

Annual Report

Lanka ORIX Finance PLC | Annual Report 2014/15



Excerpt

ditional

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*The **undeniable presence and unmitigated success** that we have achieved in the year under review can be credited to two important aspects of the business... a vision that was set in place by an **inspired leadership** and the **dedictated and tireless efforts** of a motivated team. We **reveal** to you, the culmination of strategic minds and outstanding actions in creating a truly magnificent year.*

Contents

Vision, Mission and Corporate Values	3	Chief Executive Officer's and	
The ORIX Connection: A Bond of Strength	4	Chief Financial Officer's Responsibility Statement	85
Milestones	5	Directors' Responsibility for Financial Reporting	86
Chairman's Message	10	Independent Auditor's Report	87
MD/CEO's Review	12	Statement of Financial Position	88
Financial Highlights	16	Statement of Profit or Loss and	
Board of Directors	18	Other Comprehensive Income	90
Corporate Management	22	Statement of Changes in Equity	91
Management Discussion and Analysis	25	Cash Flow Statement	92
Risk Management	36	Notes to the Financial Statements	94
Corporate Governance	39	Supplementary Financial Information	
		- Islamic Business Unit	154
Financial Reports		Financial Information for Last Five Years	163
Directors Report	74	Quarterly Financial Information	165
Directors' Statement on Internal Control		Share Information	167
Over Financial Reporting	78	Other Disclosures	169
Audit Committee Report	79	Branch Network	171
Integrated Risk Management Committee	81	Notice of Meeting	173
Remuneration Committee Report	82	Notes	174
Nomination Committee Report	83	Form of Proxy	175
Related Party Transaction Review Committee Report	84		

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 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 talents, 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.

The ORIX Connection: A Bond of Strength

We at, Lanka ORIX Finance (LOFC), are proud to trace our lineage to the ORIX name that resonates with financial success and integrity across the globe. A pioneer in leasing, the ORIX business ethos in the field of leasing that fuelled expansion across the globe and across the spectrum of financial services, has been a source of brilliant inspiration.

The ORIX Corporation, global leader in integrated financial services, was established in 1964 in Osaka, Japan, as the Orient Leasing Company. The ORIX brand has remained at the leading edge of financial innovation since its inception. Its growth, based on strategic and geographical expansion, demonstrates a boldness and scope that sets it apart from other large Japanese financial services firms. In 1989, it changed its name to ORIX Corporation in order to reflect its increasingly international profile and mark a move beyond leasing into other financial services.

Today, ORIX enjoys a diversity of revenue streams from operating and financing leases, low margin business, auto and equipment leasing, insurance, corporate rehabilitation, loan servicing, real-estate and other specialised finance, investment and retail banking and value added services. It provides innovative, value added financial products and services to SME's through a global network spanning 36 countries and regions worldwide. The Group is made up of 766 consolidated subsidiaries and 115 affiliates, with a total of 1,358 offices in Japan and another 554 locations in the United States, Asia, Oceania, Europe, the Middle East and Africa. It is also listed on the Tokyo and New York Stock Exchanges.

ORIX's foray into the international markets began in the 1980's, with the establishment of offices in Sri Lanka, Taiwan, China, Australia, New Zealand and Pakistan and the foundation for operations in the Middle East. Thus, 1980 saw the birth of our parent Company, Lanka ORIX Leasing Company (LOLC). Having taken over the full leasing portfolio of LOLC, today, we at LOFC are proud to represent not only the international presence of the ORIX brand but also the resounding success of LOLC in adapting ORIX strategies, business excellence and best practices. The many accolades won by LOLC over the years, such as "Outstanding Performance Amongst ORIX Companies" and "Excellent

Performance in the Overseas Operations," are very much a proud legacy that we aspire to not only retain but build upon.

Since inception with a 30% of share ownership, ORIX Corporation has continued its active engagement in the success story of LOLC as the main investment partner and represents the Board by two senior executives of ORIX, Japan. This close connection has continued to remain a bond of strength, inspiration and collaboration for LOFC, supporting our exponential growth as a leading non bank financial services provider with extensive island wide reach and a diversified portfolio of financial services that fuels growth across the nation.

As the LOLC Group's relationship with ORIX continues to thrive and sustain growth in shareholder value, LOFC too, continues to benefit from the expertise, best practices, governance standards, the stability and wisdom of ORIX, building an ever stronger bond.

We are honored by the most recent accolade received by our parent company this year from ORIX Japan, for "Excellent Performance in the Overseas Operations category for 2014/15". The partnership will continue to inspire us to seek excellence in all what we do and how we do.



Lanka ORIX Leasing Company received a special award from ORIX Japan for "Excellent Performance in the Overseas Operations category for 2014/15"

MILESTONES

2001

- Incorporated as LOLC Finance Company Limited, a wholly owned subsidiary of Lanka ORIX Leasing Co PLC.

2002

- Licensed as a Registered Finance Company.

2003

- Registered as a Finance Leasing Establishment.
- On 05th June 2013 commenced commercial operations from No 79, C W W Kannangara Mawatha, Colombo 07.
- Changed name to Lanka ORIX Finance Company Limited.
- Opened two branches in Kandy & Anuradhapura.

2004

- Registered as a Market Intermediary to function as a Margin Provider by the Securities and Exchange Commission.

2005

- Entered into a Refinance Agreement with the Central Bank of Sri Lanka as a Participatory Financial Institution for loans granted to recommence or rehabilitate micro, small and medium enterprises affected by the Tsunami.
- Opened six branches in Kurunegala, Rajagiriya, Gampaha, Ratnapura, Kochchikade & Kiribathgoda.
- Entered into a memorandum of understanding with Medi-Calls (Private) Limited for a special scheme for the benefit of depositors.

2006

- Obtained approval to operate a Mobile Deposit Mobilisation Unit.

2007

- Opened 13 branches in Kalutara, Nuwara Eliya, Matara, Embilipitiya, Polonnaruwa, Badulla, Galle, Wattala, Colombo 02, Kegalla, Mahiyanganaya, Mount Lavinia & Chilaw.
- Al-Falaah, the Islamic Business Unit of Lanka ORIX Finance PLC was launched.
- Fitch affirmed the BBB+ (lka) National Rating assigned for implied long-term unsecured senior debt with a stable outlook.
- Obtained a unique Issuer Identification Number for Payment Cards issued by the Company.
- Opened a Students Savings Centre at Royal College, Polonnaruwa.
- Entered into an Agreement with Commercial Bank to issue ATM & Debit Cards and the usage of the Commercial Bank ATM network.

2008

- Conducted a lottery with a house as the prize.
- Launched an Islamic Business Unit.
- Commenced operating savings centres at LIOC fuel distribution points.
- Obtained approval to engage in Foreign Currency Business including maintenance of Foreign Currency Fixed Deposits and Savings Accounts and engaging in Inward Worker Remittances.
- Joined Mastercard International to use the Maestro service mark on ATM Cards issued.
- Fitch assigns rating of A-(lka) with Stable Outlook.
- Opened a branch in Horana.

MILESTONES *contd.*

2009

- ▶ Relocated branch at Colombo 07 to Wellawatte.
- ▶ Opened 6 branches in Dambulla, Ampara, Kattankudy, Jaffna, Vavunia & Batticaloa.
- ▶ Joined SWIFT and assigned Banker Identification Code LOFCLKLC.
- ▶ Fitch Ratings Lanka affirms Rating of A-(lka) with outlook stable.

2010

- ▶ Entered into a Worker Remittance Agreement with Xpress Money.
- ▶ Opened 9 branches in Trincomalee, Elpitiya, Avissawella, Mathugama, Monaragala, Divulapitiya, Nawalapitiya, Kalmunai & Ambalangoda.
- ▶ Joined SEEDS in their project titled 'Leveraging Remittances for Socio-economic Development in Sri Lanka' to develop special remittance products.
- ▶ Obtained license as a Service Provider of Payment Cards.

2011

- ▶ Obtained the license to engage in money changing business.
- ▶ Opened 13 branches in Homagama, Pettah, Kilinochchi, Kohuwala, Hatton, Panadura, Neluwa, Morawaka, Udappuwa, Negombo, Cotta Road Rajagiriya, Dehiwala & Pelmadulla.
- ▶ Entered into a Worker Remittance Agreement with Money Exchange S.A., Spain.
- ▶ Obtained a USD Grant from IFAD for the implementation of the project 'Economic Prosperity for Rural Poor' through remittances disbursed via Lanka ORIX Finance.
- ▶ Commenced cash collection operations in 65 Isurudiriya Centers located in Post Offices.
- ▶ Entered into a Worker Remittance Agreement with Valutrans S.P.A., Italy.
- ▶ 2010 Annual Report of Al-Falaah - the Islamic Business Unit of LOFC, won Bronze at the League of American Communications Professionals (LACP) Vision Awards 2011.

2012

- ▶ Opened 15 branches in Kekirawa, Ja-ela, Nikaweratiya, Tissamaharama, Akkaraipattu, Balangoda, Akurana, Aralaganwila, Chunnakam, Nelliadi, Chawakachcheri, Medawachchiya, Dehiattakandiya, Mannar & Mullaitivu.
- ▶ Fitch affirms National Long Term Rating of A-(lka) with Negative Outlook.
- ▶ Opened a Student Savings Center at Fathima Muslim Ladies College, Colombo 12.

2013

- ▶ Entered into Worker Remittance Agreement with Speed Remit Worldwide Limited, United Kingdom and Remit Easy Pvt Limited Australia.
- ▶ Open a Branch in Matale.
- ▶ Ranked as one of the 15 Great Place to Work in Sri Lanka.
- ▶ Launched the Ladies section at the Al-Falaah Islamic Banking Unit of Lanka ORIX Finance.
- ▶ Entered the LMD 100 - Sri Lanka's listed Companies - Financial Year 2011/12 ranked 64.
- ▶ ICRA Lanka assigned an Issuer Rating of [SL] A - with stable outlook.

2014

- ▶ ICRA Lanka re-affirmed Issuer Rating of [SL] A - and revised outlook to negative.
- ▶ New Product Launch of Speed Draft
- ▶ Al-Falaah was judged Runner-up for Best Islamic Leasing Provider (By Asia/MENA/ GCC region) and Runner-up for Best Islamic Bank (Country Winner - Sri Lanka) by the Islamic Finance News (IFN) global polls awards held in Kuala Lumpur, Malaysia, February 2014.
- ▶ Opened 4 Branches in Ambalantota, Digana, Kuliyapitiya, and Nittambuwa
- ▶ Al-Falaah Islamic Banking Unit of Lanka ORIX Finance took the Silver Award for Islamic Finance (IF) Entity of the Year 2013 at the Sri Lanka Islamic Banking and Finance Industry (SLIBFI) Award, a Merit Award for the Social Upliftment category and Al-Falaah Ladies Business Unit / EMPRESS Discount Card clinched the Silver Award for Islamic Finance Product/Deal of The Year.
- ▶ Opened a Student Savings Centres at D S Senanayake Model Primary School - Anuradhapura.
- ▶ Entered the LMD 100 - Sri Lanka's Leading Listed Companies for Financial Year 2012/13.
- ▶ Al-Falaah Business Unit launched a loyalty 'Empress' Discount Card for its Al-Falaah Ladies Account holders.
- ▶ Launched our latest product - Lanka ORIX Finance Fixed Deposit Bond.
- ▶ Launched Visa ATM and Debit Cards.

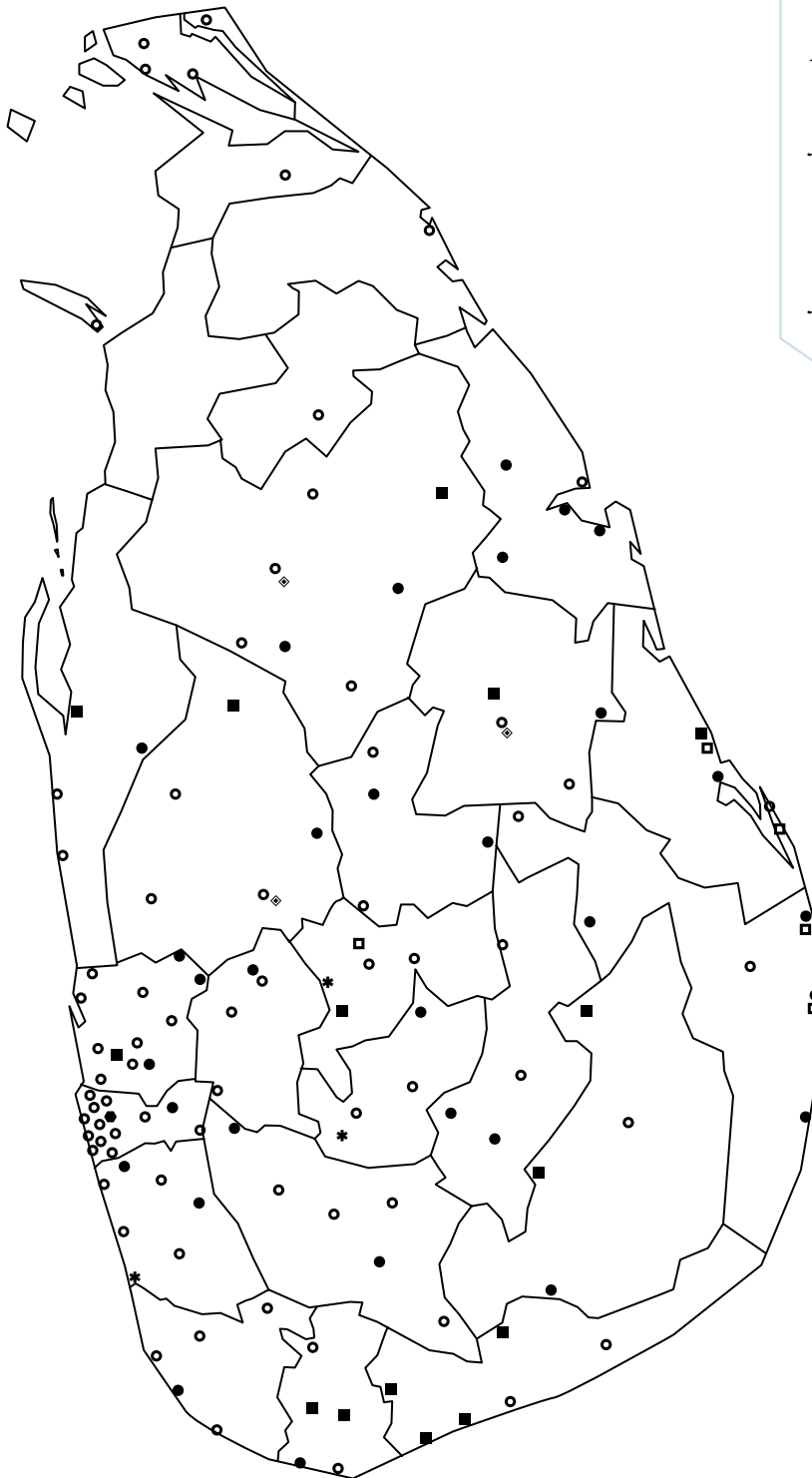
2015

- ▶ Launched our latest value added service - **SMS Alerts** for Savings accounts transactions.
- ▶ ICRA Lanka re-affirmed issuer rating of [SL] A - outlook revised to stable.
- ▶ Al-Falaah Islamic Banking Unit of Lanka ORIX Finance clinched 3rd place as the **Best Islamic Bank by Sector - Best Islamic Leasing Provider and was runner-up for the Best Islamic Bank by Country - Indian Sub-Continent / Sri Lanka at IFN Best Banks Poll Global Awards 2014.**
- ▶ Entered into a Remittance Agreement with Cash Wiz, Australia and DFCC, Lanka Money Transfer.
- ▶ Opened 6 Branches in Hingurakgoda, Thambuttegama, Maharagama, Maradana, Kollupitiya and Piliyandala.
- ▶ Joined Sri Lanka Interbank Payment System as secondary participant.
- ▶ **Al-Falaah clinched Gold awards for 'Islamic Finance Entity of the Year 2014' and for 'Social Upliftment Award (CSR)' category. A further recognition with a Silver award in the category for the 'Rising Islamic Personality of the Year 2014' was also awarded to Ihsam Awfer, a member of the Al-Falaah team.**



*A **focused** vision and effective strategy
carved the path to a stand out
performance*

Our network of 134 customer contact points span the country, reaching out to people across the socio-economic and demographic spectrum, for financial services that are inclusive and empowering. It is our mission to reach out and open the window of opportunity for anyone and everyone, including those that live in the farthest reaches of the country.



- Branches
- * LIOC Centers
- Isuru Diriya Centers
- Isuru Diriya Branches
- LOFC, Al-Falaah Centres
- ◇ Savings Centers
- Al-Falaah Student Savings Center

CHAIRMAN'S MESSAGE

“

*The Company
achieved a record
Profit Before Tax
(PBT) of Rs. 2.2 Bn
and a growth of 54%.*

”



It gives me great pleasure to share with you the review of an excellent year and our outlook and strategy for the year ahead. The year under review saw the Company achieve a record Profit Before Tax (PBT) of Rs. 2.2 Bn and a growth of 54% over the previous year. The key contributor to this remarkable growth in profits was the successful management of borrowing costs and the non-performing loan portfolio. The Company's Non Performing Assets Ratio (NPA) continued to remain well below industry averages.

Amongst the key initiatives during the year under review, was the issue of a subordinated debenture of Rs. 5 Bn with 5 year tenure.

Economic Environment

Demonstrating resilience in the face of domestic as well as external challenges, the Sir Lankan economy continued on its growth momentum since 2013; to grow at a robust 7.4% in 2014, compared with a growth of 7.2% in 2013 and 6.3% in 2012. Accordingly, GDP Per Capita increased to US Dollars 3,625 in 2014 from US Dollars 3,280 in the previous year. The economy was driven by domestic consumption expenditure that constitutes the largest share of aggregate demand, while investments, particularly on construction, also provided an impetus to the economic expansion during the year. GDP Growth was broad-based, with the exception of agriculture which suffered from drought early in the year and heavy rains and flooding in the fourth quarter.

Sri Lanka's financial sector improved moderately in 2014 (compared with 2013) supported by continued expansionary monetary policy and improved macroeconomic performances. The Banking sector continued to expand. The Licensed Finance Companies (LFC) and Specialised Leasing Companies (SLC) sector, which represented 7% of Sri Lanka's financial system, also played a vital role in the financial sector in 2014. The LFC and SLC sector asset growth moderated during 2014 due to lower demand for credit, particularly during the early part of the year. However, the demand for credit picked up during the second half of 2014 encouraged by the lower interest rate scenario which helped to improve credit demand and to maintain the rising non-performing loans at a manageable level.

Leveraging our strengths

LOFC's very agile business model has been a key to its ability to identify and harness myriad opportunities for value creation, and to respond to rapidly changing trends and landscapes. This model will continue to facilitate and empower our people and be a factor in the Company's sustained growth.

I've mentioned in my previous reviews but consider it worthy of reemphasis that our employees have been our greatest asset in our Company's meteoric rise to become one of Sri Lanka's leading Non-Bank Financial Institutions. It is also a result of our performance based culture. Moreover, the Company has defined its strategy and chartered its course with clarity, and this will continue to be a key differentiator in the Company's sustainable growth in the near and long term future.

Outlook and strategies

Sri Lanka's GDP is expected to grow at a robust pace. The projected rise in Sri Lanka's per capita income, to US Dollars 4,000 by 2016 and to US Dollars 6,000 by 2020, augurs well for a rise in domestic tourism and an increasing demand for motor vehicles and more sophisticated financial instruments and thus, for the potential for significant growth of the company's core businesses. We expect the next few years to be the golden era of transaction business and portfolio growth in Sri Lanka and our strategies have been developed and are constantly reviewed to harness the many opportunities we foresee in this dynamic environment. We will continue to expand our regional presence.

We will also continue to focus on the consolidation and re positioning of our rapidly growing portfolio and products. And as we journey ahead to become one of the most profitable Licensed Finance Companies we will also take pride in our ethos of 'togetherness', - as a team of individuals; ensuring the continuity of humane values which contribute to retention of our people and our customers.

Acknowledgements

I would like to convey my sincere appreciation to the Board for their guidance, continual support and for the team that makes up LOFC, whose unreserved effort and commitment have fuelled the Company's success. My sincere appreciation also to our customers, shareholders, business associates, and other stakeholders for their continued support and inspiration.



Kapila Jayawardena
Chairman

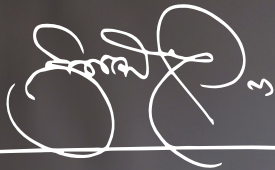
24th June 2015

MD/CEO'S REVIEW

“

*The Company's latest
'internet-banking platform' -
ORIX Real Time, introduced
in the current financial year,
will cause a paradigm shift
in the traditional non-bank
business model in the country.*

”



The economy sustained its growth momentum in 2014 fuelled by services and industrial sectors, culminating in a stronger GDP growth rate of 7.4% against the 7.2% of 2013. While the low inflation, low interest rate environment persisted into 2014, credit demand remained flat and financial markets experienced high excess liquidity for the first half of the year. Responding to market conditions, the Central Bank continued to adjust market rates downward, which resulted in market interest rates declining to historic lows during 2014. The repeated policy stimulus took effect by the second half of the year with credit demand reviving, to contribute towards a strong performance from the non-bank financial sector. Uplifted by a 16% expansion in credit and a 41% increase in net interest incomes, the non-bank financial industry closed 2014 with an impressive after tax profit growth of 79.6%. In addition, improvements to risk management methodologies, contributed towards enhancing the stability of the sector.

Company performance

Despite a particularly challenging environment, your Company succeeded in achieving the best financial results to date, during the current financial year. While the Company's top line increased by a modest 3% year-on-year, the bottom line achieved an exceptional 54% growth to reach a record PBT of LKR 2.2 Bn, driven by prudent management of the funding portfolio. Faced with the scenario of low credit demand, coupled with lowering market rates, your Company responded swiftly by reorganising the funding portfolio to take advantage of the favourable bank lending rates. The cost of funding was further streamlined through the issuance of unsecured subordinated debentures to the value of LKR 5 Bn that has assured long term funds for the Company and strengthened the capital base. As a result, while total borrowings of the Company increased by 23% during the current financial year, total borrowing costs, decline by a significant 19%, contributing towards bottom line growth.

It is also noteworthy that the current exponential growth in profits was achieved in spite of higher provisioning for possible doubtful debts. As a contingent against any possible

future eventualities, provisioning for doubtful debts and write offs, increased by 9% during the current year, although the Company's NPA levels remained below the industry average. Industry NPAs, relative to the total loans outstanding, increased to 6.9% as at end 2014, from 6.7 % in 2013. In contrast, your Company's NPA ratio was contained at 4.8% as at March 2015. This exceptional management of the loan portfolio is a result of your Company's robust customer monitoring process, which although highly effective, is not a deterrent to credit growth.

The lower demand for credit during the first half of the year slowed expansion of the credit portfolio across the industry. However, your Company saw the credit portfolio expanding by 31% by year end while the total accommodations grew to LKR 56.3 Bn, out of which term loans and speed drafts accounted for 65%. Overall asset growth of your Company increased by 27% as at end March 2015, to LKR 67.9 Bn. The diversified lending portfolio and strong capital and liquidity buffers maintained by your Company has also ensured financial stability, while the sound risk management and governance practices have instilled prudent oversight and controls.

Due to the deliberate strategy of rebalancing the funding portfolio, your Company's deposit base declined by 3% year-on-year to LKR 41.3 Bn. The introduction of the tradable Fixed Deposit Bond brought stability to the deposit base with long term deposits. The current low interest environment has created the need for innovative savings products your Company's latest deposit product the 'Fixed Deposit Bond' was designed to meet the dual benefit of tradability, which offers a consumers the ability to access cash in an emergency, while also ensuring stability of the funding portfolio.

We continued to support beneficiaries of Remittances with the expansion of our remittance partners to an exchange house in Australia and a local Money Transfer Service provider during the year. Your Company continued to provide a service to beneficiaries of remittances with no receiving end charges as part of the Company's social responsibility policy to support

MD/CEO'S REVIEW *contd.*

quality of life improvements of migrant worker families. As the only non-bank finance company in Sri Lanka permitted to hold foreign currency savings and deposits, your Company offers NRFC, RFC and SFIDA account facilities for resident and non-resident Sri Lankans.

Another significant achievement that merits mention is LOFC's Islamic Finance Unit, Al-Falaah, achieving recognition as the best Islamic Financial Services Provider in the country in 2014. This is indeed an encouraging acknowledgment of not only the integrity of Islamic Financial Services offered by Al-Falaah, but also your Company's overarching commitment towards the policy of inclusive financial services. Every effort is made to not only ensure the highest quality of services but to ensure access to financial services for all, regardless of any demographics. This vision of access to formal, secure financial facilities for all citizens in the country, regardless of economic or social standing, was uplifted to greater heights than ever before during the current financial year through the launch of an 'internet-banking platform' - ORIX Real Time.

ORIX Real Time

Your Company continuously improves its customer value proposition to ensure affordability, accessibility and convenience of formal financial services to the masses. The provision of ATM access through a partnership with Commercial Bank, where the Company provides a free ATM & Debit Card service, has contributed directly towards the progress of countless rural and urban families in the country. ATM services were further enhanced during the current financial year with the introduction of Visa Debit Cards in addition to the Maestro Debit Cards. The escalation in ATM transactions with the increase of the number of active ATM cards is indicative of the impact of this initiative. However, your Company's latest 'internet-banking platform' - ORIX Real Time, introduced in the current financial year, will cause a paradigm shift in the traditional non-bank business model in the country.

LOFC's fully integrated internet-banking platform combines state of the art technology to ensure sustained customer value, coupled with greater financial sustainability over the long term. Launched in March-April 2015, this platform is a trend setter in the non-bank financial sector that combines overall operational cost efficiencies with enhanced customer convenience. In line with LOFC's vision of inclusive financial services, ORIX Real Time, seamlessly combines the three ICT models of Internet, smart phones and basic mobile phones, to facilitate consumer participation across socioeconomic segments of the country, where technology use shows significant variation. The online system facilitates free of charge, a full range of transactions for LOFC customers, from checking savings account balances to fund transfers and payment of credit card bills etc. The service will also be available through a dial up facility in the new financial year, for users of basic mobile phones.

This modern system is poised to gain acceptance across the un-banked and under-banked sectors of the community, due to its mobile phone adaptability and will be channelling hitherto untapped financial flows into the formal financial sector. Coupled with LOFC's participation in the Sri Lanka Interbank Payment System (SLIPS), we can now provide the highest level of convenience for customers.

Future direction

LOFC is now poised to move strongly forward with plans for market penetration fuelled by a highly effective internet & mobile banking solutions which will be accessible to all mobile phone users - Android, iPhone and a USSD solution for other mobile phone users. These mobile phone solutions will be introduced to the country in the new financial year.

Guided by a well planned growth strategy, your Company is expected to maintain its growth momentum over the next financial year. Growth in advances will be supported through a new Credit Scheme through ORIX Real Time - our internet-banking solution.

Driven by innovative customer oriented solutions, the launch of a listed Fixed Deposit Bond during the current year will be a financial industry game-changer by contributing directly towards enhancing the country's currently extremely narrow listed debt market. Support for the country's migrant worker community, through financial services that encourage savings and reinvestment, will be continued by focusing on the beneficiaries of remittances.

My sincere appreciation is extended to our Chairman, Deputy Chairman, and the Board of Directors for their guidance and support throughout the year, and as always I acknowledge the valuable contributions made by management and staff of the Company. I am grateful to our customers, shareholders, business associates, and other stakeholders for their trust and loyalty and look forward to greater achievements in the new financial year.

A handwritten signature in black ink, appearing to read 'Brindley de Zylva', is written over a horizontal line.

Brindley de Zylva
Managing Director/CEO

24th June 2015

FINANCIAL HIGHLIGHTS

Rs. 12.1 Bn

Total Income

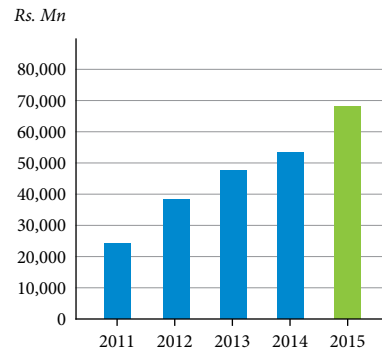
54%

Growth in PBT

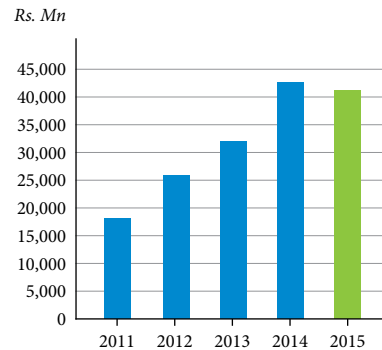
Rs. 13 Bn

Growth in Portfolio

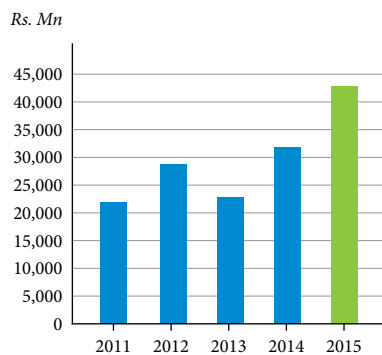
Total Assets



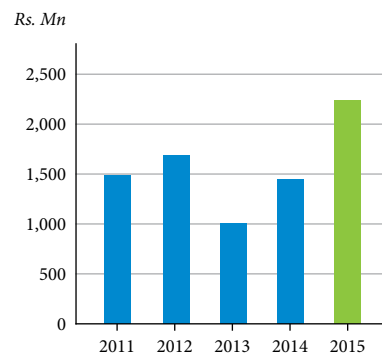
Customer Deposits



New Executions

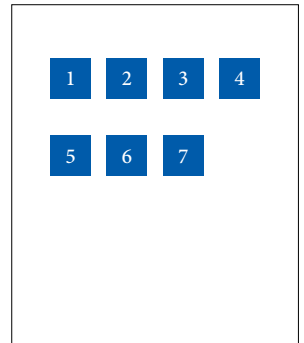


Profit Before Tax



As at 31 st March 2015	2015	2014
Results for the year (Rs.'000)		
Interest income	10,871,227	10,515,811
Profit before VAT on financial services and income tax	2,466,575	1,611,698
Profit before income tax (PBT)	2,226,349	1,442,423
Income tax expense	742,767	442,124
Profit after tax (PAT)	1,483,582	1,000,299
At the year end (Rs.'000)		
Shareholders' funds(capital and reserves)	7,993,596	6,533,970
Total deposits	41,309,960	42,617,800
Total loans and advances (total portfolio)	56,291,618	43,068,277
Total assets	67,861,900	53,431,929
Information per ordinary share (Rs.)		
Earnings (basic)	0.53	0.36
Net assets value per share	2.85	2.33
Market value at the year end- ordinary voting shares	3.70	3.40
Ratios		
Return on average shareholders' funds (%)	20.42%	16.73%
Return on average assets (%)	2.45%	1.98%
Price earnings (times) - ordinary voting shares	6.98	9.52
Price to book value (times)	1.30	1.46
Statutory ratios		
Liquid assets to deposits (%)	13.66%	11.94%
Capital adequacy ratio		
Tier 1 (%) - minimum requirement - 5%	13.11%	13.08%
Total capital ratio (%) - minimum requirement - 10%	18.12%	13.08%

BOARD OF DIRECTORS



1 Mr. W D K Jayawardena

Mr. Kapila Jayawardena counts over thirty years' experience in Banking, Financial Management and Corporate Management. He joined the Board of Lanka ORIX Finance PLC in June 2007 and was later appointed as the Chairman. Mr. Jayawardena was appointed as the Group Managing Director/CEO of Lanka ORIX Leasing Co., PLC in 2007. He was the former CEO/Country Head of Citibank Sri Lanka & Maldives.

Mr. Jayawardena has played a pivotal role in the banking sector contributing to the financial market reforms, development and regularly advising regulators on prudential requirements and has widespread experience in introducing innovative financial service products to the market.

LOLC Group is one of the largest conglomerates in Sri Lanka with presence in diversified industries such as Financial Services, Trading, Manufacturing, Construction, Leisure and Renewable Energy.

As an individual with extensive international and domestic financial experience, Mr. Jayawardena was a key member of the following committees:

- ▶ Chairman Sri Lanka Bank's Association (SLBA) 2003/2004
- ▶ Member of the Financial Services Reforms Committee (FSRC) 2003/ 2004
- ▶ Director of Lanka Clear and was instrumental in completing the automated clearing project for the Sri Lankan banking industry 2004
- ▶ President of the American Chamber of Commerce Sri Lanka 2006/2007
- ▶ Member of the inaugural Sovereign ratings team for Sri Lanka
- ▶ Member of the National Council of Economic Development (NCED)
- ▶ Board Member of the United States - Sri Lanka Fulbright Commission

Presently, Mr. Jayawardena holds Chairmanship/directorship in the following companies:

- ▶ Lanka ORIX Leasing Company PLC - Group Managing Director/CEO
- ▶ Lanka ORIX Finance PLC - Chairman
- ▶ LOLC Insurance Company Limited - Chairman
- ▶ LOLC Securities Limited - Chairman
- ▶ Eden Hotels Lanka PLC - Chairman

- ▶ Palm Garden Hotels PLC - Chairman
- ▶ LOLC General Insurance Ltd - Chairman
- ▶ LOLC Micro Credit Ltd - Director
- ▶ Commercial Leasing & Finance PLC - Director
- ▶ Brown & Co., PLC - Director
- ▶ Browns Investments PLC - Director
- ▶ Seylan Bank PLC - Director
- ▶ BRAC Lanka Finance PLC - Director
- ▶ Riverina Resorts (Pvt) Ltd - Director
- ▶ FLC Holdings PLC - Director
- ▶ Pussellawa Plantations Limited - Director
- ▶ FLC Hydro Power PLC - Director
- ▶ FLMC Plantations (Pvt) Ltd - Director

Qualifications: Master of Business Administration, American University of Asia

Fellow of the Institute of Bankers, Sri Lanka

Associate of the Institute of Cost and Executive Accountants, London

2 Mr. Ishara Nanayakkara

Mr. Ishara Nanayakkara is an astute businessman who holds directorial positions in many corporates and conglomerates in Sri Lanka. He joined the Board of Lanka ORIX Finance PLC in November 2002 and was later appointed as the Deputy Chairman.

He joined the Board of Lanka ORIX Leasing Company PLC in January 2002. He chairs the Board of Commercial Leasing & Finance PLC, LOLC Micro Credit Limited and BRAC Lanka Finance PLC backed by the professional expertise in the industry for over a decade. He also serves on the Board of PRASAC Micro Finance Institution, Cambodia's largest Micro Finance Institution. His expertise in micro finance in the region is evident in the recent investment in Thaneakea Phum Cambodia Ltd (TPC Micro Finance) the 5th largest microfinance company in Cambodia along with the green field operations in Myanmar via Myanmar Micro Finance Company Ltd in which he is the founding Chairman.

Mr. Nanayakkara is the Deputy Chairman of Seylan Bank PLC, a premier commercial bank in the country. His exposure in general and life insurance through LOLC Insurance Company Ltd, stock brokering through LOLC Securities Ltd, factoring through LOLC Factors Ltd, micro financing and Islamic finance, manifests his vision of catering the entire value chain of the finance sector.

BOARD OF DIRECTORS *contd.*

His Business philosophy based on sustainable development has made LOLC enter into many new business ventures with high potential for growth in all three spheres economic, social and environment.

He serves the Board of Sierra Constructions Ltd, Agstar Fertilizers PLC, Lanka Century Investment PLC and Associated Battery Manufacturers (Cey) Ltd in line with the Group's vision to expand into strategic investments in agriculture & plantation, trading & manufacturing, leisure and construction.

His need to diversify LOLC group into a key conglomerate that operates in the growth sectors of the economy is further reflected through the vital role played by him in Brown & Company PLC and Browns Investments PLC as the Executive Chairman. Browns Group is a renowned conglomerate with leading market position in trade, leisure, manufacturing, consumer appliances and agriculture equipment.

Mr. Nanayakkara was appointed as the Chairman of FLC Holdings PLC, FLC Hydro Power PLC, and a Director in Pussellawa Plantations Ltd, Ceylon Estate Teas (Pvt) Ltd and FLMC Plantations (Pvt) Ltd subsequent to the recent acquisition.

He holds a diploma in Business Accounting from Australia.

3 Mrs. K U Amarasinghe

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

She serves on the Boards of Lanka ORIX Leasing Company PLC, LOLC Micro Credit Ltd, LOLC Insurance Co. Ltd, Palm Garden Hotels PLC and Eden Hotel Lanka PLC. She also serves as a Director on the Boards of Commercial Leasing & Finance PLC, Brown & Company PLC, Browns Investments PLC, Riverina Resorts (Pvt) Ltd, FLC Hydro Power PLC, FLC Holdings PLC, Pussellawa Plantations Ltd, Melfort Green Teas (Private) Ltd and FLMC Plantations (Pvt) Ltd

4 Dr. Harsha Cabral, PC

Dr. Harsha Cabral was appointed to the Board as an Independent Non Executive 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 28 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), member of the Ministerial Committee appointed to reform the Law on Commercial Arbitration. He is a Council member of the University of Colombo, member of 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), Richard Pieris & Co. Distributors Ltd., Tokyo Cement Company (Lanka) PLC, Tokyo Super Cement Co (Private) Ltd., Tokyo Cement Power (Lanka) Ltd, Hayleys PLC. Hambana, Petrochemicals Ltd, Commercial Leasing & Finance PLC, Tokyo Eastern Cement Company Ltd, Browns Investments PLC, Just in Time Consultancy (Pvt) Ltd, Imperial Institute of Higher Education (Pvt) Ltd and Alumex PLC. He is the Chairman of Tokyo Cement Group.

Dr Cabral is a lecturer and examiner of the University of Colombo, Council member/faculty member of Institute for the Development of Commercial Law & Practice, 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.

5 Mrs. Dayangani Priyanthi 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 35 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.

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.

6 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. He 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. He 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 and as the Resident Judge of Appeals since 2012.

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

7 Brindley Chrishantha Gajanayake 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 (NBFI) Sector during the past 31 years and has served in both Licensed Finance Companies and Specialised Leasing Companies holding General Management positions prior to taking over as the Managing Director and Chief Executive Officer of the Company. He has a wide range of expertise and experience in the NBFI sector; covering Marketing & Sales, Credit & Recovery Management, and Finance.

Mr. de Zylva, who is a Fellow of the Sri Lanka Institute of Credit Management was elected as its Honorary Secretary in 2010, and continues to serve the institute in this capacity. Further as a Member of the Council of Management of the Finance Houses Association of Sri Lanka over the last nine years, four of which as one of its Vice Chairmen, and as a Director of 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 as a Non-Executive Director of Navajeevana Rehabilitation - Tangalle.

CORPORATE MANAGEMENT



Sharmini Wickremasekera
Chief Risk Officer, LOLC Group



Jithendra Gunatilake
*Head of Finance Operations,
LOLC Group*



Sunjeevani Kotakadeniya
Chief Financial Officer, LOLC Group



Roshani Weerasekera
*DGM Marketing, Savings & Deposits,
Lanka ORIX Finance PLC*



Mehra Mendis
*DGM Fleet Management Services,
LOLC*



Isaac Devshanker
DGM Metro Region, LOLC



Jayantha Dharmapriya
AGM Legal, LOLC Group



Mallika Abeykoon
AGM Finance Operations, LOLC



Yanik Fernando
AGM Eastern & Uva Regions, LOLC



Enoka Jayampathi
AGM Finance Corporate, LOLC



Gamini Jayaweera
*AGM - Northern & North Central
Regions, LOLC*



Sudath Premaratne
AGM Recoveries, LOLC



Bahirathan Shanmugalingam
AGM Finance Operations, LOLC



Sanjaya Kalidasa
DGM Treasury, LOLC Group



Shantha Rodrigo
AGM Central Region, LOLC



Montini Warnakula
*AGM Western II and North Western
Regions, LOLC*



Imraz Iqbal
Head of Finance,
Lanka ORIX Finance PLC



Shiraz Refai
AGM - Al-Falaah,
Lanka ORIX Finance PLC



Mithila Saranapala
Manager HR,
Lanka ORIX Finance PLC



Hasala Thilakaratne
AGM Southern II & Western II
Regions, LOLC



Nalaka Mohotti
AGM Southern Region, LOLC



Indunil Herath
AGM Sabaragamuwa & Central II,
LOLC



Dilum Mahawatta
Compliance Officer,
Lanka ORIX Finance PLC



Indika Ariyawansa
AGM, Credit Risk Management, LOLC



Chandana Jayanath
DGM Recoveries, LOLC



Rohan Perera
Group Treasurer - LOLC



Ashan Nissanka
Chief Executive, Branch Network,
LOLC



Susaan Bandara
Chief Officer, Marcom, LOLC Group



*Our **processes** have been created to utilise
the full potential of our dynamic and
phenomenal staff.*

MANAGEMENT DISCUSSION AND ANALYSIS

AWARDS & CERTIFICATES - 2014/15

LOFC's Al-Falaah was adjudged the 'Islamic Finance Entity of the Year 2014' at the 4th Sri Lanka Islamic Banking & Finance Industry (SLIBFI) Awards. Al-Falaah also emerged at the top for the 'Social Upliftment Award (CSR)' category by winning Gold and a member of the Al-Falaah team won the Silver award in the category for the 'Rising Islamic Personality of the Year 2014'.



Al-Falaah, brought honour to Sri Lanka and the LOLC Group, when it received recognition on two top categories at Redmoney's Global Awards, IFN BEST BANK POLL, Kuala Lumpur, Malaysia 2014.



Al-Falaah was adjudged Runners-Up in the category of '**Best Islamic Bank by Country - Indian Sub-Continent - Sri Lanka**'.



The Islamic Banking Unit was also ranked 3rd place in the '**Best Islamic Leasing Provider**' category, becoming the only Sri Lankan financial institution to win a metal in the Best Islamic Leasing provider category for the region, which fell under the overall Best Islamic Bank by Sector listing.

MANAGEMENT DISCUSSION AND ANALYSIS *contd.*

Rs. 42.5 Bn

Executions

Rs. 41 Bn

Customer Deposits

OPERATIONAL REVIEW

A member of the diversified LOLC Group, Lanka ORIX Finance PLC (LOFC), is listed in the Colombo Stock Exchange and has an institutional rating of (SL)A- with a stable outlook by ICRA Lanka Ltd. LOFC is one of the largest deposit taking non-bank financial institutions in Sri Lanka, accounting for over 10% of public deposits held by the Licensed Finance Company Sector. LOFC provides a full range of financial services, including Finance Business, Finance Leasing, Issue of ATM & Debit Cards, Money Changing & Foreign Currency Business, Provision of Advances for Margin Trading in the Colombo Stock Exchange and Islamic Finance. The Company launched its Internet banking Solution for its Savings Account Holders during the year under review after joining the Sri Lanka Interbank Payment System (SLIPS).

Economic overview

The Sri Lankan economy recorded a growth of 7.4% in 2014, in comparison to the 7.2% in 2013 showing its resilience in the midst of domestic and external challenges. The GDP per capita too showed an increase reaching USD 3,625 in 2014 in comparison to USD 3,280 in 2013. The economy was driven by domestic consumption and investments in construction, with the industry and services sectors continuing to perform well. Inflation remained at single digit levels for the 6th consecutive year largely due to the decline of world commodity prices.

Industry performance

The 48 Licensed Finance Companies and 8 Specialised Leasing Companies together represent 7% of Sri Lanka's financial system. The branch network of this sector expanded by 72 and now stands at 1,132.

Industry asset growth moderated during 2014 due to lower demand for credit. The main contributory factor for the expansion of the asset base was the growth in accommodations and liquid assets. Finance Leases, Hire Purchase and Secured Advances were the main credit products granted during the year. In contrast Pawning Business reflected a reduction as a percentage of the total accommodations. The sector investment

“The financial year 2014/15 was an exceptional year recording the highest ever PBT of LKR 2.2 Bn (a year-on-year increase of 54%) mainly due to increased net interest income resulting in the deposit and borrowing portfolios being re-priced in the current lower interest rate regime.

Total assets of the Company increased by LKR 14.5 Bn to reach LKR 67.9 Bn, increasing by 27% when compared with the previous year.”

portfolio comprising equity and debt investments too recorded a notable increase. Liquid assets in the form of Treasury Bills showed a steady growth.

Public Deposits was the main source of funding for the industry which was fuelled by the higher rate of interest paid by the sector when compared with Banks. Fixed Deposits accounted for 96% of total deposits.

The high lending rates that prevailed in 2012/2013 and the decrease of Gold Prices resulted in increased NPAs. The lower interest rate regime helped to contain the rising non-performing loans at manageable levels.

The current low interest rate regime has positively impacted the net interest income of the sector mainly due to mobilising lower cost deposits. The impact to the sector arising from a volatile exchange rate was minimal due to low exposure to equity markets and foreign currency transactions.

The steady growth of public deposits relative to the moderate growth of credit resulted in excess liquidity in the sector. The increase in net interest income was the main contributor to the increase in sector profits despite a higher provisioning requirement.

Company performance

The financial year 2014/15 was an exceptional year recording the highest ever PBT of LKR 2.2 Bn (a year-on-year increase of 54%) mainly due to increased net interest income resulting in the deposit and borrowing portfolios being re-priced in the current lower interest rate regime.

Total assets of the Company increased by LKR 14.5 Bn to reach LKR 67.9 Bn, increasing by 27% when compared with the previous year. Total liabilities reflected a 28% increase to reach LKR 59.9 Bn as at 31st March 2015 from the LKR 46.9 Bn a year ago. The Companies equity as at 31st March 2015 reached LKR 8 Bn from LKR 6.5 Bn on 31st March 2014 - an increase of 23%.

MANAGEMENT DISCUSSION AND ANALYSIS *contd.*

Geographic coverage of services

LOFC's widespread branch network continued to be the key driver of business growth allowing many rural communities to access formal financial services. During the current year, Seven new branches were opened in Akuressa, Colombo 03 & 10 (Kollupitiya & Maradana), Dikwella, Kamburupitiya, Maharagama and Suriyawewa. Eight cash collection centres in Galgamuwa, Wellawaya, Hingurakkgoda, Palaviya, Piliyandala, Tambuttegama, Tangalla and Walasmulla were upgraded to branches and the business in four centres in Bingiriya, Naula, Nilaweli & Cheddikulam were consolidated with the overlooking branches. With these additions/changes, the LOFC service network now numbers 86 branches, 8 Savings Centres, and 38 collection centres, across the island, including the North and East.

Lending activities

The current financial year saw the accommodation portfolio increasing by LKR 13.2 Bn to reach LKR 56.3 Bn from the LKR 43.1 Bn in the previous year. Islamic Finance accounted for 15% of the portfolio with Leases including Ijarah facilities totalling 15%. The main credit products were Term Loans and Speed Drafts together amounting to 72% of the portfolio representing 37% and 35% respectively.

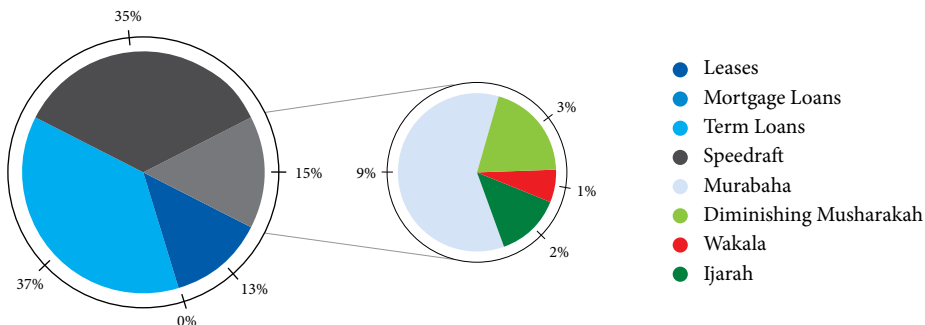
Auto finance

LOFC's main business of auto finance, which remained sluggish in the first half of the year picked up with the increase of the number of motor new vehicles registered during 2014 increasing by 32% to 429,556 compared to a year on year decrease recorded in 2013. A significant increase in New Busses and Private Cars registered by 133% and 37% respectively contributed to this surge. 'SpeedDraft' the loan scheme modelled on bank overdrafts continued to the fastest growing credit product reaching 35% of the credit portfolio.

Deposits

LOFC's range of savings products include children's savings schemes, as well as foreign currency accounts and specialised Islamic savings schemes. LOFC's foreign currency accounts include SFIDA, RFC and NRFC accounts, while the specialised Islamic products comprise savings schemes and fixed investments under the brand names Mudharabah and Wakala. In addition, LOFC also operates a range of standard savings products for adults and children. LOFC also issues ATM and debit cards (both VISA and Maestro), to its savings account holders.

Lending activities



The higher rates of interest offered by the Commercial Banks consequent to the budgets of November 2014 and January 2015 saw a shift of Senior Citizen Depositors from Finance Companies to Commercial Banks. This contributed largely towards the shrinking of the Deposit Base of the Company by 3% to LKR 41.3 Bn as at 31st March 2015 from LKR 42.6 Bn a year ago.

Together with this shift of deposits and the availability of low cost borrowing from the banking sector enabled the Company to fund its lending through cheaper bank funds, resulting in the expansion of the net interest margin and increased profitability.

ATM/Debit cards & Internet Banking

LOFC continued to enhance the service provided to its customers by launching an 'internet banking' platform (ORIX Real Time) permitting customers to transfer funds from savings Accounts at LOFC to Banks and the payment of credit cards. This service is being expanded to include the payment of Utility Bills etc.

With the participation of LOFC in the Sri Lanka Interbank Payment System as a secondary participant Savings Account Holders are now able to freely transfer funds to and from LOFC savings accounts a service we offer with NO CHARGE.

Migrant services

The services provided to Migrant Workers was also expanded with the partnership with an Australian exchange house and Lanka Pay the money transfer service provided by DFCC. Now Migrant Workers can transfer money to accounts at LOFC including accounts maintained by their beneficiaries with no receiving end charges. Customers can opt for SMS alerts for all debits and credits to Savings Accounts.

Islamic Banking Unit - Al-Falaah

LOLC Group's Islamic Finance business, branded as Al-Falaah, and which entered the market in 2007 as one of the early entrants, is today a market leader in terms of the market reach across the country.

During the year under review, Al-Falaah performed well with a Profit Before Tax of Rs. 339Mn while contributing 12% to LOFC's consolidated asset base over the two years. The contribution to the liability base was around 11%-12% over the two years.

Al-Falaah has consistently gained headway as the front-runner of Sri Lanka's Islamic Banking & Finance industry, and we are heartened by the several national and international accolades it has received over the years in recognition of the business excellence, product innovation and the goodwill established over the years. Awards received during the year under review include the following:

Fourth Sri Lanka Islamic Banking & Finance Industry Awards (SLIBFI), Colombo, Sri Lanka 2015.

- ▶ The Islamic Finance Entity of the Year 2014 - Gold Award
- ▶ Social Upliftment Award (CSR) for 2014 - Gold Award
- ▶ Silver award for Islamic personality of the year by one of our staff members Mr. Ilsam Awfer from the industry as the Rising Islamic Personality of the Year 2014.
- ▶ Redmoney's Global Awards, IFN BEST BANK POLL, Kuala Lumpur, Malaysia 2014.
- ▶ Best Islamic Bank by Sector - Best Islamic Leasing Provider - 3rd Place
- ▶ Best Islamic Bank by Country - Indian Sub-Continent > Sri Lanka - Runner-up

In addition, Al-Falaah partnered LOLC Technologies in developing the 'Fusion Islamic Banking & Lending System' module, which received the highest award in the category : Best Islamic Finance IT Solutions Provider" for the year 2013 at the 3rd SLIBFI Awards, held in Colombo, Sri Lanka in 2014.

MANAGEMENT DISCUSSION AND ANALYSIS *contd.*

With the Company's mission to cater to a wider spectrum of Islamic business needs, the year under review saw Al-Falaah spearhead the launch of a General Insurance product - Al-Falaah Takaful, to complement its core business of asset financing. Al-Falaah Takaful is a General Motor Insurance product and is now being offered under the wings of LOLC Insurance Ltd.

Operating under the purview of the regulatory framework of The Central Bank of Sri Lanka, Al-Falaah is supervised by a dedicated in-house Shari'ah Supervisory Board (SSB) and a full-time in-house Shari'ah advisor (ISA) which carry out periodic and systemic process reviews, compliance audits, product evaluations, staff training and assessments and reporting, to maintain compliance with principles of Islamic trade and commerce.

Al-Falaah financial services are offered at five dedicated Al-Falaah centers located in Akkaraipattu, Kalmunia, Kattankudi, Oddamavadi and Akurana, whilst all other licensed LOFC branches across the island have dedicated Al-Falaah staff members or fully trained non-dedicated staff to handle inquiries.

Supported by the strength of LOLC Group and our brand value, Al-Falaah stands well poised to harness the growing demand for Islamic finance products. It will look to increase its value addition to the industry, demonstrating that Islamic finance can be an attractive alternative to conventional finance.

Foreign Currency Business

LOFC is the only finance company which is a member of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and to be listed in the Bankers Almanac.

FINANCIAL REVIEW

Company

Lanka ORIX Finance PLC (LOFC) concluded a very successful year recording the highest profits in the history of the Company. This outstanding performance was achieved by further expanding our already extensive reach to customers and via efficient management of funding and curtailing non performing loans.

The main business streams of the Company, the conventional banking arm and the Islamic Banking Unit (IBU) both experienced significant growth in its lending book.

The service network of LOFC further expanded during the year with a view of reaching an even wider potential customer base with efficient and superior service to customers.

Interest Income

The company continued to maintain its growth momentum in interest income, surpassing Rs.10.5 Bn during the year. It was a 3% growth from last year, which is a commendable achievement, considering that the current year saw the market interest rates declining as a result of policy decisions taken by the government to retain a low interest rate regime. This was achieved by the existing lending portfolio of the Company yielding above the

current market rates together with the significant growth in the lending portfolio. The main contributory factors to the growth in interest income are interest on factoring, loans, margin trading and overdue rentals.

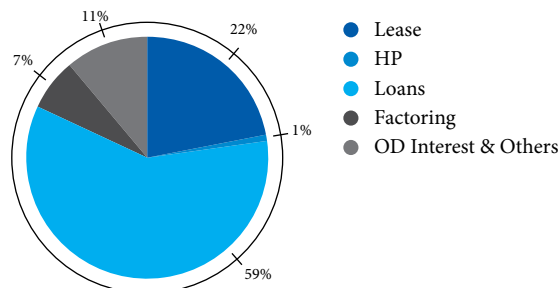
The interest income from overdue rentals constituted 11% of the total interest income which surpassed Rs. 1 Bn. This is an increase of 31% from last financial year. Factoring and Loans continued to contribute a positive share to the interest income whilst maintaining a strong momentum of growth. However, the income from hire purchases experienced a reduction primarily as a result of the Company opting to phase out of the hire purchase business and the reduction in income from leases could be attributed to the reducing interest rates in the market.

Loans, continues to be the most prominent income generator for the company and represented 59% of the total income for the year whilst growing by 4% year on year.

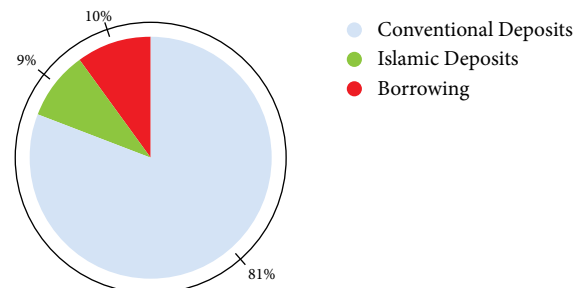
Interest Expenses

The interest expense of the Company showed a reduction during the year, from Rs. 6.1Bn in 2013/14 to Rs. 4.9Bn in 2014/15 representing a 19% decrease. This was in line with the reduction in the market interest rates, coupled with the Company's timely and conscious decision to fund the portfolio growth via bank borrowings which was much cheaper than customer deposits.

Interest Income Composition 2014/15



Interest Expenses Composition 2014/15



MANAGEMENT DISCUSSION AND ANALYSIS *contd.*

However, the customer deposits continues to be the largest funding source of the company and the interest/profits paid during the period on customer deposited represented 90% of the total borrowing cost.

Net Interest Income, Credit cost and Overheads

The marginal increase in the top line together with the significant reduction in the borrowing cost resulted in the company reporting a Net Interest Income (NII) of Rs. 5.9 Bn which is a 34% growth over the comparative period's NII of Rs. 4.4 Bn.

Even though the economic scenario was not very conducive, the company was able to curtail its non- performing loans (NPL) ratio to 4.8% as at 31st March 2015 (2014 : 5.13%), which was much lesser than the industry average NPL ratio of 6.9% (December 2014). As a result the provision for impairment losses was Rs. 1.5 Bn compared to 1.4 Bn in the previous year representing a 9% increase. However, the credit cost as a percentage of NII was 25% in the current year which is a reduction from the previous years' 31%.

The total other direct expenses and overheads grew by 34% and amounted to Rs. 3.2 Bn in line with the expansion and growth in the company's operations.

Profitability

As a result of strong business growth and effective management of direct costs, the current financial year saw the company reporting its highest profits, yet, confirming the strength and growth potential of the company.. The Profit Before Tax (PBT) was a staggering Rs. 2.2 Bn an increase of 54% and the profit after tax was Rs. 1.5 Bn which was an increase of 48% over the previous period.

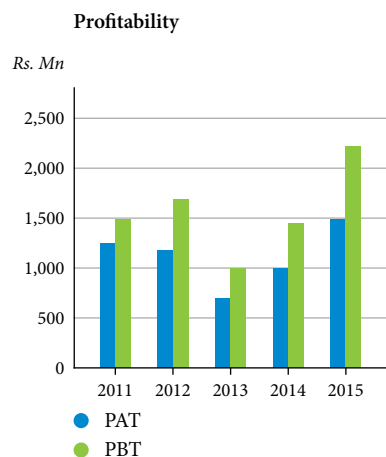
The Return on Equity (ROE) was 20.42% and the Return on Assets (ROA) was 2.45% for the year compared to 16.73% and 1.98% respectively recorded in the previous year.

Asset Base

The total asset of the company stood at Rs. 68 Bn compared to Rs. 53 Bn at the end of last financial year showing a healthy growth of 27%. The growth in the asset base of the company was driven predominantly by the lending portfolio which grew by 31% year on year and amounted to Rs. 56 Bn and was 83% of the total assets. The other significant component was the liquid assets held by the Company for statutory purposes and amounted to Rs. 9.6 Bn (14% of the total assets) which grew by 12% YoY. These two components were the primary reasons for the growth in the asset base showing the focused distribution of the funds of the company into interest earning assets.

Lending Portfolio

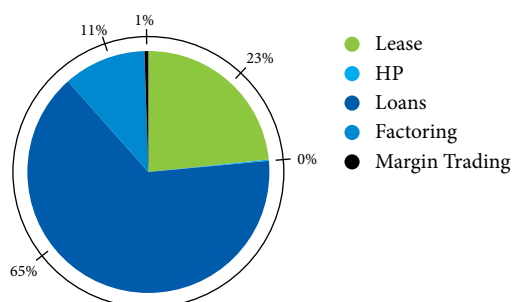
The 31% (Rs. 13.2 Bn) growth in the lending portfolio was complimented by all the products offered by the Company, except hire purchases, which was consciously phased out. The margin trading portfolio, though relatively small in value showed significant growth (138%) and stood at Rs. 294 Mn. The factoring portfolio almost doubled from Rs. 3.3 Bn in 2014 to Rs. 6.2 Bn at end of 2015 growing by 89%, while the loan and leasing portfolio which is a more mature portfolio showed modest but commendable growth of 29% and 21% respectively.



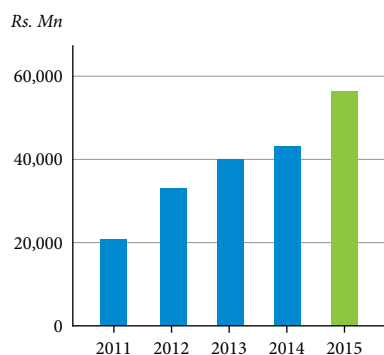
The major part of the portfolio (65%) constituted of loans, which includes revolving, term and mortgage loans. Leases was the second largest product constituting 23% of the portfolio and factoring business continues to gain prominence and amounted to 11% of the lending book.

The gross lending portfolio of the IBU stood at Rs. 7.2 Bn which was 14% of the lending portfolio of the Company, and is continuously gaining prominence within the business of LOFC. The IBU portfolio has performed exceptionally well in the current financial year and achieved a growth 38% over the previous year's Rs. 5.2 Bn.

Lending Portfolio



Lending Portfolio

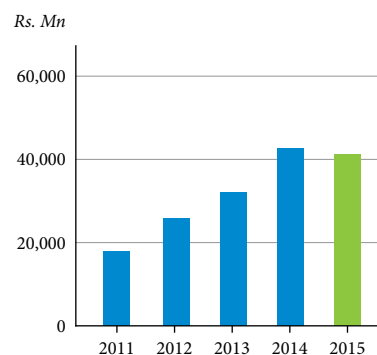


Funding - Deposits and Borrowings

During the current period, the Company opted for bank and other borrowings as the primary source of funding to support its portfolio growth, as it appeared to be much cheaper in the context of a reducing interest regime. As a result, the borrowing base increased to Rs. 11 Bn from Rs. 824 Mn in 2014 and on the other hand the deposit based contracted by Rs. 1.3 Bn and stood at Rs. 41.3 Bn at the year-end.

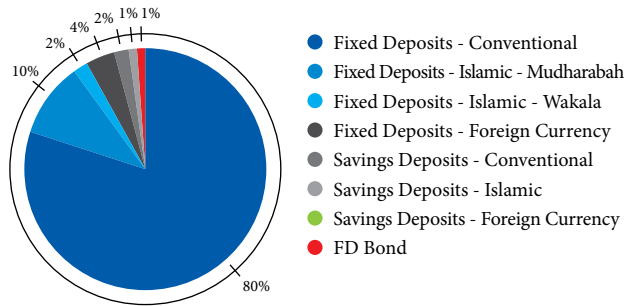
However, customer deposits still are the primary source of funding constituting 76% of the borrowing base. Though the overall deposit base contracted, the deposits from the IBU showed promising growth during the year increasing the base by Rs. 407 Mn and ended at Rs. 5.2 Bn at the end of the year. The deposits from the IBU represented 13% (2014 - 12%) of the total deposit base. Analysis of the conventional business deposits shows that fixed deposits is the largest funding source representing 80% (2014 - 82%) of total deposit base, and showed a decrease of 6% year on year as a result of shift in the company's funding strategy. The low cost savings base showed a significant increase of 31% and stood at Rs. 749 Mn, representing 2% of the total deposits. Further, during the period the Company

Deposits



MANAGEMENT DISCUSSION AND ANALYSIS *contd.*

Deposit Composition



introduced a transferrable fixed deposit, a novel product, named Fixed Deposit Bond and that attracted Rs. 436 Mn into the deposit base.

In terms of borrowings other than deposits, during the year the company issued unsecured subordinated debentures at a value of Rs. 5 Bn, which secured the company long term (5 years) funding at a fixed cost. Rs. 3 Bn of this was eligible to be included in the capital base of the company with the approval of the Central Bank of Sri Lanka (CBSL), strengthening the capital adequacy of LOFC.

Regulatory ratios

Capital Adequacy Ratio (CAR)

The significant profits made during the period enhanced the core capital of the company. Further as a result of the debenture issue the company added tier II capital further strengthening the capital base. Consequently the Tier I/Core capital adequacy ratio of the company was 13.11% (2014 - 13.08%) and the total Capital Adequacy Ratio was 18.12%. This was much higher than the minimum requirement laid out by the CBSL of 5% and 10% respectively.

Capital Funds to Deposit Ratio

The capital funds to deposits ratio stood 25.98% (2014 - 14.38%) and was significantly higher than the required minimum ratio of 10%.

SUSTAINABILITY REVIEW

Our People

Lanka ORIX Finance PLC (LOFC) which commenced commercial operations in June 2003 has become one of Sri Lanka's top Non-Bank Financial Institutions. This in a span of just 12 years is a result of the commitment, dynamism and the talents of its people. In a highly competitive market in the financial service industry, we believe that our people have been the key differentiator.

LOFC has an unique culture which encourages minimum hierarchy; valuing professionalism over rank or stifling practices. An Open door policy enables any employee to approach another employee including Directors. The culture also ensures greater transparency in our processors and procedures. A service orientation, integrity and loyalty are hall marks of the culture which we have fostered and is a key to the competitive edge we have gained.

Training & Development and a culture of Continuous Learning

Employees are our most valuable asset, one of the critical strategic imperatives is to enhance its value. Training and Development, promoting education and a culture of continuous learning hence remained a key focus areas of our HR initiatives during the year. Employees are frequently nominated for training on critical areas such as compliance and the new accounting standards to ensure that their knowledge is up to date. The Company also continued with its management development programme during the year to groom leaders for the future.

LOFC's Performance Management system has been developed to incorporate an enlightened approach to goal based performance appraisals across executive and management grades in the Company. Employees are appraised on KPI's agreed on at the beginning of the year and Bi-annual Performance Appraisals are carried out on all staff. The appraisal requires no paperwork and is a confidential process between the employee and the Supervising Officer. Any shortcomings in performance is identified and analysed with training needs identified to address those shortcomings.

Our interaction and engagement with people across the spectrum is characterised by respect, accommodation and fairness. Respect for rights influences our behaviour from recruitment policies, working conditions and work culture where our employees are concerned to the manner in which we engage and interact with stakeholders.

All HR policies of the Company are well documented and available for any employee to access. New recruits are briefed on all the key policies at an induction. The Company also has a Grievance Redress Policy which clearly defines and explains the procedures to be followed when faced with harassment including sexual harassment. In addition, Exit Interviews, branch visits by the HR team and Employee Climate surveys are important tools used by the HR team to understand the working environment, employee issues and to minimise employee grievances. “Employee voice” is actively encouraged, heard and recognised across the Company.

As a responsible employer we find the concept of child labour abhorrent and there is no recruitment or employment of the under-aged.

Engaging Society

The Company’s portfolio categorised as Financial Services, reaching all sectors of the community. We have a diverse network of stakeholders in a multitude of locations. They range from farmers and budding entrepreneurs in the rural hinterlands across the country, to the urban and semi urban consumer and migrant workers.

We understand that a business cannot sustain in isolation, and its long term profitability ultimately depends on how favourably it impacts communities and the environment which it is part of. Thus is the need for an enterprise to focus on sustainable development looking beyond profits to encompass people and the planet.

The Company’s core area of business is financial empowerment of small entrepreneurs by offering them opportunities to turn their dreams and aspirations to reality. Our involvement

extends beyond financial support to help value chain creation by providing strong market linkages for these entrepreneurs. Social value generation is thus an integral part of our business model.

Subscribing to the UNGC Principles

The LOLC Group is a signatory to the United Nations’ Global Compact (UNGC’s) established code of principles. We are thus guided by the 10 principles concerning human rights, labour, environment and anti corruption promulgated by the UNGC, and the solid framework they provide is espoused by LOFC in every facet its activities.

The Ten Principles of UNGC

Human Rights

- ▶ **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- ▶ **Principle 2:** make sure that they are not complicit in human rights abuses.

Labour

- ▶ **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- ▶ **Principle 4:** the elimination of all forms of forced and compulsory labour;
- ▶ **Principle 5:** the effective abolition of child labour; and
- ▶ **Principle 6:** the elimination of discrimination in respect of employment and occupation.

Environment

- ▶ **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- ▶ **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- ▶ **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- ▶ **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

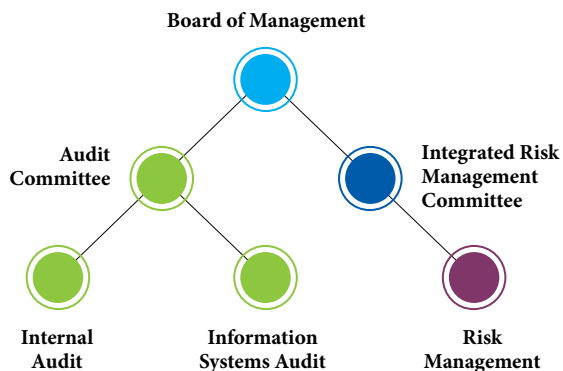
RISK MANAGEMENT

Managing risks in unison

Risk Management at LOLC is a centralised function at group level and the therefore the same risk governance structures which are in place and operational for LOLC are replicated for Lanka ORIX Finance PLC as well. This level of replication is done to retain the uniformity and currency of risk management practices with the group. Further this enable us to roll out new initiatives and mechanisms in a very shorter time span with in any company with in the group as the learning curve is cut short and due to the uniformity of the processes.

Risk Management is an organisation wide effort and a responsibility which cascade down from the board of management to the operational level employees. Having defined risk as 'Anything which hinders the achievement of the organisational objectives' highlights the importance of having an organisational wide risk management mechanism which is robust, flexible and reliable. With a vision in risk management of 'Building an organisational Culture where Protection, Assurance, Reliability, Accountability, Transparency and Confidentiality are treasured and lasting values', we have embarked on a journey of making every employee of the group a risk manager thus every action, decision taken with in their scope of duty is embedded with a reasonable assessment of risk.

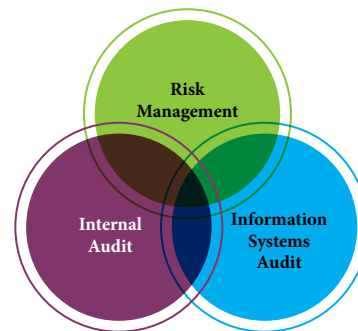
LOFC being a part of the LOLC conglomerate requires that the optimal yet feasible structures and mechanisms are adopted



in risk management. At LOFC Enterprise Risk Management is a group level centralised function and is a union of Risk Management, Internal Audit & Information Systems Audit. All three functions maintain their total independence by having reporting lines to the chairman and the board of management via the Integrated Risk Management Committee and the Audit Committee.

Synergy of functions

The risk management function primarily forms the independent reporting line on risk to the board of management while the audit function forms the monitoring arm to ascertain the adequacy, reliability and the consistency of the internal control framework. The IS audit function review the controls ensuring the confidentiality, Integrity and the availability of the IT systems and the internal controls governing the ICT related functions. In addition it plays a supporting role to both the internal audit and risk management in monitoring and advising on the technological risks.



The above three functions complement each other and draws from the synergies to make an effective risk management structure which maintains close ties with the compliance function. The internal audit does a comprehensive review on processes, operations & on branches of LOFC subject to the resources available. Audit Resources are allocated based on the perceived risk of operations of the entity and the significance of its operations to the overall performance of the

organisation. The IT audits covers the business applications, ICT infrastructure and the related processes. The expansion of the branch network of LOFC and the growth volumes of its' operations has necessitated strengthening the audit team and this was done towards the final quarter of the year under review. At present part of the audit team is primarily dedicated to review main operational centers & processes of LOFC while the others are dispersed among the regional operational centres thus giving the audit team easy access to core business locations. The Audit team look beyond the traditional auditing and focusses on process & efficiency improvements too. The audit function plays a more active role by verifying to ensure that their recommendations are implemented by obtaining an all clear sign off from the auditee in addition to the follow up audits conducted by the auditors. Further random branch reviews are undertaken which covers aspects beyond traditional auditing like Branch Administration and management as well as the level of knowledge and awareness on operations of the branch staff.

The risk management function draws information from various sources both internal and external. They appraise the management of the potential risks arising and recommend action for the mitigation, avoidance or capitalising on the opportunities that arise. The risks identified and addressed are constantly monitored and any adverse movement of such risk indicators are highlighted for appropriate action.

We understand that it is vital to keep in touch with the latest development in our business environment and to maintain the relevant skills and the knowledge, therefore we make a conscious effort to train and acquire the diverse knowledge and the skills set required to effectively manage the risks with in the organisation. In this regard special attention is paid to training and development of the staff of the enterprise risk management department.

Towards our vision

We believe in empowering all stake holders in managing risks. In this aspect the ERM division addresses the new recruits with a view of enhancing their awareness of risks faced in performing

their day to day operations and on appropriate actions to be taken. This effort is to be complimented by risk trainings for identified business units which are proposed to be held in coordination with the human resource department in future. During the year we increased our consultative engagements with the other business units in order to manage risks on a proactive basis and such engagements totaled 128 man hours for the last six months. We are continuing with this initiative as it give us a pre-emptive strike capability on identified risk sources. This allows us for early identification of the risks and enable us to put the appropriate risk management strategies in place.

The dynamic nature of the operations and the expansions require us to increase our access to information and transaction related data. We have deployed data analytic techniques which enable us to have a more holistic view of the operations of the organisation. The enhanced capabilities of the Risk monitoring system compliments our ability to respond to emerging risks more effectively and efficiently.

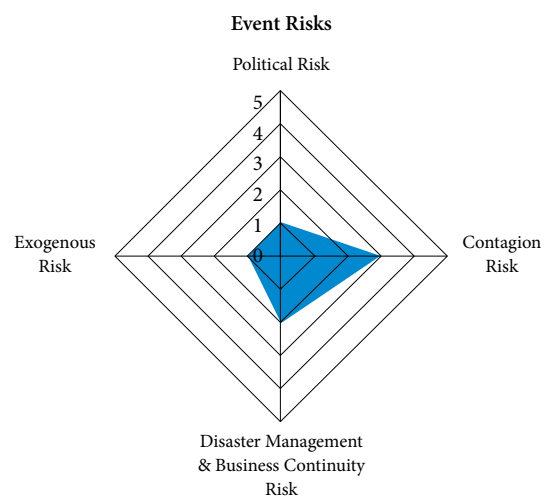
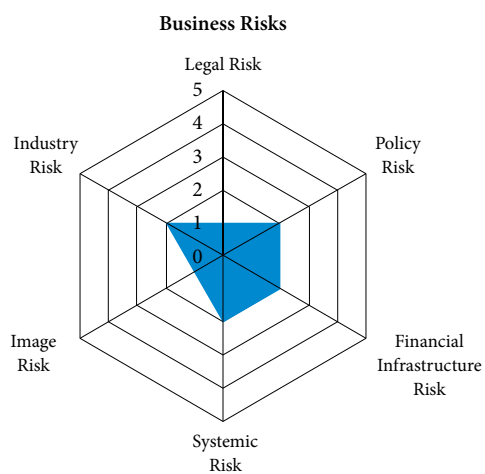
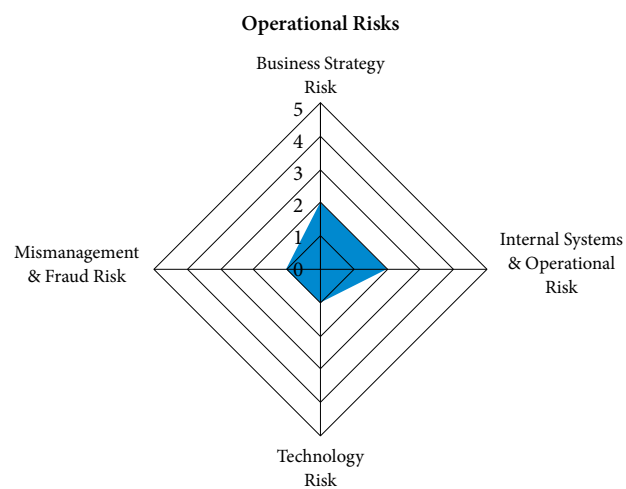
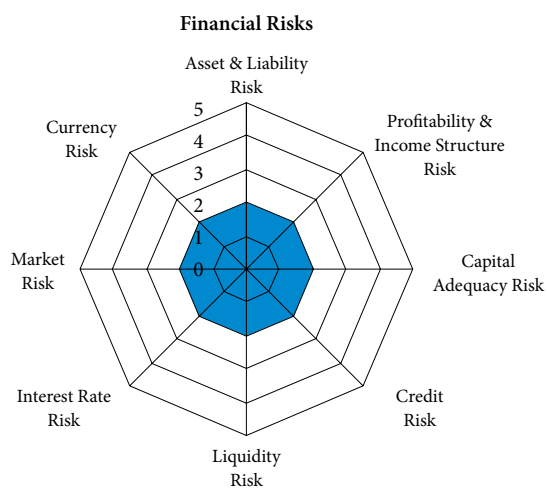
In the next financial year we are planning to shift towards continuous auditing and monitoring yet maintaining the appropriate mix between currency of information and historical data for auditing & risk management purposes. Further we are looking towards enhancing our forecasting abilities which would help the management to have a futuristic view of the risks faced which will ultimately add sustainable value to the organisation.

Risk Profile

This is a high level categorisation of perceived risk and is used only for the illustration purposes of this report.

Risk Levels	Risk Score
Very High	5
High	4
Medium	3
Low	2
Very Low	1

RISK MANAGEMENT *contd.*



CORPORATE GOVERNANCE

Corporate governance is about ensuring an effective, transparent and accountable management of affairs by the Board of Directors, the highest governing body, with the ultimate objective of protecting the interests of all stakeholders. LOFC's governance structure ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub-Committees and Management.

The external instruments of governance at LOFC include the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011, the Finance Leasing Act, No. 56 of 2000, the Exchange Control Act, No. 24 of 1953, the Payment and Settlement Systems Act, No. 28 of 2005, the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987, and any amendments thereto, including rules and directions issued to finance companies from time to time by the Monetary Board of the Central Bank of Sri Lanka, and the Listing Rules of the Colombo Stock Exchange. The internal instruments of governance include the Articles of Association, the Role of the Board, Board approved policies, procedures, and processes for internal controls and anti money laundering.

The members of the Board consist of persons with multiple industrial/professional backgrounds in which they have achieved eminence, who contribute effectively to decisions made by The Board to guide LOFC towards achieving its objectives. In accordance with best practices, the offices of Chairman and Chief Executive Officer are separate, and the Chairman 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 Governance structure at LOFC ensures that the Directors take all necessary steps to avoid conflicts of interest in their activities with, and commitments to other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, such matters are disclosed and discussed at board meetings, where independent directors who have no material interest in the transaction are present.

As required by the Finance Companies Corporate Governance Direction, LOFC has established a well defined self evaluation mechanism undertaken by each director annually to evaluate performance of the Board. These evaluations are subsequently tabled at a Board meeting and the records are maintained by the Company Secretaries.

Policies and procedures have been established taking into consideration governance principles that define the structure and responsibility of the Board, ensure legal and regulatory compliance, protect stakeholder interests, manage risk and enhance the integrity of financial reporting. A whistle blowing policy has been introduced and the number of the related 'hot line' has been publicised to all 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.

LOFC has in place a number of mandatory and voluntary Board sub committees to fulfill regulatory requirements and for better governance of its activities. These committees meet periodically to deliberate on matters falling within their respective charters/terms of reference and their recommendations are duly communicated to the main Board.

The following mechanisms are in place for the Board to oversee the accomplishment of the targets in the business plan: review LOFC's performance at monthly board meetings; seeking recommendations through Board appointed sub committees on governance, including compliance with internal controls, human resources, risk management, credit and IT; review of statutory and other compliances through a monthly paper on compliance submitted to the Board covering the operations of LOFC.

The shareholders of LOFC have multiple ways of engaging with the Board including the Annual general meetings which are the main forum at which the Board maintains effective communication with its shareholders on matters which are relevant and of concern to the general membership such as LOFC's performance and their return on investment; access to

CORPORATE GOVERNANCE *contd.*

the Board and the Company Secretaries; written correspondence from the Company Secretaries to inform shareholders of relevant matters; LOFC's website which is accessible by all stakeholders and the general public; and disclosures disseminated through the Colombo Stock Exchange including interim reporting.

In terms of engaging with the employees, the key channels used by the Board include the Managing Director who is an employee director and the main link between the Board and the rest of the employees; and the Board members and Board sub committees who conduct effective dialogue with the members of the Management on matters of strategic direction.

M/s Ernst & Young, Chartered Accountants were reappointed as external auditors of the Company by the shareholders at the Annual General Meeting held in September 2014. Their services were also engaged to seek: a) an assessment of the Company's compliance with the requirements of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board; and b) the Company's level of adherence to the internal controls on financial reporting.

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.

The extent of compliance as required by the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto:

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
2	The Responsibilities of the Board of Directors	
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;	<p>Complied with. Board approved vision, mission & corporate values have been established.</p> <p>A comprehensive strategic plan has been approved by the Board for 2015/16 taking into consideration the corporate values and objectives. The said strategic plan has been communicated throughout the company.</p>
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;	<p>Complied with. Financial Budgets for 3 years (2016 - 2018) have been revised and approved by the Board. A strategic plan was also approved and established for 2015/16</p> <p>All identified risks have been taken into account in preparation of the business plan and incorporated in the strategy to achieve these measurable goals.</p> <p>Further, a Risk Management Policy document has been approved by the Board which includes risk management procedures and mechanisms.</p>
c.	identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	<p>Complied with The Board has delegated this function to its subcommittee, the Integrated Risk Management Committee (IRMC).</p> <p>Approved minutes of the quarterly IRMC meetings are tabled at Board Meetings for review and guidance.</p> <p>Risk Management Reports on Liquidity and Maturity of Deposits are submitted to the Board on a monthly basis.</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
d.	approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with A Board approved Stakeholder Communication Policy which covers all stakeholders is in place.
e.	reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	<p>Complied with The Board has delegated this function to its Audit Committee.</p> <p>The approved minutes of the Audit Committee meetings are tabled at Board Meetings for review and guidance.</p> <p>The Committee reviews the Internal Audit Reports submitted by the Internal Auditors of the Company (Enterprise Risk Management Division).</p> <p>On behalf of the Committee, the Internal Auditor performs a comprehensive exercise that entails reviewing of all aspects of MIS including operational and regulatory risks. Product wise MIS reviews have been periodically carried out by the Internal Audit and reported to the Audit Committee.</p> <p>The Board has also approved an IT Security Policy which covers system and physical data that is used for generating management reports with accuracy. All IT security policies are approved prior to deploying and accuracy of reports are checked during the relevant application control review stage and presented to the management. Audit logs and reports are reviewed and verified on a regular basis. All products are not reviewed yearly but, covered on a planned basis taking in to consideration the resources available and the Audit plan for the year.</p> <p>A confirmation will be obtained from the Board that they are satisfied with the integrity and adequacy of the MIS.</p>
f.	identifying and designating key management personnel, who are in a position to: (i) influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with Board members including the CEO and members of Operational Management have been identified and designated as KMPs by the Board as defined in the Sri Lanka Accounting Standards. This is annually reviewed by the Board.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
g.	defining the areas of authority and key responsibilities for the Board and for the key management personnel;	<p>Complied with</p> <p>Articles 76-78 of the Company's Articles of Association defines the powers and duties of the Board Directors.</p> <p>Further the responsibilities of the Board have been defined and approved.</p> <p>The areas of authority and responsibilities of the key management personnel defined in individual job descriptions have also been approved by the Board.</p>
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;	<p>Complied with</p> <p>The Company has a policy on Oversight of the affairs of the Company by KMPs including a process to review the delegation process approved by the Board.</p> <p>Delegated authority given to key management personal is reviewed periodically by the Board to ensure that they remain relevant to the needs of the company.</p>
i.	periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	<p>Complied with</p> <p>The Company has a Board approved procedure for appointment of Directors. Election of directors is effected in accordance with the requirements of the directions issued by the Central Bank of Sri Lanka and the Companies Act No. 7 of 2007.</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. Effectiveness of this process is ascertained by their contribution at board meetings in their respective fields.</p> <p>A Nomination Committee has been appointed to assist the Board in identifying qualified individuals as potential directors.</p> <p>KMPs are selected and recruited in terms of the HR policy of the Company.</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
		<p>Articles 79-87 of the Company's Articles of Association addresses the management of conflicts of interest of directors. A procedure for managing board conflicts has been further approved by the Board. Conflicts of interest are managed on a monthly basis where directors disclose their directorships in other companies. KMPs declare their interests annually.</p> <p>Annual Self Evaluations of Directors were tabled subsequent to the financial year end, to determine any weaknesses of the above process and to implement changes where necessary.</p>
j.	ensuring that the finance company has an appropriate succession plan for key management personnel;	<p>Complied with</p> <p>A Board approved succession plan is available. This will be reviewed to address changes in the organisation structure.</p>
k.	meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	<p>Complied with</p> <p>Key Management Personnel are called in by the members of the Board during Board and Board Committee meetings when the need arises to explain matters relating to their area of functions.</p>
l.	understanding the regulatory environment;	<p>Complied with</p> <p>As a practice the Company Secretary includes an agenda item in monthly board meetings tabling correspondence with regulators which enable the directors to understand the regulatory environment, concerns and changes and make appropriate decisions.</p> <p>A monthly Compliance Report is also tabled at Board meetings. This report includes details of weekly, monthly, and annual returns duly submitted to the CBSL and the requirements of all the directions issued by the Monetary Board and the Company's current position with regard to each direction.</p> <p>A monthly confirmation is provided by the HOF of statutory payments made such as VAT, VAT on financial services, WHT on FD's and savings interest, EPF, ETF, PAYE, Stamp duty and Economic Service Charge.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
m.	exercising due diligence in the hiring and oversight of External Auditors.	<p>Complied with</p> <p>The Board Audit Committee is responsible for the hiring and overseeing of external auditors</p> <p>Article 122 of the Company's Articles of Association lays down a process for appointing of external auditors at the AGM.</p> <p>The Audit Committee has recommended that the auditors be re-appointed for 2014/15.</p> <p>The Audit Committee is governed by a Board approved Audit Charter/TOR. This is periodically reviewed by the Board to ensure that it remains relevant.</p>
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>Complied with</p> <p>The Board has appointed the Chairman and CEO. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board.</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.	<p>Complied with</p> <p>A Board approved detailed procedure has been established to obtain independent professional advice when necessary.</p>
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.	<p>Complied with</p> <p>Article 79 of the Company's Articles of Association requires an interested director to disclose his/her interest at board meetings.</p> <p>Article 83 requires such a director to abstain from voting on any board resolution. He/she will not to be counted in the quorum.</p> <p>In addition a Board approved procedure is established to manage conflicts of interest of the Board Members.</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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.	<p>Complied with</p> <p>The Board approved policy on the Role of the Board defines its responsibilities and the matters which are specifically reserved to it for approval.</p> <p>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.</p> <p>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.</p>
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.	Will comply with if the need arises. The Board has implemented a procedure to alert them of any such event - in that the Compliance Officer provides a statement of assurance in the monthly compliance report that the Company could remain a going concern.
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.	<p>Complied with</p> <p>This report serves the said requirement.</p>
2.8	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	<p>Complied with</p> <p>The Directors carry out a self evaluation annually and records are in the custody of the Company Secretaries.</p>
3	Meetings of the Board	
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.	<p>Complied with</p> <p>The Board met 12 times during the year. Please see page 70 for further details.</p> <p>Approvals obtained through the circulation of resolutions (14) were subsequently tabled at the following board meeting.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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.	Complied with A Board approved Policy on Board's relationship with the Company Secretary is in place to enable all directors to include matters and proposals in the agenda for regular board meetings.
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.	Complied with A schedule of all meetings for the coming year is circulated to all Directors at the end of December or beginning of January. At the beginning of each month, a reminder of all meetings during that month is also sent out. In addition, notices are sent out 7 days prior to the meeting. All these enable any director to seek to include matters in the Agenda. Date of the next meeting is agreed by all the members of the Board as a practice. Reasonable notice has been given for all other board meetings.
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.	Complied with All the members have attended two-thirds or more of the meetings during the year. Mrs. K U Amarasinghe has been appointed as Alternate Director to Mr. I C Nanayakkara and vice versa. Dr. Harsha Cabral has also been appointed as Alternate Director to Justice R K S Suresh Chandra and Mrs. D P Pieris.
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.	Complied with

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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.	Complied with The Board approved policy on board's relationship with the Company Secretary provides for the Chairman to delegate to the Company Secretary the preparation of the agenda for board meetings.
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.	Complied with The Board approved policy on board's relationship with the Company Secretary provides that all Directors shall have access to the advice/services of the Company Secretary.
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.	Complied with
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: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (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; (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; (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 (f) the decisions and board resolutions.	Complied with Detailed minutes are kept covering the given criteria.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
4	Composition of the Board	
4.1	The number of Directors on the Board shall not be less than 5 and not more than 13.	Complied with The Board comprises 7 members.
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.	Complied with None of the Non-Executive Directors have completed 9 years of service during the financial year.
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.	Complied with The Board comprises 3 Executive Directors (including the MD/CEO) and 4 Non-Executive Directors.
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"> 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; 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; 	Complied with The Board comprises 03 Independent Directors. Dr. H Cabral, PC, Senior Independent Director Mrs. D P Pieris, Independent Non-Executive Director Justice R K S Suresh Chandra, Independent Non-Executive Director

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
	<p>c) has been employed by the Finance Company during the two year period immediately preceding the appointment as Director;</p> <p>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.</p> <p>e) represents a shareholder, debtor, or such other similar stakeholder of the Finance Company;</p> <p>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 organisation:</p> <p>(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</p> <p>(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</p> <p>(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.</p>	
4.5	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.	Complied with Dr. H Cabral has been appointed as alternate to Justice R K S Suresh Chandra and Mrs. D P Pieris. This appointment fulfills the independent criteria specified by this direction.
4.6	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied with Directors profiles are provided on pages 18 to 21.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
4.7	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>Complied with</p> <p>The Company's Articles of Association (article 98) provide that a quorum for a meeting is a majority provided that half of such quorum is non -executive.</p> <p>The quorum had been maintained at all board meetings held during the financial year 2014/2015.</p> <p>Details of attendance at meetings are provided on page 70.</p>
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>Complied with</p> <p>The Directors for the year under review are:</p> <p>Mr. W D K Jayawardena, Non-Executive Chairman Mr. I C Nanayakkara, Executive Deputy Chairman Mr. B C G de Zylva, Managing Director/Chief Executive Officer Mrs. K U Amarasinghe, Executive Director Dr. H Cabral, PC, Senior Independent Director Mrs. D P Pieris, Independent Non-Executive Director Justice R K S Suresh Chandra, Independent Non-Executive Director</p> <p>The directors profiles are given on pages 18 to 21.</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.	<p>Complied with</p> <p>The Board has formed a Nomination Committee for this purpose and there is a Board approved procedure for the board members to select and appoint new Directors to the board.</p> <p>The Company's Articles 70-74 address the general procedure for appointment and removal of Directors to the Board.</p>
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.	<p>Complied with</p> <p>Article 70 of the Company's Articles of Association provides that Directors appointed shall be subject to election by shareholders at the first AGM.</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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.	<p>Complied with</p> <p>Directors' resignation and the reason for such resignation are duly informed to the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE).</p> <p>The Board announces such situations to the shareholders through its Annual Report.</p>
5	Criteria to assess the fitness and propriety of directors	
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>Complied with</p> <p>The Board of Directors have been assessed as fit and proper in terms of section 3 (3) and (4) of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 3 of 2011.</p> <p>The age of the current directors is within the period permitted under this direction.</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.	<p>Complied with</p> <p>No Director holds directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies.</p>
6	Delegation of Functions	
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.	<p>Complied with</p> <p>Article 77 of the Company's Articles of Association empowers the Board to delegate its powers to a committee of Directors or to a Director or employee upon such terms and conditions and with such restrictions as the Board may think fit.</p> <p>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.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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.	<p>Complied with</p> <p>The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company.</p> <p>A process to review the delegation process has been approved by the Board.</p>
7	The Chairman and the Chief Executive Officer	
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.	<p>Complied with</p> <p>Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.</p>
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.	<p>Complied with</p> <p>The Chairman who is also the Managing Director of Lanka ORIX Leasing PLC (LOLC) is designated as a Non-Executive Director.</p> <p>To bring in a greater element of independence, the Board has appointed Dr. Harsha Cabral as the Senior Independent Director with suitably documented terms of reference on 23rd May 2012.</p>
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.	<p>Complied with</p> <p>The Company as a practice discloses relationships in the Annual Corporate Governance Report.</p> <p>There is no financial, business, family or other relationship between the Chairman and the CEO.</p> <p>Mr. I C Nanayakkara and Mrs. K U Amarasinghe share a family relationship.</p> <p>There is no financial, business, family or other material relationship between any other members of the Board .</p> <p>A process has been developed for Directors to disclose any relationships between the chairman and the CEO and or between any other board members.</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
7.4	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied with
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.	Complied with The Chairman has delegated this function to the Company Secretaries. This has been included in the 'Policy on Board's relationship with the Company Secretary' approved by the Board.
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.	Complied with The Chairman ensures that all directors are properly briefed on issues arising at Board Meetings by submission of the agenda and board papers with sufficient time prior to meetings. Further, minutes of previous month's board meeting are distributed to the Board members and tabled at the next board meeting for review and approval.
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.	Complied with
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.	Complied with The Company's self-evaluation process assesses the contribution of Non-Executive Directors.
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.	Complied with The Chairman does not engage in activities involving direct supervision of key management personnel. In terms of the shared services provided by LOLC to the Company, an agreement has been established in April 2013. Stemming from this agreement fees are charged based on services rendered and such charges/allocations are annually reviewed and approved by the Board.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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.	<p>Complied with</p> <p>A Board approved communication policy covers this aspect.</p> <p>The annual general meeting of the Company is the main forum at which the Board maintains effective communication with shareholders.</p> <p>Periodic announcements made to the Colombo Stock Exchange also contribute towards this purpose.</p>
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.	Complied with
8	Board appointed Committees	
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.	<p>Complied with</p> <p>The Company has established an Audit Committee and an Integrated Risk Management Committee.</p> <p>Reports of these committees have been submitted to the main Board for their review.</p> <p>Please refer the reports on pages 79 to 84.</p>
8.2	Audit Committee	Please refer page 79 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.	<p>Complied with</p> <p>Mr. W D K Jayawardena has been appointed as the Chairman of the Audit Committee by the Board.</p> <p>His qualifications are as follows:</p> <ul style="list-style-type: none"> ▶ MBA in Financial Management ▶ Fellow Member of the Institute of Bankers ▶ Over 30 years of Banking (of which 9 years was as CEO of Citibank Sri Lanka) ▶ Associate of the Institute of Cost and Executive Accountants

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
		As Mr. Jayawardena is also the Managing Director of LOLC, in order to give clarity to his non-executive status at LOFC, staff of the LOLC Group performing functions of the Company are seconded to it as an on-going process.
b.	The Board members appointed to the committee shall be Non-Executive Directors.	Complied with The remaining members of the Committee consists of two non-executive directors and a Senior Advisor: <ol style="list-style-type: none"> 1. Dr. H Cabral, PC, Senior Independent Director 2. Mrs. D P Pieris, Independent Non-Executive Director 3. Mr. M D D Pieris, Senior Advisor
c.	The committee shall make recommendations on matters in connection with: <ol style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (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. 	Complied with A formal agenda for Audit Committee meetings including items prescribed by the direction is followed for the conduct of Audit Committee meetings. The implementation of CBSL guidelines and relevant accounting standards; and the evaluation of the service period, fees and rotation of external auditors are carried out by the Audit Committee in consultation with the Chief Financial Officer.
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.	Complied with The external Auditors are independent as they report direct to the Audit Committee of the Board. Further, the Auditor's Engagement Letter is evidence of the external auditor's independence, and that the audit is carried out in accordance with SLAuS.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
e.	<p>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"> (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (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 (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. 	<p>Complied with</p> <p>The Board has approved a specific procedure for engagement of the external auditors for providing non-audit services.</p>
f.	<p>The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> (i) an assessment of the finance company's compliance with directions issued under the act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved. 	<p>Complied with</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<p>Complied with</p> <p>The Committee has a process to review financial information of the Company when the quarterly and annual audited financial statements and the reports prepared for disclosure are presented to the Committee.</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>Complied with</p> <p>The Committee met the external auditors at all 5 meetings held during the year.</p> <p>The auditors met the Committee in the absence of the executive management twice during the year.</p>
i.	<p>The Committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied with</p>
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"> (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; 	<p>Complied with</p> <p>The Committee has considered the scope of the internal audit function and noted the adequacy of resources and that necessary authority had been allocated to carry out its work.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
	<p>(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p> <p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p> <p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p> <p>(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;</p> <p>(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;</p>	<p>The Audit Plan for 2014/15 was tabled by the Head of Internal Audit and discussed at a Committee meeting and results of the internal audit process has been reviewed and appropriate actions obtained where necessary. Furthermore an Internal Audit Plan for 2015/16 has been recommended by the Committee.</p> <p>An overall assessment of performance of the senior staff members and the Head of Internal Audit for the year 2014/15 has been carried out by the Committee.</p> <p>No such situation has arisen during the year.</p> <p>No such situation has arisen during the year.</p> <p>The Committee is satisfied that the internal audit function is performed with independence, impartiality and proficiency.</p> <p>The internal auditor reports direct to the Board Audit Committee.</p>
k.	The committee shall consider the major findings of internal investigations and management's responses thereto;	Complied with
l.	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.	Complied with The Committee has had 2 meetings with the external auditors in the absence of the Executive Directors and the management.

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
m.	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with The Board approved Terms of Reference of the Audit Committee ensures that it has the authority for points i to iv as required by the direction.
n.	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with During the year 2014/15 the Committee has held 5 meetings and conclusions of such meetings have been recorded by the Company Secretary in the Minutes of the relevant meetings.
o.	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Complied with Please refer report on pages 79 to 80.
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.	Complied with The Company Secretary has been appointed as the secretary to the Committee.
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.	Complied with A whistle blowing hot line has been publicised to all employees. The related policy is periodically reviewed and strengthened to cover the method of reporting any matters investigated to the Board Audit Committee.

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
8.3	Integrated Risk Management Committee	Please refer page 81 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.	<p>Complied with</p> <p>The Integrated Risk Management Committee comprises: Dr. H Cabral, PC - Committee Chairman (Senior Independent Director), M D D Pieris - Senior Adviser, B C G de Zylva - Managing Director/CEO, Mrs. S Wickremasekera - Chief Risk Officer, Mrs. S Kotakadeniya - Chief Financial Officer, J Kelegama - Chief Credit Risk Officer, R Perera - Group Treasurer, and C Dias - Chief Information Officer.</p>
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	<p>Complied with</p> <p>As delegated by the Committee under the headship of the Chief Risk Officer, the ERM Department assesses risks which have been identified by heads of divisions on a monthly basis and summarised and submitted to the quarterly Committee meetings.</p> <p>ERM has set up number of risk indicators under different risk categories as follows.</p> <p>Liquidity Risk Operational Risk Strategic Risk Credit Risk Business Risk Profitability Risk</p> <p>Stress Testing Scenario simulation has been carried out to determine the level of portfolio requirement to increase the market share by reducing interest rates and also at the same time retaining the current level of interest income.</p> <p>The Company has no subsidiaries or associate companies at present.</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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	<p>Complied with</p> <p>During the year the Committee monitored the activities of the ALCO through direct reports from the General Manager Treasury, as well as minutes of ALCO meetings which are tabled at the quarterly IRMC meetings.</p> <p>Matters reported by the GM Treasury include</p> <ul style="list-style-type: none"> ▶ Funding Gap analysed through Maturity Gap Analysis ▶ Foreign Currency Position ▶ Inter company Exposures ▶ Cost of funds ▶ Investments ▶ Borrowings <p>The lending rates are also periodically reviewed by the ALCO in line with regulatory requirements and market trends. Credit facilities are approved based on rates decided by the ALCO within the delegated authority limits.</p> <p>The Company is in the process of strengthening this area: Treasury dealer limits have already been established and approved by the Board. Furthermore a new treasury management system has been implemented which would cover Limit for total Net Open Position (NOP) USD/LKR intraday and overnight limits; Limits for Total Net Open Position of other currencies; Aggregate Gap Limits (AGL); Loss limits for FX operations; -Loss Limits on Marking to Market (MtM) and counter party limits.</p>
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.	<p>Complied with</p> <p>Decisions taken at Committee Meetings are followed up by the ERM team.</p> <p>All reported risks are constantly monitored and remedial corrective action is taken if an adverse movement of the risk is evident.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
e.	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with 4 meetings were held during the financial year 2014/15.
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.	Complied with Specific risks and limits are identified by the IRMC and decisions are taken collectively. Moreover a formal documented disciplinary action procedure involving Internal Audit & HR is in place.
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.	Complied with The CRO submits a summary report to the Members of the Board within 7 days after the committee meeting. This includes the risks discussed at IRMC meeting, mitigation actions proposed by ERM and the responses received from the risk owners. Further, approved Committee minutes are tabled at the subsequent Board meeting seeking the board's views and specific 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.	Complied with A Compliance Officer has been appointed by the Board. She monitors compliance of CBSL rules, regulations and directions issued under the Finance Business Act and submits a monthly compliance report to the Board for their review. Monitoring compliance of other applicable laws, internal controls and approved policies on all areas of business operations is carried out by the ERM division under the supervision of the CRO. This function will be further strengthened by the Compliance Officer in assessing compliance with internal controls, policies and procedures on all areas of business operations.

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
9	Related party transactions	
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"> a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A director of the finance company; d) A key management personnel of the finance company; e) A relative of a director or a key management personnel of the finance company ; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; 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. 	<p>9.2-9.4 Complied with</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 and to enable directors to take measures 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.</p> <p>Further, Directors are individually requested to declare their transactions with the company at each Board meeting and in the annual declaration.</p> <p>A Board approved procedure is in place to ensure that the Directors and the CEO make relevant disclosures in a timely manner, in the event they make an acquisition or disposal of shares in the entity, to facilitate making an announcement to the CSE within five market days upon such acquisition or disposal.</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"> a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) providing financial or non-financial services to the finance company or obtaining those services from the finance company, 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. 	

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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> <p>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.</p> <p>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;</p> <p>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;</p> <p>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</p> <p>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.</p>	<p>The Board has appointed a Related Party Transaction Review Committee comprising the following membership: Dr. H Cabral - Committee Chairman/ Senior Independent Director W D K Jayawardena - Non Executive Chairman Mrs. K U Amarasinghe - Executive Director B C G de Zylva - Managing Director R Perera - General Manager Treasury J Kelegama - Chief Credit Officer I Iqbal - Head of Finance</p> <p>The Committee was formed in order to adhere to the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities & Exchange Commission of Sri Lanka under sections 13 (c) of the SEC Act No. 36 of 1987 (as amended). Under the said direction all public listed companies were required to adopt the code with effect from 1st January 2014 on a voluntary basis for an initial period of two years from the effective date.</p> <p>During the financial year, the Committee has held two meetings.</p> <p>The Company will further strengthen the favourable treatment monitoring mechanism by implementing an on-line system.</p>

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
10	Disclosures	
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.	<p>Complied with</p> <p>The financial statements are prepared in accordance with the new Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators.</p> <p>Annual financial statements are disclosed in the annual report; biannual (unaudited) financial statements are published in newspapers in all three languages and the quarterly statements are posted on CSE website.</p>
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.	<p>Complied with</p> <p>Please refer the Directors Report on pages 74 to 76.</p>
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.	<p>Complied with</p> <p>Please refer the Directors Statement on Internal Controls Over Financial Reporting on page 78.</p>
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.	<p>Complied with</p> <p>The Company has obtained a certification from M/s Ernst & Young, Chartered Accountants on the effectiveness of the internal controls over financial reporting.</p>

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance						
d.	Details of directors, including names, transactions with the finance company.	<p>Complied with</p> <ul style="list-style-type: none">▶ Directors names and details are given in pages 18 to 21.▶ Transactions with directors during the year are as follows: <table><tr><th>Description</th><th>Amount (Rs.)</th></tr><tr><td>Deposits held with the Company</td><td>658,340,389</td></tr><tr><td>Interest paid on deposits</td><td>117,466,247</td></tr></table>	Description	Amount (Rs.)	Deposits held with the Company	658,340,389	Interest paid on deposits	117,466,247
Description	Amount (Rs.)							
Deposits held with the Company	658,340,389							
Interest paid on deposits	117,466,247							
e.	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	<p>Complied with</p> <p>Please refer the Directors Report on page 74.</p>						
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.	<p>Complied with</p> <p>Net accommodations granted to each category of related parties as a percentage of capital funds of the Company at the year-end:</p> <table><tr><td>Entities in which the Parent of the Company has a substantial interest</td><td>12.64%</td></tr><tr><td>Key Management Personnel</td><td>0.28%</td></tr></table>	Entities in which the Parent of the Company has a substantial interest	12.64%	Key Management Personnel	0.28%		
Entities in which the Parent of the Company has a substantial interest	12.64%							
Key Management Personnel	0.28%							
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.	<p>Complied with</p> <p>Please refer page 150, Note 34.2.1</p>						

CORPORATE GOVERNANCE *contd.*

Direction No.	Reference to the Finance Companies Corporate Governance Direction No. 3 of 2008	LOFC's Level of compliance
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.	Complied with Status of compliance with prudential requirements, regulations and laws are in the Directors report set out in pages 74 to 76.
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.	Complied with 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.
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.	Complied with The Company has engaged the services of the external auditors to assess the company's level of compliance with the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board.

Section No.	Rules of the Colombo Stock Exchange	LOFC's Level of compliance
7.10	Corporate Governance	
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 the Colombo Stock Exchange, as explained below.
7.10.1	Non-Executive Directors 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.	Complied with As at 31 st March 2015 the Board comprised 7 directors of whom 4 were non executive directors
7.10.2	Independent Directors 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 no executive directors appointed to the Board, whichever is higher shall be independent.	Complied with As at 31 st March 2015 the Board comprised 3 independent directors from whom signed declarations of independence were obtained.
7.10.3-4	Directors disclosures Annual determination as to the independence or non independence of each non executive director	Complied with The Board has reviewed and satisfied itself as to the independent/ non independent status of the non executive directors. Please refer directors profiles on pages 18 to 21.
7.10.5	Remuneration Committee 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	Complied with As at 31 st March 2015 the Committee comprised 3 non executive directors, of whom 2 were independent. Please refer committee report on page 82.
7.10.6	Audit Committee 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.	Complied with As at 31 st March 2015 the Committee comprised 3 non executive directors, of whom 2 were independent. Please refer committee report on page 79.

CORPORATE GOVERNANCE *contd.***Member Attendance at Meetings****Board Meetings**

Name of Director	IN	NI	EX	NEX	Meeting Dates												Total
					23/04/2014	28/05/2014	25/06/2014	23/07/2014	14/08/2014	24/09/2014	22/10/2014	11/11/2014	17/12/2014	28/01/2015	09/02/2015	25/03/2015	12
Mr. W D K Jayawardena		X		X	1	1	1	1	1	1	1	1	1	1	1	1	12
Mr. I C Nanayakkara			X		0	0	1*	0	1*	1*	1*	1*	1*	1*	1*	1*	9
Mrs. K U Amarasinghe			X		1	0	1	1	1	1	1	1	1	1	1	1	11
Dr. H Cabral, PC	X			X	0	1	1	0	1	1	1	1	1	1	1	1	10
Mrs. D P Pieris	X			X	1	1*	1	1	1*	1*	1	1*	1	1*	1*	1	12
Justice R K S Suresh Chandra	X			X	0	1*	1*	0	1*	1	1*	1*	1	1*	1*	1*	10
Mr. B C G De Zylva			X		1	1	1	1	1	1	1	1	1	1	1	1	12

Audit Committee Meetings

Name of Director	IN	NI	EX	NEX	Meeting Dates					Total
					28/05/2014	14/08/2014	24/09/2014	11/11/2014	09/02/2015	05
Mr. W D K Jayawardena		X		X	1	1	1	1	1	05
Dr. H Cabral, PC	X			X	1	1	1	1	1	05
Mrs. D P Pieris	X			X	1*	1*	1*	1*	1*	05
Mr. M D D Pieris (Senior Advisor)					1	1	1	1	1	05
Mr. B C G De Zylva (CEO)			X		1	1	1	1	1	05
Mr. I Iqbal (Head of Finance)					1	1	1	1	1	05

Integrated Risk Management Committee Meetings

Name of Director	IN	NI	EX	NEX	Meeting Dates				Total
					23/04/2014	23/07/2014	22/10/2014	28/01/2015	04
Dr. H Cabral, PC	X			X	0	0	1	1	02
Mr. M D D Pieris (Senior Advisor)					1	1	1	1	04
Mr. B C G de Zylva			X		1	1	1	1	04

Nomination Committee Meetings

Name of Director	IN	NI	EX	NEX	Meeting Dates	Total
					25/03/2015	01
Dr. H Cabral, PC	X			X	1	01
Mr. I C Nanayakkara			X		1	01
Mr. M D D Pieris (Senior Advisor)					1	01

Related Party Transactions Review Committee Meetings

Name Of Director	IN	NI	EX	NEX	Meeting Dates		Total
					11/11/2014	09/02/2015	02
Dr. H Cabral, PC	X			X	1	1	02
Mr. W D K Jayawardene		X		X	1	1	02
Mrs. K U Amarasinghe			X		1	1	02
Mr. M D D Pieris (Senior Advisor)					1	1	02
Mr. B C G de Zylva			X		1	1	02

* Present by Alternate



We have been greatly lauded for our efforts, and encouraged to continue our winning streak

FINANCIAL REPORTS

Contents

Directors Report	74	Independent Auditor's Report	87
Directors' Statement on Internal Control		Statement of Financial Position	88
Over Financial Reporting	78	Statement of Profit or Loss and	
Audit Committee Report	79	Other Comprehensive Income	90
Integrated Risk Management Committee	81	Statement of Changes in Equity	91
Remuneration Committee Report	82	Cash Flow Statement	92
Nomination Committee Report	83	Notes to the Financial Statements	94
Related Party Transaction Review Committee Report	84	Supplementary Financial Information	
Chief Executive Officer's and		- Islamic Business Unit	154
Chief Financial Officer's Responsibility Statement	85	Financial Information for Last Five Years	163
Directors' Responsibility for Financial Reporting	86	Quarterly Financial Information	165

DIRECTORS REPORT

The Directors have pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31st March 2015.

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. Mr. W D K Jayawardena	Chairman - Non Executive Director
2. Mr. I C Nanayakkara	Deputy Chairman - Executive Director (alternate to Mrs. K U Amarasinghe)
3. Mrs. K U Amarasinghe	Executive Director (alternate to Mr. I C Nanayakkara)
4. Dr. H Cabral, PC	Senior Independent Director (alternate to Justice RKS Suresh Chandra & Mrs. D P Pieris)
5. Mrs. D P Pieris	Non Executive Independent Director
6. Justice R K S Suresh Chandra	Non Executive Independent Director
7. Mr. B C G De Zylva	Managing Director /CEO

Recommendations for re-election of Directors

In terms of Article 75 of the Articles of Association Mr I C Nanayakkara and Mrs K U Amarasinghe retire by rotation at the Annual General Meeting of the Company and offer themselves for re-election. The Board recommends their re-election.

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 companies on which these Directors serve are included on pages 76 to 77.

Directors' remuneration

The Company paid Rs. 37,831,375/- as Directors' remuneration for the financial year ended 31st March 2015.

Directors' Shareholding

Directors Name	As at 31.03.2015	As At 31.03.2014
1. Mr. W D K Jayawardena	Nil	Nil
2. Mr. I C Nanayakkara	Nil	Nil
3. Mrs. K U Amarasinghe	Nil	Nil
4. Dr. H Cabral, PC	Nil	Nil
5. Mrs. D P Pieris	1,000,000	1,000,000
6. Justice R K S Suresh Chandra	Nil	Nil
7. Mr. B C G De Zylva	Nil	Nil

Meetings of the Board of Directors

Twelve scheduled monthly meetings were held during the year. A schedule of Directors' attendance at Board Meetings and Sub Committee Meetings has been included on pages 70 to 71.

Board Sub Committees

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

- ▶ Audit Committee
- ▶ Integrated Risk Management Committee
- ▶ Remuneration Committee
- ▶ Nomination Committee
- ▶ Related Party Transaction Review Committee

The reports of these Committees can be found on pages 79 to 84.

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.

Currently Islamic Finance products are offered at all branches of the Company approved by the Central Bank of Sri Lanka which includes five dedicated centres.

Financial Statements & Auditor's Report and Directors' Responsibility for Financial Reporting

The financial statements and the auditors report are given on pages 87 to 153.

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 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.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the financial statements and any changes thereof where applicable have been included in the Notes to the Financial Statements on pages 94 to 110.

Corporate Governance

LOFC is governed by the requirements of the Finance Companies (Corporate Governance) Direction No. 3 of 2008

and the Listing Rules of the Colombo Stock Exchange and subsequent amendments thereto.

The manner in which LOFC ensures adherence with the above requirements has been disclosed on pages 39 to 71.

Transactions with related parties

Details of related party transactions are disclosed in the Financial Statements on pages 149 to 151.

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.

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 2015/2016 at a fee to be decided by the Board.

The auditors remuneration for the year ended 31st March 2015 is disclosed under note 27 to the financial statements on page 143.

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

DIRECTORS REPORT *contd.*

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.

Events after the reporting date

No circumstances have arisen since the reporting date that would require disclosure.

Change of Company Name


In keeping with the LOLC Group strategy of rationalising the names of group companies the Directors recommend that the Company's name be changed from 'Lanka ORIX Finance PLC' to 'LOLC Finance PLC'. The consent of the Central Bank of Sri Lanka and of the Registrar of Companies has been obtained for the said name change.

The approval of the shareholders will be sought at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will be held on 25th August 2015 at 11.00 am at Park Premier Banquet Hall, Excel World Entertainment Park, No. 338, T.B. Jayah Mawatha, Colombo 10. Should you be unable to attend, please complete the proxy form in the manner instructed therein and return it to the Company.

For and on behalf of the
Board of Directors of Lanka ORIX Finance PLC



B C G De Zylva
Managing Director/ CEO

Rajagiriya
24th June 2015

Directorships held by the Directors

Mr. W D K
Jayawardena

Chairman:

LOLC Insurance Company Limited
LOLC Securities Ltd
Lanka ORIX Finance PLC
Eden Hotel Lanka PLC
LOLC General Insurance Limited
Palm Garden Hotels PLC

Managing Director/ Group CEO:

Lanka ORIX Leasing Company PLC

Director:

LOLC Micro Credit Limited
Commercial Leasing & Finance PLC
Brown & Co. PLC
Browns Investments PLC
Riverina Resorts (Pvt) Ltd
BRAC Lanka Finance PLC
Seylan Bank PLC
Pusselawa Plantation Limited
FLC Holdings PLC
FLC Hydro Power PLC
F L M C Plantations (Pvt) Ltd

Mr. I C Nanayakkara	<p>Chairman: Commercial Leasing & Finance PLC Brown & Company PLC LOLC Micro Credit Limited Browns Investments PLC BRAC Lanka Finance PLC FLC Holdings PLC FLC Hydro Power PLC</p> <p>Deputy Chairman: Lanka ORIX Leasing Company PLC Lanka ORIX Finance PLC Seylan Bank PLC</p> <p>Director: PRASAC Micro Finance Institute Sierra Constructions Limited Agstar Fertilizers (Private) Limited LOLC Myanmar Microfinance Co. Ltd Associated Battery Manufacturers (Ceylon) Ltd Lanka Century Investments PLC F L M C Plantations (Pvt) Ltd Pussellawa Plantations Ltd Ceylon Estate Teas (Pvt) Ltd</p>	Dr. Harsha Cabral, PC	<p>Chairman: Tokyo Cement Company (Lanka) PLC Tokyo Super Cement Co (Private) Ltd Tokyo Cement Power Co. Ltd Tokyo Eastern Cement company Ltd</p> <p>Director: Diesel & Motor Engineering PLC (DIMO) Richard Pieris & Co. Distributors Ltd Hayleys PLC Lanka ORIX Finance PLC Commercial Leasing & Finance PLC Hambana Petro Chemicals Ltd Alumex PLC Browns Investments PLC BRAC Lanka Finance PLC Just in Time Consultancy (Pvt) Ltd Imperial Institute of Higher Education (Pvt) Ltd</p>
Mrs. K U Amarasinghe	<p>Director: Commercial Leasing & Finance PLC Lanka ORIX Finance PLC Lanka ORIX Leasing Company PLC LOLC Insurance Company Limited LOLC Micro Credit Limited Eden Hotel Lanka PLC Palm Garden Hotels PLC Brown & Co. PLC Browns Investments PLC Riverina Resorts (Pvt) Ltd FLC Hydro Power PLC FLC Holdings PLC Pussellawa Plantations Ltd Melfort Green Teas (Private) Ltd FLMC Plantations (Pvt) Ltd</p>	Mrs. D P Pieris	<p>Chairman: PW Corporate Secretarial (Pvt) Ltd</p> <p>Director: Lanka ORIX Finance PLC Asia Asset Finance PLC Sithijaya Fund Ltd Asian Centre for Lease Education Associated Electrical Corporation Ltd Abans Electricals PLC MTN Corporate Consultants (Pvt) Ltd</p> <p>Alternate Director: Asia Capital PLC</p>
		Justice R K S Suresh Chandra	<p>Director: Lanka ORIX Finance PLC</p>
		Mr. B C G De Zylva	<p>Managing Director/ CEO: Lanka ORIX Finance PLC</p> <p>Director: Financial Ombudsman Sri Lanka Limited Navajeevana Rehabilitation - Tangalle Finance Houses Association of Sri Lanka</p>

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Responsibility

In line with the section 10(2)(b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the Internal Control over Financial Reporting in place at Lanka ORIX Finance PLC. ("the Company").

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company is continuously improving the processes and procedures in line with the industry best practices and regulatory reporting requirements. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

Confirmation

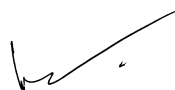
Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of

Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the Statement by External Auditors

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting. The matters addressed by the External Auditor's in this respect, will be taken in to consideration & appropriate steps will be taken to incorporate same, where applicable.

By order of the Board



W D K Jayawardena
Chairman



B C G de Zylva
Managing Director / CEO

24th June 2015

AUDIT COMMITTEE REPORT

The Audit Committee was established for the purpose of assisting the Board in fulfilling their responsibilities relating to financial governance. The Committee comprises three Non-Executive Directors, two of whom are independent, and one senior advisor.

W D K Jayawardane	Committee Chairman (Non Executive Director)
Dr. H Cabral, PC	Senior Independent Director
Mrs. D P Pieris	Independent Non Executive Director
M D D Pieris	Senior Adviser

The Audit Committee is governed by the Audit Charter which defines its terms of reference. The composition and scope of the committee meets the requirements set out in the Finance Companies Corporate Governance Direction No 3 of 2008 and the Listing Rules of the Colombo Stock Exchange. The Committee Charter was last reviewed and revised by the Board in February 2014. The Audit Committee Chairman counts over thirty years' experience in Banking, Financial Management and Corporate Management and holds a Master's degree in Business Administration, from the American University of Asia. He is a Fellow member of the Institute of Bankers and an Associate of the Institute of Cost and Executive Accountants, London.

The Committee has been mandated to ensure that a sound Financial Reporting System is established by: reviewing the appropriateness of procedures in place for the identification, evaluation and management of business risks; ensuring that internal controls relating to all areas of operations, including Human Resources and IT enhance good governance while not impeding business; seeking assurance that agreed control systems are in place, are operating efficiently and are regularly monitored; ensuring that appropriate controls are put in place

prior to the implementation of significant business changes, facilitating monitoring of the changes; reviewing internal and external audit functions; and ensuring compliance with applicable laws, regulations, listing rules and established policies of the Company.

During the year under review the Committee reviewed interim and annual financial statements prior to publication, checking and recommending changes in accounting policies, significant estimates and judgments made by the management, compliance with relevant accounting standards/regulatory requirements, and issues arising from internal and external audit.

Effectiveness of the Company's internal controls was 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. On behalf of the Audit Committee, the Internal Auditor performs a comprehensive exercise that entails reviewing of all aspects of MIS including operational and regulatory risks.

The Committee addressed the external auditors findings reported in the Management Letter relating to the previous financial year's (2013/14) audit.

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 Committee meets quarterly and additional meetings are held as and when a need arises. 05 meetings were held during

AUDIT COMMITTEE REPORT *contd.*

the year and the members' attendance at Audit Committee meetings is provided on page 70. The CEO and the Head of Finance were present at these meetings. Minutes of such meetings which include details of matters discussed are reported regularly at Board meetings. The audit partner was invited to attend all 05 meetings and on two occasions the auditors were able to meet with the Audit Committee members without the presence of the other directors and members of the management.



W D K Jayawardena

Chairman

Audit Committee

Rajagiriya

24th June 2015

INTEGRATED RISK MANAGEMENT COMMITTEE

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the Company. The Committee comprises the following members:

Dr. H Cabral, PC	Committee Chairman (Senior Independent Director)
M D D Pieris	Senior Adviser
B C G de Zylva	Managing Director/CEO
Mrs. S Wickremasekera	Chief Risk Officer
Mrs. S Kotakadeniya	Chief Financial Officer
J Kelegama	Chief Credit Officer
R Perera	Group Treasurer
C Dias	Chief Information Officer

The IRMC has adopted the provisions of section 8 (3) of the Finance Companies Corporate Governance Direction No. 3 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka as its Terms of Reference. The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction.

Credit, Operational, Market and Liquidity Risks are monitored by divisional heads and reported to the Chief Risk Officer on a monthly basis. These risks are then reviewed and assessed monthly by the Chief Risk Officer and summarised reports are submitted quarterly to the Committee for concurrence and/or specific directions in order to ensure that the risks are managed appropriately.

As delegated by the Committee the Chief Risk Officer submits a risk assessment report to the Board, subsequent to each meeting within a week of each meeting, stating the risk mitigation actions pursued and seeking the Board's views. In addition proceedings of meetings are also tabled at a subsequent meeting of the Board. The Committee works closely with the key

management personnel and the Board in fulfilling its duties in risk management. During the year the Committee reviewed risk indicators designed to monitor the level of specific risks, with a view to determining the adequacy of such indicators; reviewed actual results computed monthly against each risk indicator and took prompt corrective action to mitigate the effects of the specific risk; reviewed the effectiveness of the compliance function to assess the Company's compliance with laws, regulatory guidelines, internal controls and approved policies in all areas of business operations.

During the year the Committee met 4 times on a quarterly basis. The attendance of members at meetings is stated on page 71.



Dr. H Cabral, PC

Chairman

Integrated Risk Management Committee

Rajagiriya

24th June 2015

REMUNERATION COMMITTEE REPORT

The Remuneration Committee was established to assist the Board in evaluating and recommending remuneration for Board Members including the Managing Director. The Committee comprises three Non-Executive Directors, of whom two are independent.

W D K Jayawardena	Committee Chairman/Non Executive Director
Dr. H Cabral, PC	Senior Independent Director
Justice R K S S Chandra	Independent Non Executive Director

The Remuneration Committee is governed by its Remuneration Policy which has vested it with powers to evaluate, assess and recommend to the Board for approval any fee, remuneration and ex gratia to be paid out to its directors including the Chief Executive Officer based on: the need of the Company to be competitive; the need to attract, motivate and retain talent; and the need to encourage and reward high levels of performance and achievement of corporate goals and objectives. The composition of the Committee meets the requirements set out in the Listing Rules of the Colombo Stock Exchange.

The Committee is responsible for 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 nonexecutive directors including alternate directors and recommending these to the Board for adoption.

All independent directors and the senior advisors receive a fee for attending board meetings and committee meetings. They do not receive any performance or incentive payments. Directors' emoluments have been disclosed on page 143.

There were no Remuneration Committee meetings held during the year under review.



W D K Jayawardena
Chairman
Remuneration Committee

Rajagiriya
24th June 2015

NOMINATION COMMITTEE REPORT

The Nomination Committee was established to assist the Board in assessing the skills required and recommending Director Nominees for election to the board (subject to ratification by the shareholders) and to nominate members to its sub committees to effectively discharge their duties and responsibilities.

The three-member Committee comprises one Independent Director, one Executive Director and one senior advisor. Its meetings are chaired by the independent director to ensure that its responsibilities are discharged effectively.

Dr. H Cabral, PC	Committee Chairman Senior Independent Director
I C Nanayakkara	Executive Director
M D D Pieris	Senior Advisor

The Board established this Committee voluntarily and its charter defines its purpose including the following duties and responsibilities:

- (1) Assisting the Board in identifying qualified individuals to become Board members and determining the composition of the Board of Directors and its committees;
- (2) Oversight of the evaluation of the Board and its Committees, as well as senior management of the company, including succession planning;
- (3) Annually review the composition of each sub-committee and present recommendations/nominations for committee memberships to the Board.
- (4) Maintain records & minutes of meetings and activities of the Committee.
- (5) Perform any other activities consistent with this Charter, and the scope of the Nomination committee or as deemed necessary and appropriate by the Committee and the Board.

During the year the Committee assessed the composition of the Board and its sub committees and was satisfied that the requirements of the relevant regulations of the CBSL and CSE had been fulfilled.

One Committee meeting was held during the year under review and proceedings of the meeting were reported to the Board. Attendance of the committee members at the meeting is on page 71.



Dr. H Cabral, PC
Chairman
Nomination Committee

Rajagiriya
24th June 2015

RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

On 26th February 2014 the Board appointed a Related Party Transaction Review Committee comprising the following membership:

Dr. H Cabral, PC	Committee Chairman/ Senior Independent Director
W D K Jayawardena	Non Executive Director
Mrs. K U Amarasinghe	Executive Director
B C G de Zylva	Managing Director/CEO
R Perera	General Manager Treasury
J Kelegama	Chief Credit Officer
I Iqbal	Head of Finance

The Committee was formed in order to adhere to the Code of Best Practice on Related Party Transactions (RPTs) issued by the Securities & Exchange Commission of Sri Lanka under sections 13 (c) of the SEC Act No. 36 of 1987 (as amended). Under the said direction all public listed companies were required to adopt the code with effect from 1st January 2014 on a voluntary basis for an initial period of two years from the effective date.

The Committee has reviewed six related party transactions of the Company and recommended same for Board approval. Two Committee meetings were held during the year. The attendance of members at meetings is stated on page 71.



Dr. H Cabral, PC

Chairman

Related Party Transaction Review Committee

Rajagiriya

24th June 2015

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements are prepared in compliance with the Sri Lankan Financial Reporting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka. The requirements of the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

Accordingly, the company has prepared Financial Statements which comply with SLFRS/ LKASs and related interpretations applicable for period ended 31st March 2015, together with the comparative period data as at and for the year ended 31st March 2014, as described in the accounting policies.

We accept responsibility for the integrity and accuracy of these Financial Statements. Significant accounting policies have been applied consistently. Application of significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the external auditors. Estimate and judgment relating to the financial statements were made on a prudent and reasonable basis, in order to ensure that the financial statements are true and fair. To ensure this, our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the company were consistently followed.

We confirm that to the best of our knowledge, the Financial Statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of

the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

The Financial Statements were audited by Messrs. Ernst & Young, Chartered Accountants, the Independent Auditors. The Audit Committee pre - approves the audit and non-audit services provided by Ernst & Young in order to ensure that the provision of such services does not impair Ernst & Young's independence and objectivity. The Audit Committee also reviews the external audit plan and the management letters and follows up on any issues raised during the statutory audit. The Audit Committee also meets with the external and internal auditors to review the effectiveness of the audit.

We confirm that the company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the company other than those arising in the normal course of conducting business.



Ms. Sunjeevani Kotakadeniya
Chief Financial Officer - LOLC Group



Brindley de Zylva
Managing Director/Chief Executive Officer

24th June 2015

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors confirm that the Company's Financial Statements for the year ended 31st March 2015, 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, the Listing Rules of the Colombo Stock Exchange 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 Financial Statements comprise the Statement of Financial Position as at 31st of March 2015, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended and notes thereto.

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 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 reporting 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 87.



Brindley de Zylva
Managing Director/Chief Executive Officer

24th June 2015

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
Chartered Accountants
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Colombo 10
Sri Lanka

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eysl@lk.ey.com
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APAG/DLH/JJ

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, ('the Company'), which comprise the statement of financial position as at 31 March 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, set out on pages 88 to 153.

Board's Responsibility for the Financial Statements

The Board of Directors ('Board') is responsible for the preparation of these Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate

in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company as at 31 March 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
 - ▶ we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
 - ▶ the financial statements of the Company comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

24th June 2015
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

A member firm of Ernst & Young Global Limited

STATEMENT OF FINANCIAL POSITION

As at 31 st March 2015	Note	2015 Rs.	2014 Rs.
ASSETS			
Cash and bank balances	31.1	2,975,305,230	3,236,379,885
Deposits with banks and other financial institutions		761,095,291	466,476,354
Investment in government securities	3	5,900,717,853	4,936,822,120
Derivative assets	4.1	2,740,000	13,571,650
Rentals receivable on leased assets	5	13,150,375,843	10,836,503,291
Hire purchases, loans and advances	6	36,647,328,869	28,828,434,804
Factoring receivable	7	6,200,201,741	3,279,930,621
Margin trading receivables	8	293,711,960	123,408,390
Other receivables	9	639,352,319	1,418,032,772
Investments in shares	10	8,843,275	9,043,275
Amount due from related companies	11	2,882,510	5,930,266
Inventories		-	12,080,000
Investment properties	12	1,142,800,000	215,173,229
Property plant and equipment	13	136,544,681	50,142,822
Total assets		67,861,899,570	53,431,929,480
LIABILITIES			
Bank overdraft	31.2	2,333,062,400	1,136,163,365
Interest bearing borrowings	14	11,040,027,979	823,837,756
Deposits from customers	15	41,309,960,471	42,617,799,696
Trade payables	16	645,905,072	328,986,492
Accruals and other payables	17	822,440,615	494,314,160
Derivative liabilities	4.2	57,514,900	8,104,150
Amount due to related companies	18	2,453,097,016	649,310,359
Current tax payable	29.1	434,425,679	282,717,688
Deferred tax liability	29.2	761,419,624	548,717,682
Employee benefits	19.2	10,450,090	8,008,415
Total liabilities		59,868,303,846	46,897,959,764

As at 31 st March 2015	Note	2015 Rs.	2014 Rs.
SHAREHOLDER'S FUNDS			
Stated capital	20	2,000,000,000	2,000,000,000
Statutory reserve	21.1	953,676,506	879,497,395
Investment fund reserve	21.2	-	391,850,336
Available for sale investment reserve	21.3	86,036,783	109,792,742
Retained earnings	21.4	4,953,882,436	3,152,829,244
Total equity		7,993,595,725	6,533,969,716
Total liabilities and equity		67,861,899,570	53,431,929,480

The annexed notes to the financial statements on pages 94 through 153 form an integral part of these financial statements.

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



Mrs. S.S. Kotakadeniya
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 by:



W.D.K. Jayawardena
Chairman



B.C.G. de Zylva
Managing Director

24th June 2015
Rajagiriya (Greater Colombo)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31st March 2015	Note	2015 Rs.	2014 Rs.
Interest income	22	10,871,226,902	10,515,811,362
Interest expense	23	(4,978,311,703)	(6,125,280,315)
Net interest income		5,892,915,199	4,390,531,047
Net other operating income	24	1,269,830,788	971,588,812
Direct expenses excluding interest cost	25	(428,891,690)	(297,539,370)
Allowance for impairment & write-offs	26	(1,497,302,317)	(1,371,346,099)
Personnel expenses	27.1	(897,363,959)	(687,105,875)
Depreciation		(12,166,033)	(3,823,251)
General & administration expenses		(1,860,446,851)	(1,390,607,706)
Profit from operations	27	2,466,575,137	1,611,697,558
Value added tax on financial services		(240,226,291)	(169,274,189)
Profit before income tax expense		2,226,348,846	1,442,423,369
Income tax expense	29	(742,766,624)	(442,124,062)
Profit for the year		1,483,582,221	1,000,299,308
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit liability - gain / (loss)	19.2	(278,131)	(2,998,913)
Related tax	29	77,877	1,129,723
		(200,254)	(1,869,190)
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets :			
Net change in fair value	3.3	(23,755,959)	113,725,676
Net amount transferred to profit or loss	3.3	-	(1,816,142)
		(23,755,959)	111,909,534
Total other comprehensive income, net of tax		(23,956,213)	110,040,344
Total comprehensive income for the year		1,459,626,008	1,110,339,651
Basic earnings per share	30.1	0.53	0.36

The annexed notes to the financial statements on pages 94 through 153 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs.	Statutory Reserve Rs.	Investment Fund Reserve Rs.	Available for Sale Investment Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Year ended 31st March 2015						
Balance as at 1st April 2013	2,000,000,000	679,437,533	287,762,044	(2,116,792)	2,458,547,280	5,423,630,065
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,000,299,308	1,000,299,308
Other comprehensive income, net of income tax						
Net change in fair value	-	-	-	111,909,534	-	111,909,534
Remeasurements of defined benefit liability - gain / (loss)	-	-	-	-	(1,869,190)	(1,869,190)
	-	-	-	111,909,534	(1,869,190)	110,040,344
Total comprehensive income for the year	-	-	-	111,909,534	998,430,117	1,110,339,651
Transactions recorded directly in equity						
Transfer to Investment Fund Reserve	-	-	104,088,292	-	(104,088,292)	-
Transfer to Statutory Reserve Fund	-	200,059,862	-	-	(200,059,862)	-
Total transactions recorded directly in equity	-	200,059,862	104,088,292	-	(304,148,154)	-
Balance as at 31st March 2014	2,000,000,000	879,497,395	391,850,336	109,792,742	3,152,829,244	6,533,969,716
Balance as at 1st April 2014	2,000,000,000	879,497,395	391,850,336	109,792,742	3,152,829,244	6,533,969,716
Total comprehensive income for the year						
Profit for the Year	-	-	-	-	1,483,582,221	1,483,582,221
Other comprehensive income, net of income tax						
Net change in fair value	-	-	-	(23,755,959)	-	(23,755,959)
Remeasurements of defined benefit liability - gain / (loss)	-	-	-	-	(200,254)	(200,254)
	-	-	-	(23,755,959)	(200,254)	(23,956,213)
Total comprehensive income for the year	-	-	-	(23,755,959)	1,483,381,967	1,459,626,008
Transactions recorded directly in equity						
Transfer to Investment Fund Reserve	-	-	32,935,748	-	(32,935,748)	-
Transferred to retained earnings during the year	-	-	(424,786,084)	-	424,786,084	-
Transfer to Statutory Reserve Fund	-	74,179,111	-	-	(74,179,111)	-
Total transactions recorded directly in equity	-	74,179,111	(391,850,336)	-	317,671,225	-
Balance as at 31st March 2015	2,000,000,000	953,676,506	-	86,036,783	4,953,882,436	7,993,595,725

The annexed notes to the financial statements on pages 94 through 153 form an integral part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 st March 2015	Note	2015 Rs.	2014 Rs.
Cash flows from operating activities			
Profit before income tax expense		2,226,348,846	1,442,423,369
Adjustments for:			
Depreciation	13	12,166,033	3,823,251
Change in fair value of derivatives - forward contracts	4.3	60,242,400	(43,628,499)
Provision for fall / (increase) in value of investments	10.1	200,000	(1,900,000)
Impairment provision for the period	26	631,168,807	199,081,965
Provision for payables to clients	24	16,017,150	67,378,007
Change in fair value of investment property	12	(139,964,690)	(58,361,007)
Provision for defined benefit plans	19.2.a	3,126,017	1,984,811
Investment income	24	(611,873,253)	(637,269,569)
Finance costs	23	4,978,311,703	6,125,280,315
Operating profit before working capital changes		7,175,743,013	7,098,812,644
Change in other receivables		92,623,598	(108,621,552)
Change in inventories		12,080,000	(12,080,000)
Change in real estate stocks		-	2,598,484
Change in trade and other payables		629,027,885	(364,050,705)
Change in amounts due to/ due from related parties		1,806,834,413	583,973,502
Change in factoring receivables		(2,955,425,790)	270,221,432
Change in lease receivables		(1,905,624,582)	(470,506,833)
Change in hire purchase, loans and advances		(8,699,282,677)	(3,741,112,873)
Change in margin trading advances		(32,688,227)	(110,896,376)
Change in fixed deposits from customers		(1,592,806,882)	9,895,048,994
Change in savings deposits from customers		61,342,947	372,420,138
Cash (used in) / generated from operations		(5,408,176,301)	13,415,806,853
Finance cost paid on deposits		(4,269,028,902)	(4,903,855,441)
Gratuity paid	19.2	(962,473)	(1,525,780)
Income tax paid	29.1	(378,278,815)	(203,484,526)
Net cash from / (used in) operating activities		(10,056,446,491)	8,306,941,106

Year ended 31 st March 2015	Note	2015 Rs.	2014 Rs.
Cash flows from investing activities			
Acquisition of property, plant & equipment		-	(53,966,073)
Net proceeds from investments in term deposits		(294,618,937)	(51,842,724)
Net proceeds from investments in government securities		(987,651,691)	(1,445,932,169)
Interest received		611,873,253	637,269,569
Net cash flows used in investing activities		(670,397,375)	(914,471,397)
Cash flows from financing activities			
Net proceeds from interest bearing loans & borrowings		4,756,448,137	(5,134,816,255)
Proceeds from issue of debentures		5,000,000,000	-
Lease rentals paid - principal		(54,189,936)	(18,678,032)
Finance cost paid on borrowings		(433,388,020)	(998,350,223)
Net cash flows from / (used in) financing activities		9,268,870,181	(6,151,844,510)
Net increase / (decrease) in cash and cash equivalents		(1,457,973,690)	1,240,625,200
Cash and cash equivalents at the beginning of the period		2,100,216,520	859,591,320
Cash and cash equivalents at the end of the period	31	642,242,830	2,100,216,520

The annexed notes to the financial statements on pages 94 through 153 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

1.1 REPORTING ENTITY

1.1.1 Corporate Information

Lanka ORIX Finance PLC ('the Company') is a quoted public company with limited liability incorporated on 13th December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No. 100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

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. 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.

1.1.2 Parent entity and Ultimate Parent Company

The Company's immediate and ultimate parent undertaking and controlling entity is Lanka ORIX Leasing Company PLC, which is incorporated in Sri Lanka.

1.1.3 Principal Activities and Nature of Operations

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

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.1.4 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.

1.1.5 Number of Employees

The staff strength of the Company as at 31st March 2015 was 642 (2014 - 563).

1.2 BASIS OF PREPARATION

1.2.1 Statement of Compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No. 42 of 2011 and the listing rules of the Colombo Stock Exchange.

These Financial Statements include the following components:

- ▶ a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review;
- ▶ a Statement of Financial Position providing the information on the financial position of the Company as at the year-end;
- ▶ a Statement of Changes in Equity depicting all changes in shareholders of Changes in Equity and depicting all changes the Company;
- ▶ a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows; and
- ▶ Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

1.2.2 Date of Authorisation of Issue

The Financial Statements were authorised for issue by the Board of Directors on 24th June 2015.

1.2.3 Basis of Measurement

These Financial Statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	4
Non-derivative financial instruments at fair value through profit or loss	Fair value	10.1
Available for sale financial assets	Fair value	3.2 / 10.2
Investment property	Fair value	12
Net defined benefit assets/ (liabilities)	Actuarially valued and recognised at the present value	19.2

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position broadly in order of liquidity.

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

1.2.4 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.5 Going Concern

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it

has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.6 Comparative Information

Comparative information has not been re-classified or restated.

1.3 FUNCTIONAL AND PRESENTATION CURRENCY

These Financial Statements are presented in Sri Lankan Rupees (LKR), which is the company's functional and presentation currency.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements in conformity with SLFRSs/LKASs 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.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

NOTES TO THE FINANCIAL STATEMENTS *contd.*

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

Critical Accounting estimate / judgment	Disclosure reference
	Note
Fair value measurement of financial instruments and investment properties	1.4.1 / 12.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair Value Measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- ▶ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- ▶ Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- ▶ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- ▶ If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

Note 12 - Investment property; and

Note 2.2.7& 2.25.1 - Financial instruments;

1.4.2 Financial Assets and Liability Classification

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities into categories, the Company has determined that it meets the description of trading assets and liabilities set out in Note 2.2.1.b. In classifying financial assets as held to maturity, the Company has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 2.2.1.b.

1.4.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss and Other Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The impairment loss on loans and advances is disclosed in more detail in Note 2.2.8.

1.4.4 Impairment Losses on Available for Sale Investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances. The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of

what is 'significant' or 'prolonged decline' in fair value below their cost requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 2.2.8.

1.4.5 Impairment Losses on Other Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances that necessitate doing so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or 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.

Specific Accounting Policies on impairment of Non-financial assets are discussed in Note 2.8.

1.4.6 Defined Benefit Obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, 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. Refer Note 2.9.3 for the assumptions used.

1.4.7 Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the

NOTES TO THE FINANCIAL STATEMENTS *contd.*

amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

1.5 CHANGES IN ACCOUNTING POLICIES

Except for the impact arising from new accounting standards being effective from 1st January 2014, as explained below, the Company has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements.

The Company has evaluated the following new standards and amendments to standards, including any consequential changes to other standards, with a date of initial application of 1st April 2014.

- ▶ Consolidated Financial Statements (SLFRS 10)
- ▶ Joint Arrangements (SLFRS 11)
- ▶ Disclosure of Interests in Other Entities (SLFRS 12)
- ▶ Fair Value Measurement (SLFRS 13)
- ▶ The nature of the effects of the changes is explained below:

1.5.1 SLFRS 10 Consolidated Financial Statements

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities.

SLFRS 10 replaces the parts of previously existing LKAS 27 Consolidated and Separate Financial Statements that dealt with consolidated Financial Statements and SIC-12 Consolidation - Special Purpose Entities. SLFRS 10 changes the definition of control such that an investor controls an investee has exposure or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in SLFRS 10, all three criteria must be met, including:

- ▶ an investor has power over an investee;
- ▶ the investor has exposure, or rights, to variable returns from its involvement with the investee; and

- ▶ the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

SLFRS 10 has had no impact on the Company's financial statements.

1.5.2 SLFRS 11 Joint Arrangements

SLFRS 11 replaces LKAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities Non-monetary Contributions by Ventures. SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under SLFRS 11 must be accounted for using the equity method.

SLFRS 11 has had no impact on the Company's financial statements.

1.5.3 SLFRS 12 Disclosure of Interests in Other Entities

SLFRS 12 requires that an entity disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- ▶ that it has control of another entity
- ▶ that it has joint control of an arrangement or significant influence over another entity
- ▶ the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle

An entity must disclose, for example, significant judgements and assumptions made in determining that,

- ▶ it does not control another entity even though it holds more than half of the voting rights of the other entity
- ▶ it controls another entity even though it holds less than half of the voting rights of the other entity
- ▶ it is an agent or principal as defined by SLFRS 10
- ▶ it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity
- ▶ it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

The Company does not have any interest in unconsolidated structured entities. Interests in such entities require the disclosures under SLFRS 12. Accordingly, SLFRS 12 has had no impact on the Company's financial statements.

1.5.4 SLFRS 13 Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted.

The application of SLFRS 13 has not materially impacted the fair value measurements carried out by the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Index	Accounting policy
2.1	Foreign currency
2.2	Financial assets and financial liabilities
2.3	Investment Property
2.4	Real Estate Stocks
2.5	Inventories
2.6	Leased assets – Lessee
2.7	Property Plant and Equipment
2.8	Impairment - Non-financial assets
2.9	Employee benefits
2.10	Provisions
2.11	Interest income and interest expense
2.12	Fees, commission and other income
2.13	Dividends
2.14	Expenditure Recognition
2.15	Lease payments

Index	Accounting policy
2.16	Income tax expense
2.17	Cash Flow Statements
2.18	Related Party Transactions
2.19	Earnings per share
2.20	Operating Segments
2.21	Capital Commitments and Contingencies
2.22	Events Occurring after the Reporting Date
2.23	New accounting standards issued but not effective as the reporting date.

2.1 Foreign currency transactions

Sri Lankan rupee is the functional currency of the Company. Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other

NOTES TO THE FINANCIAL STATEMENTS *contd.*

comprehensive income are reclassified to profit or loss) are recognised in other comprehensive income.

STATEMENT OF FINANCIAL POSITION**2.2 Financial assets and financial liabilities****2.2.1 Non-derivative financial assets***2.2.1.a Initial recognition of financial assets*

The Company initially recognises loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

2.2.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial

recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in Statement of Profit or Loss and Other Comprehensive Income as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income.

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments unless otherwise have been classified as available-for-sale.

Held-to-maturity financial assets

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in finance income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognised as finance cost in the Statement of Profit or Loss and Other Comprehensive Income.

The Company has not classified any instrument as held to maturity.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in REPOs, lease receivables, hire purchase receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

► *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

► *Finance leases and hire purchase*

When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised. Amounts receivable under finance leases are included under “Rentals receivable on Leased Assets”. Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery.

► *Advances and other loans to customers*

Advances and other loans to customers comprised of revolving loans and loans with fixed installment

Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

► *Financial guarantees*

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it

incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments, are recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the Statement of Profit or Loss and Other Comprehensive Income.

Available-for-sale financial assets comprise of Treasury Bills and Bonds.

2.2.2 Non-derivative financial liabilities

The Company initially recognises non-derivative financial liabilities on the date that they are originated.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

Bank overdrafts

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as

NOTES TO THE FINANCIAL STATEMENTS *contd.*

a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortised cost

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortised cost using the effective interest method.

2.2.3 *Derivative financial instruments*

The Company holds derivative financial instruments to hedge its foreign currency risk exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

2.2.4 *Derecognition*

The Company derecognises a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

- (a) The Company has transferred substantially all the risks and rewards of the asset, or
- (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated

to the portion of the asset transferred), and the sum of;

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) Any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.2.5 *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.2.6 *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.2.7 *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of

the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the transaction is closed out.

Valuation of Financial Instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 - Quoted market price (unadjusted) in an active market of an identical instrument.

Level 2 - Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices), this category included instruments valued using: quoted market prices in active markets similar instruments; quoted prices for identical or similar instruments in markets are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3 - Valuation techniques use significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

2.2.8 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired

if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an impairment allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *contd.****Available-for-sale financial assets***

Impairment losses on available-for-sale financial assets are recognised by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

2.3 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 recognised 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.

2.4 Real Estate Stocks

Real estate stocks represent the purchase value of properties acquired and any subsequent expenditure incurred on such for development less any impairment losses (if any).

2.5 Inventories

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

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

2.6 Leased assets - Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

Finance Leases

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Statement of Profit or Loss and Other Comprehensive Income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

2.7 Property Plant and Equipment

2.7.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

2.7.2 Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

2.7.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current year are as follows:

Motor vehicles	4-8 years
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Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.8 Impairment - Non-financial assets

The carrying amounts of the company's non-financial assets, other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.9 Employee benefits

2.9.1 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 recognised for the amount expected to be

NOTES TO THE FINANCIAL STATEMENTS *contd.*

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.

2.9.2 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 plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised 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.

2.9.3 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 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 and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognises all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in Other Comprehensive Income

The obligation is not externally funded.

2.10 Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**2.11 Interest income and interest expense**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of Profit or Loss and Other Comprehensive Income includes the interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

2.11.1 Income from leases, hire purchases and term loans

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

recognised 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.

2.11.2 Factoring

Revenue is derived from two sources, Funding and providing Sales Ledger Related Services.

Funding - Discount income relating to factoring transactions is recognised at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the Client's Current Account.

Sales Ledger Related Services - A service charge is levied as stipulated in the Factoring Agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

2.12 Fees, commission and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognised as the related 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.

2.13 Dividends

Dividend income is recognised when the right to receive income is established.

2.14 Expenditure Recognition

Expenses are recognised in the Statement of Profit or Loss and Other Comprehensive Income 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.

2.14.1 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 the prescribed rate.

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

2.15 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.16 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Note 30.0 represent the major components of income tax expense to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS *contd.***2.16.1 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.

2.16.2 Deferred tax

Deferred tax is recognised 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 recognised 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 recognised 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 utilised.

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 realised. The relevant disclosures are given in Note 30.2 to the Financial Statements.

2.17 Cash Flow Statements

The Cash Flow Statement has been prepared using the Indirect Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of

cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

2.18 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 34 to the Financial Statements.

2.19 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS 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 period. Specific disclosures included in Note 30.1. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. The relevant disclosures are given in 30.2 to the Financial Statements.

2.20 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has four reportable segments, Leases, Hire Purchases, Loans and Treasury, which are the Company's strategic products / divisions. Those offer different products and services, and are managed separately based on the Company's

management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 36. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.21 Capital Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. The relevant disclosures are given in Note 37.1 and 37.2 to the Financial Statements.

2.22 Events Occurring after the Reporting Date

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

All material post Reporting Date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS *contd.***2.23 New accounting standards issued but not effective as the reporting date**

A number of new standards and amendments to standards which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Financial Statements. An analysis of the possible effect from those standards is given below.

Standards issued but not yet adopted which may have an impact

New or amended standards	Summary of the requirements	Possible impact on Financial Statements
SLFRS 9 Financial Instruments	<p>SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.</p> <p>SLFRS 9 is effective from 01st January 2018, with early adoption permitted.</p>	<p>The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 9.</p> <p>Given the nature of the Company's operations, this standard is expected to have a pervasive impact on the Company's financial statements. In particular calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.</p>
SLFRS 15 Revenue from Contracts with Customers	<p>SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18, Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.</p> <p>SLFRS 15 is effective from 01st January 2017, with early adoption permitted.</p>	<p>The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 15.</p>

Standards issued but not yet adopted which is not expected to have an impact

The following new or amended standards are not expected to have an impact on the Company's financial statements.

- ▶ SLFRS 14 Regulatory Deferral Accounts - effective from 01st January 2016
- ▶ Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) - effective from 01st January 2016

2.24 Financial risk management

2.24.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- ▶ Credit risk
- ▶ Liquidity risk
- ▶ Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

2.24.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. All the Company level risks are escalated to the parent company IRMC and the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees the reports submitted by the Enterprise Risk Management and monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2.24.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers.

2.24.3.1 Management of credit risk

1) Facilities granted to customers (Lease / Hire purchase / Loans)

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit department. Credit department, reporting to the Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.
3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries

NOTES TO THE FINANCIAL STATEMENTS *contd.*

5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortised cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

3) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31st March 2015 (2014: no collateral held).

Credit quality by class of financial assets (In Rs. Mn)

	Leases		Hire Purchases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Carrying amount	13,150	10,837	88	444	618	996	35,941	27,389	294	123	6,200	3,280	56,291	43,068
Assets at amortised cost														
Individually impaired - Gross amount	289	230	2	2	141	188	959	763	-	150	-	-	1,391	1,332
Less : Allowance for impairment	(249)	(146)	(1)	(1)	-	(3)	(414)	(563)	-	(138)	-	-	(664)	(850)
Carrying amount	40	84	1	1	141	185	545	199	-	13	-	-	727	482
Portfolio subject to collective impairment														
- Gross amount	13,177	10,968	88	459	558	843	36,075	27,659	294	111	6,359	3,404	56,552	43,444
Less : Allowance for impairment	(67)	(216)	(1)	(16)	(82)	(32)	(679)	(469)	-	-	(159)	(124)	(988)	(856)
Carrying amount	13,110	10,752	87	443	477	811	35,396	27,190	294	111	6,200	3,280	55,564	42,587

An estimate made at the time of borrowing / at the time of impairment evaluation, of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below;

(In Rs. Mn)	2015	2014
Against individually impaired customers:		
Property	1,548	425
Vehicles	167	143
Shares	-	13

(In Rs. Mn)	2015	2014
Against Collectively impaired customers :		
Vehicles	49,535	44,660
Others	73,950	67,035

Details of non-financial assets obtained by the Company by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements during the period and held at the year ended 31st March are shown below;

(In Rs. Mn)	2015	2014
Property	788	154
Vehicles	167	143

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The properties has been considered as Investment Properties of the Company.

Age analysis of facilities considered for collective impairment as at 31st March 2015 (Rs' Mn)

Category	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	8,376	45	216	25,155	294	5,583	39,667
Overdue:							
Less than 30 days	2,963	27	87	6,657	-	422	10,156
31 - 60 days	938	4	2	2,080	-	78	3,103
61 - 90 days	405	4	31	750	-	71	1,261
91 - 120 days	229	1	7	209	-	18	465
121 - 150 days	61	2	3	176	-	12	255
151 - 180 days	53	1	-	45	-	12	111
above 180 days	152	4	211	1,003	-	163	1,534
Total	13,177	88	558	36,075	294	6,359	56,552

NOTES TO THE FINANCIAL STATEMENTS *contd.***Age analysis of facilities considered for collective impairment as at 31st March 2014 (Rs. Mn)**

Category	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	6,339	237	441	20,673	111	2,794	30,595
Overdue:							
Less than 30 days	3,094	146	203	4,255	-	289	7,988
31 - 60 days	756	37	9	1,344	-	95	2,241
61 - 90 days	328	12	12	429	-	17	799
91 - 120 days	116	4	1	125	-	18	265
121 - 150 days	78	2	-	94	-	12	186
151 - 180 days	42	4	-	58	-	5	109
above 180 days	215	18	176	680	-	173	1,261
Total	10,968	459	843	27,659	111	3,404	43,444

Other than the lending portfolio reflected above no other financial assets shown in note 2.25 was subject to impairment.

5) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 6.4 to the financial statements

2.24.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.24.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below (In Rs. Mn)

	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31 st March 2015							
Bank overdraft	2,333	2,333	2,333	-	-	-	-
Borrowings	11,040	13,008	4,533	1,024	1,303	6,148	-
Deposits from customers	41,310	47,427	11,452	15,092	10,360	10,523	-
Trade payables	646	646	646	-	-	-	-
Accruals and other payables	649	649	617	32	-	-	-
Derivative liabilities	58	1,211	590	621	-	-	-
Amount due to related companies	2,453	2,453	2,453	-	-	-	-
Total liabilities	58,489	67,727	22,624	16,769	11,663	16,671	-
As at 31 st March 2014							
Bank overdraft	1,136	1,136	1,136	-	-	-	-
Borrowings	824	940	139	397	368	36	-
Deposits from customers	42,618	51,387	12,261	19,487	4,724	14,916	-
Trade payables	329	329	329	-	-	-	-
Accruals and other payables	494	494	423	71	-	-	-
Derivative liabilities	8	1,761	28	1,733	-	-	-
Amount due to related companies	649	649	649	-	-	-	-
Total liabilities	46,059	56,696	14,965	21,688	5,092	14,951	-

NOTES TO THE FINANCIAL STATEMENTS *contd.*

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below (In Rs. Mn)

	Carrying amount	Gross nominal inflow / (outflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31 st March 2015							
Cash and cash equivalents	2,975	2,975	2,975	-	-	-	-
Deposits with banks and other financial institutions	761	766	497	269	-	-	-
Investment in government securities	5,901	6,403	4,400	338	206	1,139	319
Derivative assets	3	(382)	-	(382)	-	-	-
Rentals receivable on leased assets	13,150	17,868	1,731	4,519	7,954	3,096	568
Hire purchases, loans and advances	36,647	43,720	4,192	9,485	15,072	14,197	774
Factoring receivable	6,200	6,200	6,200	-	-	-	-
Margin trading receivables	294	294	294	-	-	-	-
Other receivables	187	287	13	40	104	88	42
Investments in shares	9	9	-	9	-	-	0
Amount due from related companies	3	3	3	-	-	-	-
	66,130	78,143	20,306	14,278	23,337	18,519	1,703
As at 31 st March 2014							
Cash and cash equivalents	3,236	3,236	3,236	-	-	-	-
Deposits with banks and other financial institutions	466	468	468	-	-	-	-
Investment in government securities	4,937	5,489	1,868	1,942	197	1,131	351
Derivative assets	14	(329)	(329)	-	-	-	-
Rentals receivable on leased assets	10,837	15,890	1,511	4,216	7,906	1,673	584
Hire purchases, loans and advances	28,828	33,648	3,778	8,121	12,890	8,616	244
Factoring receivable	3,280	3,280	3,280	-	-	-	-
Margin trading receivables	123	123	123	-	-	-	-
Other receivables	1,130	1,203	982	24	98	65	34
Investments in shares	9	9	-	9	-	-	0
Amount due from related companies	6	6	6	-	-	-	-
	52,866	63,024	14,923	14,311	21,091	11,485	1,214

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31-3-2015 (In Rs. Mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	636	-	-	-	-	636
Total	636	-	-	-	-	636
Commitments						
Unutilised loan facilities & letter of credit	5,824	31	-	-	-	5,855
Total	5,824	31	-	-	-	5,855

As at 31-3-2014 (In Rs. Mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	622	-	-	-	-	622
Total	622	-	-	-	-	622
Commitments						
Unutilised loan facilities & letter of credit	4,062	29	-	-	-	4,091
Total	4,062	29	-	-	-	4,091

NOTES TO THE FINANCIAL STATEMENTS *contd.***2.24.5 Market risk**

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2015 (In Rs. Mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.15
Interest earning assets						
Deposits with banks and other financial institutions	494	267	-	-	-	761
Investment in government securities	4,358	240	-	1,026	277	5,901
Rentals receivable on leased assets	1,565	3,038	5,912	2,516	435	13,467
Hire purchases, loans and advances	4,669	7,476	12,033	13,036	610	37,824
Factoring receivable	6,359	-	-	-	-	6,359
Margin trading receivables	294	-	-	-	-	294
Total interest earning assets	17,739	11,021	17,945	16,578	1,322	64,606
Interest bearing liabilities						
Bank overdraft	2,333	-	-	-	-	2,333
Interest bearing borrowings	4,523	615	276	5,626	-	11,040
Deposits from customers	11,300	14,285	8,242	7,483	-	41,310
Total interest bearing liabilities	18,156	14,900	8,518	13,109	-	54,683
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(417)	(3,879)	9,427	3,470	1,322	9,923
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(4)	(39)	94	35	13	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	4	39	(94)	(35)	(13)	

Sensitivity analysis as at 31st March 2014 (In Rs. Mn)

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.14
Interest earning assets						
Deposits with banks and other financial institutions	466					466
Investment in government securities	1,781	1,942	-	926	288	4,937
Rentals receivable on leased assets	1,401	2,889	5,208	1,187	512	11,198
Hire purchases, loans and advances	3,553	6,528	11,172	8,671	138	30,061
Factoring receivable	3,404	-	-	-	-	3,404
Margin trading receivables	111	-	-	-	-	111
Total interest earning assets	10,716	11,359	16,380	10,784	938	50,177
Interest bearing liabilities						
Bank overdraft	1,136					1,136
Interest bearing borrowings	116	343	365	-	-	824
Savings						-
Deposits from customers	12,205	17,594	2,801	10,019	-	42,618
Total interest bearing liabilities	13,457	17,937	3,165	10,019	-	44,578
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(2,741)	(6,577)	13,215	766	938	5,599
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualised effect	(27)	(66)	132	8	9	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualised effect	27	66	(132)	(8)	(9)	

NOTES TO THE FINANCIAL STATEMENTS *contd.***2.24.6 Capital Management**

The Company's capital management is performed primarily considering regulatory capital.

The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital.

The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows;

In Rs. Mn

Capital element	As at 31.03.2015	As at 31.03.2014
Ordinary share capital	2,000	2,000
Statutory Reserve	954	880
Retained earnings	4,954	3,153
Other negative reserves	-	-
Tier I capital	7,908	6,033
Unsecured subordinated debentures	3,016	-
Tier II capital	3,016	-
Total capital	10,924	6,033

2.25 Financial assets and liabilities

2.25.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

In Rs. Mn

As at 31 st March 2015	Fair value - derivatives	Fair value - held for trading	Fair value through other comprehensive income - available for sale	Amortised cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	-	2,975	2,975	2,975	
Deposits with banks	-	-	-	761	761	761	
Investment in government securities	-	-	-	-	-	-	
- Measured at fair value	-	-	2,285	-	2,285	2,285	Level 1
- Measured at amortised cost	-	-	-	3,616	3,616	3,616	
Derivative assets	3	-	-	-	3	3	Level 2
Investment in shares	-	9	-	-	9	9	Level 1
Rentals receivable on leased assets	-	-	-	13,150	13,150	13,765	Level 2
Hire purchases, loans and advances	-	-	-	36,647	36,647	37,325	Level 2
Factoring receivable	-	-	-	6,200	6,200	6,200	
Margin trading receivables	-	-	-	294	294	294	
Amount due from related companies	-	-	-	3	3	3	
Other financial assets	-	-	-	187	187	187	
Total financial assets	3	9	2,285	63,834	66,130	67,423	
Bank overdraft	-	-	-	2,333	2,333	2,333	
Interest bearing borrowings	-	-	-	11,040	11,040	10,122	Level 2
Deposits from customers	-	-	-	41,310	41,310	40,698	Level 2
Trade payables	-	-	-	646	646	646	
Accruals and other payables	-	-	-	649	649	649	
Derivative liabilities	58	-	-	-	58	58	
Amount due to related companies	-	-	-	2,453	2,453	2,453	
Total financial liabilities	58	-	-	58,431	58,489	56,959	

NOTES TO THE FINANCIAL STATEMENTS *contd.*

In Rs. Mn

As at 31 st March 2014	Fair value – derivatives	Fair value – held for trading	Fair value through other comprehensive income – available for sale	Amortised cost – Loans and receivable	Total Carrying amount	Fair Value	Fair value measurement level
Cash and cash equivalents	-	-	-	3,236	3,236	3,236	
Deposits with banks	-	-	-	466	466	466	
Investment in government securities							
- Measured at fair value	-	-	4,442	-	4,442	4,442	Level 1
- Measured at amortised cost	-	-	-	495	495	495	
Derivative assets	14	-	-	-	14	14	Level 2
Investment in shares	-	9	-	-	9	9	Level 1
Rentals receivable on leased assets	-	-	-	10,837	10,837	11,021	Level 2
Hire purchases, loans and advances	-	-	-	28,828	28,828	29,170	Level 2
Factoring receivable	-	-	-	3,280	3,280	3,280	
Margin trading receivables	-	-	-	123	123	123	
Amount due from related companies	-	-	-	6	6	6	
Other financial assets	-	-	-	1,130	1,130	1,130	
Total financial assets	14	9	4,442	48,401	52,866	53,392	
Bank overdraft	-	-	-	1,136	1,136	1,136	
Interest bearing borrowings	-	-	-	824	824	845	Level 2
Deposits from customers	-	-	-	42,618	42,618	42,915	Level 2
Trade payables	-	-	-	329	329	329	
Accruals and other payables	-	-	-	494	494	494	
Derivative liabilities	8	-	-	-	8	8	
Amount due to related companies	-	-	-	649	649	649	
Total financial liabilities	8	-	-	46,050	46,059	46,377	

2.25.2 Valuation technique**Level 2 fair value - market comparison technique**

- ▶ Derivative assets and liabilities / Forward exchange contracts - fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument

Level 3 fair value - discounted cash flows***Financial instruments not measured at fair value***

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortised cost) discounted cash flows has been used to derive the fair value.

	2015 Rs.	2014 Rs.
3. INVESTMENT IN GOVERNMENT SECURITIES		
Financial instruments classified as loans and receivables (note 3.1)	3,616,000,000	495,000,000
Financial instruments classified as available for sale - carried at fair value (note 3.2)	2,284,717,853	4,441,822,120
	5,900,717,853	4,936,822,120

	2015		2014	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
3.1 Financial instruments classified as loans and receivables				
Investment in REPOs	3,616,000,000	3,616,000,000	495,000,000	495,000,000
3.2 Financial instruments classified as available for sale - carried at fair value				
Investment in Treasury Bills	981,724,999	981,724,999	3,015,784,999	3,015,784,999
Investment in Treasury Bonds	1,302,992,854	1,302,992,854	1,426,037,122	1,426,037,122
	2,284,717,853	2,284,717,853	4,441,822,120	4,441,822,120

	2015 Rs.	2014 Rs.
3.3 Fair value adjustments recognised in other comprehensive income - current period (net of transfers to P&L)		
Investment in Treasury Bills	(33,329,374)	34,784,264
Investment in Treasury Bonds	9,573,415	77,125,270
	(23,755,959)	111,909,534
3.4 Fair value adjustments recognised in other comprehensive income - cumulative		
Investment in Treasury Bills	(1,389,895)	31,939,478
Investment in Treasury Bonds	87,426,678	77,853,264
	86,036,783	109,792,742

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
4. DERIVATIVES HELD FOR RISK MANAGEMENT		
Net Derivative Assets / (Liabilities)		
Derivative assets (note 4.1)	2,740,000	13,571,650
Derivative liabilities (note 4.2)	57,514,900	8,104,150
	(54,774,900)	5,467,500
4.1 Derivative Assets		
Forward contracts	2,740,000	13,571,650
4.2 Derivative Liabilities		
Forward contracts	57,514,900	8,104,150
4.3 Change in fair value during the period - recognised in (profit & loss)	(60,242,400)	43,628,499
5. RENTALS RECEIVABLE ON LEASED ASSETS		
Rentals receivable	19,066,313,886	16,078,939,029
Unearned income	(4,897,416,672)	(4,163,770,153)
Net rentals receivable (note 5.1)	14,168,897,214	11,915,168,876
Deposits received from lessees	(702,104,944)	(717,095,250)
Allowance for impairment (note 5.2)	(316,416,427)	(361,570,335)
	13,150,375,843	10,836,503,291
5.1 Net Rentals Receivable		
Receivable from one to five years		
Rentals receivable	12,380,272,055	9,806,096,073
Unearned income	(2,815,295,106)	(2,219,686,132)
	9,564,976,948	7,586,409,942
Receivable within one year		
Rentals receivable	6,236,705,658	5,871,503,703
Unearned income	(2,082,121,566)	(1,944,084,021)
	4,154,584,093	3,927,419,681
Overdue		
Rentals receivable	449,336,173	401,339,253
	14,168,897,214	11,915,168,876

	2015 Rs.	2014 Rs.
5.2 Allowance for impairment		
Balance as at 1 st of April	361,570,335	195,733,620
Provision for the year	(45,153,908)	165,836,715
Balance as at 31 st March	316,416,427	361,570,335
5.2.1 Individual impairment		
Balance as at 1 st of April	145,886,358	108,828,007
Provision for the year	103,295,178	37,058,351
Balance as at 31 st March	249,181,536	145,886,358
5.2.2 Collective impairment		
Balance as at 1 st of April	215,683,977	86,905,613
Provision for the year	(148,449,086)	128,778,363
Balance as at 31 st March	67,234,891	215,683,977
6. HIRE PURCHASES, LOANS AND ADVANCES		
Hire Purchases (Note 6.1)	88,409,064	443,501,932
Mortgage Loans (Note 6.2)	617,640,169	995,557,925
Sundry Loans (Note 6.3)	35,941,279,635	27,389,374,947
	36,647,328,869	28,828,434,804
6.1 Hire Purchases		
Rentals receivable	98,183,447	518,956,649
Unearned income	(7,349,396)	(58,395,583)
Net rentals receivable (Note 6.1.1)	90,834,051	460,561,066
Allowance for impairment (Note 6.1.2)	(2,424,986)	(17,059,134)
	88,409,064	443,501,932

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
6.1.1 Net rentals receivable - Hire Purchases		
Receivable from one to five years		
Rentals receivable	14,846,275	123,137,075
Unearned income	(1,178,700)	(10,919,280)
	13,667,575	112,217,795
Receivable within one year		
Rentals receivable	71,609,693	367,320,092
Unearned income	(6,170,696)	(47,476,303)
	65,438,996	319,843,789
Overdue		
Rentals receivable	11,727,479	28,499,482
	90,834,051	460,561,066
6.1.2 Allowance for impairment - Hire Purchases		
Balance as at 1 st of April	17,059,134	23,576,018
Provision/(Reversal) for the year	(14,634,147)	(6,516,885)
Balance as at 31 st March	2,424,986	17,059,134
6.1.2.a Individual impairment		
Balance as at 1 st of April	1,069,639	-
Provision for the year	287,389	1,069,639
Balance as at 31 st March	1,357,028	1,069,639
6.1.2.b Collective impairment		
Balance as at 1 st of April	15,989,495	23,576,018
Reversal for the year	(14,921,537)	(7,586,524)
Balance as at 31 st March	1,067,958	15,989,495
6.2 Mortgage Loans		
Rentals receivable	880,061,288	1,356,445,125
Unearned income	(180,849,498)	(326,181,110)
Net rentals receivable (Note 6.2.1)	699,211,790	1,030,264,015
Allowance for impairment (Note 6.2.2)	(81,571,621)	(34,706,089)
	617,640,169	995,557,925

	2015 Rs.	2014 Rs.
6.2.1 Net rentals receivable - Mortgage Loans		
Receivable from one to five years		
Installments receivable	488,744,139	686,226,237
Unearned income	(102,998,513)	(206,655,520)
	385,745,627	479,570,717
Receivable within one year		
Installments receivable	210,193,268	344,834,746
Unearned income	(77,850,985)	(119,525,590)
	132,342,282	225,309,156
Overdue		
Installments receivable	181,123,881	325,384,141
	699,211,790	1,030,264,015
6.2.2 Allowance for impairment - Mortgage Loans		
Balance as at 1 st of April	34,706,089	13,860,719
Provision for the year	46,865,531	20,845,371
Balance as at 31 st March	81,571,621	34,706,089
6.2.2.a Individual impairment		
Balance as at 1 st of April	2,557,913	3,068,293
Reversal for the year	(2,557,913)	(510,380)
Balance as at 31 st March	-	2,557,913
6.2.2.b Collective impairment		
Balance as at 1 st of April	32,148,177	10,792,426
Provision for the year	49,423,444	21,355,751
Balance as at 31 st March	81,571,621	32,148,177
6.3 Sundry Loans		
Total receivable	43,083,043,311	33,768,160,202
Unearned income	(6,048,827,694)	(5,346,344,422)
Net receivable (Note 6.3.1)	37,034,215,617	28,421,815,780
Allowance for impairment (Note 6.3.2)	(1,092,935,982)	(1,032,440,834)
	35,941,279,635	27,389,374,947

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
6.3.1 Net receivable - Sundry Loans		
Receivable from one to five years		
Installments receivable	28,587,956,109	23,450,893,156
Unearned income	(3,279,289,996)	(2,602,307,127)
	25,308,666,113	20,848,586,030
Receivable within one year		
Installments receivable	13,508,052,092	9,491,774,170
Unearned income	(2,769,537,698)	(2,744,037,295)
	10,738,514,395	6,747,736,875
Overdue		
Installments receivable	987,035,110	825,492,876
	37,034,215,617	28,421,815,780
6.3.2 Allowance for impairment - Sundry Loans		
Balance as at 1 st of April	1,032,440,834	822,509,359
Provision for the year	60,495,148	209,931,474
Balance as at 31 st March	1,092,935,982	1,032,440,834
6.3.2.a Individual impairment		
Balance as at 1 st of April	563,398,934	467,915,540
Provision for the year	(149,035,080)	95,483,393
Balance as at 31 st March	414,363,854	563,398,934
6.3.2.b Collective impairment		
Balance as at 1 st of April	469,041,900	354,593,819
Provision for the year	209,530,228	114,448,081
Balance as at 31 st March	678,572,128	469,041,900

	2015 Rs.	2014 Rs.
6.4 Concentration of Credit risk		
<i>Leases, Hire Purchase, Loans and Advances Analysed by Industry (Portfolio before provisions)</i>		
Agriculture	4,401,047,025	3,418,997,897
Manufacturing	6,254,708,088	5,192,041,859
Economics And Social	1,034,271,827	266,152,416
Trade	16,435,846,064	13,964,572,868
Tourism	958,279,700	829,321,601
Services	10,044,760,265	9,548,505,481
Transportation	4,459,685,609	3,925,721,470
Construction	2,851,866,731	2,734,802,488
Mining and Quarrying	404,836,371	390,585,193
Others	4,445,752,048	840,013,214
	51,291,053,728	41,110,714,487
6.5 Product wise analysis of portfolio		
Lease receivables	11,494,359,048	10,026,907,041
Hire Purchase receivables	90,834,051	460,561,066
Loans & Advances	32,500,743,023	25,387,520,567
Islamic business portfolio - Ijarah receivables	1,972,433,222	1,171,166,585
Islamic business portfolio - Other receivables (Murabaha, Musharakah etc.)	5,232,684,384	4,064,559,228
Gross portfolio	51,291,053,728	41,110,714,486
Less : Impairment provision	(1,493,349,016)	(1,445,776,392)
Net portfolio (Note 6.5.1)	49,797,704,711	39,664,938,095
6.5.1 Net portfolio		
Rentals receivable on Leased Assets (Note 5)	13,150,375,843	10,836,503,291
Hire Purchases, Loans and Advances (Note 6)	36,647,328,869	28,828,434,804
	49,797,704,711	39,664,938,095

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
7. FACTORING RECEIVABLES		
Gross receivable	6,359,079,938	3,403,654,148
Allowance for impairment (Note 7.1)	(158,878,197)	(123,723,527)
	6,200,201,741	3,279,930,621
7.1 Allowance for impairment		
Balance as at 1 st of April	123,723,527	475,190,543
Provision / (reversal) for the year	35,154,670	(351,467,016)
Balance as at 31 st March	158,878,197	123,723,527
7.1.a Individual impairment		
Balance as at 1 st of April	-	313,147,797
Provision/(Reversal) for the year	-	(313,147,797)
Balance as at 31 st March	-	-
7.1.b Collective impairment		
Balance as at 1 st of April	123,723,527	162,042,747
Provision/(Reversal) for the year	35,154,670	(38,319,219)
Balance as at 31 st March	158,878,197	123,723,527
8. MARGIN TRADING RECEIVABLES		
Gross amount outstanding at year end	293,711,960	261,023,733
Allowance for impairment (Note 8.1)	-	(137,615,343)
Net balance on margin trading	293,711,960	123,408,390
8.1 Allowance for impairment		
Balance as at 1 st of April	137,615,343	-
Provision/(Reversal) for the year	(137,615,343)	137,615,343
Balance as at 31 st March	-	137,615,343
8.1.a Individual impairment		
Balance as at 1 st of April	137,615,343	-
Provision for the year	(137,615,343)	137,615,343
Balance as at 31 st March	-	137,615,343

	2015 Rs.	2014 Rs.
9. OTHER RECEIVABLES		
Financial Assets		
Staff loans	187,184,897	155,344,615
Other receivables	686,056,855	974,305,342
Provision for other receivables	(686,056,855)	-
	187,184,897	1,129,649,957
Non Financial Assets		
VAT receivable	195,505,346	136,411,060
Prepaid staff cost	75,443,991	73,388,076
Miscellaneous receivables	181,218,085	78,583,679
	452,167,422	288,382,815
Total Other receivables	639,352,319	1,418,032,772
10. INVESTMENT IN SHARES		
10.1 Investments held for trading		
Expo Lanka Holdings PLC		
Original cost	18,000,000	18,000,000
Carrying amount as at 1 st April	8,700,000	6,800,000
Adjustment for change in fair value - recognised in profits	(200,000)	1,900,000
Carrying amount as at 31 st March	8,500,000	8,700,000
10.2 Available for sale investments carried at cost		
Credit Information Bureau Ltd.		
Cost / Carrying amount	343,275	343,275
Total investments	8,843,275	9,043,275

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
11. AMOUNTS DUE FROM RELATED COMPANIES		
LOLC Factors Ltd	-	3,988,592
EDEN Resorts Ltd	141,994	-
Commercial Leasing and Finance PLC	2,653,108	-
LOLC Insurance Ltd	-	503,104
LOLC Securities Ltd	39,429	-
LOLC Micro Credit Ltd	-	1,338,097
Dickwella Resorts Ltd	3,645	-
LOLC Technologies Ltd	44,334	91,515
United Dendro Energy Ltd	-	8,958
	2,882,510	5,930,266
12. INVESTMENT PROPERTIES		
Balance as at 1 st April	215,173,229	71,500,000
Additions to Investment Properties from foreclosure of contracts	787,662,081	85,312,223
Change in fair value	139,964,690	58,361,006
Balance as at 31 st March	1,142,800,000	215,173,229

- ▶ Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted. These properties are held by the Company for capital appreciation.
- ▶ The Company did not incur any operational expenses to maintain the property or generate any rental income during the current financial period.
- ▶ Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'. All gains are unrealised.

12.1 Measurement of fair values**1.) Fair value hierarchy**

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31st March 2015.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs. 5,000,000 to Rs. 7,000,000 in the Colombo area and Rs. 150,000 to Rs. 1,500,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: ▶ Per perch value was higher / (lower)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used	The estimated fair value would increase (decrease) if: ▶ Depreciation rate was lesser / (higher) ▶ Square feet value was higher / (lesser)

	2015 Rs.	2014 Rs.
13. PROPERTY, PLANT AND EQUIPMENT		
Assets hired out on operating leases		
Cost/Valuation		
Balance as at 01 st April	53,966,073	-
Additions	98,567,892	53,966,073
Balance as at 31 st March	152,533,965	53,966,073
Accumulated Depreciation		
Balance as at 01 st April	3,823,251	-
Charge for the year	12,166,033	3,823,251
Balance as at 31 st March	15,989,284	3,823,251
Carrying Amount		
As at 31 st March	136,544,681	50,142,822

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
14. INTEREST BEARING BORROWINGS		
Short-term loans	4,691,000,000	-
Long-term borrowings (Note 14.1)	764,975,600	649,527,463
Finance leases (Note 14.2)	527,769,416	120,297,403
Debentures (Note 14.3)	4,950,000,000	-
Total borrowings	10,933,745,016	769,824,865
Interest payable	106,282,962	54,012,891
Liability recognised in statement of financial position	11,040,027,979	823,837,756
14.1 Long-term Borrowings		
Balance at the beginning of the year	649,527,463	1,301,382,918
Loans obtained during the year	500,000,000	200,000,000
Repaid during the year	(384,551,863)	(851,855,455)
Balance at the end of the year	764,975,600	649,527,463
Long-term borrowings - current	216,875,600	384,551,863
Long-term borrowings - non-current (Note 14.1.a)	548,100,000	264,975,600
	764,975,600	649,527,463
14.1.a Analysis of non-current portion of long-term borrowings		
Repayable within 1-3 years	48,100,000	264,975,600
Repayable after 3 years	500,000,000	-
	548,100,000	264,975,600
14.2 Finance Leases		
Gross lease rentals payable as at 1 st April	163,773,482	122,810,037
Lease obtained during the year	590,297,840	77,297,018
Lease rentals paid during the year	(88,259,093)	(36,333,574)
Gross lease rentals payable as at 31 st March	665,812,229	163,773,482
Less: Interest in suspense	(138,042,813)	(43,476,079)
Balance at the end of the year / present value of minimum lease payments	527,769,416	120,297,403

	2015 Rs.	2014 Rs.
14.2.1 Analysis of finance leases		
Repayable within one year (Note 14.2.1.a)	107,459,448	24,561,636
Repayable within 1-5 years (Note 14.2.1.b)	420,309,968	95,735,766
	527,769,416	120,297,403
14.2.1.a Repayable within one year		
Gross lease rentals payable	162,809,173	42,750,523
Less: interest in suspense	(55,349,725)	(18,188,887)
	107,459,448	24,561,636
14.2.1.b Repayable within 1-5 years		
Gross lease rentals payable	503,003,056	121,022,959
Less: interest in suspense	(82,693,088)	(25,287,192)
	420,309,968	95,735,766
14.3 Debentures		
Balance at the beginning of the year	-	-
Debenture issued during the year (net of transaction cost)	4,950,000,000	-
Balance at the end of the year	4,950,000,000	-

During the year the company issued fifty million (50,000,000) rated unsecured subordinated redeemable debentures at a value of Rs.100 each, totalling to Rs. 5Bn, with a 5 year maturity. These debentures are listed in the Colombo Stock Exchange. A transaction cost of Rs. 50Mn was incurred on the issue of these debentures.

Interest on these debentures is payable annually at a rate of 9.25% p.a

	2015 Rs.	2014 Rs.
15. DEPOSITS FROM CUSTOMERS		
Customer deposits	39,756,130,956	41,287,594,891
Interest / Profit payable		
Interest payable on deposits	1,485,523,342	1,257,068,111
Profits payable to IBU deposit holders	68,306,173	73,136,694
	1,553,829,515	1,330,204,805
Deposit liability recognised in Statement of Financial Position	41,309,960,471	42,617,799,696

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
15.1 Analysis of Customer Deposits Based on Nature		
Fixed deposits - Conventional	31,744,365,457	33,905,735,150
Fixed deposits - Islamic - Mudharabah	4,034,438,048	2,778,460,796
Fixed deposits - Islamic - Wakala	780,000,000	1,668,500,000
Fixed deposits - Foreign Currency	1,499,733,592	1,735,035,933
Fixed deposit bonds	436,387,900	-
Savings deposits - Conventional	749,347,623	572,739,992
Savings deposits - Islamic	384,263,173	344,202,671
Savings deposits - Foreign Currency	127,595,163	282,920,349
Total deposits	39,756,130,956	41,287,594,891
15.2 Deposits based on maturity		
Deposits maturing within one year	24,476,945,707	28,826,985,045
Deposits maturing after one year	15,279,185,249	12,460,609,846
	39,756,130,956	41,287,594,891
16. TRADE PAYABLES		
Creditors for lease equipment	645,905,072	328,986,492
17. ACCRUALS AND OTHER PAYABLES		
Excess payments received from clients	90,097,189	-
Insurance payable	36,932,014	22,841,453
VAT / other tax payable	132,298,954	49,055,773
Other miscellaneous creditors	248,190,355	258,325,136
Payable on matured deposits	266,022,493	155,252,311
Stamp duty payable	16,567,230	4,907,685
IBU charity fund	32,332,380	3,931,802
	822,440,615	494,314,160

	2015 Rs.	2014 Rs.
18. AMOUNTS DUE TO RELATED COMPANIES		
Lanka ORIX Leasing Company PLC	1,882,124,255	559,389,394
Lanka ORIX Leasing Company PLC-Refinance Loans	67,656,218	86,710,001
Dickwella Resorts Ltd	-	921,594
Commercial Leasing and Finance PLC	-	274,383
LOLC Insurance Ltd	82,332	-
LOLC Micro Credit Ltd	65,381,543	-
LOLC Factors Ltd	411,632,609	-
LOLC Motors Ltd	26,220,059	1,848,414
Speed Italia Ltd	-	166,573
	2,453,097,016	649,310,359

19. EMPLOYEE BENEFITS

19.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

	2015 Rs.	2014 Rs.
Employees' Provident Fund		
Employers' contribution	16,757,650	11,841,245
Employees' contribution	11,171,767	7,933,408
Employees' Trust Fund	4,189,413	2,960,311

NOTES TO THE FINANCIAL STATEMENTS *contd.*

As at 31 st March,	2015 Rs.	2014 Rs.
19.2 Defined benefit plan		
Movement in the present value of the defined benefit obligation		
Defined benefit obligation as of 01 st April	8,008,415	4,550,471
Expense included in Personnel Expenses	3,126,017	1,984,811
Remeasurement Component	278,131	2,998,913
	3,404,148	4,983,724
Benefits paid	(962,473)	(1,525,780)
Defined benefit obligation as at 31 st March	10,450,090	8,008,415
19.2.a Expense included in Personnel Expenses		
Current Service Cost	2,325,176	1,380,947
Interest Cost	800,841	603,864
	3,126,017	1,984,811
19.2.b Actuarial gains and losses recognised in other comprehensive income		
Cumulative loss as at 1 st April	4,034,724	1,035,811
Loss recognised during the period	278,131	2,998,913
Cumulative loss as at 31 st March	4,312,855	4,034,724

Actuarial valuation for defined benefit obligation was carried out as at 31st March 2015 by Mr. P.S. Goonatileke, a Fellow of the Society of Actuaries (USA). The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

19.2.c Key assumptions used in the above valuation are as follows:

Discount Rate	9.50%	10.00%
Salary Increment Rate	8.50%	9.00%
Retirement Age	55	55
Staff Turnover	2.5% - 15%	2.5% - 15%

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.

19.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below

As at 31 st March,	2015 Rs.	2014 Rs.
The defined benefit obligation under current assumptions	10,450,090	8,008,415
The defined benefit obligation if the discount rate increased by 100 basis points	9,436,882	7,294,129
The defined benefit obligation if the discount rate reduced by 100 basis points	11,637,369	8,845,994
The defined benefit obligation if the salary increment rate increased by 1%	11,688,134	8,833,552
The defined benefit obligation if the salary increment rate reduced by 1%	9,378,762	7,291,471
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(1,013,208)	(714,286)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	1,187,279	837,579
The change in the defined benefit obligation if the salary increment rate increased by 1%	1,238,044	825,137
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(1,071,328)	(716,944)

	2015		2014	
	Number of shares	Rs.	Number of shares	Rs.
20. STATED CAPITAL				
Balance at the beginning of the year	2,800,000,000	2,000,000,000	2,800,000,000	2,000,000,000
Balance at the end of the year	2,800,000,000	2,000,000,000	2,800,000,000	2,000,000,000

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.

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
21. RESERVES		
Statutory Reserve (Note 21.1)	953,676,506	879,497,395
Investment Fund Reserve (Note 21.2)	-	391,850,336
Available for Sale Investment Reserve (Note 21.3)	86,036,783	109,792,742
Retained Earnings (Note 21.4)	4,953,882,436	3,152,829,244
	5,993,595,725	4,533,969,716

	2015 Rs.	2014 Rs.
21.1 Statutory Reserve		
Balance at the beginning of the Year	879,497,395	679,437,533
Transferred during the Year	74,179,111	200,059,862
Balance at the end of the Year	953,676,506	879,497,395

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 5% (2013/14 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

	2015 Rs.	2014 Rs.
21.2 Investment Fund Reserve		
Balance at the beginning of the year	391,850,336	287,762,044
Transferred during the year	32,935,748	104,088,292
Transferred to retained earnings during the year	(424,786,084)	-
Balance at the end of the year	-	391,850,336

The reserve was created in accordance with the Central Bank of Sri Lanka (CBSL) 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 was transferred to this reserve when the payment of such taxes became due. The period for which such a reserve was to be built up lapsed during the current financial year and in line with the directive issued by CBSL the balance was transferred to retained earnings.

In accordance with the guidelines issued, the company had granted facilities and maintained long term and short term government securities equivalent to the value of the reserve. These are included in the amounts presented in the statement of financial position. At the end of the current period such requirements does not exist thus no assets are maintained for that purpose.

	2015 Rs.	2014 Rs.
21.3 Available for Sale Investment Reserve		
Balance at the beginning of the year	109,792,742	(2,116,792)
Fair value changes during the year - increase / (decrease)	(23,755,959)	113,725,676
Transfers of (gains) / losses to profits on disposal of investments	-	(1,816,142)
Balance at the end of the year	86,036,783	109,792,742
This reserve is maintained to recognise the fair value changes of Available for Sale Financial Assets.		
21.4 Retained Earnings		
Balance at the beginning of the Year	3,152,829,244	2,458,547,280
Profit for the year	1,483,582,221	1,000,299,308
Remeasurements of defined benefit liability - gain / (loss)	(200,254)	(1,869,190)
Transfer to Investment Fund Account	(32,935,748)	(104,088,292)
Transferred to retained earnings during the year	424,786,084	-
Transfer to Statutory Reserve Fund	(74,179,111)	(200,059,862)
Balance at the end of the Year	4,953,882,436	3,152,829,244
22. INTEREST INCOME		
Interest on leases	2,385,531,572	2,494,449,835
Interest on hire purchases	39,378,078	159,522,264
Interest on loans	6,437,056,647	6,165,384,805
Factoring income	790,918,262	769,437,480
Interest on margin trading	31,354,285	5,647,586
Income from operating lease and hire	22,396,462	6,838,550
Interest on overdue rentals and others	1,164,591,596	914,530,842
	10,871,226,902	10,515,811,362
23. INTEREST EXPENSE		
Interest on fixed deposits	3,896,412,257	4,581,308,072
Interest on savings deposits	34,027,508	31,066,299
Profit distributed to mudharabah deposit holders	469,765,238	448,614,792
Interest on foreign currency deposits	92,448,609	106,214,460
Interest on re-red refinancing	6,747,174	10,288,628
Finance lease interest	34,069,157	17,933,370
Interest on short term loan & bank overdraft	444,841,760	929,854,694
	4,978,311,703	6,125,280,315

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
24. NET OTHER OPERATING INCOME		
Sundry income	341,446,351	285,607,702
Collections from contracts written off	179,814,249	118,421,256
Fair value change in investment properties	139,964,690	58,361,006
Royalty income, treasury management & intercompany interest	-	1,572,849
Interest income and capital gain on government securities	611,873,253	568,095,578
Interest income on term deposits	42,593,333	81,286,396
Change in fair value of derivatives - forward contracts (note 4.3)	(60,242,400)	43,628,499
Net exchange loss	(32,222,568)	(159,656,553)
Provision for payables to clients	(16,017,150)	(67,378,007)
Adjustment for increase/(decrease) in value of investments (note 10.1)	(200,000)	1,900,000
Dividend income	36,000	346,014
Interest income from staff loan	62,785,030	39,404,072
	1,269,830,788	971,588,812
25. DIRECT EXPENSES EXCLUDING INTEREST COST		
Factored insurance	83,643,256	75,682,008
VAT on general expenses	83,402,364	23,253,979
Portfolio handling fee	255,788,870	198,176,881
Others	6,057,200	426,502
	428,891,690	297,539,370
26. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS		
Impairment provision/(reversal) for lease rentals receivable (Note 5.2)	(45,153,908)	165,836,715
Impairment provision/(reversal) for receivables from hire purchases (Note 6.1.2)	(14,634,147)	(6,516,885)
Impairment provision/(reversal) for mortgage loan (Note 6.2.2)	46,865,531	20,845,371
Impairment provision/(reversal) for receivables from sundry loans (Note 6.3.2)	60,495,148	209,931,474
Impairment provision/(reversal) for factoring receivables (Note 7.1)	35,154,670	(351,467,016)
Impairment provision/(reversal) for margin trading receivables (Note 8.1)	(137,615,343)	137,615,343
Impairment provision/(reversal) for other receivables	686,056,855	22,836,963
Written-off during the year	866,133,510	1,172,264,134
	1,497,302,317	1,371,346,099

	2015 Rs.	2014 Rs.
27. PROFIT FROM OPERATIONS		
Profit from operations is stated after charging all expenses including the following.		
Directors' emoluments	37,831,375	28,780,097
Audit fees and expenses - Audit Services	1,850,000	1,700,000
- Audit Related Services	861,000	820,000
- Non Audit Services	Nil	Nil
Depreciation on property, plant and equipment	12,166,033	3,823,251
27.1 Personnel expenses		
- Salaries, wages & other related cost	873,290,880	670,319,507
- Defined contribution plans - EPF & ETF	20,947,063	14,801,556
- Defined benefit plan cost	3,126,017	1,984,811
	897,363,959	687,105,875

NOTES TO THE FINANCIAL STATEMENTS *contd.***28. MATURITY OF ASSETS AND LIABILITIES**

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

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.15	Total as at 31.03.14
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and bank balances	2,975,305,230	-	-	-	-	2,975,305,230	3,236,379,885
Deposits with banks and other financial institutions	493,933,510	267,161,781	-	-	-	761,095,291	466,476,354
Investment in government securities	4,357,675,000	240,050,000	-	1,026,221,117	276,771,735	5,900,717,852	4,936,822,120
Derivative assets	-	2,740,000	-	-	-	2,740,000	13,571,650
Rentals receivable on leased assets	1,565,647,428	3,038,272,837	5,911,581,602	2,515,927,266	435,363,137	13,466,792,270	11,198,073,626
Allowance for impairment	-	-	-	-	-	(316,416,427)	(361,570,335)
Hire purchases, loans and advances	4,669,193,787	7,475,853,959	12,033,065,179	13,036,158,541	609,989,991	37,824,261,458	29,912,640,861
Allowance for impairment	-	-	-	-	-	(1,176,932,589)	(1,084,206,057)
Factoring receivable	6,359,079,938	-	-	-	-	6,359,079,938	3,403,654,148
Allowance for impairment	-	-	-	-	-	(158,878,197)	(123,723,527)
Margin trading receivables	293,711,960	-	-	-	-	293,711,960	261,023,733
Allowance for impairment	-	-	-	-	-	-	(137,615,343)
Other receivables	405,513,476	30,101,173	84,765,726	78,520,780	40,451,165	639,352,320	1,418,032,772
Investments in shares	-	8,500,000	-	-	343,275	8,843,275	9,043,275
Amount due from related companies	2,882,510	-	-	-	-	2,882,510	5,930,266
Inventories	-	-	-	-	-	-	12,080,000
Investment properties	-	-	1,142,800,000	-	-	1,142,800,000	215,173,229
Property plant and equipment	-	-	-	-	136,544,681	136,544,681	50,142,822
Total Assets as at 31.03.2015	21,122,942,840	11,062,679,750	19,172,212,507	16,656,827,704	1,499,463,984	67,861,899,570	
Total Assets as at 31.03.2014	15,321,181,357	11,402,339,601	16,543,037,131	10,849,394,975	1,023,091,678	53,431,929,480	53,431,929,480

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

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.15	Total as at 31.03.14
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank overdraft	2,333,062,400	-	-	-	-	2,333,062,400	1,136,163,365
Interest bearing borrowings	4,523,222,949	615,357,735	275,695,216	5,625,752,079	-	11,040,027,979	823,837,756
Deposits from customers	11,299,862,041	14,284,815,558	8,242,229,451	7,483,053,421	-	41,309,960,472	42,617,799,696
Trade payables	645,905,072	-	-	-	-	645,905,072	328,986,492
Accruals and other payables	790,108,233	32,332,381	-	-	-	822,440,614	494,314,160
Derivative liabilities	41,621,400	15,893,500	-	-	-	57,514,900	8,104,150
Amount due to related companies	2,453,097,016	-	-	-	-	2,453,097,016	649,310,359
Current tax payable	-	434,425,679	-	-	-	434,425,679	282,717,688
Deferred tax liability	-	-	761,419,624	-	-	761,419,624	548,717,682
Employee benefits	-	-	-	10,450,090	-	10,450,090	8,008,415
Stated capital	-	-	-	-	2,000,000,000	2,000,000,000	2,000,000,000
Statutory reserve	-	-	-	-	1,176,213,839	1,176,213,839	879,497,395
Investment fund reserve	-	-	-	-	-	-	391,850,336
Available for sale investment reserve	63,538,089	3,500,105	-	14,963,055	4,035,534	86,036,783	109,792,742
Retained earnings	-	-	-	-	4,731,345,102	4,731,345,102	3,152,829,244
Total Liabilities & Equity as at 31.03.2015	22,150,417,200	15,386,324,957	9,279,344,292	13,134,218,645	7,911,594,476	67,861,899,570	
Total Liabilities & Equity as at 31.03.2014	14,860,747,667	18,296,470,849	3,714,097,381	10,026,643,866	6,533,969,716	53,431,929,480	53,431,929,480

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
29. INCOME TAX EXPENSE		
The major components of income tax expense for the year ended 31 st March are as follows:		
Current tax		
Current tax charge	526,979,445	298,609,642
Under provision of current taxes in respect of prior years	3,007,361	9,174,623
	529,986,806	307,784,265
Deferred Tax		
Deferred tax charge (29.2)	212,779,819	134,339,797
Income tax expense reported in statement of profit or loss	742,766,624	442,124,062
Deferred tax charge / (reversal) recognised in OCI	(77,877)	(1,129,723)
29.1 Current tax payable		
Tax payable as at 1 st April	282,717,688	178,417,948
Current tax expense for the year	529,986,806	307,784,265
Tax paid during the year	(378,278,815)	(203,484,526)
Tax payable as at 31 st March	434,425,679	282,717,688

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

	2015		2014	
	%	Rs.	%	Rs.
Accounting profit before income tax		2,226,348,846		1,442,423,370
Tax effect at the statutory income tax rate of 28%	28%	623,377,677	28%	403,878,544
Tax effect of other allowable credits	-7%	(158,453,355)	0%	(4,606,017)
Tax effect of non deductible expenses	12%	274,834,942	2%	33,676,912
Under / (over) provision in the previous years	0%	3,007,361	1%	9,174,623
Income tax expense	33%	742,766,624	31%	442,124,062

29.2 Deferred Taxation

Recognised deferred tax assets and liabilities are attributable to the following

	Statement of Financial Position		Statement of Profit or loss and Other Comprehensive Income	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Deferred tax liability - recognised in profit or loss - expense / (reversal)				
Lease receivables	843,296,720	568,186,748	275,109,972	140,793,988
Net forward exchange contracts	-	1,530,900	(1,530,900)	1,530,900
	843,296,720	569,717,648	273,579,072	142,324,888
Deferred tax assets - recognised in profit or loss - expense / (reversal)				
Defined benefit plans	1,718,426	1,112,633	(605,792)	161,498
Net forward exchange contracts	15,336,972	-	(15,336,972)	10,611,020
Finance lease liability	63,614,099	18,757,610	(44,856,489)	(18,757,610)
	80,669,497	19,870,243	(60,799,253)	(7,985,092)
Deferred tax assets - recognised in OCI				
Defined benefit plans	1,207,599	1,129,723	(77,877)	(1,129,723)
Deferred tax expense / (reversal) for the current year - recognised in profit or loss			212,779,819	134,339,797
Deferred tax expense / (reversal) for the current year - recognised in OCI			(77,877)	(1,129,723)
Net deferred tax liability	761,419,624	548,717,682		

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
29.2.a Movement in temporary differences		
Taxable temporary differences		
Lease receivables	3,011,774,001	2,029,238,386
Forward exchange contracts (net)	-	5,467,500
	3,011,774,001	2,034,705,886
Deductible temporary differences		
Defined benefit plans - recognised in profit or loss	6,137,235	3,973,691
Defined benefit plans - recognised in OCI	4,312,855	4,034,724
Forward exchange contracts (net)	54,774,900	-
Finance lease liability	227,193,210	66,991,464
	292,418,200	74,999,879
Net taxable temporary differences	2,719,355,800	1,959,706,007

30. EARNINGS PER SHARE**30.1 Basic Earnings Per Share**

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.

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

	2015 Rs.	2014 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	1,483,582,221	1,000,299,308
	2015 No.	2014 No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	2,800,000,000	2,800,000,000
Weighted average number of ordinary shares in issue applicable to basic earnings per share	2,800,000,000	2,800,000,000
Basic earnings per share (Rs.)	0.53	0.36

30.2 Diluted Earnings Per Share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

	2015 Rs.	2014 Rs.
31. CASH AND CASH EQUIVALENTS		
31.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	2,975,305,230	3,236,379,885
31.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(2,333,062,400)	(1,136,163,365)
Total cash and cash equivalents for the purpose of cash flow statement	642,242,830	2,100,216,520

32. COMPARATIVE FIGURES

Comparative information has not been reclassified or restated

33. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2015 Rs.	Carrying Amount Pledged 2014 Rs.
Leased assets	Short Term Borrowing	1,572,508,215	2,496,436,128

34. RELATED PARTY DISCLOSURES**34.1 Parent and Ultimate Controlling Party**

The Company's immediate and ultimate controlling party is Lanka ORIX Leasing Company PLC.

34.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and General Managers and Deputy General Managers of the Company and its Ultimate Parent Company Lanka ORIX Leasing Co. PLC . Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

NOTES TO THE FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
34.2.1 Compensation of KMPs		
Short term employment benefits	53,142,480	32,396,432
Post employment benefits	-	1,599,750
Total	53,142,480	33,996,182

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.

34.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

	2015 Rs.	2014 Rs.
Deposits held with the Company	724,402,049	708,231,789
Interest paid / charge	134,974,177	172,436,396
Interest payable	11,648,649	10,696,509
Loans granted (excluding Directors)	14,516,954	10,300,000
Capital outstanding on facilities granted to KMP (excluding Directors)	21,940,078	13,591,243

34.3 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures, on an arms length basis. Details of related party transactions are reported below. (For information regarding outstanding balances (receivables / payables) at 31st March 2015 and 2014, refer notes no.11 and 18 accordingly).

Relationship	Nature of Transactions	Transaction value 2015 Rs.	Transaction value 2014 Rs.
Parent Company	Inter company fund utilised	763,267,839	349,352,582
	Shared expenses (including vat)	1,251,656,237	63,353,267
	Asset hire charges	121,534,520	57,790,273
	Interest on re-red refinancing	6,747,174	10,288,628
	Royalty / treasury management fee	283,000,000	122,169,830
	Fund transfer interest	40,663,758	13,046,884
	Charges for service provided	120,000,000	-
Fellow Subsidiaries	Portfolio transfer	-	763,410,924
	Deposits held with the company	219,877,919	26,405,928
	Interest paid/charge	5,760,057	1,073,956
	Interest payable	3,338,378	106,520
	IT service fee	120,000,000	155,000,000
	Portfolio handling fee	375,788,870	198,176,881
	Supply of leased vehicles	281,650,671	176,994,972
	Yard fee	13,418,572	6,597,507
	Loan/ lease granted	253,030,258	508,177,062
	Rental collections	276,867,747	598,015,468
	Interest income	183,265,876	203,243,143
	Capital outstanding on facilities granted	949,236,810	952,952,546
Other Related Companies/Affiliates	Supply of leased vehicles	72,932,141	47,363,389
	Debentures issued	2,745,000,000	-
	Deposits held with the company	-	300,000,000
	Interest paid/charge	-	74,907,936
	Interest payable	-	731,555
	Rental collections	107,915,781	14,787,613
	Interest income	17,760,491	10,642,405
	Capital outstanding on facilities granted	50,380,100	61,373,717
Other Related Organisations	Deposits held with the company	43,843,776	38,217,509
	Interest paid/charge	2,121,703	1,378,257
	Interest payable	392,326	130,206

NOTES TO THE FINANCIAL STATEMENTS *contd.***35. EVENTS OCCURRING AFTER THE REPORTING DATE**

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

36. OPERATING SEGMENTS

	Leasing Rs	Hire Purchase Rs	Loans Rs	Treasury Rs	Others Rs	Total Rs
For the year ended 31st March 2015						
Total revenue	2,849,989,047	67,797,936	8,346,202,212	644,456,686	232,611,808	12,141,057,690
External revenue	2,849,989,047	67,797,936	8,346,202,212	644,456,686	232,611,808	12,141,057,690
Net interest cost	(1,168,607,727)	(27,799,823)	(3,422,271,536)	(264,252,617)	(95,380,000)	(4,978,311,703)
Profit before operating expenses	1,681,381,321	39,998,113	4,923,930,676	380,204,069	137,231,808	7,162,745,987
Operating expenses	(1,154,810,912)	(31,316,544)	(3,278,957,530)	(169,798,404)	(61,287,460)	(4,696,170,850)
Value added tax on financial services	-	(1,261,171)	(238,965,120)	-	-	(240,226,291)
Results from operating activities	526,570,409	7,420,398	1,406,008,026	210,405,666	75,944,348	2,226,348,846
For the year ended 31st March 2014						
Total revenue	2,919,878,946	224,766,077	7,660,688,080	639,872,687	42,194,384	11,487,400,175
External revenue	2,919,878,946	224,766,077	7,660,688,080	639,872,687	42,194,384	11,487,400,175
Net interest cost	(1,556,929,920)	(119,849,157)	(4,084,811,288)	(341,191,176)	(22,498,775)	(6,125,280,315)
Profit before operating expenses	1,362,949,027	104,916,920	3,575,876,793	298,681,511	19,695,609	5,362,119,860
Operating expenses	(1,164,722,922)	(81,300,141)	(2,340,304,069)	(132,519,618)	(31,575,551)	(3,750,422,300)
Value added tax on financial services	-	(3,174,829)	(166,099,360)	-	-	169,274,189)
Results from operating activities	198,226,105	20,441,950	1,069,473,364	166,161,893	(11,879,942)	1,442,423,369
For the year ended 31st March 2015						
Provision for / (reversal of provision for) doubtful debts and bad debts written off	403,909,259	13,453,464	1,079,939,594	-	-	1,497,302,317
As at 31-03-2015						
Total assets	13,150,375,843	150,155,442	42,991,087,127	6,673,396,419	4,896,884,740	67,861,899,570
Total liabilities	12,500,837,249	142,738,790	38,514,932,034	6,681,059,764	2,028,736,008	59,868,303,846
As at 31-03-2014						
Total assets	10,836,503,291	443,501,932	31,788,271,883	5,425,913,399	4,937,738,974	53,431,929,480
Total liabilities	10,421,776,353	426,528,542	29,644,574,341	5,071,322,582	1,333,757,945	46,897,959,764

	2015 Rs.	2014 Rs.
37. COMMITMENTS AND CONTINGENCIES		
37.1 Contingent Liabilities		
Guarantees issued to banks and other institutions	636,345,074	622,447,394
37.2 Commitments		
Forward exchange contracts- (commitment to purchase)	1,593,024,850	2,089,991,100
Unutilised loan facilities	5,824,041,685	4,061,635,800
Letter of credit	31,148,950	29,454,945

On the commitment to purchase the foreign currencies the company will receive USD 5,000,000, EUR 1,500,000 , GBP 1,425,000, AUD 3,260,000.

38. OTHERS

An imposition of a Super Gains Tax has been recommended for the approval of Parliament as per a Bill dated 27th March 2015. Since the Bill had not been approved by the parliament as at the reporting date, and the basis of calculation of such tax has not been finalised, the Company has not provided for any potential liability arising from such, in the Financial Statements for the year ended 31st March 2015.

SUPPLEMENTARY FINANCIAL INFORMATION - ISLAMIC BUSINESS UNIT

STATEMENT OF FINANCIAL POSITION

	Note	2015 Rs.	2014 Rs.
ASSETS			
Cash and bank balances	5	594,644,793	502,404,345
Investment in government securities		-	477,648,185
Murabaha/Musawamah receivables	6	2,141,021,835	1,840,643,183
Diminishing Musharaka receivables	7	3,038,759,952	2,193,964,888
Ijarah rent receivables	8	1,942,105,632	1,166,046,629
Investment in quoted shares	9	8,500,000	8,700,000
Other receivables	10	37,325,294	20,461,139
Inventories		-	980,000
Investment properties	11	12,500,000	11,000,000
Total assets		7,774,857,506	6,221,848,369
LIABILITIES			
Mudharabah investments		4,034,438,048	2,778,460,796
Mudharabah savings		384,263,173	344,202,671
Profit payable on Mudharabah investments		65,927,515	61,161,358
Wakala investments		780,000,000	1,668,500,000
Profit payable on Wakala investments		2,378,658	11,975,336
Income tax payable		97,619,204	85,875,553
Accruals and other payables	12	237,721,812	159,723,210
Due to head office	13	1,234,101,928	415,381,532
Total liabilities		6,836,450,337	5,525,280,456
OWNER'S FUND			
Retained earnings		938,407,168	696,567,914
Total owner's fund		938,407,168	696,567,914
Total liabilities & head office fund		7,774,857,506	6,221,848,369

The above Statement of Financial Position should be read in conjunction with accounting policies and notes, which form an integral part of these supplementary financial statements.

The basis of preparation and notes are given in pages 156 through 162.

STATEMENT OF PROFIT OR LOSS

	Note	2015 Rs.	2014 Rs.
Revenue	14	1,253,806,835	1,140,882,882
Profit paid to Mudharabah/Wakala investors		(469,765,238)	(448,614,792)
Other direct expenses - insurance		(59,254,530)	(59,741,521)
		724,787,067	632,526,569
Non distributable other income / (expenses)	15	16,920,162	20,575,065
Total operating income		741,707,229	653,101,634
Employee benefits	16	(87,764,897)	(102,038,458)
(Provision)/reversal for credit losses		(85,016,282)	(95,839,501)
Other operating expenses		(198,246,303)	(125,142,686)
Profit from operations	17	370,679,748	330,080,990
Value added tax on financial services		(31,221,289)	(33,222,052)
Profit before taxation		339,458,459	296,858,938
Income tax expense	18	(97,619,204)	(85,875,553)
Profit for the year		241,839,255	210,983,386

The above Statement of Profit or Loss should be read in conjunction with accounting policies and notes, which form an integral part of these supplementary financial statements.

The basis of preparation and notes are given in pages 156 through 162.

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS

1. GENERAL

Lanka ORIX Finance PLC is a quoted public company with limited liability incorporated on 13th 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 Finance Companies Act, No. 78 of 1988.)

Lanka ORIX Finance PLC has set up the Islamic Business Unit (“IBU”) which commenced its operations in February 2008, under Islamic Shari’ah Law. It is housed in the Head Office Premises at No. 100/1 Sri Jayewardenepura Mawatha, Rajagiriya.

1.1 Principal Activities and Nature of Business

The principal activities of the IBU comprised of Mudharabah and Wakala (Profit Sharing investments), Diminishing Musharakah (Partnership Financing), Murabaha/Musawamah (Trade Financing), Ijarah (Leasing).

1.2 BASIS OF PREPARATION

1.2.1. These supplementary Financial Statements of the IBU are prepared on the historical cost basis. Assets and liabilities are grouped by nature and listed in an order that reflect their relative liquidity. These Special Purpose Financial Statements of the IBU are prepared in Sri Lankan Rupees.

1.2.2. The results of IBU and the financial position of the IBU form part of the financial statements of Lanka ORIX Finance PLC which is prepared in accordance with Sri Lanka Accounting Standards. Lanka ORIX Finance PLC’s primary set of Financial Statements was authorised for issue by the Board of Directors in accordance with a resolution of the Directors passed on 24th June 2015. Therefore, the isolated Financial Statements of the IBU should be read in conjunction with the Lanka ORIX Finance PLC’s primary set of Financial Statements.

1.3 Accounting Policies and Comparative Information

The accounting policies have been consistently applied by the IBU and are consistent with those used in the previous period.

Comparative information is reclassified wherever necessary to comply with the current presentation.

1.4 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Company’s Accounting Policies, the management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognised in the Financial Statements. 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 Statement of Financial Position date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities. Revisions to accounting estimates are recognised 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.

► Credit 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 Statement of profit or loss. 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.

1.5 Events after the reporting date

Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.

2. ASSETS AND BASES OF THEIR VALUATION

2.1 Cash and bank balances

Cash and bank balances comprise of cash in hand and cash at banks.

2.2 Murabaha, Musawamah and Diminishing Musharaka receivables

Murabaha/Musawamah to customers with fixed installments are stated in the Statement of Financial Position net of provision for doubtful debts and income, which is not accrued to revenue.

Diminishing Musharakah to customers is reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for doubtful debts.

2.3 Ijarah Rent Receivables

The Lanka ORIX Finance PLC's IBU buys and lease out equipment required by its clients for a fee (Rental). The duration of the lease and value of the rental is agreed in advance. Ownership of the asset will remain with the Company till the end of the lease period. Rent receivables on Ijarah advances reflected in the Statement of Financial Position are the total rent receivables after eliminating unearned income and deducting pre paid rentals, rental collections and provision for doubtful debts.

2.4 Provision for Doubtful Debts

The IBU 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 Ijarah receivables, Murabaha/ Musawamah advances & Diminishing Musharakah advances receivable (net of unearned income) which are in arrears for a period of 06 to 12 months.
- ▶ One hundred percent (100%) of Ijarah lease, Murabaha/ Musawamah advances & Diminishing Musharakah advances receivable (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 these portfolios.

Balance receivables on any terminated contracts are fully provided.

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

- ▶ **Vehicles that have been repossessed by the Company**
Eighty per cent (80%) of the valuation obtained during the preceding six months from a professional valuer approved by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka
- ▶ **Lands & 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.

2.5 Investment in Quoted Shares

Investments in quoted shares are stated at their market values at the Statement of Financial Position date. Any difference between the cost and the market value is recognised in profit or loss.

2.6 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 recognised 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

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS *contd.*

directly attributable to bringing the investment property to a working condition for their intended use.

Determining Fair value

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the company's investment property portfolio annually.

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.

2.7 Inventories

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

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

2.8 Other Receivables

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

3. LIABILITIES AND PROVISIONS

Liabilities are recognised in the Statement of Financial Position 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 Statement of Financial Position date are treated as current liabilities in the Statement of Financial Position. Liabilities payable after one year from the Statement of Financial Position date are treated as non-current liabilities in the Statement of Financial Position.

3.1 Profit Payable to the Mudharabah Investors

Profits payable are recognised on accrual basis and are credited to Investors' accounts when the profit is distributed on a monthly basis on or before the 10th of the following month.

3.2 Income Tax

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Inland Revenue. The rate and tax laws used to compute the amount are those that are enacted or substantially enacted as at the Statement of Financial Position date. Accordingly, provisions for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with provisions of Inland Revenue Act No. 10 of 2006 and amendments thereto.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Statement of Financial Position date and any adjustments to tax payable in respect of previous years.

3.3 Employee benefits

3.3.1 Defined Contribution Plan - EPF & ETF

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 recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company contributes 12% and 3% of gross emoluments of employees as provident fund (EPF), and trust fund (ETF) contribution respectively.

4. STATEMENT OF PROFIT OR LOSS

4.1 Revenue Recognition

4.1.1 *Murabaha/Musawamah Income*

The profits and losses arising from Murabaha/Musawamah transactions are recognised over the term of the facility, commencing from the month in which the facility is executed.

4.1.2 *Ijarah Income*

Profits and losses arising from Ijarah assets are recognised over the term of the lease, commencing from the month in which the lease is executed so as to yield a constant periodic rate of return on Ijarah assets.

4.1.3 *Diminishing Musharakah Income*

Profits and losses arising from Diminishing Musharakah are recognised in the accounting period in which the installments are due.

4.1.4 *Profit in Suspense*

Profit from advances classified as non-performing is accounted for on cash basis. Income falling due on non-performing advances is credited to profit in suspense account.

4.2 Expenditure Recognition

For the presentation of Statement of Profit or Loss, the Directors are of the opinion that the nature of expenses method presents fairly the element of the company's performance, and hence such presentation method is adopted.

Expenses are recognised in the Statement of Profit or Loss 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.

Expenses incurred by the IBU for which a fee is charged from the customers, has been presented net of the related income.

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
5 CASH AND BANK BALANCES		
Cash & bank balances	594,644,793	502,404,345
	594,644,793	502,404,345
6. MURABAHA/MUSAWAMAH RECEIVABLES		
Instalment receivable	2,545,480,380	2,342,907,800
Unearned income	(395,228,211)	(483,598,469)
Income in suspense	(2,096,648)	(2,818,034)
Provision for credit losses	(7,133,686)	(15,848,114)
	2,141,021,835	1,840,643,183
7. DIMINISHING MUSHARAKA RECEIVABLES		
Instalment receivable	3,066,896,047	2,205,249,896
Income in suspense	(8,535,396)	(4,847,580)
Provision for credit losses	(19,600,699)	(6,437,429)
	3,038,759,952	2,193,964,888
8. IJARAH RECEIVABLES		
Rent receivables	2,656,862,208	1,605,094,473
Unearned income	(690,093,847)	(425,170,278)
Income in suspense	(4,549,919)	(3,442,191)
Provision for credit losses	(20,112,810)	(10,435,376)
	1,942,105,632	1,166,046,629
9. INVESTMENT IN QUOTED SHARES		
Expo Lanka Holdings PLC		
Cost (1,000,000 shares)	18,000,000	18,000,000
Adjustment for fall in value of investments	(9,500,000)	(9,300,000)
	8,500,000	8,700,000

	2015 Rs.	2014 Rs.
10. OTHER RECEIVABLES		
Staff car advances	7,795,629	9,429,821
Insurance premium receivable	2,440,209	6,322,848
Others	27,089,456	4,708,470
	37,325,294	20,461,139
11. INVESTMENT PROPERTIES		
Balance as at 1 st April	11,000,000	-
Additions to Investment Properties from foreclosure of contracts	-	11,000,000
Change in fair value	1,500,000	-
Balance as at 31 st March	12,500,000	11,000,000
12. ACCRUALS AND OTHER PAYABLES		
Lease equipment creditors	110,964,942	28,789,260
Refunds payable	23,451,829	52,421,691
Insurance payable	34,913,277	6,264,094
IBU charity fund	32,327,558	3,926,980
Other payables	36,064,205	68,321,185
	237,721,812	159,723,210
13. DUE TO HEAD OFFICE		
Qurd hassan	455,000,000	-
Current account balance due to head office	779,101,928	415,381,532
	1,234,101,928	415,381,532

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS *contd.*

	2015 Rs.	2014 Rs.
14. REVENUE		
Income from Ijarah receivables	330,001,496	302,026,294
Income from Diminishing Musharaka receivables	520,073,977	443,339,292
Income from Murabaha/Musawamah receivables	363,566,122	369,753,489
Profit on terminations	30,737,137	25,763,806
Income from Mudarabah deposits	9,428,102	-
	1,253,806,835	1,140,882,882
15. NON DISTRIBUTABLE OTHER INCOME/(EXPENSES)		
Takaful commission	16,229,200	18,501,852
Others	690,961	2,073,214
	16,920,162	20,575,065
16. EMPLOYEE BENEFITS		
Salaries & other benefits	87,764,897	102,038,458
	87,764,897	102,038,458
17. PROFIT FROM OPERATION		
Stated after charging		
Advertising	17,782,185	9,263,304
Business promotion expenses	22,986,434	18,163,366
18. INCOME TAX EXPENSE		
Income tax is provided at 28% of the taxable profits computed in accordance with the inland revenue act No 10 of 2006 (and amendments thereto)	97,619,204	85,875,553
	97,619,204	85,875,553

19. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date no circumstances have arisen which would require adjustments to, or disclosure in the financial statements.

FINANCIAL INFORMATION FOR LAST FIVE YEARS

STATEMENT OF FINANCIAL POSITION

As at	31-Mar-15 Rs.'000	31-Mar-14 Rs.'000	31-Mar-13 Rs.'000	31-Mar-12 Rs.'000	31-Mar-11 Rs.'000
ASSETS					
Cash and bank balances	2,975,305	3,236,380	3,061,190	2,100,865	812,035
Deposits with banks and other financial institutions	761,095	466,476	414,634	846,457	-
Investment in government securities	5,900,718	4,936,822	3,378,980	1,442,826	2,136,000
Derivative assets	2,740	13,572	1,936	211,713	19,560
Rentals receivable on leased assets	13,150,376	10,836,503	11,452,172	11,018,808	4,332,440
Hire purchases, loans and advances	36,647,329	28,828,435	25,547,021	21,901,827	16,442,747
Factoring receivable	6,200,202	3,279,931	3,198,685	-	-
Margin trading receivables	293,712	123,408	-	-	80
Other receivables	639,352	1,418,033	357,943	576,261	322,055
Investments in shares	8,843	9,043	7,143	6,200	18,000
Amount due from related companies	2,883	5,930	75,649	77,067	150,867
Inventories	-	12,080	-	13,629	-
Real estate stock	-	-	2,598	16,449	16,262
Investment properties	1,142,800	215,173	71,500	71,500	71,500
Property plant and equipment	136,545	50,143	-	-	-
Total assets	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546
LIABILITIES					
Bank overdraft	2,333,062	1,136,163	2,201,599	989,189	501,515
Interest bearing borrowings	11,040,028	823,838	5,981,573	5,042,010	627,024
Deposits from customers	41,309,960	42,617,800	32,069,049	25,843,130	17,899,089
Trade payables	645,905	328,986	434,517	211,163	685,144
Accruals and other payables	822,441	494,314	685,456	166,034	114,229
Derivative liabilities	57,515	8,104	40,097	-	7,597
Amount due to related companies	2,453,097	649,310	135,056	806,442	734,560
Current tax payable	434,426	282,718	178,418	175,447	72,999
Deferred tax liability	761,420	548,718	415,508	318,112	115,014
Employee benefits	10,450	8,008	4,550	4,729	2,881
Total liabilities	59,868,304	46,897,960	42,145,823	33,556,256	20,760,052
SHAREHOLDER'S FUNDS					
Stated capital	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Statutory reserve	953,677	879,497	679,438	542,182	293,024
Investment fund reserve	-	391,850	287,762	157,146	39,539
Available for sale investment reserve	86,037	109,793	(2,117)	(12,126)	-
Retained earnings	4,953,882	3,152,829	2,458,547	2,040,144	1,228,931
Total equity	7,993,596	6,533,970	5,423,630	4,727,346	3,561,494
Total liabilities and equity	67,861,900	53,431,929	47,569,453	38,283,601	24,321,546

STATEMENT OF PROFIT OR LOSS

For the year ended	31-Mar-15 Rs.'000	31-Mar-14 Rs.'000	31-Mar-13 Rs.'000	31-Mar-12 Rs.'000	31-Mar-11 Rs.'000
Interest income	10,871,227	10,515,811	8,457,606	5,971,895	3,113,150
Interest expense	(4,978,312)	(6,125,280)	(4,950,845)	(2,994,344)	(1,760,124)
Net interest income	5,892,915	4,390,531	3,506,761	2,977,550	1,353,026
Net other operating income	1,269,831	971,589	496,871	336,063	1,504,257
Direct expenses excluding interest cost	(428,892)	(297,539)	(121,899)	(89,569)	(97,481)
Allowance for impairment & write-offs	(1,497,302)	(1,371,346)	(1,237,473)	(72,433)	(155,634)
Personnel expenses	(897,364)	(687,106)	(548,439)	(469,514)	(309,594)
Depreciation	(12,166)	(3,823)	-	-	(2,048)
General & administration expenses	(1,860,447)	(1,390,608)	(970,659)	(811,042)	(666,374)
Profit from operations	2,466,575	1,611,698	1,125,162	1,871,055	1,626,151
Value added tax on financial services	(240,226)	(169,274)	(129,822)	(179,921)	(137,285)
Profit before tax	2,226,349	1,442,423	995,340	1,691,134	1,488,866
Income tax expense	(742,767)	(442,124)	(309,060)	(512,125)	(242,773)
Profit for the year	1,483,582	1,000,299	686,280	1,179,009	1,246,093

2012-2015 Profits are determined based on LKAS/SLFRS. 2011 profits are determined in line with SLAS's.

QUARTERLY FINANCIAL INFORMATION

STATEMENT OF FINANCIAL POSITION

As at	31-Mar-15 Rs.'000	31-Dec-14 Rs.'000	30-Sep-14 Rs.'000	30-Jun-14 Rs.'000
ASSETS				
Cash and bank balances	2,975,305	2,837,347	2,834,980	2,790,223
Deposits with banks and other financial institutions	761,095	489,519	481,860	975,939
Investment in government securities	5,900,718	6,213,989	6,377,662	6,350,344
Derivative assets	2,740	498	-	11,625
Rentals receivable on leased assets	13,150,376	12,491,991	11,242,421	10,775,798
Hire purchases, loans and advances	36,647,329	34,984,348	32,260,284	29,706,210
Factoring receivable	6,200,202	4,839,152	4,149,662	3,215,678
Margin trading receivables	293,712	241,490	129,725	184,237
Other receivables	639,352	1,471,688	1,302,409	1,298,047
Investments in shares	8,843	8,943	10,143	10,343
Amount due from related companies	2,883	2,727	2,609	13,659
Inventories	-	-	12,080	12,080
Investment properties	1,142,800	404,131	216,862	215,173
Property plant and equipment	136,545	126,305	130,777	48,461
Total assets	67,861,900	64,112,127	59,151,473	55,607,817
LIABILITIES				
Bank overdraft	2,333,062	1,714,296	769,323	1,437,271
Interest bearing borrowings	11,040,028	7,515,304	4,498,393	707,897
Deposits from customers	41,309,960	42,723,153	43,249,893	44,660,697
Trade payables	645,905	549,200	360,951	250,561
Accruals and other payables	822,441	1,585,141	1,417,522	721,659
Derivative liabilities	57,515	131,203	101,807	30,695
Amount due to related companies	2,453,097	1,058,136	530,116	314,341
Current tax payable	434,426	500,002	316,816	152,711
Deferred tax liability	761,420	548,718	548,718	548,718
Employee benefits	10,450	7,535	7,535	7,793
Total liabilities	59,868,304	56,332,687	51,801,075	48,832,345
SHAREHOLDER'S FUNDS				
Stated capital	2,000,000	2,000,000	2,000,000	2,000,000
Statutory reserve	953,677	879,497	879,497	879,497
Investment fund reserve	-	424,786	424,786	400,779
Available for sale investment reserve	86,037	166,957	196,077	120,240
Retained earnings	4,953,882	4,308,199	3,850,038	3,374,955
Total equity	7,993,596	7,779,440	7,350,398	6,775,472
Total liabilities and equity	67,861,900	64,112,127	59,151,473	55,607,817

STATEMENT OF PROFIT OR LOSS

For the quarter ended	31-Mar-15 Rs.'000	31-Dec-14 Rs.'000	30-Sep-14 Rs.'000	30-Jun-14 Rs.'000
Interest income	2,864,574	2,840,075	2,715,624	2,450,953
Interest expense	(1,134,041)	(1,242,552)	(1,269,888)	(1,331,830)
Net interest income	1,730,533	1,597,523	1,445,736	1,119,123
Net other operating income	522,636	204,650	341,321	201,223
Direct expenses excluding interest cost	(309,534)	(47,056)	(40,074)	(32,226)
Allowance for impairment & write-offs	(474,963)	(333,160)	(314,885)	(374,294)
Personnel expenses	(296,378)	(213,055)	(194,758)	(193,173)
Depreciation	(3,976)	(4,472)	(2,036)	(1,682)
General & administration expenses	(635,951)	(407,126)	(477,650)	(339,720)
Profit from operations	532,366	797,304	757,655	379,251
Value added tax on financial services	(52,183)	(65,228)	(68,721)	(54,095)
Profit before tax	480,184	732,076	688,933	325,156
Income tax expense	(184,907)	(273,915)	(189,843)	(94,102)
Profit for the year	295,277	458,161	499,090	231,055

SHARE INFORMATION

Shareholding as at 31st March

	2015		2014	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Resident	2,795,452,500	99.84	2,797,415,900	99.91
Non Resident	4,547,500	0.16	2,584,100	0.09
Total	2,800,000,000	100.00	2,800,000,000	100.00

Top 20 Shareholders

	2015		2014	
	No. of Shares	%	No. of Shares	%
1 Lanka ORIX Leasing Company PLC	2,520,000,000	90.00	2,430,000,000	86.79
2 Saakya Capital (Pvt) Ltd	128,045,234	4.57	128,045,234	4.57
3 Satya Capital (Pvt) Ltd	52,000,000	1.86	52,000,000	1.86
4 Infinity Capital (Pvt) Ltd	33,000,000	1.18	38,286,086	1.37
5 Dr. R.R. De Silva	10,990,594	0.39	10,990,594	0.39
6 National Savings Bank	4,550,000	0.16	4,550,000	0.16
7 DPMC Assetline Holdings (Pvt) Ltd. Account No 2	3,443,923	0.12	1,413,824	0.05
8 Mr. D. Kotthoff	2,799,900	0.10	NIL	NIL
9 Dr. A.R. Wikramanayake	1,688,500	0.06	1,688,500	0.06
10 Mr. S.V. Somasunderam	1,500,000	0.05	1,500,000	0.05
11 Mr. A. Nissanka	1,125,000	0.04	1,125,000	0.04
12 Assetline Leasing Company Ltd/M J T Waas	1,000,000	0.04	NIL	NIL
13 Mrs. D.P. Pieris	1,000,000	0.04	1,000,000	0.04
14 Mr. P.M.M. Pieris	1,000,000	0.04	1,000,000	0.04
15 Mr. W.A.S.P. De Saram	951,845	0.03	107,966	0.00
16 Mirabaud & Cie	950,000	0.03	1,000,000	0.04
17 Mr. K.G.D.C. Jayanath	800,500	0.03	500,000	0.02
18 Nation Lanka Capital Ltd/Sisira Sirimevan Weerabahu	770,000	0.03	513,703	0.02
19 Mr. A.W.A.L. Dharmaprema	700,000	0.03	700,000	0.03
20 Mr. K.P. Ariyaratne	600,000	0.02	600,000	0.02
	2,766,915,496	98.82	2,673,720,907	95.49

The Public Shareholding as at 31st March 2015 was 9.93%, comprising of 2,641 Shareholders.

SHARE INFORMATION *contd.***Analysis of Ordinary Shares as at 31st March**

Range	2015			2014		
	No. of Shareholders	No. of Shares	% of Shares	No. of Shareholders	No. of Shares	% of Shares
1 - 1,000	1,204	520,515	0.02	1,219	561,459	0.02
1,001 - 10,000	982	4,082,006	0.14	1,041	4,307,599	0.15
10,001 - 100,000	375	13,035,478	0.47	353	12,248,347	0.44
100,001 - 1,000,000	72	23,218,850	0.83	70	22,050,555	0.79
Over 1,000,000 Shares	13	2,759,143,151	98.54	12	2,760,832,040	98.60
Total	2646	2,800,000,000	100.00	2695	2,800,000,000	100.00

Highest, Lowest and Closing Share Prices as at 31st March

	2015 Rs.	2014 Rs.
Highest	4.50	4.00
Lowest	3.20	2.60
Closing	3.70	3.40

OTHER DISCLOSURES

Other disclosures required by the Rules of the Colombo Stocks Exchange

1) Properties held by the company

Location	Extent	Valuation	Number of buildings
1. Keselwatta, Panadura	0A-0R-25P	LKR 12,500,000	-
2. Telwala, Rathmalana	0A-0R-20P	LKR 64,000,000	1
3. Hendala, Wattala	0A-0R-9P	LKR 4,500,000	-
4. Hendala, Wattala	0A-0R-10.28P	LKR 11,000,000	1
5. Hendala, Wattala	0A-0R-8P	LKR 13,700,000	2
6. Idama, Moratuwa	0A-0R-14.85P	LKR 22,000,000	3
7. Wewala, Piliyandala	0A-0R-20P	LKR 5,500,000	-
8. Gothatuwa	0A-3R-35P	LKR 42,600,000	-
9. Wickremasinghepura, Battaramulla	0A- 3R- 33.83P	LKR 65,000,000	-
10. Colombo 8	0A- 0R- 35.75P	LKR 375,000,000	1
11. Colombo 7	0A- 0R- 11.26P	LKR 83,000,000	2
12. Kosgoda	9A- 0R- 00.00P	LKR 216,000,000	-

2) Related party transactions exceeding 10% of the equity or 5% of the total assets of the Company

Name of the related party	Saakya Capital (Pvt) Ltd
Nature of the transaction	Issue of debentures
Date of the transaction	On 19 th January 2015
Relationship with the Company	Affiliated company
Amount	LKR 2,745 Mn
Terms of the transaction	5 year maturity period, interest to be paid at a rate of 9.25% p.a
Rationale	To enhance the Company's Tier 2 capital and to improve the Capital Adequacy Ratio

3) Debenture information

	As at / year ended 31-3-2015
Debt to equity ratio	6.84 times
Quick asset ratio	0.86 times
Interest cover	1.45 times
Interest yield as at last trade	9.25%
Yield to maturity on issue date	9.25%
Interest rate of comparable Government Security - 5 year Bond yield as at 27 th March 2015	8.75%

OTHER DISCLOSURES *contd.*

Market price & the issue price of debentures recorded during the year ended 31st March 2015 are as follows.

	Rs.
Issue Price	100.00
Market price as at 31 st March 2015	Not traded
Highest Price	Not traded
Lowest Price	Not traded

- ▶ The company issued fifty million (50,000,000) rated unsecured subordinated redeemable debentures to the value of Sri Lanka rupees five billion (LKR 5,000,000,000) with a 5 year maturity.
- ▶ The purpose of the issue was to enhance the Tier II capital of the company, consequently strengthening the capital adequacy ratio.
- ▶ The credit rating of the Company was affirmed by ICRA Lanka Ltd as A- and the unsecured subordinated debentures were assigned a rating of BBB+ and there has been no change in the ratings since the issue.

BRANCH NETWORK

Branches	LIOC Centers	Isuru Diriya Centers	Isuru Diriya Branches	Al-Falaah IB Centres	Savings Centers
Ambalangoda	Aluthgama	Akkaraipattu	Akuressa	Akkareipattu	D.S. Senanayake Model Primary School - Anuradhapura
Ambalantota	Pilimathalawa	Anamaduwa	Bibila	Akurana	Fathima College Colombo
Ampara	Thalawakale	Bandarawela	Dickwella	Kalmunai	LOFAC
Anuradhapura		Bulathsinghala	Galgamuwa	Kaththankudi	LOLC Insurance
Aralaganvila		Chenkaladdi	Gampola	Oddamawadi	LOMO
Avissawella		Ehaliyagoda	Ganemulla		Pitiyagedara Primary School, Bemmulla
Badulla		Eppawala	Hingurakgoda		Polonnaruwa Royal
Balangoda		Melsiripura	Horowpathana		
Batticaloa		Galenbindunuwewa	Kamburupitiya		
Chawakachcheri		Galewela	Palaviya		
Chilaw		Ingiriya	Suriyawewa		
Chunnakkam		Giriulla	Tangalle		
Colombo 02 - City Office		Godakawela	Valachchenai		
Colombo 03		Hanwella	Walasmulla		
Dambulla		Hikkaduwa	Wellawaya		
Dehiattekandiya		Kalmunai			
Dehiwala		Kantale			
Digana		Keppetipola			
Divulapitiya		Kinniya			
Elpitiya		Kokkadicholai			
Embilipitiya		Muttur			
Galle		Padaviya			
Gampaha		Padiyathalawa			
Hatton		Pothuvil			
Head Office		Rikillagaskada			
Homagama		Ruwanwella			
Horana		Thanamalvila			
Ja-ela		Vilgamuwa			
Jaffna		Warakapola			
Kalutara		Weligama			
Kandy		Welikanda			
Kegalle		Weliweriya			
Kekirawa					
Kilinochchi					
Kiribathgoda					
Kochchikade					
Kohuwala					

BRANCH NETWORK *contd.*

Branches	LIOC Centers	Isuru Diriya Centers	Isuru Diriya Branches	Al-Falaah IB Centres	Savings Centers
Kuliyapitiya					
Kurunegala					
Maharagama					
Mahiyanganaya					
Mannar					
Maradana					
Matale					
Matara					
Mathugama					
Medawachchiya					
Monaragala					
Morawaka					
Mount Lavinia					
Mulleitivu					
Nawalapitiya					
Negambo					
Nelliyadi					
Neluwa					
Nikaweratiya					
Nittambuwa					
Nuwara Eliya					
Panadura					
Pelmadulla					
Pettah					
Piliyandala					
Polonnaruwa					
Rajagiriya					
Ratnapura					
Thambuththegama					
Thissamaharama					
Trincomalee					
Udappuwa					
Vavuniya					
Wattala					
Wellawatte					
72	3	32	15	5	7

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT THE 14TH ANNUAL GENERAL MEETING of the above Company will be held on 25th August 2015 at 11.00 am at Park Premier Banquet Hall, Excel World Entertainment Park, No. 338, T.B. Jayah Mawatha, Colombo 10 for the following purposes:

1. To receive and consider the Annual Report and Financial Statements for the year ended 31st March, 2015, with the Report of the Auditors thereon.
2. To re-elect as Director Mr. I C Nanayakkara, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
3. To re-elect as Director Mrs. K U Amarasinghe, who retires by rotation in terms of Article 75 of the Articles of Association of the Company.
4. To re-appoint as Auditors M/s Ernst and Young, Chartered Accountants at a remuneration to be fixed by the Directors.
5. To approve the following by special resolution:

“That the name of the Company be changed from Lanka ORIX Finance PLC to LOLC Finance PLC”

By Order of the Board
Lanka ORIX Finance PLC



LOLC Corporate Services (Private) Limited
Secretaries

30th July, 2015
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 11.00 am on 23rd August, 2015.
- 3) A Form of Proxy accompanies this Notice.

NOTES

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 14th Annual General Meeting of the Company to be held on 25th August 2015 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid Meeting.

	For	Against
1. To re-elect as 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"/>
2. To re-elect as 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-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"/>
4. To approve the following by special resolution: “That the name of the Company be changed from Lanka ORIX Finance PLC to LOLC Finance PLC”.	<input type="checkbox"/>	<input type="checkbox"/>

dated this day of, Two Thousand Fifteen

.....
 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

FORM OF PROXY *contd.*

**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

Date of Incorporation

13th December 2001

Legal Form

A quoted public company with limited liability

Company Registration No.

PB 244 PQ

Stock Exchange Listing

The ordinary shares of the Company were listed on the DiriSavi Board of the Colombo Stock Exchange on 7th July 2011.

Credit Rating

ICRA Lanka assigned the Company an issuer rating of (SL)A- (Stable).

Registered Office and Head Office

No. 100/1, Sri Jayewardenepura Mawatha, Rajagiriya

Tel: 011 5880880, Fax: 011 2865606

Website: <http://www.lankaorix.com>

Swift: LOFCKLC

Directors

Mr. W D K Jayawardena - *Non-Executive Chairman*

Mr. I C Nanayakkara - *Executive Deputy Chairman*
(alternate to Mrs. K U Amarasinghe)

Mrs. K U Amarasinghe - *Executive Director*
(alternate to Mr. I C Nanayakkara)

Dr. H Cabral PC - *Senior Independent Director*
(alternate to Justice R K S Suresh Chandra and Mrs. D P Pieris)

Mrs. D P Pieris - *Independent Director*

Justice R K S Suresh Chandra - *Independent Director*

Mr. B C G De Zylva - *Managing Director/ CEO*

Secretaries

LOLC Corporate Services (Private) Limited

100/1, Sri Jayewardenapura Mawatha, Rajagiriya

Tel: 011 5880354/7 0115880880 (general)

Auditors

Ernst & Young, Chartered Accountants

Lawyers

Julius & Creasy, Attorneys-at-Law

Nithya Partners

Registrars

PW Corporate Secretarial (Private) Ltd

No. 3/17, Kynsey Road, Colombo 8.

Tel: 011 4897733-5

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.

Bankers

Nations Trust Bank PLC

Citi Bank N.A.

Commercial Bank of Ceylon PLC

NDB Bank

Bank of Ceylon

Seylan Bank PLC

MCB Bank

Deutsche Bank

Hatton National Bank PLC

Pan Asia Bank

Hong Kong & Shanghai Banking Corporation

Sampath Bank

National Savings Bank

Peoples Bank

optima

Design & Concept by: Optima Designs (Pvt) Ltd.
Printed by: Gunaratne Offset (Pvt) Ltd.



Lanka ORIX Finance PLC, incorporated on the 13th of December 2001, is rated [SL] A- by ICRA Lanka Limited and is licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.