrual basis.

## ii) Others

Other income is recognized on an accrual basis.

Net Gains and losses of a revenue nature on the disposal of property, plant & equipment and other non-current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

## 2.6 Expenditure Recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

### Value Added Tax (VAT) on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

The VAT on Financial service is recognized as expense in the period it becomes due.

## 2.7 Movement of Reserves

Movement of Reserves is disclosed in the Statement of Changes in Equity.

## 2.8 Cash Flow Statements

The Cash Flow Statements are prepared using the indirect method as stipulated in SLAS 9 – Cash Flow Statements, Cash and Cash Equivalents for Cash Flow Statements comprise mainly of cash in hand, balances at banks and bank overdraft.

# Notes to the Financial Statements *Contd.*

## 2.9 Related Party Transactions

Transactions with related parties are conducted on normal business terms. The relevant disclosures are given in Notes 6, 16 and 31 to the Financial Statements.

## 2.10 Earnings Per Share

The Company presents basic per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

## 2.11 Segment Reporting

Segment information is presented in respect of the Company's business segments. The primary format, business segments, is based on the company's management and internal reporting structure.

The Company has identified the following as its business segments and discloses the information required by SLAS 28 – Segment Reporting.

- Leasing
- Hire purchase
- Loans
- Treasury & others

## 2.12 Effect of accounting standards issued but not yet effective

### a. New accounting standards issued but not effective as at balance sheet date

Lanka ORIX Finance PLC will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising of LKAS and SLFRS applicable for financial periods beginning on or after 1st January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Company has commenced reviewing its accounting policies and financial reporting in readiness for the transition.

The Company is in the process of preparing an opening balance sheet in accordance with the new SLASs as at 1st April 2012. This will form the basis of accounting for the new SLASs in the future, and is required when the Company prepares its first new SLAS compliant financial statements for the year ending 31st March 2013.

Set out below are the key areas where accounting policies will change and may have an impact on the financial statements of the company. The company is in the process of quantifying the impact on the financial statements arising from such changes in accounting policies.

- (a) SLFRS 1 – First Time Adoption of Sri Lanka Accounting Standards requires the company to prepare and present opening new SLFRS financial statements at the date of transition to new SLAS. The company shall use the same accounting policies in its opening new SLAS financial statements and throughout all periods presented in its first new SLAS financial statements. Those accounting policies should comply with each new SLAS effective for the year ending 31st March 2013.
- (b) LKAS 1 – Presentation of Financial Statements requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). The standard also requires the company to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. The company shall also provide additional disclosures on financial instruments classified as equity instruments.
- (c) LKAS 32 – Financial Instruments: Presentation, LKAS 39 – Financial Instruments: Recognition and Measurement and SLFRS 7 – Financial Instruments: Disclosures will result in changes to the current method of recognizing financial assets, financial liabilities and equity instruments. The standard will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively.

Financial Assets classified as held to maturity and loans and receivables will be measured subsequently at amortized cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after

the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Individually significantly loans will be tested for impairment separately while loans which are not individually significant are collectively assessed for impairment (portfolio based impairment) based on credit risk characteristics.

Financial liabilities will be either classified as fair value through profit or loss or at amortized cost. At present, the company does not identify, categorize and measure financial assets and liabilities as per the requirements of the standard and hence would require a change in accounting policies.

- (d) LKAS 12 – Income Tax requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.

### 3. INVESTMENT IN GOVERNMENT SECURITIES

| Year ended 31 March 2012                                  | 2012          | 2011          |
|---|---------------|---------------|
|   | Rs.           | Rs.           |
| Investment in Treasury Bills, Bonds & REPO's - short term | 1,360,598,753 | 2,136,000,000 |
| Investment in Treasury Bonds - long term                  | 94,353,043    | -             |
|   | 1,454,951,796 | 2,136,000,000 |

### 4. RENTALS RECEIVABLE ON LEASED ASSETS

|                                   | 2012            | 2011            |
|-----------------------------------|-----------------|-----------------|
|                                   | Rs.             | Rs.             |
| Receivable from one to five years |                 |                 |
| Rentals receivable                | 10,408,993,662  | 3,995,228,983   |
| Unearned income                   | (2,108,402,628) | (856,925,193)   |
| Allowance for doubtful debts      | (99,468,175)    | (18,245,966)    |
| Deposits received from lessees    | (514,918,087)   | (5,841,496)     |
|                                   | 7,686,204,772   | 3,114,216,328   |
| <b>Receivable within one year</b> |                 |                 |
| Rentals receivable                | 5,005,357,988   | 1,884,047,016   |
| Unearned income                   | (1,827,085,467) | (678,357,221)   |
| Allowance for doubtful debts      | (5,415,965)     | (6,884,754)     |
|                                   | 3,172,856,556   | 1,198,805,040   |
| <b>Overdue</b>                    |                 |                 |
| Rentals receivable                | 187,936,166     | 23,713,352      |
| Allowance for doubtful debts      | (31,236,030)    | (11,508,018)    |
| Earned income in suspense         | (4,176,743)     | (526,154)       |
|                                   | 152,523,393     | 11,679,180      |
| <b>Total</b>                      |                 |                 |
| Rentals receivable                | 15,602,287,815  | 5,902,989,351   |
| Unearned income                   | (3,935,488,095) | (1,535,282,414) |
| Allowance for doubtful debts      | (136,120,170)   | (36,638,739)    |
| Deposits received from lessees    | (514,918,087)   | (5,841,496)     |
| Earned income in suspense         | (4,176,743)     | (526,154)       |
|                                   | 11,011,584,720  | 4,324,700,548   |
| <b>Balance as at 31 March</b>     | 11,011,584,720  | 4,324,700,548   |

# Notes to the Financial Statements *Contd.*

## 4. RENTALS RECEIVABLE ON LEASED ASSETS (Contd.)

|  | 2012 | 2011 |
|--|------|------|
|  | Rs.  | Rs.  |

### 4.1 Provision for Lease Rentals receivables

|   |             |             |
|---|-------------|-------------|
| Balance as at 1st of April                          | 36,638,739  | 43,064,115  |
| Transferred from LOLC on Lease Portfolio transfer   | 33,619,640  | -           |
| Provision/(Reversal) for the year net of write offs | 65,861,791  | (6,425,376) |
| Balance as at 31st March                            | 136,120,170 | 36,638,739  |

## 5. HIRE PURCHASES, LOANS AND ADVANCES

| Year ended 31 March 2012 | 2012 | 2011 |
|--------------------------|------|------|
|                          | Rs.  | Rs.  |

### 5.1 Hire Purchases

#### Receivable from one to five years

|                                |               |               |
|--------------------------------|---------------|---------------|
| Rentals receivable             | 1,888,555,341 | 3,277,105,616 |
| Unearned income                | (295,618,652) | (621,831,685) |
| Allowance for doubtful debts   | (4,152,782)   | (46,375,457)  |
| Deposits received from lessees | (1,054,028)   | (2,516,804)   |
|                                | 1,587,729,879 | 2,606,381,671 |

#### Receivable within one year

|                              |               |               |
|------------------------------|---------------|---------------|
| Rentals receivable           | 1,491,538,838 | 1,488,605,808 |
| Unearned income              | (403,804,074) | (543,848,649) |
| Allowance for doubtful debts | (2,121,657)   | (16,200,329)  |
|                              | 1,085,613,106 | 928,556,829   |

#### Overdue

|                              |             |             |
|------------------------------|-------------|-------------|
| Rentals receivable           | 37,574,882  | 23,688,150  |
| Allowance for doubtful debts | (4,288,124) | (7,604,488) |
| Earned income in suspense    | (660,649)   | (3,408,109) |
|                              | 32,626,110  | 12,675,553  |

#### Total

|                                 |                      |                      |
|---------------------------------|----------------------|----------------------|
| Rentals receivable              | 3,417,669,061        | 4,789,399,573        |
| Unearned income                 | (699,422,726)        | (1,165,680,334)      |
| Allowance for doubtful debts    | (10,562,563)         | (70,180,274)         |
| Deposits received from lessees  | (1,054,028)          | (2,516,804)          |
| Earned income in suspense       | (660,649)            | (3,408,109)          |
| <b>Balance as at 31st March</b> | <b>2,705,969,095</b> | <b>3,547,614,052</b> |

### 5.1.1 Provision for Hire Purchases Receivables

|   |              |            |
|---|--------------|------------|
| Balance as at 1st of April                          | 70,180,274   | 9,620,431  |
| Provision/(Reversal) for the year net of write offs | (59,617,711) | 60,559,843 |
| Balance as at 31st March                            | 10,562,563   | 70,180,274 |

**5. HIRE PURCHASES, LOANS AND ADVANCES (Contd.)**

| Year ended 31 March 2012 | 2012 | 2011 |
|--------------------------|------|------|
|                          | Rs.  | Rs.  |

**5.2 Mortgage Loans****Receivable from one to five years**

|                              |               |              |
|------------------------------|---------------|--------------|
| Installments receivable      | 510,351,612   | 210,199,386  |
| Unearned income              | (177,985,418) | (43,379,734) |
| Allowance for doubtful debts | -             | -            |
|                              | 332,366,194   | 166,819,653  |

**Receivable within one year**

|                              |              |              |
|------------------------------|--------------|--------------|
| Installments receivable      | 181,065,052  | 151,758,305  |
| Unearned income              | (69,603,067) | (39,901,803) |
| Allowance for doubtful debts | -            | -            |
|                              | 111,461,984  | 111,856,502  |

**Overdue**

|                              |              |              |
|------------------------------|--------------|--------------|
| Installments receivable      | 110,646,257  | 92,702,548   |
| Allowance for doubtful debts | -            | -            |
| Earned income in suspense    | (32,286,282) | (39,036,614) |
|                              | 78,359,976   | 53,665,934   |

**Total**

|                              |               |              |
|------------------------------|---------------|--------------|
| Total receivable             | 691,416,664   | 454,660,239  |
| Overdue                      | 110,646,257   |              |
| Unearned income              | (247,588,485) | (83,281,537) |
| Allowance for doubtful debts | -             | -            |
| Earned income in suspense    | (32,286,282)  | (39,036,614) |
|                              | 522,188,154   | 332,342,088  |

**5.2.1 Provision for Mortgage Loans**

|   |   |           |
|---|---|-----------|
| Balance as at 1st of April                          | - | 205,618   |
| Provision/(Reversal) for the year net of write offs | - | (205,618) |
| Balance as at 31st March                            | - | -         |

**5.3 Sundry Loans****Receivable from one to five years**

|                                  |                 |                 |
|----------------------------------|-----------------|-----------------|
| Installments receivable          | 14,898,440,423  | 9,211,642,346   |
| Unearned income                  | (1,890,461,306) | (1,597,565,280) |
| Allowance for doubtful debts     | (12,132,250)    | (47,978,305)    |
| Deposits received from customers | 499,500         | 499,500         |
|                                  | 12,996,346,367  | 7,566,598,262   |

**Receivable within one year**

|                              |                 |                 |
|------------------------------|-----------------|-----------------|
| Installments receivable      | 7,514,250,974   | 6,410,766,250   |
| Unearned income              | (1,952,212,347) | (1,530,315,633) |
| Allowance for doubtful debts | (12,057,719)    | (29,370,261)    |
|                              | 5,549,980,908   | 4,851,080,356   |

**Overdue**

|                              |              |              |
|------------------------------|--------------|--------------|
| Installments receivable      | 236,928,033  | 228,831,465  |
| Allowance for doubtful debts | (14,824,974) | (31,118,953) |
| Earned income in suspense    | (33,668,806) | (55,895,637) |
|                              | 188,434,253  | 141,816,875  |

# Notes to the Financial Statements *Contd.*

## 5. HIRE PURCHASES, LOANS AND ADVANCES (Cont..)

| Year ended 31 March 2012 | 2012 | 2011 |
|--------------------------|------|------|
|                          | Rs.  | Rs.  |

### Total

|                                  |                 |                 |
|----------------------------------|-----------------|-----------------|
| Total receivable                 | 22,649,619,430  | 15,851,240,062  |
| Unearned income                  | (3,842,673,654) | (3,127,880,912) |
| Allowance for Doubtful Debts     | (39,014,943)    | (108,467,519)   |
| Deposits received from customers | 499,500         | 499,500         |
| Earned income in suspense        | (33,668,806)    | (55,895,637)    |
|                                  | 18,734,761,527  | 12,559,495,493  |

### 5.3.1 Provision for Sundry Loans

|   |              |             |
|---|--------------|-------------|
| Balance as at 1st of April                          | 108,467,519  | 111,030,583 |
| Provision/(Reversal) for the year net of write offs | (69,452,576) | (2,563,064) |
| Balance as at 31st March                            | 39,014,943   | 108,467,519 |

|   |                |                |
|---|----------------|----------------|
| <b>Total (Note 5.1+Note 5.2+Note 5.3)</b> | 21,962,918,777 | 16,439,451,634 |
|---|----------------|----------------|

## 5.4 Accommodations included in Lease Receivables, Hire Purchases and Loans and Advances, for which provisions has been made

|  | Lease |      | Hire Purchase |      | Loans |      |
|--|-------|------|---------------|------|-------|------|
|  | 2012  | 2011 | 2012          | 2011 | 2012  | 2011 |
|  | Rs.   | Rs.  | Rs.           | Rs.  | Rs.   | Rs.  |

### Accommodations outstanding for over 6 months (Non-Performing)

|                              |              |              |              |              |              |              |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Investment               | 62,705,687   | 38,804,558   | 15,433,690   | 78,735,547   | 257,781,150  | 349,621,581  |
| Allowance for doubtful debts | (46,319,312) | (12,600,498) | (10,562,563) | (14,192,848) | (39,014,943) | (43,081,555) |
| Net Non Performing Advances  | 16,386,375   | 26,204,060   | 4,871,127    | 64,542,699   | 218,766,208  | 306,540,026  |

### Accommodations outstanding for 0-6 months (overdue)

|                              |              |              |   |              |   |              |
|------------------------------|--------------|--------------|---|--------------|---|--------------|
| Net Investment               | 359,203,433  | 48,076,482   | - | 111,974,853  | - | 130,771,927  |
| Allowance for doubtful debts | (89,800,858) | (24,038,241) | - | (55,987,426) | - | (65,385,964) |
| Net amount after provisions  | 269,402,575  | 24,038,241   | - | 55,987,426   | - | 65,385,964   |

**5.5 Concentration of Credit Risk - Loans and Advances, Leases, Hire Purchase Analyzed by Industry**

|                           | 2012                  | 2011                  |
|---------------------------|-----------------------|-----------------------|
|                           | Rs.                   | Rs.                   |
| Agriculture               | 3,102,389,760         | 2,013,374,059         |
| Manufacturing             | 4,292,117,696         | 2,957,193,755         |
| Economics and Social      | 464,622,203           | 149,486,140           |
| Trade                     | 11,408,597,870        | 7,749,359,483         |
| Tourism                   | 705,963,090           | 390,282,396           |
| Services                  | 7,729,893,284         | 4,666,639,987         |
| Transportation            | 2,981,227,307         | 1,839,993,093         |
| Construction              | 2,055,013,418         | 1,102,608,460         |
| Mining and Quarrying      | 343,081,591           | 201,014,668           |
| Others                    | 136,659,513           | 16,211,987            |
|                           | <b>33,219,565,732</b> | <b>21,086,164,028</b> |
| Lease Receivables         | 10,964,508,955        | 4,367,706,937         |
| Hire Purchase Receivables | 2,742,531,364         | 3,623,719,239         |
| Loans and Advance         | 19,512,525,413        | 13,094,737,852        |
|                           | <b>33,219,565,732</b> | <b>21,086,164,028</b> |

**6. AMOUNTS DUE FROM RELATED COMPANIES**

|  |                   |                    |
|--|-------------------|--------------------|
| LOLC Leisure Limited                   | 56,100            | -                  |
| Commercial Leasing and Finance Limited | 74,668,304        | 65,186,915         |
| LOLC Micro Credit Limited              | 1,125,760         | 85,680,107         |
| LOLC Motors Limited                    | 1,216,789         | -                  |
|  | <b>77,066,953</b> | <b>150,867,022</b> |

**7. OTHER RECEIVABLE**

|                                    |                    |                    |
|------------------------------------|--------------------|--------------------|
| VAT Receivable                     | 348,296,375        | 212,119,980        |
| Staff debtors                      | 25,808,064         | 19,659,567         |
| WHT recoverable                    | 120,658            | 120,658            |
| Others                             | 192,818,933        | 86,762,955         |
| Forward Contract Asset             | 211,713,264        | -                  |
| Deposits, Advances and Prepayments | 9,217,089          | 3,391,551          |
|                                    | <b>787,974,383</b> | <b>322,054,711</b> |

# Notes to the Financial Statements *Contd.*

| Year ended 31 March 2012 | 2012 | 2011 |
|--------------------------|------|------|
|                          | Rs.  | Rs.  |

## 8. MARGIN TRADING RECEIVABLES

|                                   |           |             |
|-----------------------------------|-----------|-------------|
| Balance as at 1st April           | 79,527    | 8,844,514   |
| Interest charged for the Year     | 45,673    | 1,700,637   |
| Less: Settlements during the Year | (125,200) | (6,117,703) |
| Written off advances              | -         | (4,347,920) |
| Balance as at 31st March          | -         | 79,527      |

## 9. REAL ESTATE STOCK

|                  |            |            |
|------------------|------------|------------|
|                  | 16,449,276 | 16,261,676 |
| Real State Stock | 16,449,276 | 16,261,676 |

## 10. INVESTMENT PROPERTY

|                                     |            |              |
|-------------------------------------|------------|--------------|
| Balance as at 1st April             | 71,500,000 | 91,989,640   |
| Net loss from fair value adjustment | -          | (20,489,640) |
|                                     | 71,500,000 | 71,500,000   |

## 11. INVESTMENT IN SHARES

### Expo Lanka Holdings PLC

|   |              |            |
|---|--------------|------------|
| Cost (1,000,000 Shares)                     | 18,000,000   | 18,000,000 |
| Adjustment for fall in value of investments | (11,800,000) | -          |
|   | 6,200,000    | 18,000,000 |

## 12. INTEREST BEARING BORROWINGS

|                                  |               |             |
|----------------------------------|---------------|-------------|
| Short-term loans                 | 3,725,000,000 | 50,000,000  |
| Long-term borrowings (Note 12.1) | 1,229,969,651 | 560,068,325 |
|                                  | 4,954,969,651 | 610,068,325 |

### 12.1 Long-term Borrowings

|                                       |                      |                    |
|---------------------------------------|----------------------|--------------------|
| Balance at the beginning of the year  | 560,068,325          | 68,325             |
| Loans obtained during the year        | 1,000,000,000        | 560,000,000        |
| Repaid during the year                | (330,098,674)        | -                  |
| <b>Balance at the end of the year</b> | <b>1,229,969,651</b> | <b>560,068,325</b> |

|                                    |                      |                    |
|------------------------------------|----------------------|--------------------|
| Long-term borrowings - current     | 345,286,733          | 173,565,916        |
| Long-term borrowings - non-current | 884,682,918          | 386,502,409        |
| <b>Total</b>                       | <b>1,229,969,651</b> | <b>560,068,325</b> |

### Analysis of non-current portion of long-term borrowings

|                          |                    |                    |
|--------------------------|--------------------|--------------------|
| Repayable within 3 years | 652,882,918        | 268,824,623        |
| Repayable after 3 years  | 231,800,000        | 117,677,785        |
| <b>Total</b>             | <b>884,682,918</b> | <b>386,502,409</b> |

**13. DEPOSITS FROM CUSTOMERS**

|  | 2012 | 2011 |
|--|------|------|
|  | Rs.  | Rs.  |

**13.1 Analysis of Customer Deposits based on Nature**

|                                     |                       |                       |
|-------------------------------------|-----------------------|-----------------------|
| Fixed Deposits                      | 22,549,229,661        | 14,564,209,025        |
| Fixed Deposits - Foreign Currency   | 28,183,924            | -                     |
| Savings Deposits                    | 579,099,020           | 2,109,572,241         |
| Savings Deposits - Foreign Currency | 1,938,210,301         | 719,405,362           |
|                                     | <u>25,094,722,906</u> | <u>17,393,186,628</u> |

**13.2 Deposits based on Maturity**

|                                   |                       |                       |
|-----------------------------------|-----------------------|-----------------------|
| Deposits maturing within one year | 21,028,476,415        | 13,600,334,394        |
| Deposits maturing after one year  | 4,066,246,491         | 3,792,852,234         |
|                                   | <u>25,094,722,906</u> | <u>17,393,186,628</u> |

**14. TRADE PAYABLES**

|                               |             |             |
|-------------------------------|-------------|-------------|
| Creditors for Lease equipment | 211,163,005 | 685,144,389 |
|-------------------------------|-------------|-------------|

**15. ACCRUALS AND OTHER PAYABLES**

|  |                      |                    |
|--|----------------------|--------------------|
| Miscellaneous Creditors                    | 154,980,122          | 44,720,174         |
| Accrued Interest on Loans                  | 87,040,062           | 16,955,832         |
| Stamp duty Payable                         | 6,125,010            | 30,836,550         |
| Accrued Interest on Deposits               | 723,578,342          | 444,674,285        |
| IBU Profits Payable to IBU Deposit Holders | 42,911,723           | 77,332,411         |
| IBU Charity Fund                           | 4,928,602            | 53,116,326         |
|  | <u>1,019,563,861</u> | <u>667,635,578</u> |

**16. AMOUNTS DUE TO RELATED COMPANIES**

|  |                    |                    |
|--|--------------------|--------------------|
| Lanka Orix Leasing Company PLC                 | 662,100,936        | 500,689,118        |
| Lanka Orix Leasing Company PLC-Refinance Loans | 124,817,566        | 143,871,348        |
| Lanka Orix Information Technology Limited      | -                  | 90,000,000         |
| Speed Italia Limited                           | 14,147,770         | -                  |
| LOLC Services Limited                          | 5,376,000          | -                  |
|  | <u>806,442,272</u> | <u>734,560,466</u> |

**17. INCOME TAX EXPENSES**

The major component of income tax expense for the Year ended 31 March are as follows:

**Current Income Tax**

|   |             |             |
|---|-------------|-------------|
| Current Income Tax Charge   | 307,424,938 | 170,135,820 |
| Under/(Over) Provision of current taxes in respect of prior years | 1,601,900   | 3,927,398   |

**Deferred Income Tax**

|  |                    |                    |
|--|--------------------|--------------------|
| Deferred Taxation Charge (17.2)                            | 224,621,119        | 68,710,091         |
| <b>Income Tax expense reported in the income statement</b> | <u>533,647,957</u> | <u>242,773,309</u> |

## Notes to the Financial Statements *Contd.*

### 17.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

|   | 2012 |               | 2011 |               |
|---|------|---------------|------|---------------|
|   | %    | Rs.           | %    | Rs.           |
| Accounting Profit before Income Tax                           |      | 1,779,435,953 |      | 1,488,866,033 |
| Tax effect at the Statutory Income Tax Rate of 28% (2011-35%) | 28%  | 498,242,067   | 35%  | 521,103,112   |
| Tax effect of Other Allowable Credits                         | -2%  | (27,048,128)  | -24% | (360,301,234) |
| Tax effect of Non deductible expenses                         | 3%   | 60,852,119    | 6%   | 83,502,573    |
| Tax effect of Rate Change                                     |      | -             | -1%  | (7,972,862)   |
| Under / (Over) Provision in the previous years                | 0%   | 1,601,900     |      | 3,927,398     |
| Social Responsibility Levy at 1.5%                            |      | -             | 0%   | 2,514,322     |
| Income tax expense  | 30%  | 533,647,957   | 16%  | 242,773,309   |

### 17.2 Recognized Deferred Tax Assets and Liabilities are attributable to the following

|   | Balance Sheet |             | Income Statement |              |
|---|---------------|-------------|------------------|--------------|
|   | 2012          | 2011        | 2012             | 2011         |
|   | Rs.           | Rs.         | Rs.              | Rs.          |
| <b>Deferred Tax Liability</b>             |               |             |                  |              |
| Property, Plant & Equipment               | -             | -           | -                | 443,731      |
| Lease Receivables                         | 275,239,831   | 109,381,055 | 165,858,777      | 76,394,808   |
| Forward exchange contracts                | 59,279,714    | -           | 59,279,714       | -            |
| Effect of Change in Tax Rate              | -             | -           | -                | (8,135,629)  |
|   | 334,519,545   | 109,381,055 | 225,138,491      | 68,702,910   |
| <b>Deferred Tax Assets</b>                |               |             |                  |              |
| Defined Benefit Plans                     | 1,324,023     | 806,652     | (517,371)        | (155,586)    |
| Effect of Change in Tax Rate              | -             | -           | -                | 162,767      |
|   | 1,324,023     | 806,652     | (517,371)        | 7,181        |
| Deferred Tax Expense for the current year |               |             | (224,621,119)    | (68,710,091) |
| Net Deferred Tax Liability                | 333,195,522   | 108,574,403 |                  |              |

### 17.3 Movement in Temporary Differences during the year

|  | 2012          | 2011        |
|--|---------------|-------------|
|  | Rs.           | Rs.         |
| <b>Taxable Temporary Difference</b>    |               |             |
| Lease Receivables                      | 982,999,398   | 390,646,623 |
| Forward Exchange Contracts             | 211,713,264   | -           |
|  | 1,194,712,662 | 390,646,623 |
| <b>Deductible Temporary Difference</b> |               |             |
| Defined Benefit Plans                  | 4,728,655     | 2,880,900   |
|  | 4,728,655     | 2,880,900   |
| Net Taxable Temporary Difference       | 1,189,984,007 | 387,765,723 |

**18. RETIREMENT BENEFIT OBLIGATIONS**

|                            | 2012             | 2011           |
|----------------------------|------------------|----------------|
|                            | Rs.              | Rs.            |
| Current Service Cost       | 716,304          | 400,146        |
| Interest Cost              | 374,785          | 317,127        |
| Actuarial (Gain)/ Loss     | 1,031,116        | (64,922)       |
| <b>Net Benefit expense</b> | <b>2,122,205</b> | <b>652,351</b> |

Changes in the Present Value of the Defined Benefit Obligation are as follows:

|   |                  |                  |
|---|------------------|------------------|
| Defined benefit obligation as of 01 April       | 2,880,900        | 2,325,237        |
| Benefits paid                                   | (274,450)        | (96,688)         |
| Interest Cost                                   | 374,785          | 317,127          |
| Current Service Cost                            | 716,304          | 400,146          |
| Actuarial (gain)/ loss                          | 1,031,116        | (64,922)         |
| <b>Defined Benefit Liability as of 31 March</b> | <b>4,728,655</b> | <b>2,880,900</b> |

**18.1 Key assumptions used in the above valuation are as follows:**

|                       |          |        |
|-----------------------|----------|--------|
| Discount Rate         | 11.00%   | 9.30%  |
| Salary Increment Rate | 9.00%    | 8.00%  |
| Retirement Age        | 55       | 55     |
| Staff Turnover        | 5% - 20% | 15.38% |

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 years of service.

Assumptions regarding future mortality are based on published statistics and mortality tables  
The plan is not externally funded.

**19. STATED CAPITAL**

|  | 2012   | 2011   |
|--|--------|--------|
|  | Number | Number |

**19.1 Fully Paid Ordinary Shares (Number)**

|  |               |             |
|--|---------------|-------------|
|  | 2,800,000,000 | 200,000,000 |
|--|---------------|-------------|

During the year in April 2011 the Company subdivided its existing 200 Mn shares into 2.8 Bn shares without a change in the stated capital.

|  | 2012 | 2011 |
|--|------|------|
|  | Rs.  | Rs.  |

**19.2 Fully Paid Ordinary Shares (Value) (19.2.1)**

|  |               |               |
|--|---------------|---------------|
|  | 2,000,000,000 | 2,000,000,000 |
|--|---------------|---------------|

**19.2.1 Fully Paid Ordinary Shares**

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Balance at the beginning of the year | 2,000,000,000 | 1,000,000,000 |
| Issue of Shares for Cash             | -             | 1,000,000,000 |
| Balance at the end of the year       | 2,000,000,000 | 2,000,000,000 |

# Notes to the Financial Statements *Contd.*

## 19.3 Rights, Preference and Restrictions of Classes of Capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

## 20. RESERVES

|  | 2012 | 2011 |
|--|------|------|
|  | Rs.  | Rs.  |

### 20.1 Statutory Reserve

|                                      |             |             |
|--------------------------------------|-------------|-------------|
| Balance at the beginning of the year | 293,023,966 | 43,805,421  |
| Transferred during the year          | 249,157,599 | 249,218,545 |
| Balance at the end of the year       | 542,181,565 | 293,023,966 |

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No. 42 of 2011 (formerly Finance Companies Act No.78 of 1988). The Company transfers 20% of its annual net profit after tax to this reserve in compliance with this direction.

### 20.2 Investment Fund Reserve

|  | 2012 | 2011 |
|--|------|------|
|  | Rs.  | Rs.  |

|                                      |             |            |
|--------------------------------------|-------------|------------|
| Balance at the beginning of the year | 39,539,145  | -          |
| Transferred during the year          | 117,606,873 | 39,539,145 |
| Balance at the end of the year       | 157,146,018 | 39,539,145 |

The reserve is created in accordance with the Central Bank guidelines issued to create an Investment Fund Reserve. 8% of the profits liable for VAT on Financial Services and 5% of the profits liable for self assessment income tax payable is transferred to this reserve when the payment of such taxes becomes due.

In accordance with the guidelines issued, the company maintains long term and short term government securities equivalent to the value of the reserve. These government securities are included in the government security value presented on the balance sheet. (Note No. 3)

### 20.3 Retained earnings

|  | 2012 | 2011 |
|--|------|------|
|  | Rs.  | Rs.  |

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Balance at the beginning of the year | 1,181,823,012 | 224,484,978   |
| Profit for the year net of transfers | 879,023,524   | 957,335,034   |
| Balance at the end of the year       | 2,060,846,536 | 1,181,820,012 |

## 21. INTEREST INCOME

|  |               |               |
|--|---------------|---------------|
| Interest on Leases                     | 1,574,341,520 | 470,203,022   |
| Interest on Hire Purchase              | 647,596,636   | 724,659,390   |
| Interest on Loans                      | 3,274,896,912 | 1,537,445,177 |
| Interest on Margin Trading             | 45,673        | 1,700,637     |
| Interest on Pawn Broking               | -             | 137,641,600   |
| Interest on Overdue rentals and others | 503,088,169   | 241,500,273   |
|  | 5,999,968,910 | 3,113,150,099 |

**22. INTEREST EXPENSE**

|   | 2012          | 2011          |
|---|---------------|---------------|
|   | Rs.           | Rs.           |
| Interest on Fixed Deposits                        | 1,935,609,241 | 1,224,873,411 |
| Interest on Savings Deposits                      | 84,337,060    | 78,571,799    |
| Interest on Re-Red Refinancing                    | 8,717,583     | 10,968,028    |
| Income Distribution to Mudharabah Deposit Holders | 396,492,202   | 227,986,839   |
| Interest on Short Term Loan & Bank Overdraft      | 556,722,401   | 217,724,106   |
|   | 2,981,878,487 | 1,760,124,183 |

**23. OTHER OPERATING INCOME**

|  |               |               |
|--|---------------|---------------|
| Sundry Income  | 133,081,615   | 114,278,498   |
| Loss on disposal of Property, Plant & Equipment  | -             | (137,162)     |
| Amortisation of Premium/Discount, Interest Income and Capital Gain on Treasury Bond/Reverse Repo | 127,007,624   | 734,919,074   |
| Interest income on Term Deposits   | 51,296,521    | 5,974,449     |
| Change in fair value of Forward Contracts  | 211,713,264   | -             |
| Exchange Loss  | (165,834,793) | (13,936,284)  |
| Profit on disposal of investments  | -             | 52,356,963    |
| Adjustment for fall in value of investments  | (11,800,000)  | -             |
| Profit on Sale of Pawning Portfolio  | -             | 610,000,000   |
| Interest Income from Staff Loan  | 1,322,449     | 801,164       |
|  | 346,786,680   | 1,504,256,702 |

**24. DIRECT EXPENSES EXCLUDING INTEREST COST**

|                         |            |            |
|-------------------------|------------|------------|
| VAT on General expenses | 12,169,016 | 86,248,498 |
| Portfolio handling fee  | 621,645    | 9,261,003  |
| Others                  | 2,624,825  | 1,971,160  |
|                         | 15,415,486 | 97,480,661 |

**25. PROVISION/(REVERSAL) AND WRITE OFFS**

|  |              |             |
|--|--------------|-------------|
| Provision/(Reversal) for Lease Rentals Receivable        | 65,861,791   | (6,425,376) |
| Provision/(Reversal) for Receivables from Hire Purchases | (59,617,711) | 60,559,843  |
| Provision/(Reversal) for Receivables from Sundry Loans   | (69,452,576) | (2,563,064) |
| Provision/(Reversal) for Mortgage Loan                   | -            | (205,618)   |
| Provision/(Reversal) for Margin Trading Loan             | -            | (979,770)   |
| Provision/(Reversal) for Other Receivables               | 14,135,870   | -           |
| Written off during the year                              | 84,675,360   | 105,248,324 |
|  | 35,602,734   | 155,634,339 |

**26. PROFIT FROM OPERATIONS**

| is stated after Charging /(Crediting)  | 2012      | 2011      |
|--|-----------|-----------|
|  | Rs.       | Rs.       |
| Depreciation & Amortization  | -         | 2,048,228 |
| Auditor's remuneration   | 2,250,000 | 1,600,000 |
| Employees Benefits including the following                                     |           |           |
| - Defined Benefit Plan Costs - Gratuity (included in Employee Benefits)        | 2,122,205 | 652,351   |
| - Defined Contribution Plan Costs - EPF & ETF (included in Personnel Expenses) | 8,347,340 | 5,523,487 |
| Loss on Disposal of Property, Plant and Equipment                              | -         | (137,162) |

## Notes to the Financial Statements *Contd.*

### 27. MATURITY OF ASSETS AND LIABILITIES

27.1 An analysis of the total assets of the Company as at the year end based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

|                                      | Up to 3<br>Months    | 3 to 12<br>Months    | 1 to 3<br>Years       | 3 to 5<br>Years      | More than<br>5 Years | Total as at<br>31.03.12 | Total as at<br>31.03.11 |
|--------------------------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-------------------------|-------------------------|
|                                      | Rs.                  | Rs.                  | Rs.                   | Rs.                  | Rs.                  | Rs.                     | Rs.                     |
| Cash and Bank Balances               | 2,100,865,320        | -                    | -                     | -                    | -                    | 2,100,865,320           | 812,035,127             |
| Investment in Government Securities  | 1,360,598,753        | -                    | -                     | -                    | 94,353,042           | 1,454,951,796           | 2,136,000,000           |
| Deposits with Banks and other        |                      |                      |                       |                      |                      |                         |                         |
| Financial Institutions               | 746,456,510          | 100,000,000          | -                     | -                    | -                    | 846,456,510             | -                       |
| Rentals receivable on Leased Assets  | 1,073,734,513        | 2,251,645,435        | 5,619,350,401         | 2,065,146,285        | 1,708,086            | 11,011,584,720          | 4,324,700,548           |
| Hire Purchases, Loans and Advances   | 2,063,137,961        | 4,896,277,410        | 8,919,601,231         | 6,024,332,785        | 59,569,388           | 21,962,918,777          | 16,439,451,634          |
| Amount due from related Companies    | 77,066,953           | -                    | -                     | -                    | -                    | 77,066,953              | 150,867,022             |
| Other Receivables                    | 248,124,879          | 517,972,265          | 8,081,337             | 8,932,440            | 4,863,462            | 787,974,383             | 322,054,711             |
| Real Estate Stock                    | -                    | -                    | 16,449,276            | -                    | -                    | 16,449,276              | 16,261,676              |
| Inventories                          | 13,628,500           | -                    | -                     | -                    | -                    | 13,628,500              | -                       |
| Investment Property                  | -                    | -                    | 71,500,000            | -                    | -                    | 71,500,000              | 71,500,000              |
| Margin Trading Receivables           | -                    | -                    | -                     | -                    | -                    | -                       | 79,527                  |
| Investments in Shares                | -                    | 6,200,000            | -                     | -                    | -                    | 6,200,000               | 18,000,000              |
| <b>Total Assets as at 31.03.2012</b> | <b>7,683,613,390</b> | <b>7,772,095,111</b> | <b>14,634,982,245</b> | <b>8,098,411,510</b> | <b>160,493,979</b>   | <b>38,349,596,234</b>   |                         |
| <b>Total Assets as at 31.03.2011</b> | <b>5,495,800,241</b> | <b>5,253,372,415</b> | <b>9,792,515,071</b>  | <b>3,749,262,514</b> | <b>-</b>             |                         | <b>24,290,950,245</b>   |

27.2 An analysis of the total liabilities of the Company as at the year end based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

|  | Up to 3<br>Months     | 3 to 12<br>Months     | 1 to 3<br>Years      | 3 to 5<br>Years      | More than<br>5 Years | Total as at<br>31.03.12 | Total as at<br>31.03.11 |
|--|-----------------------|-----------------------|----------------------|----------------------|----------------------|-------------------------|-------------------------|
|  | Rs.                   | Rs.                   | Rs.                  | Rs.                  | Rs.                  | Rs.                     | Rs.                     |
| Bank Overdraft   | 989,188,851           | -                     | -                    | -                    | -                    | 989,188,851             | 501,514,500             |
| Borrowings   | 3,317,275,240         | 753,011,493           | 652,882,918          | 231,800,000          | -                    | 4,954,969,651           | 610,068,325             |
| Deposits from Customers                                    | 10,561,527,232        | 10,466,949,182        | 1,864,251,871        | 2,201,994,621        | -                    | 25,094,722,906          | 17,393,186,628          |
| Trade Payables   | 211,163,005           | -                     | -                    | -                    | -                    | 211,163,005             | 685,144,389             |
| Accruals and Other Payables                                | 519,653,210           | 365,639,026           | 106,627,274          | 27,644,351           | -                    | 1,019,563,861           | 667,635,578             |
| Income Tax Liability                                       | -                     | 175,447,393           | -                    | -                    | -                    | 175,447,393             | 72,998,933              |
| Deferred Tax Liability                                     | -                     | -                     | 333,195,522          | -                    | -                    | 333,195,522             | 108,574,403             |
| Amount due to related Companies                            | 806,442,272           | -                     | -                    | -                    | -                    | 806,442,272             | 734,560,466             |
| Retirement Benefit Obligations                             | -                     | -                     | -                    | 4,728,655            | -                    | 4,728,655               | 2,880,900               |
| Stated Capital   | -                     | -                     | -                    | -                    | 2,000,000,000        | 2,000,000,000           | 2,000,000,000           |
| Statutory Reserve  | -                     | -                     | -                    | -                    | 542,181,565          | 542,181,565             | 293,023,966             |
| Retained Earnings  | -                     | -                     | -                    | -                    | 2,060,846,536        | 2,060,846,536           | 1,181,823,012           |
| Investment Fund Reserve                                    | -                     | -                     | -                    | -                    | 157,146,018          | 157,146,018             | 39,539,146              |
| <b>Total Liabilities &amp; Equity<br/>as at 31.03.2012</b> | <b>16,405,249,810</b> | <b>11,761,047,094</b> | <b>2,956,957,584</b> | <b>2,466,167,627</b> | <b>4,760,174,119</b> | <b>38,349,596,234</b>   |                         |
| <b>Total Liabilities &amp; Equity<br/>as at 31.03.2011</b> | <b>9,551,593,215</b>  | <b>6,828,890,906</b>  | <b>1,919,111,350</b> | <b>2,474,087,751</b> | <b>3,517,267,024</b> |                         | <b>24,290,950,245</b>   |

**28. EARNINGS PER SHARE**

28.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

28.2 The following reflects the income and share data used in the Basic Earnings Per Share computations.

| Amounts Used as the Numerators:   | 2012          | 2011          |
|---|---------------|---------------|
|   | Rs.           | Rs.           |
| Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share | 1,245,787,996 | 1,246,092,724 |

| Number of Ordinary Shares used as the denominator:   | 2012          | 2011          |
|--|---------------|---------------|
|  | Number        | Number        |
| Ordinary shares in issue at the beginning of the year                                      | 2,800,000,000 | 1,400,000,000 |
| Effects of New Share issue during the period   | -             | 583,333,333   |
| Weighted average number of ordinary shares in issue applicable to basic earnings per share | 2,800,000,000 | 1,983,333,333 |
| Basic earnings per share   | 0.44          | 0.70          |

**29. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT**

|  | 2012          | 2011          |
|--|---------------|---------------|
|  | Rs.           | Rs.           |
| <b>Components of Cash and Cash Equivalents</b>                         |               |               |
| <b>29.1 Favourable Cash &amp; Cash Equivalents balance</b>             |               |               |
| Cash & Bank Balances   | 2,100,865,320 | 812,035,127   |
| <b>29.2 Unfavourable Cash &amp; Cash Equivalent Balances</b>           |               |               |
| Bank Overdraft   | (989,188,851) | (501,514,500) |
| Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement | 1,111,676,469 | 310,520,627   |

**30. COMPARATIVE INFORMATION**

The comparative information has not been reclassified during the year.

# Notes to the Financial Statements *Contd.*

## 31. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

### 31.1 Transactions with Related Parties

The following table provides the significant amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at 31 March 2012 and 2011, refer Notes No. 6 and 16 accordingly).

| Relationship                       | Nature of Transactions                    | 2012          | 2011          |
|------------------------------------|---|---------------|---------------|
|                                    |   | Rs.           | Rs.           |
| Parent Company                     | Inter Company Fund Utilised               | 2,152,532,396 | 280,809,587   |
|                                    | Shared Expenses(Including VAT)            | 840,727,755   | 494,920,980   |
|                                    | Asset Hire Charges                        | 49,534,520    | 30,034,520    |
|                                    | Interest on Re-Red Refinancing            | 8,717,583     | 10,968,028    |
|                                    | Portfolio handling fee                    | 621,645       | 9,261,003     |
|                                    | Portfolio Transfer (Net of provisions)    | 1,216,014,768 | -             |
|                                    | Fund Transfer Interest                    | 185,126,699   | -             |
|                                    | Deposit Held with the Company             | -             | 35,000,000    |
|                                    | Interest Paid/Charge                      | -             | 3,980,930     |
|                                    | Interest Payable                          | -             | 312,186       |
| Fellow Subsidiaries                | Sale of Pawning Portfolio                 | -             | 1,863,841,246 |
|                                    | Treasury Bond Transfer                    | 690,018,759   | -             |
|                                    | Deposits Held with the Company            | 32,491,822    | 26,234        |
|                                    | IT Service Fee                            | 120,000,000   | 120,000,000   |
|                                    | Portfolio Handling fee                    | 23,149,539    | 62,150,531    |
|                                    | Supply of Leased Vehicles                 | 72,177,223    | -             |
|                                    | Yard Fee                                  | 4,800,000     | -             |
|                                    | Loan/ Lease Granted                       | 15,044,643    | 10,900,000    |
|                                    | Rental Collections                        | 7,406,192     | 338,916       |
|                                    | Interest Income                           | 4,895,199     | 263,025       |
|                                    | Capital Outstanding on facilities granted | 21,487,327    | 10,433,274    |
| Other Related Companies/Affiliates | Supply of Leased Vehicles                 | 48,725,000    | 126,815,801   |
|                                    | Deposits Held with the Company            | 450,846,111   | 1,790,648,290 |
|                                    | Interest Paid                             | 53,820,068    | 4,325,566     |
|                                    | Interest Payable                          | 7,008,316     | 4,025,603     |
|                                    | Loan / Lease Granted                      | 115,000,000   | -             |
|                                    | Rental Collections                        | 39,610,120    | 2,201,724     |
|                                    | Interest Income                           | 7,321,639     | 1,294,789     |
|                                    | Capital Outstanding on facilities granted | 88,941,896    | 4,585,953     |
| Other Related Organizations        | Deposits Held with the Company            | 59,080,131    | 12,114,745    |

### 31.2 Transactions with Key Management Personnel of the Company

Key Management Personnel (KMPs) are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel of the Company are the Board of Directors of the Company and its parent and personnel holding Designation Deputy General Manager and above. Transactions with Key Management Personnel and transactions with the Close Family Members (CFMs) of the KMPs, if any, also have been taken into consideration in the following disclosure.

**31.2.1 Key Management Personnel Compensation**

|                              | 2012      | 2011      |
|------------------------------|-----------|-----------|
|                              | Rs.       | Rs.       |
| Short term employee benefits | 8,795,233 | 8,144,705 |

**31.2.2 Other Transactions**

|  |             |             |
|--|-------------|-------------|
| Deposits held with the Company   | 526,243,122 | 516,251,281 |
| Interest Paid/Charge   | 56,767,230  | 35,749,864  |
| Interest Payable   | 9,143,809   | 13,483,774  |
| Loan Granted   | 2,900,000   | 550,000     |
| Capital Outstanding on facilities granted to KMP (excluding Directors) | 2,426,998   | 1,216,866   |

**32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

There have been no material events occurring after the Balance Sheet date that require adjustment to or disclosure in the financial statements.

**33. ASSETS PLEDGED**

The following assets have been pledged as security for liabilities.

| Nature of Assets | Nature of Liability  | Carrying Amount Pledged 2012 | Carrying Amount Pledged 2011 |
|------------------|----------------------|------------------------------|------------------------------|
|                  |                      | Rs.                          | Rs.                          |
| Leased Assets    | Short Term Borrowing | 4,638,239,165                | 700,000,000                  |

**34. COMMITMENTS AND CONTINGENCIES**

|  | 2012 | 2011 |
|--|------|------|
|  | Rs.  | Rs.  |

**34.1 Contingent Liabilities**

|   |             |            |
|---|-------------|------------|
| Guarantees issued to Banks and Other institutions | 583,137,511 | 38,987,284 |
|---|-------------|------------|

**34.2 Commitments**

|  |               |               |
|--|---------------|---------------|
| Forward exchange Contracts- (commitment to purchase) | 1,919,127,740 | 1,091,456,300 |
| Forward exchange Contracts - (commitment to sell)    | 20,490,000    | -             |
| Unutilised Loan Facilities                           | 727,736,108   | 336,669,833   |
| Letter of Credit                                     | 16,840,394    | -             |
| Shipping Guarantee                                   | 10,110,000    | -             |

On the commitment to purchase the foreign currencies the company will receive USD 10,559,990 , EUR 1,020,000 , GBP 1,345,000, AUD 1,965,000 and LKR 20,490,000.

The Company has also entered to sell EUR 120,000 under forward exchange contracts.

# Notes to the Financial Statements *Contd.*

## 35 SEGMENT INFORMATION

|  | Business Segment |               |                 |               |               | Total           |
|--|------------------|---------------|-----------------|---------------|---------------|-----------------|
|  | Leasing          | Hire Purchase | Loans           | Treasury      | Others        |                 |
|  | Rs               | Rs            | Rs              | Rs            | Rs            | Rs              |
| <b>INCOME STATEMENT</b>                                    |                  |               |                 |               |               |                 |
| <b>For the year ended 31 March 2012</b>                    |                  |               |                 |               |               |                 |
| Total revenue  | 1,706,249,387    | 754,147,929   | 3,658,634,375   | 212,382,616   | 15,341,282    | 6,346,755,590   |
| Inter segmental revenue                                    | -                | -             | -               | -             | -             | -               |
| External revenue   | 1,706,249,387    | 754,147,929   | 3,658,634,375   | 212,382,616   | 15,341,282    | 6,346,755,590   |
| Net interest cost  | (945,576,514)    | (239,036,479) | (1,653,614,789) | (143,650,705) | -             | (2,981,878,487) |
| <b>Profit before operating expenses</b>                    | 760,672,873      | 515,111,450   | 2,005,019,586   | 68,731,911    | 15,341,282    | 3,364,877,103   |
| Operating expenses   | (317,735,482)    | (215,163,694) | (837,503,068)   | (28,709,538)  | (6,408,103)   | (1,405,519,885) |
| Value Added Tax on financial services                      | -                | (36,775,669)  | (143,145,596)   | -             | -             | (179,921,265)   |
| <b>Results from operating activities</b>                   | 442,937,391      | 263,172,088   | 1,024,370,921   | 40,022,373    | 8,933,180     | 1,779,435,953   |
| <b>For the year ended 31 March 2011</b>                    |                  |               |                 |               |               |                 |
| Total revenue  | 470,203,022      | 724,659,390   | 1,537,445,177   | 793,250,486   | 1,091,848,726 | 4,617,406,801   |
| Inter segmental revenue                                    | -                | -             | -               | -             | -             | -               |
| <b>External revenue</b>                                    | 470,203,022      | 724,659,390   | 1,537,445,177   | 793,250,486   | 1,091,848,726 | 4,617,406,801   |
| Net interest cost  | (332,138,907)    | (272,458,322) | (990,098,805)   | (165,428,149) | -             | (1,760,124,183) |
| Profit before operating expenses                           | 138,064,115      | 452,201,068   | 547,346,372     | 627,822,337   | 1,091,848,726 | 2,857,282,618   |
| Operating expenses   | (59,488,351)     | (194,842,056) | (235,837,772)   | (270,512,839) | (470,450,128) | (1,231,131,145) |
| Value Added Tax on financial services                      | -                | (62,108,731)  | (75,176,709)    | -             | -             | (137,285,440)   |
| <b>Results from operating activities</b>                   | 78,575,764       | 195,250,282   | 236,331,891     | 357,309,498   | 621,398,598   | 1,488,866,033   |
| <b>For the year ended 31 March 2012</b>                    |                  |               |                 |               |               |                 |
| Provision for / (reversal of provision for) doubtful debts | 65,861,791       | (59,617,711)  | (69,452,576)    | -             | 14,135,870    | (49,072,626)    |
| Amounts written off  | 47,716,883       | 15,319,250    | 21,639,227      | -             | -             | 84,675,360      |
| <b>BALANCE SHEET</b>                                       |                  |               |                 |               |               |                 |
| <b>As at 31-3-2012</b>                                     |                  |               |                 |               |               |                 |
| Total assets   | 11,011,584,720   | 2,783,667,315 | 19,256,949,682  | 1,672,865,060 | 3,624,529,458 | 38,349,596,234  |
| Total liabilities  | 10,011,220,693   | 2,530,780,858 | 17,212,758,187  | 1,495,284,676 | 2,339,377,703 | 33,589,422,116  |
| <b>As at 31-3-2011</b>                                     |                  |               |                 |               |               |                 |
| Total assets   | 4,324,700,548    | 3,547,614,052 | 12,891,837,582  | 2,154,000,000 | 1,372,798,063 | 24,290,950,245  |
| Total liabilities  | 3,868,274,462    | 3,173,201,170 | 10,409,237,201  | 1,739,201,009 | 1,586,650,280 | 20,776,564,122  |

# Share Information

## SHAREHOLDING AS AT 31 MARCH

|               | 2012          |             | 2011          |             |
|---------------|---------------|-------------|---------------|-------------|
|               | No. of Shares | % of Shares | No. of Shares | % of Shares |
| Residents     | 2,753,608,800 | 98.34       | 200,000,000   | 100.00      |
| Non Residents | 46,391,200    | 1.66        | -             | -           |
| Total         | 2,800,000,000 | 100.00      | 200,000,000   | 100.00      |

## TOP 20 SHAREHOLDERS

|    |   | 2012<br>No. of Shares | % of Issued<br>Capital | 2011<br>No. of Shares | % of Issued<br>Capital |
|----|---|-----------------------|------------------------|-----------------------|------------------------|
| 1  | Lanka ORIX Leasing Company PLC                  | 2,520,000,000         | 90.00                  | 200,000,000           | 100                    |
| 2  | Saakya Capital (Pvt) Ltd                        | 65,532,000            | 2.34                   | -                     | -                      |
| 3  | Infinity Capital (Pvt) Ltd                      | 60,000,000            | 2.14                   | -                     | -                      |
| 4  | Satya Capital (Pvt) Ltd                         | 52,000,000            | 1.86                   | -                     | -                      |
| 5  | India Focus Cardinal Fund                       | 43,657,400            | 1.56                   | -                     | -                      |
| 6  | J.B. Cocoshell (Pvt) Ltd                        | 4,668,100             | 0.17                   | -                     | -                      |
| 7  | National Savings Bank                           | 4,550,000             | 0.16                   | -                     | -                      |
| 8  | Mr. S V Somasunderam                            | 3,000,000             | 0.11                   | -                     | -                      |
| 9  | First Capital Markets Limited/Mr. R.R. De Silva | 1,816,600             | 0.06                   | -                     | -                      |
| 10 | Mr. A R Wickramanayake                          | 1,688,500             | 0.06                   | -                     | -                      |
| 11 | Arc Capital (Pvt) Ltd                           | 1,324,718             | 0.05                   | -                     | -                      |
| 12 | HSBC Intl Nominees Ltd-Credit Suisse AG Zurich  | 1,218,000             | 0.04                   | -                     | -                      |
| 13 | Mirabaud & Cie                                  | 1,000,000             | 0.04                   | -                     | -                      |
| 14 | Mr. P M M Pieris                                | 1,000,000             | 0.04                   | -                     | -                      |
| 15 | Mrs. D P Pieris                                 | 1,000,000             | 0.04                   | -                     | -                      |
| 16 | Mr. N M Prakash                                 | 984,600               | 0.04                   | -                     | -                      |
| 17 | Mr. A R Atapattu                                | 974,500               | 0.03                   | -                     | -                      |
| 18 | Springcare Holdings (Private) Limited           | 600,000               | 0.02                   | -                     | -                      |
| 19 | Mr. K P Ariyaratne                              | 600,000               | 0.02                   | -                     | -                      |
| 20 | Mr. B D T R Perera                              | 575,000               | 0.02                   | -                     | -                      |
|    |   | 2,766,189,418         | 98.79                  | -                     | -                      |

The Public Shareholding as at 31st March 2012 was 10%

## Share Information *Contd.*

### DIRECTORS SHAREHOLDINGS

|   | Directors Name  | As at<br>31.03.2011 | As At<br>31.03.2012 |
|---|---|---------------------|---------------------|
| 1 | Mrs R. L. Nanayakkara<br>(Resigned with effect from 31.12.2011)         | Nil                 | Nil                 |
| 2 | Mr W D K Jayawardena  | Nil                 | Nil                 |
| 3 | Mr I. C. Nanayakkara  | Nil                 | Nil                 |
| 4 | Mr R. N. Asiwatham<br>(Resigned with effect from 30.06.2012)            | Nil                 | Nil                 |
| 5 | Mrs K. U. Amarasinghe   | Nil                 | Nil                 |
| 6 | Dr H Cabral, PC   | Nil                 | Nil                 |
| 7 | Mrs D P Pieris<br>(Appointed with effect from 27.06.2012)               | Nil                 | 1,000,000           |
| 8 | Justice R K S Suresh Chandra<br>(Appointed with effect from 25.07.2012) | Nil                 | Nil                 |
| 9 | Mr B C G De Zylva   | Nil                 | Nil                 |

### ANALYSIS OF ORDINARY SHARES AS AT 31 MARCH

| Range                 | 2012                   |                  |                | 2011                   |                  |                |
|-----------------------|------------------------|------------------|----------------|------------------------|------------------|----------------|
|                       | No. of<br>Shareholders | No. of<br>Shares | % of<br>Shares | No. of<br>Shareholders | No. of<br>Shares | % of<br>Shares |
| 1 - 1,000             | 1,167                  | 659,874          | 0.02           | -                      | -                | -              |
| 1,001 - 10,000        | 1,215                  | 5,103,880        | 0.18           | -                      | -                | -              |
| 10,001 - 100,000      | 383                    | 13,455,531       | 0.48           | -                      | -                | -              |
| 100,001 - 1,000,000   | 73                     | 21,325,397       | 0.76           | -                      | -                | -              |
| Over 1,000,000 Shares | 12                     | 2,759,455,318    | 98.56          | 1                      | 200,000,000      | 100.00         |
| Total                 | 2,850                  | 2,800,000,000    | 100.00         | 1                      | 200,000,000      | 100.00         |

### HIGHEST, LOWEST AND CLOSING SHARE PRICES AS AT 31 MARCH

|         | 2011<br>Rs. | 2012<br>Rs. |
|---------|-------------|-------------|
| Highest | -           | 22.50       |
| Lowest  | -           | 4.30        |
| Closing | -           | 4.50        |

## Lanka ORIX Finance PLC

# Notice of Meeting

NOTICE IS HEREBY GIVEN THAT THE ELEVENTH ANNUAL GENERAL MEETING of the above Company will be held on 18th September 2012 at 3.00 p.m. at the LOLC Auditorium, No. 100/1, Sri Jayawardenapura Mawatha, Rajagiriya for the following purposes:

1. To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31st March 2012 with the Report of the Auditors thereon.
2. To re-elect as a Director Mrs K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
3. To re-elect as a Director Mr I C Nanayakkara, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
4. To re-elect as a Director Mrs D P Pieris, who retires by rotation in terms of Article 70 of the Articles of Association of the Company.
5. To re-elect as a Director Justice R K S Suresh Chandra, who retires by rotation in terms of Article 70 of the Articles of Association of the Company.
6. To re-appoint as auditors M/s Ernst and Young Chartered Accountants at a remuneration to be fixed by the Directors

BY ORDER OF THE BOARD



**Miss Chrisanthi Emmanuel**

*Secretary*

20th August 2012  
Rajagiriya (in the greater Colombo)

### **NOTE:**

- 1) A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a member of the Company.
- 2) The completed Form of Proxy should be deposited at the registered office of the Company, 100./1, Sri Jayawardenapura Mawatha Rajagiriya, not later than 3.00 p.m on 16th September 2012.
- 3) A Form of Proxy accompanies this Notice.







# Lanka ORIX Finance PLC

## Form of Proxy

I / We .....  
of .....  
being a member / members of the above named Company hereby appoint .....  
of ..... whom failing

|   |                           |
|---|---------------------------|
| Mr Waduthanthri Dharshan Kapila Jayawardena             | of Colombo or failing him |
| Mr Ishara Chinthaka Nanayakkara                         | of Colombo or failing him |
| Mrs Kalsha Upeka Amarasinghe                            | of Colombo or failing her |
| Dr Harsha Cabral, PC                                    | of Colombo or failing him |
| Mrs Dayangani Priyanthi Pieris                          | of Colombo or failing her |
| Justice Rajaratnam Kulatunga Shyamsunder Suresh Chandra | of Colombo or failing him |
| Mr Brindley Chrisantha Gajanayake De Zylva              | of Colombo                |

as my/our proxy to represent me/us and vote on my/our behalf at the 11th Annual General Meeting of the Company to be held on 18th September, 2012 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

|   | <b>For</b>               | <b>Against</b>           |
|---|--------------------------|--------------------------|
| 1 To receive and consider the Report of the Directors and Statement of Accounts for the year ended 31st March 2012 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 To re-elect as a Director Mrs K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.              | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 To re-elect as a Director Mr I C Nanayakkara, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.               | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 To re-elect as a Director Mrs D P Pieris, who retires by rotation in terms of Article 70 of the Articles of Association of the Company.                   | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 To re-elect as a Director Justice R K S Suresh Chandra, who retires by rotation in terms of Article 70 of the Articles of Association of the Company.     | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 To re-appoint as Auditors M/s Ernst and Young Chartered Accountants at a remuneration to be fixed by the Directors  | <input type="checkbox"/> | <input type="checkbox"/> |

dated this ..... day of ....., Two Thousand Twelve

.....  
Signature of Shareholder

**NOTE:**

- 1) a proxy need not be a member of the Company
- 2) Instruction as to completion appear on the reverse hereof

#### **INSTRUCTIONS AS TO COMPLETION**

1. Please return the completed Form of Proxy after filling in legibly your full name and address, signing on the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the registered office of the Company, 100/1, Sri Jayawardenapura Mawatha, Rajagiriya not less than 48 hours before the time appointed for the holding of the Meeting.

# Corporate Information

**Name of the Company**

Lanka ORIX Finance PLC

**Country of Incorporation**

Sri Lanka

**Legal Form**

A quoted public company with limited liability

**Date of Incorporation**

13th December 2001

**Company Registration No.**

PB 244 PQ

**Principal Activities**

During the year the principal activities of the Company comprised Finance Business, Finance Leasing, Islamic Finance, Foreign Currency Business including Worker Remittances, issue of Payment Cards, Money Changing Business and provision of Advances for Margin Trading in the Colombo Stock Exchange.

**Company Secretary**

Miss Chrishanthi S. Emmanuel, FCIS, FCCS

**Auditors**

Ernst & Young, Chartered Accountants

**Lawyers**

Julius & Creasy, Attorneys-at-Law  
Nithya Partners

**Registrars**

PW Corporate Secretarial (Private) Ltd

**Bankers**

Nations Trust Bank PLC  
Citi Bank N.A.  
Commercial Bank of Ceylon  
NDB Bank  
Bank of Ceylon  
Seylan Bank PLC  
MCB Bank  
Standard Chartered Bank PLC  
Deutsche Bank  
Hatton National Bank PLC  
Pan Asia Bank  
Hong Kong & Shanghai Banking Corporation  
Sampath Bank PLC  
National Savings Bank  
People's Bank

**Registered Office**

No. 100/1, Sri Jayawardanepura Mawatha, Rajagiriya

