



Moulding for a Better Tomorrow...

# Contents

Vision & Mission	2	<b>Financial Statements</b>	
Corporate Values	3	Statement of Comprehensive Income	59
Financial Highlights	4	Statement of Financial Position	60
Chairman's Message	5-7	Statement of Changes in Equity	61
Chief Executive Officer's Message	8-9	Cash Flow Statement	62
Management Discussion & Analysis	10-13	Notes to Financial Statements	63-96
Board of Directors	14-18	Value Added Statement	97
Corporate Management	19-20	Capital Adequacy	98
Corporate Governance Report	21-45	Information on Ordinary Shares	99
Report of the Audit Committee	46-47	Glossary of Financial Statements	100-101
Report of the Integrated Risk Management Committee	48	Distribution Channels	102
Report of the Remuneration Committee	49	Notice of Annual General Meeting	103
Report of the Directors on the State of Affairs of the Company	50-52	Notes	104
Risk Management Report	53-55	Form of Proxy	105-107
		Corporate Information	108
<b>Financial Reports</b>			
Statement of Directors' Responsibilities for Financial Reporting	56		
Directors' Statement on Internal Control over Financial Reporting	57		
Independent Auditor's Report	58		

# *Vision & Mission*

## *Vision*

To be the **Ideal** financial partner in creating wealth and enriching lives for our customers

## *Mission*

- Being the **Most credible** **Trustworthy** and **Professional finance institution with a heart,**
  - which will **deliver financial favours** to our customers
  - *enhancing*
    - **professionalism & lives** for our employees
    - *to be the **most sought** after employer*
  - **increasing shareholder wealth**
    - *Make them **proud to be a shareholder** of the Company.*

# Corporate Values

## Professionalism

We genuinely believe in our profession and take responsibility by saying “no” if saying “yes” would not do right by you. We create solutions that are simple, understandable and workable, and we strive to improve ourselves every day by working together and learning from one another – and from you.

We will work together as a team, supporting each other, respecting every individual and drawing strength from our diversity.

## Innovative

We are always stretching our boundaries and striving to achieve more for you. We make it our business to know what’s going on in the market and to respond proactively, and we do everything possible to understand what you really need and to craft innovative solutions. Our optimism about the future drives our ambition to offer you more.

## Service

We provide simple and transparent financial services which are most needed for small businesses and always strive for excellence in serving our internal and external customers, through professionalism, innovation and creativity. We are open-minded and embrace change in a globalised world.

We want our clients to succeed and know they can count on IFL for the financial support they need.

## Supporting Enterprises and Individuals

We want to work with entrepreneurs who are striving to grow their businesses, no matter how small the business may be IFL seeks to help in building vibrant business communities that will drive the Country’s economy forward. We want to inspire our customers as well as help tomorrow’s entrepreneurs to achieve their ambitions.

## Respected Corporate Citizen

Good citizenship is about doing business in a responsible way that recognizes our wider influence as a company. This contains information on how we manage our impacts on society, from our tax contributions, the way we govern our environmental, social and ethical risks and our environmental impacts.

We commit to becoming a Financial Institution known for outstanding ethics and high quality governance, management and staff. Being a good corporate citizen also means playing a positive role in society and contributing financial and volunteering support to the communities we operate in.

## Good Employer

Our people are uniting behind our purpose of serving our customers well. Our job is to make sure every aspect of what it means to work at IFL is geared towards helping them be successful in that. That kind of simplicity and focus is what drives employee engagement and what builds a really good company.

We work to attract and retain the best people, promote flexibility and diversity in the workplace and undertake comprehensive activity to understand and respond to our employee’s feedback.

# Financial Highlights

Performance During the Year	2014 Rs.	2013 Rs.	Change	
Total Income	131,257,107	58,388,916	125%	↑
Total Expenses	106,102,410	58,154,671	82%	↑
Net Operating Income Before Taxes	25,154,697	234,245	10639%	↑
Total Taxes	7,322,639	2,076,459	253%	↑
Profit/ (loss) After Taxation	17,832,058	(1,842,214)	1068%	↑
<b>Financial Position</b>				
Stated Capital	603,247,125	603,247,125		
Customer Deposit Base	205,445,700	48,829,594	321%	↑
Total Due to Banks	22,331,079	18,172,838	23%	↑
Total Leases, Hire purchase and Loans	606,553,130	285,962,259	112%	↑
Total Assets	884,691,138	690,324,855	28%	↑
<b>Key Ratios</b>				
Return on Equity (%)	2.88%	-0.31%	1040%	
Return on Assets - After tax (%)	2.02%	-0.27%	855%	
Interest Cover (times)	2.77	1.10	151%	
Debt to Equity	30.01%	12.88%	133%	
<b>Statutory Ratios</b>				
Core Capital Ratio (Minimum Requirement - 5%)	79.25%	123.50%	-	
Total Risk Weighted Capital Ratio (Minimum Requirement - 10%)	79.25%	123.50%	-	
Non Performing Loan Ratio (%)	0.87%	0.64%	-	

# Chairman's Message



As another financial year comes to an end, it gives me great pleasure to address and welcome all of you, our valued shareholders, to the 02<sup>nd</sup> Annual General Meeting of IDEAL Finance Limited (IFL) and to present to you the audited Financial Statements and Annual Report for the financial year 2013/14.

## Global Economy

The world economy has entered yet another transition period while advanced economies are gradually strengthening. At the same time, growth in emerging market economies has slowed. This confluence is leading to tensions, with emerging market economies facing the dual challenges of slowing growth and tighter global financial conditions.

Period under review saw the world dealing with the prolonged effects of a global crisis that had persisted well beyond initial expectations in an atmosphere of heightened global change. Despite the increased economic activities in the latter part of the year 2013 global economy continued to grow at a slower pace. Economic activities remained weak while efforts to advance global stability and a secure future were as essential as ever.

Ensuing the adverse environment global economic growth continued to remain weak averaging a mere 3.5% in 2013. Emerging economies continue to account for the bulk of the growth but growth rates and asset quality declined in these markets. The advanced economies have increased their rate of growth but significant downside risks remained. Key issues such as the fragmented financial system in

the Euro zone and high levels of public debt in all major advanced economies remain unresolved and could result in new crises.

## Country's Economy

Country's economy bounced back strongly in 2013 with an annual GDP growth of 7.3 per cent to LKR. 8,674 billion. The economy demonstrate resilience to global and domestic challenges pursuant to the positive contribution of all sectors of the economy, favourable weather conditions and the gradual recovery in external demand, while inflation, which remained at single digit levels for the fifth consecutive year.

However, the first half of 2013 witnessed a low appetite for credit, due to policy measures enacted in 2012 towards macroeconomic stabilisation of which high interest rates was the key factor. The domestic economy rebounded in the second half of the year, responding positively to policy measures and due to protracted recovery of the global economy.

Overall there was a downward movement in Treasury yield rates as well as lending and deposit rates. Prime lending rate experienced a drastic fall of 452 basis points from 14.4% in March to 9.88% in the latter part of the year.

Sri Lankan rupee depreciated by 2.75 per cent against the US dollar during the year while appreciating against several other major currencies resultant to the Government securing US dollar financing through issuance on the bond markets twice in 2014.

Credit extended to Government, private and corporate sectors showed a reduction in the early parts of the year which showed a slightly upward trends towards the latter parts of the year.

### **Persistence through Adversity**

Being an emerging player in the financial services industry, your Company has moved towards sustained growth in a year which was without doubt one of the most challenging years for the financial services industry in the Country. This was resultant of Company's focused business model, proactive management approach and strategic driven decision making. Company's business model and the competence of the management & staff were put to test during the year in concern.

Company's performance speaks for themselves in affirming the resilience of IFL and the collective strength in responding to the rapid changes and yet remaining focused and dedicated to the task in hand.

Company's lending portfolio which is comprised of Lease, Hire Purchase and Loans surpassed the LKR. 600 Million mark by the end of the financial year by reaching LKR. 606.5 Million while total Asset base of the Company stood at LKR. 884.7 Million and Shareholders' funds reached LKR. 619.2 Million. As a result to the 101% noteworthy increase of the Portfolio value, Company generated an Interest Income of LKR. 127.0 Million which has seen a growth rate of 113%, while Company's other Income stood at LKR. 4.3 Million which is mainly comprised of Dealership commission income. Deposit Base of the Company reached LKR. 205.4 Million at the end of the year under review compared to previous year's LKR. 48.8 Million. This noteworthy achievement signifies the confidence earned by the Company despite being a new entrant in the market.

During the period under review Company recorded an Operating Profit before Taxes and Net Profit of LKR. 25.3 Million and LKR. 17.8 Million respectively.

### **Regulator Maps Future Strategies**

During the reporting period the Central Bank of Sri Lanka (CBSL) has taken several initiatives to enhance

the transparency and comparability by introducing new Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards.

In addition, CBSL issued directions to seek prior approval with respect to writing off of accommodations to related parties, and a supervisory framework was introduced in respect of debt instruments issued by finance companies, especially to deal with areas such as liquidity and interest rates.

CBSL adopted several measures to build the capacity of the financial sector to facilitate the expansion of economic activity as well as to strengthen its ability to manage and absorb risks by promoting consolidation of the sector. These measures would help secure financial system stability whilst facilitating the continued expansion of economic activity in future.

### **Good Governance**

Company continued to improve the governance and risk structures in Financial Year 2013/14, in a bid to enhance Company's perspective of risk, regulation and compliance. We continued to place depositor, shareholder, customer, employee and others stakeholder interest at the very forefront of our operations, and looked to safeguard their multiple interests through the adoption of measures that enhanced the perspective of governance, transparency, risk management and compliance with overall focus on the application of practical measures. We continued to report to the Central Bank of Sri Lanka in every sphere of the regulatory requirements.

In the light of the CBSL's Road Map for 2014 encouraging Financial sector Consolidation, IFL is in the process of carrying out discussions with interested parties to consolidate the entities and overall strengthen the Company through shared synergistic effects.

### **Appreciations**

I would like to take this opportunity to thank Mr. Igarashi Takashi, Non-Executive Director of the Company for his valuable contribution to the Board and for sharing his expertise towards the betterment of the Company.

I welcome Dr. Suren Peter, Mr. Ajith Dias and Mr. Norihiro Yoshino to the Board and thank my fellow Directors who have supported me at the Board level and the Management Staff for their tireless pursuit of the Company's strategic expectations and goals.

Our customers have stood by us since the inception of the Company and have demonstrated the meaning of loyalty. We are proud and privileged to serve you. Thank you for placing your trust in us.

Our shareholders have been a source of strength to the Company throughout and I thank all of you for your investments into this Company. Your belief in IFL's potential is a reflection of our passion to achieve.

We stay committed to serve all our stakeholders. On behalf of the Board of Directors, I pledge that we will continue to add shareholder value through the execution of prudent business strategies, whilst ensuring that we contribute towards the achievement of national priorities.



**Nalin J. Welgama**

*Chairman*

10<sup>th</sup> June 2014



# Chief Executive Officer's Message



## CEO's Review of Operations

The year proved to be one of the most challenging years for the Finance sector in the country with lower demand for credit, falling interest rates and rising levels of non-performing advances. Despite all the adverse economic dynamics prevalent in the market, the company concluded the year on a high note with a Net Profit of LKR. 17.8 Million.

## Noteworthy Performance

Among the achievements during the year are revenue growth of 125% to LKR. 131.3 Million, growth in net profits to LKR. 17.8 Million, asset growth of 28% and deposit growth to LKR. 205.4 Million. Portfolio value of the Company surpassed the LKR. 500 Million milestone by reaching LKR. 606.5 Million by end of March 2014 against the previous year's LKR. 285.9 Million.

The solid performance during the year under review is testimony to us being proactive, given the challenging market conditions, the strong strategic foundation that we have laid during the past year, the innovative approach to the business and most importantly, getting the fundamental right.

We continued to strengthen our asset quality and placed great emphasis on credit and asset management given the prevailing economic conditions during the year where non-performing advances increased significantly. Being proactive in our lending policy and in setting the lending mix together with sound recovery practices, maintained the loan loss provision to LKR. 2.4 Million and the NPL ratio was only 0.64% where the industry average is 6%.

IDEAL Finance continued with its growth momentum of the previous year. Lending operations were strengthened, taking into account the market conditions. The mix of lending among our principal activities was designed to suit market conditions and I believe we have taken this step at an appropriate time and as a result, has delivered splendid results. The total lending assets as at the end of the year increased to LKR. 606.5 Million from LKR. 285.9 Million, the previous year.

During the second year of operations Company had the privilege of serving 760 customers spread across nine provinces of the island which represent a wide spectrum of sectors in the economy including Agriculture, Manufacturing, Tourism, Transport and Services. Customer base of the Company is comprised of Small & Medium Enterprises (SME) & Micro Finance Sector customers, Corporates & high net worth individuals. Facilities granted to SME Sector was given a significant place in the Company's lending activities during the year. The sector has much untapped potential and having the resources and the skills to cater to that market, we plan to further expand the programme activities in the coming years. The branch and dealer network were expanded, focusing more on long term growth than short term growth. Notwithstanding the adverse economic condition that prevailed in the country, Company was successful in maintaining growth in an industry which is experiencing fierce competition.

With the new branches opened during the year in Anuradhapura, Elpitiya, Embilipitiya, Jaffna & Kurunegala and the Service centre in Bandarawela, we are now present in six out of nine provinces in the country. We increased our investment in marketing and brand building along with

our growth plans and cultivated our visibility in the different market segments in the industry. Company continued benefiting from synergistic effect of being under the IDEAL Group's umbrella by accessing its Sister Company, Ideal Motors' branch and dealer network. Marketing and promotional campaigns carried out by the Company abetted to carry the name predominantly to the targeted niche in the market, namely SME & Micro Finance Sectors.

We gave special attention for training and skills development of staff and empowerment which have proven itself worth the effort and resources.

The deposits performed tremendously well during the year, and the deposit base rose from LKR. 48.8 Million to LKR. 205.4 Million. I take this opportunity to thank those investors for having confidence in my Company and the management's ability to safeguard their investment.

Now with a stronger asset base and improved human resources, we are well poised to deliver the best solutions to our customers and highest value to our investors.

### **Way Forward**

During the past year we have achieved remarkable growth and generated income and value for our valued shareholders. However, there is still much to do. We are broadening our plans for long term growth and seek to expand our products and markets. We are looking forward to new opportunities upon the completion of the Financial Sector consolidation and we will continue to invest in developing human capital and in information technology which is an integral part of our growth strategy.

Company is in line with the Finance Sector Consolidation programme 2014. While discussions are underway with interested parties Company is of the view that consolidating with a suitable merger partner will assist in transforming to an entity which is more agile & responsive to changes with enhanced stability and potential.

We expect the year ahead to be challenging as was the last year, but despite the odds we are well armed to face

an adverse environment. SME Sector will be a key focus area and as was the previous year, in collaboration with our Sister Company we will strengthen marketing and brand building activities during the coming year. Volume growth and branch expansion are planned to drive growth and lending quality will be a key priority. We hope the strength of the Company and the advancement of the economy which is much hoped for by many will make it feasible to raise long term finance at a lower cost, expansion in lending operations and improved margins during the coming year than it was the last year.

### **Acknowledgment**

I extend my sincere thanks to the Chairman and my fellow members of the Board for their support and the encouragement to drive the Company towards success. I share the achievements of the Company with my senior management and staff, whom I believe is the best team who can drive this organisation towards its goals. I would like to thank each and every employee for their commitment and hard work. The shareholders, depositors and investors receive my gratitude for having faith in the Company and the management.



**Duminda M. Weerasekare**  
*Chief Executive Officer*

10<sup>th</sup> June 2014

# Management Discussion & Analysis

## Global Economy

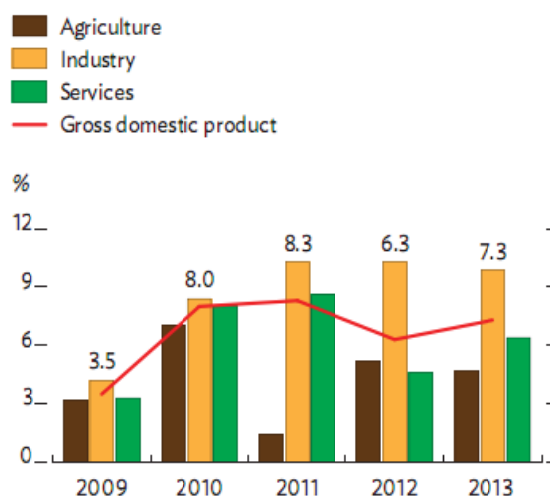
Global activities have strengthened during the latter part of 2013 and it is anticipated that activities shall further improve in 2014 and 2015. According to the World Economic Outlook (WEO) report published in January 2014 by International Monetary Fund (IMF), Global economic growth is expected to be slightly higher in 2014, at around 3.7 percent, rising to 3.9 percent in 2015. However, downward revisions to growth forecasts in some economies continued to be unstable. In many emerging markets and developing economies, stronger external demand from advanced economies shall lift growth.

Growth in the United States is expected to be 2.8 percent in 2014, up from 1.9 percent in 2013 (IMF, WEO, January 2014) while the European Union (EU) is turning from recession to recovery. Growth in EU is expected to strengthen to 1 percent in 2014 and 1.4 percent in 2015. However, the recovery is expected to be uneven. Economies under stress is expected to experience a moderate growth, despite some upward revisions including Spain. High debt, both public and private, and financial fragmentation will hold back domestic demand, while exports will further contribute to growth. The United Kingdom has maintained a slight growth through easier credit conditions and increased confidence where growth is expected to average at 2.25 percent in 2014/15.

Japan is experiencing very slow growth while growth in India has picked up after a favorable monsoon season where higher export growth is expected to firm further, resulting to stronger structural policies supporting investment. Resultant to an acceleration in investments, growth in China rebounded strongly in 2013. Growth is also expected in the Middle East and North Africa region.

## Sri Lankan Economy

GDP Growth by Sector



*Asian Development Outlook 2014*  
Asian Development Bank

Country's GDP growth has rebounded to 7.3% in 2013 where the recovery reflected a domestic demand strengthening and a pickup in exports and tourism. When compared to 2012 a growth in wholesale and retail trade, hotels and restaurants, transport, banking and insurance have lifted performance from 4.6% to 6.4% in 2013. Industry sector grew by 9.9% which is slightly less than last year.

According to Central Bank of Sri Lanka (CBSL) statistics, country's inflation remained at single digits for the fifth consecutive year raising investor confidence. Accordingly, by end 2013, inflation was 4.7 per cent on a year-on-year basis and 6.9 per cent on an annual average basis.

Government continued to invest in infrastructure development but was slightly below the target of 6% of GDP.

A drop in import related taxes during the first half of the year and a significant reduction in profit transfers from state owned enterprises (SOEs) were the key reasons for the weak performance in government revenue. Total revenue collection in 2013 at LKR. 1,137.4 billion was significantly

below the annual estimate in the budget.

Sri Lankan rupee depreciated against the US dollar by 2.75 per cent to LKR. 130.75 by end 2013. Reflecting cross currency exchange rate movements, the Sri Lanka rupee showed mixed performance against major currencies during 2013. However, Sri Lankan rupee was less volatile when compared to other emerging economies.

Increase in earnings from the export of textiles and garments was particularly impressive while the import expenditure was declined as a result of lower petroleum imports. The travel and tourism sector led the improvement in trade in services, while earnings from transportation, information technology (IT) also grew, reinforcing the growth potential of these emerging sectors. Workers' remittances also increased with a more diversified migration profile. Resultant to the above external current account deficit narrowed to 3.9 per cent of GDP in 2013 from 6.7 per cent in the previous year.

Portfolio investments recorded a net inflow of USD 269.9 million for the year, of which about half went into the Colombo Stock Exchange in the form of secondary market transactions. Foreigners' monthly net purchases on the exchange were broadly stable throughout the year. Foreign Direct Investments (FDI) including foreign loans to BOI companies grew by 2.8 per cent to USD 1,421 million in 2013, with infrastructure and manufacturing sectors attracting the highest FDI inflows.

### **Non-Bank Financial Sector**

Non-Bank Financial Sector represents 7 per cent of Sri Lanka's financial system which is extremely competitive and highly regulated. This sector comprised of 48 Licensed Finance Companies (LFCs) and 10 Specialized Leasing Company (SLCs) as at 31st March 2014.

Fluctuations in the market prices of gold and relatively high lending rates offered by LFCs and SLCs during 2012 led to an increase in non-performing loans in the sector and also increased operational costs further deteriorated profitability. In view of the envisaged growth of domestic economic activity in the years approaching, the Central Bank adopted several measures to build the capacity of the LFC and SLC

Sector to facilitate the expansion of economic activity as well as to strengthen the ability of the sector to manage and absorb risks. Key amongst these measures were the steps taken by the Central Bank to promote consolidation of the LFC and SLC sector. These measures would help secure financial system stability whilst facilitating the expansion of economic activity.

### **Asset growth**

NBFI total asset base has grown by 20 per cent during 2013 to LKR.717 billion which is slightly less than previous year (22 percent in 2012). The key contributory factor in the expansion of the asset base has been the growth of the accommodation portfolio and liquid assets.

Accommodation portfolio amounted to LKR. 553 billion as at end of 2013. Finance leases, hire purchases and other secured advances accounted for more than 80% of the accommodation portfolio, accounting for 46 per cent, 22 per cent and 22 per cent, respectively.

The investment portfolio of the sector recorded a marginal increase of 3 per cent, in comparison to the growth of 14 per cent recorded for 2012. Other assets mainly comprised of liquid assets, trading stocks and fixed assets.

### **Liabilities**

Deposits and Borrowings were the major source of funding for the NBFIs' which is 74 percent of NBFI liabilities. The deposits of LFCs grew by 33 per cent to LKR. 337 billion as at end of 2013, compared to a 37 per cent growth in 2012. SLCs obtaining LFC status has also contributed to the LFC sector deposit base. The total borrowings of SLCs' reached to LKR. 192 billion which is an increase of 9% compared to an increase of 3% in 2012.

### **Company Overview**

Company which started operations in March 2012 successfully completed its second year of operations. IFL was formed by Ideal Motors (Private) Limited; the sole authorized dealer of Mahindra products in Sri Lanka and Nishiya Holdings Private Limited one of the largest material suppliers in the footwear industry in Japan who has a diversified product portfolio under its umbrella namely,

International Trade, Finance, Real Estate & Life Insurance. Ideal Group is the agent for world renowned vehicle manufacturers including Mahindra, Ssangyong, Chery and Apollo tires. The product portfolio of Ideal Group ranges from two wheelers, three wheelers, small commercial vehicles, motor cars, utility vehicles to SUVs, tyres and spare parts.

### Strategy

The strategic alliance IFL has formed with Ideal Motors (Pvt) Limited (IML), provides an unmatched competitive advantage over its rivals. With a Business model that primarily focuses on supporting the Small & Medium Enterprises (SME) sector, IFL gained benefits of the strategic alliance built up with IML in expanding Company's branch network by accessing its well-established branch and dealer network.

Ideal Finance Limited (IFL) currently offers wide range of products such as Leases, Loans, Hire Purchases, Fixed Deposits, Real Estate and Mortgage Loans. The company opened five new branches in Anuradhapura, Elpitiya, Embilipitiya, Jaffna and Kurunegala and a service centre in Bandarawela. IFL is also planning to expand its operations by opening new branches in potential areas and introducing new products which includes daily collection loans and gold loans.

### Lending

Company's lending portfolio mainly comprises of Leases, Hire Purchases and Loans which amount to LKR.445 million, LKR. 135 million and LKR. 29 million respectively. The total lending portfolio stands at LKR. 609 million which is an increase of 110% compared to LKR. 290 million in 2012.

### Branch Network

Bandarawela Service Centre



Kurunegala Branch



Jaffna Branch



Anuradhapura Branch



Elpitiya Branch



Embilipitiya Branch



### Deposits

Mobilizing and maintaining a healthy deposit base is critical for further expansion of the company. The company's deposit base consists of fixed deposits with tenures ranging from 1 month to 60 months. During the financial year company started accepting fixed deposits from the public which led to an increase in the deposit base which amounts to LKR. 205.4 million when compared to the previous year LKR. 48.8 million.

### Human Resources

IFL is a people oriented organization with strong perspective that people have good enough talent and competence to make the company a financial giant in the Sri Lankan financial industry.

The total staff strength of IFL was 53 as of end of the second year. The youthfulness and cheerfulness of the IFL team is complemented with a Board and Senior management packed with experience and knowledge which strikes the perfect balance. Staff base comprises of professionals who have garnered experience in the finance industry.

Members of the Staff are made aware of the procedures to be followed in carrying out daily operational functions and the changes made in the regulatory environment. In addition to that knowledge sharing meetings and brainstorming sessions are conducted to share the experience and knowledge gained by the members of Staff.

One major challenge for the company to recruit and retain expertise is due to the higher employee turnover in the industry and aggressive HR strategies of competitors. IFL is compelled to go with industry norms and establish an attractive remuneration package to be in par with its peers.

IFL has established performance measures that aligned with the business objectives and provide base line to track and drive the improvement. IFL aims to gain comparatively high profit margin and income per employee in the industry.

### Marketing

The company's marketing arm plays an integral role in the development and delivery of all lending and deposit products. The key objectives of the company's marketing division are to ensure customer satisfaction in all dealings with the company, supporting the achievement of the business objectives as well as building and maintaining the brand image.

The company carried out several promotional campaigns Island wide including mega leaflet campaigns, and 'Ideal Finance Riya Pola', which enabled buyers and sellers of automobile to meet face to face.

The company mainly focused on the SME sector considering its potential for growth, existence of favorable fiscal policies and past performance of the sector. SME sector is a major contributor of the portfolio with a major stake of the portfolio base. IFL's SME sector client base comprises of credit worthy clients who are unable to meet the rigid documentation requirements of Banks. By lending to SME sector clients, IFL is honoring its responsibility as a corporate entity towards the society by lending a hand to develop an emerging sector of the economy.

This sector contributes considerably higher returns compared to the other products in the portfolio. IFL mitigates the risk exposure of lending to SME sector by increasing the commitment of the Client by way of maintaining the Credit exposure levels below 80% thus maintaining within the risk appetite level of the Company.

The company has granted Leasing facilities for three wheelers and two wheelers. The Company has identified Micro Leasing as a profitable sector given the higher returns resulting from higher rates which enables to mitigate the risk exposure levels of the product.

Company also has granted credit facilities for the purchase of registered vehicles, brand new luxury vehicles, cars & SUVs where the Client would be either a corporate entity or a credit worthy individual.

## Board of Directors



**Mr. Nalin J. Welgama**

*Chairman*

A Chartered Accountant by profession, Mr. Welgama functions as a Senior Consultant to Baker Tilly Merali's, while also chairing Ideal Motors (Pvt) Limited, S A Welgam & Sons (Haulage) and S A Welgama Estates and Agencies.

A well respected industry captain in Sri Lanka, he possesses over thirty years of experience in the international automotive industry given his leadership in the import and distribution of continental cars and commercial vehicles.

He hails from a family business, S. A. Welgama & Sons Limited that pioneered and continues to be in the forefront of road haulage and transportation founded in 1931, which also has diversified businesses in large scale rubber cultivation and substantial free hold real estate.



**Mr. Kiyoshi Matsui**

*Deputy Chairman*

An entrepreneur possessing expansive experience in management, his knowledge extends to spearheading an investment company in Japan, property investment, mergers and acquisitions and functioning as a senior director of a trading company involved in development projects in Asia.

A Japanese national with a Bachelor's Degree from Nara Prefectural College of Commerce, he currently chairs Nishiya Holdings (Pvt) Limited, the largest shareholder of Ideal Finance Limited and is an Executive Director of Nishiya Mokko Co. Ltd., the parent company of Nishiya Holdings.

# Board of Directors



**Mr. Duminda M. Weerasekare**  
*Director/Chief Executive Officer*

With an expansive knowledge and skill experience garnered over three decades, he holds the distinction of being a Fellow of both the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of UK.

He has functioned in directorial, CEO and COO positions in a number of leading corporate entities. His work experience ranges from negotiating and sourcing funding from international funding organisations and agencies to introducing pioneering funding sources into the country to being commissioned by international agencies to develop strategic plans for development in various financial strata and sectors.

A recipient of a Fellowship by the Netherlands Development Bank, he is a visiting resource person for the Industrial & Business Management Post-Graduate Programme conducted by the University of Kelaniya.



**Mr. P. Aravinda De Silva**  
*Non-Executive Director*

A cricketing legend who has left an indelible presence in the annals of sporting history, the Mr. De Silva, a former Sri Lankan skipper, continues to be one of Sri Lanka's most revered sporting ambassadors and the architect behind many national cricketing triumphs.

Hailed internationally as one of the most stylish batsmen in the world, some of his record breaking feats remain unbroken, while his inherent enthusiasm in motor vehicles and motor sports coupled with his sporting prowess infuses immense expertise and knowledge into business strategy.



## Board of Directors



**Mr. J. Viraj W. Malawana**  
*Non-Executive Director*

Possessing firsthand experience garnered on the trading floors at both the Colombo and Brunei Stock Exchanges, his hands on know-how and participation in the Bourses' activities include that of Manager Investor Service Centre in Matara, which was the first branch of the CSE, as Assistant Manager at the Central Depository System (CDS) of the Colombo Stock Exchange and Manager Trade Processing of the Brunei Stock Exchange.

He also expanded his knowledge areas while at HNB Stockbrokers, HSBC Premier and as Senior Manager Business Development at Standard Chartered Bank Premium Banking, collating many accolades for his outstanding contribution and service. While functioning as the CEO of New World Securities (Pvt) Limited, he also sits on the Board of Directors of NWS Holdings, NWS Financial Services and NWS Management Services.



**Mr. Hiran M. C. De Alwis**  
*Independent Non-Executive Director*

An Attorney-at-Law specializing in Civil and Commercial Law and Commercial Arbitration, his experience spans over two decades in the legal sphere.

Qualifying in law from the University of Colombo, his post-graduate qualification is from the University of London in International Dispute Resolution.

He is a Chartered Arbitrator and a Member of the Chartered Institute of Arbitrators, London (MCI Arb). A Director of the Colombo Stock Exchange, he functions also as a Member of the Board of Governors of the Sri Lanka National Arbitration Centre and is its Honorary Chief Legal Advisor.

Mr. De Alwis was appointed as a Senior Director to the Board in June 2013.

# Board of Directors



**Dr. P. L. Suren Peter**  
*Independent Non-Executive Director*

Dr. Peter received his doctorate from Maastricht School of Management, Netherlands. A Fulbright scholar, he graduated with a Master of Science in Management from Georgia Institute of Technology in the USA and also has a Master of Philosophy degree. His first degree was in Industrial Management, graduating with first class honours from the University of Kelaniya, Sri Lanka.

As a university academic, he has over 20 years of teaching, research and consulting experience and has served as the Head of the Department of Industrial Management, University of Kelaniya. He has served as a National Consultant on a number of projects for UNIDO and UNDP and been involved in consulting with a number of international development organizations, government and local private sector companies. His areas of interest are in capital market behavior, portfolio management and corporate restructuring.



**Mr. Ajith N. Dias**  
*Independent Non-Executive Director*

Mr. Dias, a Chartered Textile Technologist and a Fellow Member of the Textile Institute, UK, is the Chairman of Jewelex Trading (Pvt) Limited, is well respected and admired in the Apparel industry.

He was a past Chairman of the Joint Apparel Associations Forum (JAAF) which is the apex body of all Textile and Apparel Associations, a Member of the Textile Quota Board and a past Chairman of the Free Trade Zone Manufacturers Association.

He served at the Board of Brandix Lanka Limited and was instrumental in the establishment of Jewelknit Limited, merger of Phoenix and Jewelknit which resulted in the formation of Brandix Lanka Limited.

Although his main focus is still on the Apparel industry Mr. Dias has widened his horizons by investing in the world renowned coffee house franchise "Barista" and has established Barista Lanka. His involvements has extended to tourism, leisure, retail & trading as well as agriculture.

## Board of Directors



**Mr. Norihiro Yoshino**  
*Non-Executive Director*

Mr. Yoshino holds the Representative Directorship of Yoshino Corp. Japan, specializing in securitization of Real Estate and investment into the business of natural resources and currently employed at The Bank of Tokyo responsible for corporate sales and negotiation terms with Financing and Exchange commotion.

He holds a Bachelor's Degree in Policy Studies from KwanseiGakuin University, Japan and holds the Directorship at Nishiya Holdings (Private) Limited since 2012.

Mr. Yoshino is attached to Bank of Tokyo - Mitsubishi UFJ Limited since 2005 and counts over 9 years of experience in the banking industry.

# Corporate Management

The Corporate Management of the Company is comprised of industry experts who combinedly count over 50 years of experience in both Finance & Banking sectors leads Ideal Finance Limited, whose profiles are given below.

## **Mr. Duminda M. Weerasekare**

*Chief Executive Officer*

With an expansive knowledge and skill experience garnered over three decades, he holds the distinction of being a Fellow of both the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of UK.

He has functioned in directorial, CEO and COO positions in a number of leading corporate institutions.

His work experience ranges from negotiating and sourcing funding from international funding organisations and agencies to introducing pioneering funding sources into the country to being commissioned by international agencies to develop strategic plans for development in various financial strata and sectors.

A recipient of a Fellowship by the Netherlands Development Bank, he is a visiting resource person for the Industrial & Business Management Post-Graduate Programme conducted by the University of Kelaniya.

## **Mr. Rohitha Bandusena**

*Deputy General Manager – Credit & Risk Management*

Mr. Bandusena who counts over 15 years of experience in Finance, Operations, Treasury, Credit and Risk Management, holds a BSc (Hons) (Business Administration) special degree from the University of Sri Jayawardenapura.

Among the positions he has held are Senior Manager - Finance at Nations Leasing (Nations Trust Bank PLC),

Assistant General Manager - Treasury and Operations at LB Finance PLC.

Prior to joining Ideal Finance Limited at the inception in April 2012 he served in the position of Head of Credit and Risk Management at Sampath Leasing and Factoring Limited.

## **Mr. Gaman Kithsiri**

*Head of ICT*

Prior to taking up the Head of ICT position at IFL, Mr. Kithsiri held the position of Head of ICT in the capacity of Assistant General Manager grade at New World Securities (Pvt) Limited. He has rendered his service and expertise to NWS Financial Services (Pvt) Ltd & NWS Management (Pvt) Ltd.

Counting over 17 years of experience in the field of IT and over 6 years of ICT Management, Mr. Kithsiri was attached to Ceylinco Stock Brokers as Senior Manager IT, Assistant Manager IT, Senior Data Processing Executive where his contribution was rewarded as the best Y2K Project Co-ordinate from Ceylinco Stock Brokers.

He possesses the Chartered Information Technology Professional - MBCS-CITP (UK) from The Chartered Institute for IT, London, ACS from Australian Computer Society, High Diploma in Computer Software Engineering (HDCSE) from Londontec international, Sri Lanka and Network Design & maintenance from University of Colombo.

## **Ms. Amanda Lokugamage**

*Compliance Officer*

Ms. Lokugamage, a passed finalist of Chartered Institute of Management Accountants (CIMA) holds over four years of experience in the fields of Finance and Treasury Management, in the finance industry, specializing in securitizations, financial analysis and corporate planning.

Corporate Management cont....

Prior to taking up her role as Compliance Officer at Ideal Finance Limited, she was attached to the Treasury department of LB Finance, responsible for borrowing and creditor management, and corporate planning.

Started her career at KPMG, Ford Rhodes, Thornton & Co, Ms. Lokugamage also holds 2 years of experience in Management Assurance Services, covering a wide spectrum of organizations including Financial, Manufacturing and Non-Government institutions.

**Mr. Mahesh De Silva**

*Accountant*

Mr. De Silva, an Associate Member of the Chartered Accountants of Sri Lanka counts over 3 years of experience in the fields of Auditing, Manufacturing and Textile.

Started his career at Unilever Sri Lanka Limited and moved in to PriceWaterHouse Coopers as an Associate

Accountant. He worked as Accountant at Textprint Lanka (Private) Limited prior to joining IFL as Accountant. He has hands on experience in SAP, MFG (Pro) and Lotus Notes, widely used ERP Systems.

Mr. De Silva, completed his BSc Finance (Special) from University of Sri Jayawardenepura with a First Class pass. He currently follows a Chartered Tax Advisory Course conducted by Chartered Institute of Sri Lanka.

# Corporate Governance Report

## Corporate Governance

Corporate Governance is defined as the system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers.

The Board of Directors is responsible for the governance of the Company and has placed significant prominence on developing rules, structures, policies and processes to ensure integrity and transparency in all of the Company's dealings and making the best effort in achieving performance and quality profits. We have continuously refined our structure and systems to ensure governance on the lines as defined, aware at all times that we are accountable to our stakeholders and the general public.

This statement describes the application of the Corporate Governance practices carried out within the Company during the year under review.

## Board of Directors

The Board is the apex body of Ideal Finance Limited that carries the responsibilities of directing the Company. The responsibilities of the Board includes making an accurate assessment of the Company's position, taking strategic decisions, holding regular meetings of the Board and Board Sub Committees, ensuring good governance and overseeing the risk management of the Company.

## Composition and Independence

The Board comprises of nine (09) members, eight (08) of whom, including the Chairman, are Non-Executive Directors with the balance of skills and experience appropriate for the business carried out by the Company.

The Board has determined that three(03) Non-Executive Directors, namely, Mr. Hiran De Alwis, Mr. Ajith Dias and Dr. Suren Peter are 'Independent' as per the criteria set out in the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

## Chairman and Chief Executive Officer

The functions of the Chairman and the Chief Executive Officer are separated, with a clear distinction drawn between responsibilities, which ensure a balance of power and authority.

Mr. Nalin J Welgama is the Chairman of the Board of Directors and Mr. Duminda M Weerasekare serves as the Chief Executive Officer of the Company.

## Tenure, Retirement and Re-election of Directors

There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board.

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 with the reasons for such removal or resignation.

During the year under review one (01) Non-Executive Director resigned and Three Non-Executive Directors were appointed to the Board.

The provisions of the Company's Articles of Association also require Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at such a meeting.

## Board Meetings

The results of the Company are regularly considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with any other matter which requires the attention of the Board.

The Board meets once a month and wherever necessary, special meetings of the Board are held.

During the year ended 31st March 2014, twelve (12) meetings of the Board were held. The attendance at the meetings was:

Name of Director	Executive/ Non- Executive/ Independent Non- Executive	Attendance
Mr. N J Welgama	Non-Executive	11/12
Mr. Kiyoshi Matsui	Non-Executive	10/12
Mr. D M Weerasekare	Executive	12/12
Mr. P A De Silva	Non-Executive	11/12
Mr. Igarashi Takashi *	Non-Executive	05/12*
Mr. J V W Malawana	Non-Executive	09/12
Mr. H M C De Alwis	Independent Non-Executive	12/12
Mr. Ajith N. Dias	Independent Non-Executive	02/12**
Dr. P L Suren Peter	Independent Non-Executive	02/12**
Mr. Norihiro Yoshino	Non-Executive	02/12**

\* Mr. Igarashi Takashi resigned from his Directorship with effective from 12<sup>th</sup> February 2014.

\*\* Mr. Ajith N Dias, Dr. P L Suren Peter and Mr. Norihiro Yoshino were appointed to the board with effective from 21<sup>st</sup> February 2014.

### Board Sub-Committees

An Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Nomination Committee and an IT Steering Committee function as Sub-Committees of the Board. The names of the Directors who serve on the said Committees are mentioned below.

### Audit Committee

The Audit Committee up to 21<sup>st</sup> February 2014 was comprised of Mr. Kiyoshi Matsui & Mr. Igarashi Takashi & was chaired by Mr. Nalin Welgama.

Subsequent to the resignation of Mr. Igarashi Takashi, Dr. Suren Peter was appointed to the Audit Committee with effective from 21<sup>st</sup> February 2014.

The Audit Committee is currently comprised of Mr. Kiyoshi Matsui & Dr. Suren Peter and is chaired by Mr. Nalin Welgama.

In compliance with the Finance Companies (Corporate Governance) Direction No.3 of 2008 and in the absence of a Head of Internal Audits, Company Secretary acts as the Secretary to the Audit Committee.

### Integrated Risk Management Committee (IRMC)

In compliance with the Finance Companies (Corporate Governance) Direction No.3 of 2008 an Integrated Risk Management Committee was set up in May 2012.

The Committee is chaired by Mr. Hiran De Alwis, an Independent Non-Executive Director and Mr. Aravinda De Silva, Mr. Duminda M. Weerasekare & Mr. Viraj Malawana are members of the IRMC which also consists of key management personnel supervising broad risk categories.

### Remuneration Committee

Up to 17<sup>th</sup> March 2014, Mr. Nalin Welgama & Mr. Aravinda De Silva represented the Remuneration Committee.

Mr. Ajith Dias was appointed to the Remuneration Committee on 17<sup>th</sup> March 2014.

The Remuneration Committee is currently comprised of Mr. Aravinda De Silva & Mr. Ajith Dias and is chaired by Mr. Nalin Welgama.

### Nomination Committee

Nomination Committee was formed in March 2014 and is comprised of Mr. Ajith Dias & Mr. Norihiro Yoshino while Mr. Hiran De Alwis chairs the committee.

### IT Steering Committee

IT Steering Committee was formed in March 2014 and is chaired by Dr. Suren Peter, Mr. Viraj Malawana, Mr. Duminda M. Weerasekare and Mr. Aravinda De Silva are members of the committee.

### Compliance Officer

Company has appointed a Compliance Officer at the inception to ensure compliance with the Regulatory and Statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and business activities undertaken by the Company in general.

Corporate Governance cont....

### **The Management**

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management headed by the Chief Executive Officer. They ensure that risks, uncertainties and opportunities are identified and necessary actions are taken to mitigate the risk exposure thus ensuring the achievement of targets within defined time frames and budgets.

### **Financial Disclosures and Transparency**

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, International Financial Reporting Standards, the Companies Act, the Finance Companies Act and the directions and rules issued thereunder.

Messrs. Ernst & Young, Chartered Accountants acts as External Auditors of the Company. The Auditors are allowed to act independently and without intervention from the Management or the Board of the Company to express an opinion on the financial statements of the Company. The Auditors are provided with all required information for examinations.

### **Ethical Standards**

The Company requires that all its employees maintain the highest standards of integrity in the performance of their duties and dealings on behalf of the Company.

The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees.

### **Statutory Payments**

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for.

Retirement gratuities have been provided for in accordance with Sri Lanka Accounting Standards No.16, Employee Benefits (Revised 2006).

### **Compliance with Central Bank Regulations**

As both a Registered Finance Company and a Registered Finance Leasing establishment, the Company is governed

by the Non-Bank Financial Institutions Directions & Rules issued by the Monetary Board of the Central Bank of Sri Lanka.

Accordingly the Company is required to carry out and maintain business activities in compliance with the Directions from time to time issued by the Central Bank of Sri Lanka.

### **Accountability and Disclosure**

The members of the Board of Directors have reviewed in detail the Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs.

### **Outlook**

Corporate governance plays a vital role in business and future emphasis is to further satisfy the Company's stakeholders whilst sustaining the growth of the Company. Therefore we believe in implementing a broad Operating structure, monitoring Internal control Review, benchmark, feedback Effective and transparent communication



**Nalin J Welgama**  
*Chairman*

10<sup>th</sup> June 2014



Corporate Governance cont...

As the prudential regulator, the CBSL has issued a set of Directions on Corporate Governance – The Finance Companies ( Corporate Governance) Direction, No. 3 of 2008 to promote prudent business behavior and risk management on the part of Regulated Financial Institutions such as banks and finance companies and insurance companies, so that these institutions are poised to meet their financial promises.

The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) covers the key aspects such as Directors, Directors’ remuneration, Relations with Shareholders, Accountability and Audit and Shareholders. These rules are indispensable in ensuring the creation and maintenance the confidence of the General Public of the country.

The Company’s compliance with relevant directions, rules, notices, guidelines and codes are shown below.

Section	Agreed Upon Procedure	Status	Result of Procedure
2(1)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the Finance company.		
a)	Approving and overseeing the Company’s objectives and corporate values and ensure that these are communicated throughout the Company.	Complied	<p>Vision, Mission and Corporate Values of the company are included in the procedure manual which is approved by the Board.</p> <p>Board approved Business plan for the next three years is in place for the period 2014-2016 along with the budget. Annually reviewed Strategic objectives and corporate values are communicated throughout the company at Management &amp; Staff meetings in order to enhance their understanding regarding the future goals and objectives of the company.</p>
b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years.	Complied	<p>The Board has a Board approved Business Plan for the three years 2014-2016.</p> <p>Company has a Board approved Risk Manual which includes different types of risks faced by the company, responsible staff, Risk mitigation strategies and Risk Reporting formats to be used by the staff.</p> <p>Board approved Treasury and Liquidity Risk Management Policy is in place, defining identifying, measuring and monitoring the said risks.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
			<p>In the initial feasibility report, company has defined the risk management strategies along with the key risk factors, related risk and risk mitigation action.</p> <p>Company's overall business strategy for the three years commencing from 2014-2016 is included with the measurable goals of the company.</p>
c)	Identify the risk and ensuring implementation of appropriate system to manage the risk prudently.	Complied	<p>Board has formed an Integrated Risk Management Committee (BIRMC) and delegated the function to manage the risks identified to the Committee.</p> <p>Findings of the BIRMC are reported to the Board meeting at the subsequent Board meeting.</p>
d)	Approving a policy of communication with all stake holders, including depositors, creditors, share-holders and borrowers;	Complied	Company has two board approved communication policies for shareholders and other internal and external stakeholders.
e)	Reviewing the adequacy and the integrity of the finance Company's internal control system and management information system; entail	Complied	<p>Board reviews the adequacy and the integrity of the Company's internal control system by way of internal audit reports submitted to the board through the Board Audit Committee.</p> <p>A Board approved procedure manual is in place defining the decision flow and responsibility of each functional area of the company.</p> <p>Procedures for ICT controls are included in the procedure manual. Company has a Board approved Information Technology Policies and Procedures and an IT Steering Committee established by Board.</p>
		Moving towards Compliance	<p>Company is in the process of evaluating adequacy and integrity of the company's Management Information System.</p> <p>Company appointed IS Auditors carried out the assignment on Company's MIS and the draft report is being forwarded for Management Comments. Company shall forward the finalized report to the Board in due course.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
f)	Identifying the designating key management personnel, who are in a position to (i) significantly influence policy (ii) Direct activities and (iii) exercise control over business activities, operations and risk management;	Complied	Key Management Personnel have been defined in the Feasibility Report as "Board of Directors (BOD), Chief Executive Officer (CEO), Head of Marketing & Credit, Head of Operations, Head of Risk Management and Compliance Officer".
g)	Defining the areas of authority and key responsibilities for the board and the key management personnel;	Complied	<p>Corporate Governance policy approved by the Board of Directors includes an area specifying the responsibilities of the board of directors.</p> <p>Company has a Board approved schedule of matters specifically reserved to the Board of Directors.</p> <p>Further, Articles of Association briefly describes on the powers and duties of the Board of Directors.</p> <p>Key responsibilities of other Key Management Personal have been defined briefly in Feasibility Report which is approved by the Board.</p>
		Moving towards Compliance	Company is in the process of drafting key responsibilities of KMPs.
h)	Ensuring that there is appropriate oversight of affairs of the finance Company by key management personnel , that is consistent with the finance Company's policy;	Complied	Key management personnel were invited to the Board meetings to make presentations on overall performance, collections and progress of the Company.
i)	Periodically assessing the effectiveness of its governance practice including		
	(i) selection, nomination and election of directors and key management personnel;	Complied	As per Articles of Association, Board has the power to make decisions on selection, nomination and election of directors.
	(ii) management of conflicts of interests; and	Complied	Further Articles of Association addresses the provisions on management of conflicts of interest of Directors.

Section	Agreed Upon Procedure	Status	Result of Procedure
(iii)	The determination of weaknesses and implementation of changes where necessary.	Moving towards Compliance	A self-evaluation process of the board members is in place to ensure the own performance, better governance and determination of weaknesses. Company has implemented the self-evaluation process of the Board of which the summary shall be forwarded at the next Board meeting.
j)	Ensuring the finance Company has an appropriate succession plan for key management personal.	Complied	Board approved Succession Plan Policy is in place.
		Moving towards Compliance	IFL is still a startup Company. A Board approved Succession Plan will be implemented by the company.
k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	CEO is represented at the Board, IRMC and IT Steering Committees. CEO attends the Audit Committee upon invitation. Key Management Personnel are invited as when the need arises by the Board or the Committee to explain matters relating to their areas of functions.
l)	Understand the regulatory environment.	Complied	All new CBSL directions issued by the Central Bank have been submitted to the Board by the Compliance Officer and approved thereof.
		Complied	A summary of returns submitted to CBSL on weekly, monthly and annual basis are presented to the board by the Compliance Officer in each board meeting.
m)	Exercising due diligence in the hiring and oversight of external auditors.	Complied	Company's Articles of Association reveals that there is a process for hiring of external auditors at their AGM.
		Complied	Oversight of external auditors is carried out by the Board Audit Committee. The process on engaging with external auditors is included in the Audit Committee Charter under Authority & Responsibility.

Section	Agreed Upon Procedure	Status	Result of Procedure
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	Complied  Complied  Moving towards Compliance	Board has appointed a Chairman and a CEO.  Functions and responsibilities of the Chairman have been defined in the Corporate Governance Policy.  Company is in the process of defining the functions and responsibilities of the CEO.
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.	Complied	Procedure manual of the company contains with a section providing the procedures on seeking independent professional advice by directors at company expense.
2(4)	Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relatives or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	Articles of the Association give evidences on the procedure for "Restrictions on Voting" by Board of Directors when they have a substantial interest on any matter and not to count for the quorum.  No such transaction has taken place during the year.
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 Company is firmly under its authority.	Complied	Company has a Board approved schedule of matters specifically reserved to the board for decision making.
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 Non-Bank Supervision of Non-Bank Financial Institution of the situation of the Company prior to taking any decision or action.	Complied	Such a situation has not been arisen during the year 2013/14.
2(7)	The Board shall publish in the Company's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Complied	This has been disclosed in the Annual Report on page 21 to 45.

Section	Agreed Upon Procedure	Status	Result of Procedure
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied	Company has a process of evaluating the self-performance of the Board of Directors.
<b>(3)</b>	<b>Meetings of the Board</b>		
3(1)	The Board shall meet regularly and Board meetings shall be held at least twelve times a 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	Complied	Board has met 12 times during the year.  There were five instances where the Board's consent has been obtained through the circulation of written resolutions/ papers which were tabled at the subsequent Board meeting.
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	Agenda is circulated by the Company Secretary, among the Board members by electronic mail prior to the meeting, which enables Directors to communicate any matters which they wish to be discussed at the meeting to be included in the Agenda.  Procedure Manual of the company includes the procedure on enabling all the directors to include matters and proposals in the agenda.
3(3)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Complied	The date of the next meeting is decided at the end of the current meeting of the Board as there are Non-Resident Directors in the Board.  Further, as a practice, Directors are given a notice of at least 7 days for regular Board Meetings. Agenda letters and previous month board meeting minutes are sent to the board members by the company secretary via e-mail.
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. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Complied	Such a situation has not been arisen during the year in concern.
3(5)	Board shall appoint a Company Secretary, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	SSP Corporate Services (Private) Limited was appointed by the Board as their company secretary.

Section	Agreed Upon Procedure	Status	Result of Procedure
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	<p>Agenda is prepared by the company secretary under the instructions of the Chairman and circulated to the Board members.</p> <p>Corporate Governance Policy of the company states the above fact that the Chairman should delegate the function of preparing the agenda to the company secretary.</p>
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.	Moving towards Compliance	<p>All directors have access to advice and services of the Company Secretary.</p> <p>Company shall draft a procedure on this regard.</p>
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	Company Secretary maintains the minutes of Board Meetings. Procedure Manual of the company includes a chapter; "Maintaining Minutes of the Board Meetings" in this regard.
3(9)	<p>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:</p> <p>a) a summary of data and information used by the Board in its deliberations;</p> <p>b) the matters considered by the Board;</p> <p>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;</p> <p>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;</p> <p>e) the Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted; and</p> <p>f) the decisions and Board resolutions.</p>	Complied	Detailed minutes are kept covering the given criteria. Board minutes contain the required details as specified.

Section	Agreed Upon Procedure	Status	Result of Procedure
<b>(4)</b>	<b>Composition of the Board</b>		
4(1)	The number of Directors on the Board shall not be less than 5 and not more than 13. A transitional provision will apply if the number of Directors on the Board of the finance Company is either less than 5 or exceed 13 such Companies may continue for a maximum of three years commencing 01.01.2009.	Complied	Board comprised of 7 members up to December 2013 and increased to 9 members thereafter.
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, and such period in office of a non-executive director shall be inclusive of the total period of service served by such Director up to January 1, 2009.	Complied	None of the Directors have exceeded 9 years of service since the company was incorporated in January 2012.
4(3)	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 of the Company.	Complied	There were 7 members in the Board up to December 2013. With the resignation of a director and the appointment of three new directors the number of members increased to 9 out of which one is an Executive Director thus complies with the requirement.
4(4)	From January 1, 2012, the total number of independent non-executive Directors, of the board shall be at least one fourth of the total number of directors. A Non-Executive Director shall not be considered independent if he/she:	Complied	The Board comprised of 9 members which consists of Three Independent Non-Executive Directors.
	a) Holds shares exceeding 2% of the paid up capital of the finance company or more than 10% of paid up capital of any other finance company;		
	b) has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding at a particular time exceeding 10 per cent of the capital funds of the finance company as shown in its last audited B/S.		
	c) has been employed by the finance company during the two year period immediately preceding the appointment as director.		
	d) has a relative; who is a director, CEO, 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 the another finance company.		



Section	Agreed Upon Procedure	Status	Result of Procedure
e)	represents a share holder , debtor, or such other similar stakeholder of the finance company		
f)	<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 (regulatory capital )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 (material share holding ) 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 have a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds (regulatory capital )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	Such an incident has not taken place during the year.
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.	Moving towards Compliance	<p>Articles of Association address the appointment and removal of Directors.</p> <p>However, Company shall draft a procedure on appointing NEDs.</p>
4(7)	CA 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 present at such meeting are Non-Executive.	Moving towards Compliance	<p>During the financial year 2013/14 more than 50% of the directors participated for board meetings are non-executive.</p> <p>Company shall initiate action to make the quorum to read as more than 50% of the existing members and out of them more than 50% to be Non- Executive Directors.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
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.	Complied	Company has disclosed the composition of the Board as required in the direction on page 50 of the Annual Report.
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.	Moving towards Compliance	Company's Articles of Association addresses a general procedure for appointment of new Directors. However, Company shall draft procedure on appointing new members to the Board.
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.	Complied	Company's Articles of Association refers to the procedure in filling a casual vacancy subject to election by shareholders at the first AGM.  Three Directors have been appointed to the Board to fill casual vacancies during the year and these directors have to be reappointed at the next AGM by the shareholders.
4(11)	If a Director resigns or is removed from office , the board shall announce to the Shareholders and notify the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Company, if any	Complied	One Non-Independent, Non- Executive Director has been resigned from office during the year which is approved by the Director – SNBFI - CBSL.
<b>(5)</b>	<b>Criteria to assess the fitness and propriety of directors</b>		
5(1)	The age of a person who serves as Director shall not exceed 70 years.	Complied	None of the Directors exceeded 70 years of age.
5(2)	A person shall not hold office as a Director or any other equivalent position in more than 20 companies/ societies/ bodies corporate including Subsidiaries or Associate Companies of the Finance Companies Provided that such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied	No director holds directorships of more than 20 companies /entities/ institutions inclusive of subsidiaries or associate companies during the year 2013/14

Section	Agreed Upon Procedure	Status	Result of Procedure
<b>(6)</b>	<b>Management functions delegated by the board</b>		
6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	The Board is empowered by the Articles of Association 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.
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.	Complied	The delegated powers are reviewed by the Board to ensure that they remain relevant to the needs of the company.
<b>(7)</b>	<b>The Chairman and CEO</b>		
7(1)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual	Complied	Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
7(2)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent 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 Annual Report.	Complied	Chairman is a non- executive director of the company.  Company has designated an Independent Non-Executive Director as the Senior Director of the company.  (This is disclosed in the Annual Report page 16.)
7(3)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity 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.	Complied	Company has a process to identify the relationship between Chairman, CEO and the Board members and the nature of any relationship amongst the members of the Board. Directors' Disclosure is a designated item in the Agenda of the Board meeting.  (This is disclosed in the Annual Report page 34.)
7(4)	The Chairman shall: (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the board in a timely manner	Complied	Company has a Board Approved Corporate Governance Policy which defines the Functions and Responsibilities of Chairman. The Company expanded the format of annual assessment by including an area to measure the effective discharge of Board functions." All key and appropriate issues are discussed by the Board on a timely basis.

Section	Agreed Upon Procedure	Status	Result of Procedure
7(5)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied	Agenda is prepared by the company secretary and circulated to the Board members under the instructions of the Chairman.
7(6)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied	<p>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 the meetings.</p> <p>Agenda and the minutes of the previous board meeting are sent to the directors at least 7 days prior to the next meeting for their review.</p> <p>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.</p>
7(7)	The Chairman shall encourage all Directors 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	A self-evaluation process of the Board members is in place to encourage all directors to make a full and active contribution to the board's affairs.
7(8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	Complied	The self-evaluation process of directors addresses the contribution of all directors including 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.		<p>Chairman is a non-executive director.</p> <p>The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.</p>
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.	Complied	AGM of the company is the main forum where the Board maintains effective communication with shareholders. Further a Board approved Communication Policy for shareholders is in place.
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-today-management of the Finance Company's operations and business.	Complied	As per the functions and responsibilities of the CEO, he is the apex executive-in charge of the day-to-day management of the company's operations and business as mentioned in the Corporate Governance Policy.

Section	Agreed Upon Procedure	Status	Result of Procedure
<b>(8) Board appointed committees</b>			
8(1)	Every Finance Company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The board shall present a report on the performance, duties and functions of each committee, at a annual general meeting of the Company.	Complied	<p>At present company has established 05 board committees including Board Audit Committee (BAC) and Integrated Risk Management Committee (IRMC) as set out in paragraphs 8(2) and 8(3) of the direction.</p> <p>Both committees submit their reports to the main board for their review and approved thereon.</p> <p>A report on each committee on its performance, duties and functions has been disclosed in the Annual Report on pages 446 to 49.</p>
<b>8(2) Audit Committee:</b>			
a)	The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy) and/or audit.	Complied	Chairman of the Audit Committee is a non-executive director and possesses qualifications and related experience.
b)	Check that all members of the committee are non-executive directors.	Complied	All other members of the committee are non-executive directors.
c)	The Committee shall make recommendations on matters in connection with:	Moving towards Compliance	Committee is in the process of evaluating and making necessary recommendations on the appointment of external auditors as required by the direction.
(i)	the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;		Committee has discussed the issues in Corporate Governance Factual Finding Report issued by the External Auditors.
(ii)	the implementation of the Central Bank guidelines issued to auditors from time to time;		Application of LKAS 36 (Impairment) has been discussed at the committee by the External Auditors.
(iii)	the application of the relevant accounting standards; and		Audit partner has not exceeded five years of service
(iv)	the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the 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		Committee is in the process of evaluating the Audit fee with regard to the current FY and make recommendations to the Board for their approval.

Section	Agreed Upon Procedure	Status	Result of Procedure
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	External Auditor is independent since they directly report to the Board Audit Committee and their Report on the financial statements of the company for the year 2013/ 14 indicates that the audit is carried out in accordance with SLAuS.
e)	The Committee shall develop and implement a policy 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: <ul style="list-style-type: none"> <li>(i) Whether the skills and experience of the audit firm make it a suitable provider of the non audit services</li> <li>(ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and</li> <li>(iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor</li> </ul>	Moving towards Compliance	It was decided at the Board Audit Committee to obtain the services of an independent Audit firm for Non-Audit related assignments. Further Committee is developing a policy to obtain non-audit services.
f)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit,including: <ul style="list-style-type: none"> <li>(i) An assessment of the Finance Company's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting;</li> <li>(ii) The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and</li> <li>(iii) The co-ordination between firms where more than one audit firm is involved.</li> </ul>	Complied	Committee has developed a mechanism to meet the auditors before commencing the audit to inquire about the nature and scope of the audit, with the external auditors in accordance with SLAuS.

Section	Agreed Upon Procedure	Status	Result of Procedure
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 quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Finance Company's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on:</p> <p>(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>Committee has a process to review the financial information of the finance company.</p> <p>Draft Financial Statements for the year ended 31 March 2013 has been submitted to the Committee by CEO.</p>
h)	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.	Complied	Committee has met the external auditors during the year at committee meeting in the absence of the executive management.
i)	The Committee shall review the External Auditor's management letter and the management's response thereto.	Complied	Committee has reviewed the external auditor's management letter for the year ended 31 March 2013 and the management's response thereto.
j)	<p>The committee shall take the following steps with regard to the internal audit function of the finance company:</p> <p>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> <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>Complied</p> <p>Complied</p> <p>N/A</p>	<p>Internal audit function of the company has been outsourced to a firm of Chartered Accountants and their scope of the audit has been included in their audit report. Internal Audit Report has been submitted to the Audit Committee for their review.</p> <p>Audit Committee has reviewed the internal audit program and the audit report was reviewed and discussed thereon.</p> <p>Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
	IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.
	V. Ensure that the committee is appraised 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;	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.
	VI. Check that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied	Internal audit function is independent since Internal audit function is outsourced and report directly to the Board Audit Committee and also performed with impartiality, proficiency and due professional care.
	k) The Committee shall consider the major findings of internal investigations and management's responses thereto;	Complied	No such major findings have been reported to the committee during the year.
	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 once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied	Audit Committee has met the external auditors without the executive directors being present.
	m) The Committee shall have; <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>		An Audit Committee Charter is in place included with terms of reference of the committee which is approved by the board.
	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	During the year the committee has met 4 times and has maintained the minutes appropriately.



Section	Agreed Upon Procedure	Status	Result of Procedure
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 during the year; and (iii) details of attendance of each individual director at such meetings.	Complied	Company has disclosed the required details in the Annual Report on pages 46 to 47.
p)	The Secretary of 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	Company Secretary has been appointed as the secretary to the Audit Committee.
q)	Company shall have a "whistle blower" policy which covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters. ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action.	Moving towards Compliance	Company is in the process of developing a whistle blower policy to deal with the matters mentioned.
<b>8(3) Integrated Risk Management Committee (IRMC):</b>			
a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer 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 very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	Committee consists of three non-executive directors. CEO, Head of Credit & Risk Management, Compliance Officer and other executive management personnel participate to the committee meetings whenever necessary.
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.	Complied	IRMC assesses the risks such as credit/default risk, interest rate risk, currency risk, collateral risk, strategic risk, regulatory risk, operational risk and reputational risk on a quarterly basis through 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.	Moving towards Compliance	However the company is in the process of identifying more risk indicators and risk limits. There are no subsidiaries or associates under this Company.

Section	Agreed Upon Procedure	Status	Result of Procedure
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.	Moving towards Compliance	The committee is in the process of setting qualitative and quantitative risk limits for all management level committees. However all committee decisions (Credit committee and the Asset-liability committee) are forwarded to the Board through Integrated Risk Management Committee.
d)	The Committee shall take prompt corrective action to mitigate the effects of Complied with 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.	Moving towards Compliance	Committee has review and considered all risk indicators. However, company is in the process of strengthening risk indicators by introducing more quantitative and qualitative risk limits.
e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	IRMC has met 04 times during the financial year.
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 Department of Supervision of of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied	At the company specific risks and the limits are identified collectively by the risk committee.
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	IRMC findings are submitted to the main board immediately after the IRMC meeting.
h)	The Committee shall establish a compliance function to assess the Finance Company's compliance with laws, regulations, 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	A dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.  The appointment of the Compliance officer has been approved by the Board at the meeting and CBSL approval on this regard has been obtained.
<b>9.</b>	<b>Related party transactions</b>		
9(2)	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: a. A subsidiary of the finance company; b. Any associate company of the finance company;	Complied	Corporate Governance Policy of the company includes a section regarding the related parties.  In the procedure manual decision flow regarding the related party transactions has been included.

Section	Agreed Upon Procedure	Status	Result of Procedure
	<ul style="list-style-type: none"> <li>c. A director of the finance company;</li> <li>d. A key management personnel of the finance company;</li> <li>e. A relative of a director or a key management personnel of the finance company;</li> <li>f. A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;</li> <li>g. A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.</li> </ul>		
9(3)	<p>The transactions with a related party that are covered in this Direction shall be the following: Type of transactions are as follows:</p> <ul style="list-style-type: none"> <li>a) The grant of any type of accommodation,</li> <li>b) The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.</li> <li>c) The providing financial or non-financial services to the finance company or received the same from the finance company.</li> <li>d) The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</li> </ul>	Complied	In the Corporate Governance Policy, the company has identified the types of related party transactions as mentioned in the direction. Through the procedure manual the responsibility on identification of related party transactions have been delegated to the Accountant/ DGM.
9(4)	<p>The Board shall ensure that the finance Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance Company. For the purpose of this paragraph, "more favourable treatment" shall mean:</p> <ul style="list-style-type: none"> <li>a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Finance Company's regulatory capital, as determined by the board. For purposes of this sub-direction:</li> </ul> <p>The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Finance Company's share capital and debt instruments with a maturity of 5 years or more.</p>	<p>Complied</p> <p>Moving towards Compliance</p>	<p>Company has defined the related party transactions and more favourable treatment in its' Corporate Governance Policy.</p> <p>Company will have to strengthen the existing system to input the RPT data to the system and extract a report with required data/ details of such transactions with the said related parties and to monitor such reports to ensure that no such "More favorable treatment" is offered to related parties than that accorded to other constituents of the finance company carrying on the same business.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
	<p>b) Charging of a lower rate of interest than the Finance Company's best lending rate or paying more than the Finance Company's deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d) Providing services to or receiving services 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 that may lead to sharing potentially 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>		
<b>10</b>	<b>Disclosures</b>		
10(1)	<p>The Board shall ensure that:</p> <p>(a) Annual audited financial statements and periodical financial statements (6 months ended end Sept.) are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.(RFC guideline No. 2 of 2006)</p>	Complied	<p>Annual and periodic Financial statements are prepared and published in accordance with the defined standards.</p> <p>Company has published its' Interim financial statements in the Newspapers in all three languages.</p>
	<b>Disclosures</b>		
10(2)	<p>The Board shall ensure that at least the following disclosures are made in the Annual Report :</p>		
	<p>a) The 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	<p>Company has disclosed the relevant statement in the Annual Report on page 56.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
b)	The report by the board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied	A report by the board on the company's internal control mechanism is disclosed in the Annual Report on page 57.
c)	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31,2010	Complied	Obtained.
d)	Details of directors, including names, transactions with the finance company.	Complied	The required information has been disclosed in the Annual Report on pages 90-91.
e)	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied	The required information has been disclosed in the Annual Report on page 77.
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.	Complied	The required information has been disclosed in the Annual Report on pages 90 - 91.
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.	Complied	The aggregate amount of remuneration paid to the Key Management Personnel of the company and the aggregate value of transactions done with KMPs have been disclosed in the Annual Report on page 91.
h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied	The required information regarding the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance has been disclosed in the Annual Report on page 23.

Corporate Governance cont....

Section	Agreed Upon Procedure	Status	Result of Procedure
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	Such a situation has not arisen.
j)	Check that the board has obtained the external auditor's certification of the compliance with the Corporate Governance directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011	Complied	External auditors have issued the Corporate Governance Factual Finding report in this regard.

# Report of the Audit Committee

## Composition

The composition of the Audit Committee during the year was as follows;

Mr. Nalin J. Welgama - Chairman - Non-Executive Director  
Mr. Kiyoshi Matsui - Non-Executive Director  
Mr. Igarashi Takashi - Non-Executive Director (Resigned)  
Dr. Suren Peter - Independent Non-Executive Director

The Chairman Mr. Nalin J. Welgama, is a Member of the Association of Chartered Certified Accountants of the United Kingdom with over 30 years of experience in auditing, accounting, and international automotive.

Dr. Suren Peter who holds a Ph.D in Business Administration (Netherlands) appointed after the resignation of Mr. Igarashi Takashi in February 2014.

## Meetings

The Committee met four times during the year under review.

The Chief Executive Officer and the Senior Management attended the meetings by invitation. Internal audit consultants and the external auditors were invited to participate at the meetings as and when required.

The Company Secretaries, S S P Corporate Service (Pvt) Ltd. acted as Secretaries to the Audit Committee.

The attendance of the members of the Committee are as follows;

Name	Description	Attendance
Mr. Nalin Welgama	Chairman – Audit Committee	4/4
Mr. Kiyoshi Matsui	Member	3/4
Mr. Igarashi Takashi	Member	0/2
Dr. Suren Peter	Member	2/2

The proceedings of the Audit Committee were reported to the Board of Directors on a regular basis.

## Role of the Committee

The main objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process, the system of internal controls and risk management, the independence and audit process of the external auditors, and the process for monitoring compliance with laws and regulations.

## Summary of activities

The Committee carried out the following activities during the year.

Reviewed the consistency and appropriateness of the accounting policies adopted by the Company to ensure compliance with the Sri Lanka Accounting Standards.

Reviewed the effectiveness of the internal financial controls to ensure reasonable assurance that the financial reporting system adopted by the Company can be relied upon in the preparation and presentation of the quarterly and annual financial statements

Considered the internal and external audit reports and identified the control weaknesses and accounting issues highlighted and directed management to take appropriate and relevant follow up action.

Held a special meeting with the external auditors without the presence of management for discussion on matters relating to management co-operation, quality, timeliness and accuracy of the accounting and management information provided.

## Internal Audit

The Internal Audit function is outsourced to Messrs. Baker Tilly LKA, a firm of Chartered Accountants.

The scope of work covers the head office functions and all branches and Service centres. The scope of work of the internal audit consultants includes the review of the efficacy of the internal controls and the actions taken to mitigate operational and business risks. In addition they monitor and report on compliance with statutory requirements and the

Company's accounting and operational policies. Internal audit representatives are present at all Audit Committee meetings during discussion of the respective internal audit reports.

### External Audit

The Committee ensured that the Auditors have not carried out any non-audit services that would have impaired their independence.

The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as Auditors for the financial year ending 31st March 2014 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also made its recommendations in regard to the remuneration of the Auditors.

### Risk Management

In terms of the Central Bank's Direction No 3 of 2008 under the Finance Companies Act, the Company has appointed an Integrated Risk Management Committee during the year. The Committee's decree is to identify the business and operational risks the Company is exposed to and develop appropriate strategies to manage and monitor these risks and thereby eliminate /mitigate its adverse impacts.

### Conclusion

The Audit Committee is satisfied that the internal controls and the procedure in place for assessing and managing risk are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded, and that the financial statements are reliable.



**Nalin J. Welgama**

*Chairman*

**Audit Committee**

10<sup>th</sup> June 2014



# Report of the Integrated Risk Management Committee

## Composition

The Integrated Risk Management Committee for the financial year ended 31st March 2014 comprised the following members.

Mr. Hiran De Alwis (Director/ Chairman – IRMC)

Mr. Aravinda De Silva (Director)

Mr. Viraj Malawana (Director)

Mr. Duminda Weerasekare (CEO/Director)

Mr. Rohitha Bandusena – DGM – Credit & Risk Management

Mr. Marnika Balasuriya (Assistant Manager – Risk Management)

Mr. Gaman Kithsiri (Head of ICT)

Ms. Amanda Lokugamage (Compliance Officer)

Mr. Mahesh De Silva (Accountant)

Mr. T.M.M.B. Tennakoon (Manager – Real Estate)

## Meetings

The Committee met on a quarterly basis of which attendance of the members of the board are as follows.

Name	Description	IRMC
Mr. Hiran De Alwis	Director/ Chairman – IRMC	4/4
Mr. Aravinda De Silva	Director	4/4
Mr. Viraj Malawana	Director	4/4
Mr. Duminda Weerasekare	CEO/Director	4/4

## Role of the Committee

Assessing all risks, i.e., credit, market, liquidity, operational, interest rate, foreign currency, strategic and reputational risks to the finance company on a quarterly basis through appropriate risk indicators and management information.

Reviewing the adequacy and effectiveness of all management level committees such as credit committee and the asset-liability committee decisions to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.

Taking 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.

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.

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.

## Conclusion

The Integrated Risk Management Committee is satisfied about comprehensive risk management strategies and procedures that are in place in order to mitigate IFL risk exposure.



**Hiran D Alwis**

*Chairman*

**Integrated Risk Management Committee**

# Report of the Remuneration Committee

The Remuneration Committee, appointed by the Board of Directors comprised two Non-Executive Director up to 17<sup>th</sup> March 2014 and two Non-Executive Directors and one Independent Non-Executive director from 17<sup>th</sup> March 2014.

## Composition

Mr. N. J. Welgama (Chairman) / (Non-Executive Director)  
Mr. P. A. De Silva (Non-Executive Director)  
Mr. A. N. Dias (Independent Non - Executive Director)  
– approved on 17<sup>th</sup> March 2014.

## Meetings

The Committee met four times during the period under review to make recommendations on salaries, bonuses and increments, and also on matters relating to recruitment of key management personnel to ensure that the management and staff at all levels are adequately rewarded for their performance and commitment. The Chief Executive Officer shall attend meetings of the Committee by invitation and provide relevant information and his view to the Committee for its considerations except when his own remuneration package and other matters relating to him are discussed.

## Functions

The primary objective of the committee is to attract, motivate and retain talent with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company.

The Company remuneration framework for the Executive Directors and Corporate Management Team is designed to ensure alignment between short and long term interests of the Company and thereby create and enhance value for all stakeholders of the Company.

## Directors' remuneration

The total of Directors' remuneration paid during the year under review is set out in note 41 to the Financial Statements.



**N. J. Welgama**  
*Chairman*  
**Remuneration Committee**

10<sup>th</sup> June 2014

# Report of the Directors on the State of Affairs of the Company

The Board of Directors is pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31<sup>st</sup> March 2014. The details set out herein provide pertinent information required by the Companies Act, No.7 of 2007 and are guided by recommended best accounting practices.

## 1. Principal Activities

The principal activity of the Company is to carry on finance business in conformity with the provisions of the Finance Business Act, No. 42 of 2011 as amended or superseded from time to time and in conformity with provisions of all written laws for the time being in force and all regulations, directions, determinations and rules.

## 2. Financial Statements

The financial statements of the Company are given on pages 57 to 94.

## 3. Auditor's Report

The Auditor's report on the financial statements is given on page 56.

## 4. Accounting Policies

The accounting policies adopted in preparation of Financial Statements and the other explanatory notes are given on pages 61 to 94. There were no material changes in the Accounting Policies adopted.

## 5. Interest Register

The Company maintains an Interest Register and the particulars of those Directors who were directly or indirectly interested in a contract of the Company are stated therein.

## 6. Directors' Interest

None of the directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in Note 35 related party transactions to the financial statements.

## 7. Directors Remuneration and Other Benefits

Directors remuneration in respect of the Company for the year ended 31<sup>st</sup> March 2014 is given in Note 9 to the financial statements.

## 8. Corporate Donations

There were no donations made by the Company for the year ended 31<sup>st</sup> March 2014.

## 9. Directors

The Directors of the Company as at 31<sup>st</sup> March 2014.

Mr. N.J. Welgama	- Chairman/Non Executive Director
Mr. Kiyoshi Matsui	- Deputy Chairman/ Non Executive Director
Mr. D.M. Weerasekare	- Executive Director/CEO
Mr. P.A. De Silva	- Non Executive Director
Mr. J.V.W. Malawana	- Non Executive Director
Mr. H.M.C. De Alwis	- Non Executive Independent Director
Dr. P.L.S. Peter	- Non Executive Independent Director
Mr. A.N. Dias	- Non Executive Independent Director
Mr. N. Yoshino	- Non Executive Director

Mr. Igarashi Takashi resigned as a Director of the Company with effect from 12<sup>th</sup> February 2014.

The Board wishes to place on record the Company's sincere appreciation to Mr. Igarashi Takashi for his valuable contribution extended to the Company during his tenure on Board.

Messrs P.L. Suren Peter, Ajith N. Dias and Norihiro Yoshino were appointed Directors of the Company with effect from 21<sup>st</sup> February 2014.

In terms of Article 24(2) of the Articles of Association of the Company Dr. P.L. Suren Peter, Mr. Ajith N. Dias and Mr. Norihiro Yoshino retire and being eligible offer themselves for re-election.

In terms of Article 24(6) of the Articles of Association of the Company Messrs Kiyoshi Matsui and J.V.W. Malawana retire by rotation at the Annual General Meeting and being eligible offer themselves for re-election.

#### 10. Board Sub-Committees

The following Board Sub-Committees are functional.

- **Audit Committee**  
 Mr. N.J. Welgama  
 - Chairman/Non Executive Director  
 Mr. Kiyoshi Matsui  
 - Member/Non Executive Director  
 Dr. P.L. Suren Peter  
 - Member/Non Executive Independent Director
- **Integrated Risk Management Committee**  
 Mr. H.M.C. De Alwis  
 - Chairman/Non Executive Independent Director  
 Mr. P.A. De Silva  
 - Member/Non Executive Director  
 Mr. J.V.W. Malawana  
 - Member/Non Executive Director  
 Mr. D.M. Weerasekare  
 - Member/Chief Executive Officer
- **Remuneration Committee**  
 Mr. N.J. Welgama  
 - Chairman/Non Executive Director  
 Mr. P.A. De Silva  
 - Member/Non Executive Director  
 Mr. A.N. Dias  
 - Member/Non Executive Independent Director
- **Nomination Committee**  
 Mr. H.M.C. De Alwis  
 - Chairman/Non Executive Independent Director  
 Mr. A.N. Dias  
 - Member/Non Executive Independent Director  
 Mr. Norihiro Yoshino  
 - Member/Non Executive Director
- **IT Steering Committee**  
 Dr. P.L. Suren Peter  
 - Chairman/Non Executive Independent Director  
 Mr. J.V.W. Malawana  
 - Member/Non Executive Director

Mr. P.A. De Silva  
 - Member/Non Executive Director  
 Mr. D.M. Weerasekare  
 - Member/Chief Executive Officer

#### 11. Directors Shareholding

The shareholding of the Directors of the Company as at 31<sup>st</sup> March 2014.

Mr. N.J.Welgama	-	5,200,000
Mr. Kiyoshi Matsui	-	Nil
Mr. D.M. Weerasekare	-	1,600,000
Mr. P.A. De Silva	-	5,200,000
Mr. J.V.W. Malawana	-	12,800,000
Mr. H.M.C. De Alwis	-	Nil
Dr. P.L. Suren Peter	-	Nil
Mr. A.N. Dias	-	Nil
Mr. Norihiro Yoshino	-	Nil

#### 12. Auditors

The financial statements for the year ended 31<sup>st</sup> March 2014 have been audited by Messrs Ernst & Young, Chartered Accountants, who express their willingness to continue in office. In accordance with the Companies Act No.07 of 2007, a resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The fees paid to the Auditors are disclosed in Note 9.

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interest in the Company.

#### 13. Dividends

The directors do not recommend the payment of a dividend for the year ended 31<sup>st</sup> March 2014.

#### 14. Investments

Details of investments held by the Company are disclosed in Note 12 and 13 to the financial statements.

**15. Intangible Assets**

There were no intangible assets, other than Goodwill, which is disclosed in Note 20.4 to the financial statements.

**16. Property, Plant and Equipment**

An analysis of the property, plant and equipment of the Company, additions and disposals made during the year and depreciation charged during the year are set out in Note 20 to the financial statements.

**17. Capital Commitments**

There were no capital commitments outstanding as at the Balance Sheet date .

**18. Stated Capital**

The Stated Capital of the Company is Rs. 603,247,125/-

**19. Taxation**

The tax position of the Company is given in Note 24 and 26 to the Financial Statements.

**20. Statutory Payments**

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the government and the employees have been made on time.

**21. Corporate Social Responsibility**

Our Company specializes in maintaining high standards of Corporate Social Responsibilities such as carrying out management practices and decisions which have no negative impact on the environment and on the community around which we operate.

Our products go a long way towards minimizing the felling of trees and are completely recyclable without any negative impact on the environment. Schemes are in place to collect off-cuts and waste which are recycled in-house for special applications.

**22. Contingent Liabilities**

There were no material contingent liabilities outstandings as at 31<sup>st</sup> March 2014.

**23. Post Balance Sheet Events**

Subsequent to the date of the Balance Sheet no circumstances have arisen which would require adjustments to the accounts. There are also no significant post balance sheet events which in the opinion of the Directors require disclosure.

**24. Annual General Meeting**

The 2<sup>nd</sup> Annual General Meeting of the Company will be held at the Board Room of Ideal Motors (Pvt) Limited on Monday 28<sup>th</sup> July 2014.

For and on behalf of the Board of Directors of  
IDEAL FINANCE LIMITED



Director



Director

S S P CORPORATE  
SERVICES (PRIVATE) LIMITED

  
.....  
Secretary

S S P Corporate Services (Private )Limited,  
Secretaries

Date: 27<sup>th</sup> June 2014

# Risk Management Report

## Introduction

As a financial service provider Ideal Finance Limited (IFL) currently offers various ranges of products such as Leases, Loans, Hire Purchases, Fixed Deposits, Real Estate and Mortgage Loans. The company opened five new branches in Anuradhapura, Elpitiya, Embilipitiya, Jaffna and Kurunegala and a service centre in Bandarawela. IFL is also planning to expand its operations by opening new branches in potential areas and introducing new products which includes daily collection loans and gold loans subsequent to regulator consent.

The Board of directors of the company is very keen on active risk management practices. Therefore all possible risk mitigation strategies are introduced and implemented in order to make sure that company operates at its best while minimising its financial and business risks.

## Risk Management Process

Managing the risk within the company takes place in different stages. This involves



Under Risk Identification, all risk categories and the sub categories that the business is exposed are identified. If the business environment is changing or new products are going to be introduced, all risks involved have to be identified. Whenever IFL is planning to introduce a new product to the market, the inherent risks shall be identified in order to avoid facing unexpected and adverse outcomes. Once the risk is identified it will be analysed and measured by using both quantitative and qualitative techniques. Thereafter necessary actions shall be taken in order to manage the risks and reduce the impact of risk occurrence. These will then be monitored to avoid the accumulation of risks. Subsequently all findings shall be reported to the Board.

The Integrated Risk Management Committee (IRMC) is a board appointed committee which meets quarterly to discuss and evaluate the present risk management procedures, the risk levels that the company is currently facing and the risks that company will have to face in the future. Integrated Risk Management report will be presented to the committee and the Board of directors will analyse the report to evaluate whether the risk mitigation strategies are adequate for the business.

An effective risk management strategy will ensure that all applicable risks to the company will be identified and evaluated at an early stage and necessary measures will be taken in order to avoid and reduce the impact of the risk.

## Key Risks Faced by the Company

The Company is exposed to the following risks due to the nature of the business we are into and as a result of the macro economic conditions of which majority are inherent.

- Credit risk / Default risk
- Liquidity risk
- Interest rate risk
- Currency risk
- Collateral risk
- Strategic risk
- Operational risk
- Regulatory risk
- Reputational risk

### Credit Risk

Credit risk is the largest risk that the company is exposed which can be mainly categorised in to two parts namely default risk and concentration risk.

### Default risk

Default risk is the risk that arises due to customers being unable to meet their debt obligation. The company has a well-defined credit procedure in place to mitigate the credit risk that arises when doing day to day business activities. This includes credit appraisal, credit operations, credit approval and monitoring and recovering debt. IFL obtains sufficient collateral as security in case of a default of payment by borrower as all non performing facilities are analysed periodically to make sure that the company maintains a very low non-performing loan ratio (NPL ratio).

The Company had a NPL ratio of 0.64% where average industry NPL ratio is approximately 6%.

### Concentration Risk

Concentration risk occurs when the facilities are given to a single counterparty, Industry or geographical area. The company has set prudential limits on maximum exposure which is being reviewed periodically as well as single borrower limits defined by the Finance Companies Direction No 4 of 2006 issued by the Central Bank of Sri Lanka.

### Liquidity Risk

Liquidity risk is the risk that arises when the company does not have enough funds to meet its obligations which arises due to unmatched maturities of assets and liabilities. Company has a liquidity management policy where the primary objective is to ensure adequate funding for its day to day business activities. Furthermore, the company maintains the statutory liquid assets ratio at its required level as a method of measure and control of liquidity risk.

Company takes following precautionary measures in order to maintain a healthy liquidity position.

- Prepares an annual budget and identifies the average amount of money needed to finance facilities.

- Identify the cumulative gap of current year assets and liabilities.
- Identify the amount of unpredicted cash requirements that arose during the past 6 months.
- Identify the cash flow arising from interest earning assets.

### Interest Rate Risk

Interest rate risk arises due to adverse and unanticipated movements in future interest rate which arises due to granting of credit facilities and accepting deposits. Out of the several factors that give rise to interest rate risk the main two types of risks that IFL is exposed to includes,

- Term structure risk - which arises due to mismatches in the maturities of assets and liabilities
- Basis risk which arises due to differences in the bases of interest rates.

Company perform periodic reviews of the interest rates by

- Analysing the past fluctuation of interest rate patterns and forecasting the Interest rate movements based on past trends.
- Monitoring other market factors. E.g. liquidity of the market, T Bill rate, etc.
- Identifying the gap analysis of Interest earning assets & Interest paying liabilities.
- Identifying the effect on Net Interest Income.

### Currency risk

Currency risk is a form of financial risk that arises from the potential change in the exchange rate of one currency against another. IFL is exposed to Currency Risk provided the Exchange Rate Risk is not transferred at the time of transacting. Company monitors the fluctuation of USD/LKR and USD/JPY exchange rates and forecast Exchange rate trends based on the past behaviour of the two currencies.

### Collateral risk

Collateral risk is the risk of the value of security held, being not sufficient to meet the capital outstanding of a facility in the event of a default of payment by the customer. When

IFL grants credit facility to its customers, company ensures that the value of the collateral held as security is sufficient to meet the facility amount in case of a default of payment by borrower. In order to mitigate the collateral risk the company takes the following measures.

- Physically verify the asset before granting facilities.
- Checks the absolute ownership of the asset.
- Obtain a valuation report from a CBSL approved valuer.
- Obtain a comprehensive Insurance policy for the asset.

### **Strategic risk**

Strategic risk can be seen as the impact on the company's earnings or equity due to the business decisions taken by the Company, improper implementation of business strategies or lack of responsiveness to industry changes. All strategic decisions are taken at board level where the Board obtains professional expertise advice as and when required. IFL has appropriately addressed the Strategic Risk exposure of the Company throughout the period thus minimizing the level of risk exposure.

### **Operational risk**

Operational risk is the risk of financial losses due to the failure or inadequacy of internal processes or systems, human error or external events. The sources of operational risk includes people, internal processes, systems and external events. Operational risk can be mainly analysed under fraud risk and technological risk. IFL manages operational risks by maintaining a comprehensive system of internal controls and using technology to automate processes and reduce manual errors. The company has in place a process of continuous internal audit utilizing the services of Baker Tilly LKA Chartered Accountants.

### **Regulatory risk**

Regulatory risk is the financial loss and damage to the reputation of the company that arises from failing to comply with the laws and regulations applicable. As the financial industry is highly regulated and is continuously monitored for compliance by the regulatory bodies, Company has set internal deadlines and monitor whether CBSL reports are submitted on time. Also company make sure all statutory payments are paid before the due date.

### **Reputational risk**

Reputation risk exposure of IFL is minimal given the implementation of comprehensive risk management strategies and procedure. Reputation risk cannot be managed in isolation from other forms of Risks, since all risks can have an impact on reputation, which in turn can impact the IFL brand, earnings and capital. Credit, liquidity, interest rate, operational, and regulatory risks of IFL are managed effectively in order to safeguard the company's reputation as IFL has identified company's reputation is a valuable business asset in its own right, essential to optimize shareholder value.



# Statement of Directors' Responsibilities for Financial Reporting

The Directors are required by the Companies Act, No. 7 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statement of affairs of the Company's at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of financial statements and any other requirements which apply to the Company's financial statements under any other law.

The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards, Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and Finance Business Act No. 42 of 2011 and the relevant Directions issued in respect of Registered Finance Companies.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2012/13, including cash flows and borrowing facilities, consider

that the Company has adequate resources to continue in operation. By Order of the Board

## IDEAL FINANCE LIMITED



**D. M. Weerasekare**  
Chief Executive Officer

03<sup>rd</sup> June 2014



REGISTERED OFFICE  
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## **DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

### **RESPONSIBILITY**

In line with the Finance Companies Corporate Governance Direction No. 03 of 2008 (or Finance Leasing Direction No. 04 of 2009), section 10(2) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the IDEAL Finance Limited. ("Company").

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

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

Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS. Processes applied to adopt the said accounting standards were strengthened during the year 2013 based on the feedback received from the External Auditors, Internal Auditors, Regulators and the Board Audit Committee.

Progressive improvements on processes to comply with new Sri Lanka Accounting Standards requirements of recognition measurement, classification and disclosure are being made whilst some processes were not fully completed at the reporting date. In particular, due to time constraints, areas with respect to the related party transactions, commitment and contingencies, loan granting monitoring and recovering, real state, taxation, compliance with regulation, treasury and IT controls were being implemented as at the reporting date. Company was also in the process of updating relevant procedure manuals pertaining to the new Sri Lanka Accounting Standards requirements.

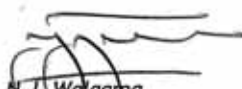
### **CONFIRMATION**

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

### **EXTERNAL AUDITORS CERTIFICATION**

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 Auditors in this respect, are being looked into.

By order of the Board

  
N.J. Welgama  
Chairman/ Chairman-Audit Committee



  
D.M. Weerasekera  
Chief Executive Officer/ Director

**IDEAL Finance Ltd.**  
PB 4963

#### **BOARD OF DIRECTORS**

NALIN WELGAMA (CHAIRMAN) | KIYOSHI MATSUI (DEPUTY CHAIRMAN) | ARAVINDA DE SILVA | HIRAN DE ALWIS  
ARITH DIAS | VIRAJ MALAWANA | SUREN PETER | NORIHIRO YOSHINO | DUMINDA WEERASEKERE (CEO)  
Licensed under Finance Business Act No. 42 of 2011 - Reg No (042)



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Chartered Accountants  
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eysl@lk.ey.com  
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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IDEAL FINANCE LIMITED

### Report on the financial statements

We have audited the accompanying financial statements of IDEAL Finance Limited ("Company"), which comprise the statement of financial position as at 31 March 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

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

### Scope of audit and basis of opinion

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

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

statement presentation.

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

### Opinion

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

These financial statements also comply with the requirements of Sections 151(2) of the Companies Act No. 07 of 2007.

9 June 2014  
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 ACA Ms. Y A De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA 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 ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

A member firm of Ernst & Young Global Limited

# Statement of Comprehensive Income

Year ended 31 March 2014

	Notes	2014 Rs.	2013 Rs.
Income	3	131,257,107	58,388,916
Interest Income	4.1	126,993,449	59,702,806
Interest Expenses	4.2	(14,297,277)	(2,305,056)
<b>Net Interest Income</b>		112,696,172	57,397,750
Fees and Commission Income	5	1,530,022	440,467
<b>Net Fee and Commission Income</b>		1,530,022	440,467
Other Operating Income	6	2,733,636	(1,754,358)
<b>Total Operating Income</b>		116,959,830	56,083,859
Impairment Charges for loans and other losses	7	(2,469,331)	(1,415,507)
<b>Net Operating Income</b>		114,490,499	54,668,352
<b>Operating Expenses</b>			
Personnel Expenses	8	(44,595,627)	(26,774,164)
Depreciation of Property Plant & Equipment		(9,322,026)	(5,394,874)
Amortization of Intangible Assets		(4,038,587)	(3,344,664)
Other Operating Expenses	9	(31,229,574)	(18,920,407)
<b>Operating Profit before Value Added Tax on Financial Services</b>		25,304,685	234,244
Value Added Tax & NBT on Financial Services		(2,220,475)	(1,194,405)
<b>Profit / (Loss) before income tax</b>		23,084,210	(960,161)
Income Tax Expenses	10	(5,102,165)	(882,052)
<b>Profit/ (Loss) for the year/period</b>		17,982,045	(1,842,214)
Basic Earnings Per Share (Rs)	11	0.22	(0.04)
<b>Profit/ (Loss) for the year/period</b>		17,982,045	(1,842,214)
<b>Other Comprehensive Income</b>			
Actuarial Gain/ (Loss) on defined benefit obligations		(149,988)	-
<b>Total Comprehensive Income for the year/period, Net of Tax</b>		<b>17,832,057</b>	<b>(1,842,214)</b>

The Accounting Policies and Notes on pages 63 through 96 form an integral part of the Financial Statements.

# Statement of Financial Position

As at 31 March 2014

	Notes	2014 Rs.	2013 Rs.
<b>ASSETS</b>			
Cash and Bank Balances	12	22,191,781	1,896,206
Investment In Government Securities	12.1	3,579,720	-
Placements with Banks and Other Financial Institutions	13	96,960,953	300,126,428
Lease Rentals Receivable and Stock out on Hire	14	574,375,990	285,962,259
Loans Stock	15	32,177,140	-
Other Financial Assets	16	5,970,126	4,051,455
Other Non Financial Assets	17	35,223,837	27,868,254
Financial Investments-Available for Sale	18	457,700	457,700
Inventories	19	34,524,588	3,914,820
Property, Plant and Equipment	20	46,087,945	29,357,733
Intangible Assets	20.4	33,141,358	36,690,000
<b>TOTAL ASSETS</b>		<b>884,691,138</b>	<b>690,324,855</b>
<b>LIABILITIES</b>			
Due to Banks	21	22,331,079	18,172,838
Due to Customers	22	205,445,700	48,829,594
Other Financial Liabilities	23	28,191,221	20,153,285
Other Non Financial Liabilities	24	3,667,566	384,256
Defined Benefit Obligation	25	1,281,514	497,918
Deferred Tax Liability	26	4,537,090	882,052
<b>TOTAL LIABILITIES</b>		<b>265,454,170</b>	<b>88,919,943</b>
<b>EQUITY</b>			
Stated Capital	27	603,247,125	603,247,125
Retained Earnings		13,238,438	(2,638,484)
Reserves	28	2,751,405	796,270
<b>TOTAL EQUITY</b>		<b>619,236,968</b>	<b>601,404,911</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>884,691,138</b>	<b>690,324,855</b>

These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.



Accountant

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

Sign for and on behalf of the Board by:



Chairman



Chief Executive Officer

The Accounting Policies and Notes on pages 63 through 96 form an integral part of the Financial Statements.

9 June 2014

Colombo

## Statement of Changes in Equity

Year ended 31 March 2014

	Notes	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserve Fund Rs.	Investment Fund Rs.	Total Rs.
Share Issue	27	358,477,125	-	-	-	358,477,125
Rights Issue	27	244,770,000	-	-	-	244,770,000
Net Loss for the Period		-	(1,842,214)	-	-	(1,842,214)
Transfer to Investment Fund	28	-	(796,270)	-	796,270	-
<b>Balance As at 31 March 2013</b>		603,247,125	(2,638,484)	-	796,270	601,404,911
<b>Balance As at 1 April 2013</b>		603,247,125	(2,638,484)	-	796,270	601,404,911
Total Income / (Loss) for the year		-	17,982,045	-	-	17,982,045
Actuarial Gain/ (Loss) on defined benefit obligations		-	(149,988)	-	-	(149,988)
Transfer to Investment Fund		-	(1,063,532)	-	1,063,532	-
Transfer to Statutory Reserve Fund		-	(891,603)	891,603	-	-
<b>Balance As at 31 March 2014</b>		603,247,125	13,238,438	891,603	1,859,802	619,236,968

The Accounting Policies and Notes on pages 63 through 96 form an integral part of the Financial Statements.

# Cash Flow Statement

Year ended 31 March 2014

Cash Flows From / (Used in) Operating Activities	Notes	2014 Rs.	2013 Rs.
Profit before Income Tax Expense		23,084,210	(960,161)
<b>Adjustment for Other Non Cash Items Included in Profit Before Tax</b>			
Depreciation of Property, Plant and Equipment	20	9,322,026	5,394,874
Amortization of Intangible Assets	20.4	4,038,587	3,344,664
Provision for Impairment		2,469,331	1,415,507
Interest expenses		760,573	230,682
Loss on Property Plant & Equipment Disposal		-	2,256,315
Defined Benefit Obligation		633,608	497,918
<b>Operating Profit before Working Capital Changes</b>		40,308,335	12,179,799
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(290,752,369)	(287,377,766)
(Increase)/Decrease in Loan Stock		(32,307,831)	-
(Increase)/Decrease in Other Financial Assets		(1,918,671)	(4,051,455)
(Increase)/Decrease in Other Non Financial Assets		(7,355,583)	(31,783,074)
Increase/(Decrease) in Amounts Due to Customers		156,616,106	48,829,594
Increase/(Decrease) in Other Financial Liabilities		8,037,936	20,153,285
Increase/(Decrease) in Other Non Financial Liabilities		1,836,180	384,256
(Increase)/Decrease in Inventories		(30,609,768)	(3,914,820)
<b>Cash Generated from Operations</b>		(156,145,664)	(241,665,362)
Defined Benefit Obligation Paid		-	-
Income Tax Paid		-	-
<b>Net Cash Flows from/(Used in) Operating Activities</b>		(156,145,664)	(241,665,362)
<b>Cash Flows from / (Used in) Investing Activities</b>			
Purchase of Property, Plant and Equipment	20	(23,008,391)	(37,635,894)
Purchase of Intangible Assets	20.4	(489,945)	(40,034,664)
Proceeds from the sale of Property, Plant and Equipment		-	3,571,429
Purchase of Financial Investments-Available for Sale	18	-	(457,700)
<b>Net Cash Flows from/(Used in) Investment Activities</b>		(23,498,336)	(74,556,829)
<b>Cash Flows from / (Used in) Financing Activities</b>			
Net Proceeds from the Issue of Ordinary Shares		-	603,247,125
Repayment of Other Borrowed Fund		(1,565,780)	(469,330)
<b>Net Cash Flows from/(Used in) Financing Activities</b>		(1,565,780)	602,777,795
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		(181,209,781)	286,555,604
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		286,555,604	-
<b>Cash and Cash Equivalents at the End of the Year</b>	29	105,345,823	286,555,604

The Accounting Policies and Notes on pages 63 through 96 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### 1.1 General

IDEAL Investment Limited is a limited liability company, incorporated on 24 January 2012 under the Companies Act No.7 of 2007 and then changed the name as IDEAL Finance Limited on 12 March 2012 and domiciled in Sri Lanka. The registered office of the company is situated at No.299, Dr. Colvin R De. Silva Mawatha (Union Place), Colombo 02.

IDEAL Finance Limited is licensed by the Monetary Board of The Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, and is also registered under the Finance Leasing Act No.56 of 2000.

### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were Acceptance of Deposits, Granting Lease, Hire Purchase and Micro Credit Facilities.

### 1.3 Parent Entity and Ultimate Parent Entity

The Company does not have an Identifiable parent of its own. Further, the company does not have any investments in the form of subsidiary, joint venture or associate.

### 1.4 Date of Authorization for Issue

The financial statements of IDEAL Finance Limited for the year ended 31 March 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 9<sup>th</sup> June 2014.

## 2. ACCOUNTING POLICIES

### 2.1 Basis of preparation

#### 2.1.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement, together

with Accounting Policies and Notes, ('Financial Statements'), as at 31 March 2014 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards & Sri Lanka Accounting Standards (hereafter referred as "SLFRS"), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto.

#### 2.1.2 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments.

#### 2.1.3 Presentation of Financial Statements

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

The company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 32.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the company.



#### **2.1.4 Functional and presentation currency**

The financial statements are presented in Sri Lanka Rupees, except when otherwise is indicated. No adjustments have been made for inflationary factors.

#### **2.1.5 Comparative Information**

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous year.

#### **2.2 Use of significant accounting judgments , estimates and assumptions**

The preparation of financial statements requires the application of certain critical accounting and assumptions relating to the future. Further, it requires the management of the company to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

##### **Judgments**

In the process of applying the Company's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements.

##### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based these assumptions and estimates on parameters available at the time financial statements were prepared. Existing circumstances and assumptions about future developments, these may change due to market changes or circumstances arising beyond

the control of the company. Such changes are taken into consideration in the assumptions when they occur. The most significant uses of judgments and estimates are as follows:

##### **i. Taxation**

The company is subject to income taxes and other taxes including VAT on Financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guideline on treatment of the adoption of SLFRS in the financial statements and taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The company recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is deferent from the amounts that were initially recorded, such difference will impact the income, deferred tax amounts in the period in which the determination is made.

##### **ii. Useful life-time of the Property and equipment**

The company reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

##### **iii. Going Concern**

The board has 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, the board is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations

of the company. Therefore, the financial statements continue to be prepared on the going concern basis.

**iv. Impairment losses on loans and advances**

The company review their individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment of the management is required in 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 impairment allowance.

Loan and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes in to account data from the loan portfolio (such as levels of arrears, credit utilization etc), and judgments on the effect of concentrations of risks and economic data (including level of unemployment, inflation, interest rates, exchange rates.)

**V. Deferred tax assets**

Deferred tax assets are recognized in respect of tax losses to the extent it is possible that future taxable profits will be available against which such tax losses can be set off. Judgments are required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

**Vi. Defined Benefit Plan Obligation**

The cost of the defined benefit pension plan is

determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 25.

**2.3 Summary of Significant Accounting Policies**

The principal accounting policies adopted in the preparation of these financial Statements are set out below.

**2.3.1 Financial Instruments**

**2.3.1.1 Initial recognition and subsequent measurement**

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. The Company's financial assets include cash and bank balances, placement with banks and other financial institutions, lease rentals receivable and stock out on hire, loan stock and other financial assets.

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include, due to bank, due to the other customers and other financial liabilities.

**a) Date of Recognition**

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that

the company becomes a party to the contractual provisions of the instrument. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**b) Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

**c) Subsequent measurement of financial instruments**

- I. The subsequent measurement of financial assets depends on their classification as described below:

**Available-for-sale financial investments**

Available-for-sale investments include unquoted equity. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The company has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity (Other comprehensive income) in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income in 'Net Gain/ (Loss) From Financial Investments'. Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognized in the statement of comprehensive income as 'net gain/ (Loss) from

Financial Investments when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the Available-for-sale reserve.

Available - for - sale financial instrument which fair value is not reliably measurable are stated at cost.

**Financial Assets Classified as Lease Rental Receivables, Stock out on Hire, Placement with Banks & Other Financial Institutions and Other Financial Assets**

This includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

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

After initial measurement, Financial Assets Classified as Lease Rental Receivables, Stock out on Hire, Placement with Banks & Other Financial Institutions and Other Financial Assets are subsequently measured at amortized cost using the Effective Interest Rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortization is included in Interest and similar income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'Impairment for Loans and Other Losses' and Detailed under Note 14.

**II. The subsequent measurement of financial liabilities depends on their classification as described below:**

**Loans and borrowings:**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

**2.3.1.2 Derecognition of Financial Assets and Liabilities**

**(i) Financial Assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - The company has transferred substantially all the risks and rewards of the asset
  - Or
  - The company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the

company's continuing involvement in the asset. In that case, the company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

**(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

**2.3.1.3 Determination of Fair Value**

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exists, pricing models and other relevant valuation models.

#### 2.3.1.4 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### (i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### **(ii) Available-for-sale financial investments**

For available-for-sale financial investments, the company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously

recognised in the statement of comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income. If, in a subsequent period, the fair value of an equity instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in the fair value after impairment are recognised in other comprehensive income.

#### **2.3.1.5 Offsetting Financial Instruments**

Financial assets and 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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### **2.3.2 Lease**

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

of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### 2.3.2.1 Operating Lease

Company as a lessee

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 statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

#### Company as a lessor

Leases where the company does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 2.3.2.2 Finance Lease

Company as a lessor

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as "Finance Lease". Amount receivables under finance lease are included under 'Lease Rentals Receivable and Stock Out on Hire' in the Statement of Financial Position after deduction of unearned lease income and accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognized as a receivable. The difference between the total payments receivable under the lease and the

present value of the receivable is recognized as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

### 2.3.3 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, and amounts due from banks on demand or with an original maturity of three months or less.

### 2.3.4 Property, Plant and equipment

Property, plant and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Category	Years
Furniture & Fittings	05
Office Equipment	05
Motor Vehicles	05
Computer System	05

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

Property plant & Equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds

and carrying amount of the assets) is recognized in 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss) in the year the asset is recognized.

### **2.3.5 Intangible assets**

The company's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the statement of comprehensive income.

Computer System software is amortised over : 10 years

### **2.3.6 Other Assets**

All other assets are stated at cost less accumulated impairment losses.

### **2.3.7 Inventories**

Inventories are valued at the lower of cost and net realizable value.

### **2.3.8 Impairment of non-financial assets**

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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



### **2.3.9 Employee Retirement Benefits**

#### **Defined Contribution Plan Costs**

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 a defined contribution plan are recognized as a Personnel Expenses in the Statement of comprehensive income in the periods during which services are rendered by employees. Employees are eligible for employees' Provident Fund and Employees Trust Fund Contributions in line with the respective Statutes and regulations. Accordingly, the company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employee Trust Fund respectively and is recognized as an expense under "Personnel Expenses".

#### **Defined Benefit Plan Costs**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the Statement of Financial Position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rate that are denominated in the currency in which the benefit will be paid, and that have terms of maturity approximating to the terms of the liability.

Provision has been made in the Financial Statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19-"Employee Benefits".

However, according to the payment of Gratuity Act No.12of 1983, the liability for payment to an employee arises only after the completion of 5 years continued services. The liability is not externally funded.

### **2.3.10 Provisions**

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

### **2.3.11 Other Liabilities**

Other liabilities are recorded at the cash value to be realized when settled.

### **2.3.12 Foreign currency translation**

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'Other operating income' in the income statement.

### **2.3.13 Recognition of income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### **(i) Interest income and interest expense**

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected

life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest Income' for financial assets and Interest Expense for financial liabilities. However, for a reclassified financial asset for which the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

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

#### **(ii) Fee and commission income**

The company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time.
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and service charges.

#### **Fee income from providing transaction services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

#### **(iii) Dividend income**

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

#### **(iv) Expenditure Recognition**

Expenses are recognized in profit or loss in the statement of 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 and in maintaining the property, plant and equipment in a state of efficiency has been charged to the statement of Comprehensive Income (Profit or loss). For the purpose of presentation of the statement of comprehensive Income, the "function of expenses" method has been adopted, on the basis that it presents fairly the element of the company's performance.

### **2.3.14 Taxes**

#### **a. Current Tax**

The provision for the income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No.10 of 2006 as amended subsequently.

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

**b. Deferred Tax**

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credit and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**c. Value Added Tax on Financial Services**

Value Added Tax on Financial Services is calculated at the rate of 12% in accordance with the provisions of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

As proposed in the Budget Proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account.

As and when taxes are paid after 1 January 2011, Licensed Non-Banking Financial Institution are required to transfer the funds to the Investment Fund Account and build a permanent fund in the company as explained below.

- 8% of the profit calculated for the payment of value Added Tax on Financial Service on dates as specified in the VAT Act for payment of VAT.
- 5% of the profit before tax calculated for the payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payments of tax. Company shall utilize the funds in the Investment Fund Account in the following manner within three months from the date of transfer to the Investment Fund Account.
- Investment in long Term government securities and/or bonds with maturities not less than seven years.
- Lend on maturities not less than five years at interest rate not exceeding five year Treasury bond rate plus 2% for the following purpose:
- Long Term loans for cultivation of plantation crops/ agriculture crops including fruits, vegetables, cocoa and spice and for livestock and fisheries.
- Factory/mills modernization/ establishment / expansion
- Small and medium enterprises (Loans up to Rs. 200Mn to enterprises with annual turnover less than Rs. 600Mn)
- Information technology related activities and business process outsourcing.
- Infrastructure development
- Education-vocational training and tertiary education.
- Housing up to Rs.2 Mn per customer for construction of a house for residential purposes.
- Construction of hotels and for related purposes

**2.3.15 Investment Fund Account**

Notes to the Financial Statements cont....

- Restructuring of loans extended for the above purposes.  
Company shall invest funds in short term Government securities until the commencement of utilization of funds as instated above.

### **2.3.16 Related Party Transactions**

Disclosure has been made in respect of the transactions in which one party has the liability to control or exercise significant influence over the financial and operating policies/ decisions of the other, irrespective of whether a price is being charged.

### **2.3.17 Event Occurring After the Reporting Date**

All the material events after the reporting date of the statement of Financial Position have been considered and appropriate adjustments/ disclosures have been made in Note 34 to the Financial Statements.

### **2.3.18 Accounting Standards Issued but not Effective As Reporting Date**

Standards issued but not yet effective up to the date of issuance of the financial statements are set out below. The company will adopt these standards when they become effective. Pending a detailed review the financial impact is not reasonably estimable as at the date of publication of these financial statements.

### **(i) SLFRS 9 -Financial Instruments: Classification and Measurement**

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

### **(ii) SLFRS 12 -Disclosure of Interests in Other Entities**

SLFRS 12encompasses all disclosures related to consolidated financial statements in LKAS 27, 28 and 31. These disclosures relate to an entity's interest in subsidiaries, joint arrangements, associates and structured entities.

### **(iii) SLFRS 13 -Fair Value Measurement**

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 9 will be effective for financial periods beginning on or after 01 January 2015 whilst SLFRS 12 and 13 will be effective for financial periods beginning on or after 01 January 2014.

# Notes to the Financial Statements

Year ended 31 March 2014

<b>3. INCOME</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Interest Income (4.1)	126,993,449	59,702,806
Fee and Commission Income (5)	1,530,022	440,467
Other Operating Income (6)	2,733,636	(1,754,358)
<b>Total Income</b>	<b>131,257,107</b>	<b>58,388,916</b>
<b>4. NET INTEREST INCOME</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
<b>4.1 Interest Income</b>		
From Placements with Banks and Other Financial Institutions	22,454,684	14,561,293
From Lease Rental Receivable & Stock Out on Hire	101,170,308	30,769,725
From Loans and Advances	3,110,233	14,295,911
From Other Receivables	258,224	75,877
<b>Total Interest Income</b>	<b>126,993,449</b>	<b>59,702,806</b>
Interest Income from Other Receivables purely comprise of imputed notional interest on "Refundable Deposits".		
<b>4.2 Interest Expense</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Due to Banks	1,732,997	268,448
Due to Customers	12,564,280	2,036,608
<b>Total Interest Expenses</b>	<b>14,297,277</b>	<b>2,305,056</b>
<b>Net Interest Income</b>	<b>112,696,172</b>	<b>57,397,750</b>
<b>5. FEE AND COMMISSION INCOME</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Commission Income	1,530,022	440,467
<b>Net Fee and Commission Income</b>	<b>1,530,022</b>	<b>440,467</b>
<b>6. OTHER OPERATING INCOME</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Loss on Sale of Property, Plant & Equipment	-	(2,256,315)
Dealership Commission	1,583,835	455,000
Dividend Income	-	20,000
Net Income from Real Estate Operations	974,936	-
Other Operating Income	174,866	26,957
<b>Total Other Operating Income</b>	<b>2,733,636</b>	<b>(1,754,358)</b>

Other Operating Income includes Rs.67,115 from Cheque Return charges and Rs.107,751 from Early Settlements.

Notes to the Financial Statements cont. ...

Year ended 31 March 2014

<b>7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Lease Rental's Receivable, Stock Out on Hire, and Loans and Receivables	2,469,331	1,415,507
	<b>2,469,331</b>	<b>1,415,507</b>
<b>8 PERSONNEL EXPENSES</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Salaries	27,009,474	17,801,370
Employers' Contribution to Employee's Provident Fund	3,280,568	2,137,342
Employers' Contribution to Employee's Trust Fund	820,142	534,336
Defined Benefit Obligation Charge for the year	633,608	497,918
Other Staff Related Expenses	12,851,835	5,803,198
	<b>44,595,627</b>	<b>26,774,164</b>
<b>9 OTHER OPERATING EXPENSES</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Directors' Emoluments	1,947,000	1,602,000
Auditors' Remuneration	1,142,435	791,627
Professional and Legal Expenses	2,311,143	1,066,358
Office Administration and Establishment Expenses	13,276,266	9,477,585
Advertising and Promotional Expenses	5,933,966	3,008,715
Other Expenses	6,618,764	2,974,121
	<b>31,229,574</b>	<b>18,920,407</b>
Other Expenses includes Rs. 4,157,100 of Fuel & Travelling expenses, Rs. 802,966 of Printing & stationery cost and Rs. 769,389 of VAT on Other income sources		
<b>10 INCOME TAX EXPENSES</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
<b>10.1 The major component of income tax for the year ended 31 March 2014 as follows;</b>		
<b>Current Income Tax</b>		
Income Tax for the year	1,447,128	-
<b>Deferred Tax</b>		
Deferred Tax Charge -(Note-26)	3,655,037	882,052
<b>Income Tax Expenses</b>	<b>5,102,165</b>	<b>882,052</b>

## Year ended 31 March 2014

**10.2 Reconciliation of Accounting Profit and Taxable Income**

A reconciliation between the tax expense and the accounting profit multiplied by Income tax rate for the year ended 31 March 2014 is as follows.

	2014 Rs.	2013 Rs.
Accounting Profit / (Loss) Before Taxation	25,304,685	234,244
Aggregate allowable expenditure	(36,152,019)	(20,128,807)
Aggregate disallowable expenditure	18,798,588	14,234,585
Tax loss utilised	(2,782,939)	-
	5,168,315	(4,746,245)
Tax at applicable rate of 28%	1,447,128	-
Deferred taxation charged	3,655,037	-
Income tax expense reported	<b>5,102,165</b>	-

**11. BASIC EARNING PER ORDINARY SHARES**

11.1 Basic earning per share is calculated by dividing net profit for the period attributable to ordinary share holders by weighted average number of ordinary shares outstanding during the period, as per LKAS-33-Earning Per Share.

**11.2 The following reflect the income and shares detail used in Basic Earning Per Share computation;**

	2014 Rs.	2013 Rs.
<b>Amount Used as Numerators</b>		
Profit attributable to Ordinary Share Holders for Basic Earning Per Share	17,832,057	(1,842,214)
<b>Number of Ordinary shares used as Denominators for Basic Earning Per Share</b>		
Weighted Average Number of Ordinary Shares	80,000,000	43,333,333
<b>Basic Earning Per Ordinary Shares</b>	0.22	(0.04)

Notes to the Financial Statements cont. ...

Year ended 31 March 2014

<b>12 CASH AND BANK BALANCES</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Cash In Hand	174,571	52,190
Bank Balances	22,017,210	1,844,016
	<b>22,191,781</b>	<b>1,896,206</b>
<b>12.1 GOVERNMENT SECURITIES</b>		
Treasury Bills - at amortized cost	3,579,720	-
	3,579,720	-
<b>13 PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Placement With Banks (Fixed Deposit)	13,962,230	73,467,913
Placement With Other Financial Institutions (Fixed Deposit)	82,998,723	226,658,515
	<b>96,960,953</b>	<b>300,126,428</b>
<b>14. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Rental Receivable on Lease	645,792,829	389,045,275
Rental Receivable on Hire Purchase	195,251,529	59,415,033
Gross Rentals Receivables	841,044,358	448,460,308
Less: Unearned Income	(257,747,845)	(157,047,062)
	583,296,513	291,413,246
Less : Rentals Received in Advance	(5,166,376)	(4,035,480)
Net Rental Receivables before charging Allowance for Impairment Losses	578,130,137	287,377,766
Less : Allowance for Impairment Losses (Note 14.1)	(3,754,147)	(1,415,507)
<b>Total Net Rental Receivables</b>	<b>574,375,990</b>	<b>285,962,259</b>
<b>14.1 ALLOWANCE FOR IMPAIRMENT LOSSES</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
As at 01 April	1,415,507	-
Charge / (Reversal) for the Year/Period	2,338,640	1,415,507
As at 31 March	<b>3,754,147</b>	<b>1,415,507</b>
Individual Impairment	-	-
Collective Impairment	3,754,147	1,415,507
	<b>3,754,147</b>	<b>1,415,507</b>



Notes to the Financial Statements cont....

**Year ended 31 March 2014**

<b>14.2 RENTAL RECEIVABLE ON LEASE</b>	<b>Within One Year Rs.</b>	<b>1 to 5 Years Rs.</b>	<b>Over 5 Years Rs.</b>	<b>Total Rs.</b>
Gross Rentals Receivables	211,921,980	433,674,493	227,016	645,823,489
Less: Unearned Income	(90,186,325)	(107,679,664)	(24,835)	(197,890,824)
	121,735,655	325,994,829	202,181	447,932,665
Less : Rentals Received in Advance				(4,547,648)
Net Rentals Receivable before charging Allowance for Impairment Losses				<b>443,385,017</b>
<b>14.3 RENTAL RECEIVABLE ON HIRE PURCHASE</b>	<b>Within One Year Rs.</b>	<b>1 to 5 Years Rs.</b>	<b>Over 5 Years Rs.</b>	<b>Total Rs.</b>
Gross Rental Receivables	57,727,772	137,464,171	28,927	195,220,870
Less: Unearned Income	(25,673,601)	(34,182,963)	(457)	(59,857,021)
	32,054,171	103,281,208	28,470	135,363,849
Less : Rentals Received in Advance				(618,728)
Net Rentals Receivable before charging Allowance for Impairment Losses				<b>134,745,120</b>
Total Net Rentals Receivables before charging Allowance for Impairment Losses				<b>578,130,137</b>
<b>15 LOANS AND ADVANCES</b>			<b>2014 Rs.</b>	<b>2013 Rs.</b>
Loan Rental Receivable			46,660,224	-
Less: Unearned Interest Income			(13,694,600)	-
Net Receivable			32,965,624	-
Less: Rental Received In Advance			(657,794)	-
Net Rentals Receivables before charging Allowance for Impairment Losses			32,307,831	-
Less : Allowance for Impairment Losses (Note 15.1)			(130,691)	-
Total Net Rentals Receivable			<b>32,177,140</b>	-
<b>15.1 ALLOWANCE FOR IMPAIRMENT LOSSES</b>			<b>2014 Rs.</b>	<b>2013 Rs.</b>
As at 01 April			-	-
Charge / (Reversal) for the Year/Period			130,691	-
As at 31 March			<b>130,691</b>	-

Notes to the Financial Statements cont. ...

Year ended 31 March 2014

15.2 RENTAL RECEIVABLE ON LOAN STOCK	Within One Year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Rentals Receivables	14,860,430	31,799,794	-	46,660,224
Less: Unearned Income	(5,188,397)	(8,506,202)	-	(13,694,599)
	9,672,033	23,293,592	-	32,965,625
Less : Rentals Received in Advance				(657,794)
<b>Net Rentals Receivable before charging Allowance for Impairment Losses</b>				<b>32,307,831</b>

16. OTHER FINANCIAL ASSETS	2014 Rs.	2013 Rs.
Refundable Deposit	2,946,027	3,600,965
Dividend Receivable	-	18,000
Sundry Debtors	3,024,099	432,490
	<b>5,970,126</b>	<b>4,051,455</b>

17. OTHER NON FINANCIAL ASSETS	2014 Rs.	2013 Rs.
Value Added Tax	25,686,748	23,813,560
With Holding Tax	3,614,774	1,234,226
Advances and Prepayment	3,910,462	1,341,168
Other Receivable	2,011,853	1,479,300
	<b>35,223,837</b>	<b>27,868,254</b>

Other Receivables include Recoverable Insurance of Rs.1,149,355 from customers.

18. FINANCIAL INVESTMENT-AVAILABLE FOR SALE	2014		2013	
	No. of Shares	Rs.	No. of Shares	Rs.
<b>Equities-Unquoted</b>				
Credit Information Bureau of Sri Lanka	100	457,700	100	457,700
	100	457,700	100	457,700

All unquoted available for sales equities are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and company intend to hold these for long term.

## Year ended 31 March 2014

19. INVENTORIES		2014 Rs.	2013 Rs.
	Stationeries	338,328	114,820
	Vehicle Stock	861,000	3,800,000
	Land stock	33,325,260	-
		<b>34,524,588</b>	<b>3,914,820</b>

20. PROPERTY, PLANT & EQUIPMENT					
20.1 GROSS CARRYING AMOUNTS	Balance As at 01.04.2013 Rs.	Additions / Transfers / Acquisitions Rs.	Disposals/ Transfers Rs.	Balance As at 31.03.2014 Rs.	
<b>At Cost or Valuation</b>					
<b>Freehold Assets</b>					
	Furniture & Fittings	10,893,647	14,143,005	-	25,036,652
	Office Equipment	3,475,370	6,857,386	-	10,332,756
	Computer System	15,938,112	2,195,500	-	18,133,612
	Motor Vehicles	424,540	-	-	424,540
		30,731,669	23,195,891	-	53,927,560
<b>Assets on Finance Leases</b>					
	Motor Vehicles	2,944,456	3,043,847	-	5,988,303
	<b>Total Value of Depreciable Assets</b>	<b>33,676,125</b>	<b>26,239,738</b>	<b>-</b>	<b>59,915,863</b>
<b>20.2 In the Cause of Construction</b>					
		<b>Balance As at 01.04.2013 Rs.</b>	<b>Incurred during the year Rs.</b>	<b>Reclassified/ transferred Rs.</b>	<b>Balance As at 31.03.2014 Rs.</b>
	Capital Work in Progress	187,500	14,016,132	(14,203,632)	-
		187,500	14,016,132	(14,203,632)	-
<b>20.3 Depreciation</b>					
		<b>Balance As at 01.04.2013 Rs.</b>	<b>Charge for the year/ Transfers Rs.</b>	<b>Disposals/ Transfers Rs.</b>	<b>Balance As at 31.03.2014 Rs.</b>
<b>At Cost or Valuation</b>					
<b>Freehold Assets</b>					
	Furniture & Fittings	1,285,258	3,525,415	-	4,810,673
	Office Equipment	384,251	1,223,875	-	1,608,126
	Computer System	2,503,944	3,393,069	-	5,897,013
	Motor Vehicles	31,540	82,884	-	114,424
		4,204,993	8,225,243	-	12,430,236
<b>Assets On Finance Leases</b>					
	Motor Vehicles	300,899	1,096,783	-	1,397,682
	<b>Total Depreciation</b>	<b>4,505,892</b>	<b>9,322,026</b>	<b>-</b>	<b>13,827,918</b>

## Year ended 31 March 2014

<b>20.3 NET BOOK VALUES</b>	<b>2014</b>	<b>2013</b>
<b>At Cost or Valuation</b>	<b>Rs.</b>	<b>Rs.</b>
Furniture & Fittings	20,225,979	9,608,389
Office Equipment	8,724,630	3,091,119
Computer System	12,236,599	13,434,168
Motor Vehicles	310,116	393,000
	<b>41,497,324</b>	<b>26,526,676</b>
<b>Assets on Finance Leases</b>		
Motor Vehicles	4,590,621	2,643,557
<b>Total Carrying Amount of Property, Plant &amp; Equipment</b>	<b>46,087,945</b>	<b>29,170,233</b>
<b>In the Cause of Construction</b>		
Capital Work in Progress	-	187,500
<b>Total Carrying Amount of Property, Plant &amp; Equipment</b>	<b>46,087,945</b>	<b>29,357,733</b>
<b>20.4 INTANGIBLE ASSETS</b>	<b>2014</b>	<b>2013</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Computer System Software</b>		
<b>Cost:</b>		
Balance As At 1 April	40,034,664	-
Addition	489,945	40,034,664
Disposal	-	-
Balance As At 31 March	<b>40,524,609</b>	<b>40,034,664</b>
<b>Less: Amortization &amp; Impairment</b>		
Balance As At 1 April	3,344,664	-
Amortization Charge for the Year/Period	4,038,587	3,344,664
Balance As At 31 March	7,383,251	3,344,664
<b>Net Book Value As At 31 March</b>	<b>33,141,358</b>	<b>36,690,000</b>
<b>21. DUE TO BANKS</b>	<b>2014</b>	<b>2013</b>
	<b>Rs.</b>	<b>Rs.</b>
Finance Lease (21.1)	4,944,448	2,705,808
Bank Over Draft	17,386,631	15,467,030
	<b>22,331,079</b>	<b>18,172,838</b>

Notes to the Financial Statements cont....

Year ended 31 March 2014

<b>21.1 FINANCE LEASE</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Gross Liability	6,724,828	3,839,940
Less: Finance Charge Allocated to Future Period	(1,780,380)	(1,134,132)
<b>Net Liability</b>	<b>4,944,448</b>	<b>2,705,808</b>
<b>Repayable within one year</b>		
Gross Liability	1,732,896	853,320
Less: Finance Charge Allocated to Future Period	(699,459)	(410,224)
Net Liability	1,033,437	443,096
<b>Repayable after one year</b>		
Gross Liability	4,991,932	2,986,620
Less: Finance Charge Allocated to Future Period	(1,080,921)	(723,908)
Net Liability	3,911,011	2,262,712
<b>Total Net Liability</b>	<b>4,944,448</b>	<b>2,705,808</b>
<b>22. DUE TO CUSTOMERS</b>		
Fixed Deposit	205,445,700	48,829,594
	<b>205,445,700</b>	<b>48,829,594</b>
<b>23. OTHER FINANCIAL LIABILITIES</b>		
Trade Payable	18,638,696	12,602,797
Accrued Expenses	4,735,761	4,974,493
Sundry Creditors	4,816,764	2,575,995
	<b>28,191,221</b>	<b>20,153,285</b>
<b>24. OTHER NON-FINANCIAL LIABILITIES</b>		
WHT Payable	79,250	107,014
Stamp Duty Payable	521,500	192,540
Income Tax Payable	1,447,130	-
Other Liabilities	1,619,686	84,702
	<b>3,667,566</b>	<b>384,256</b>

Other Liabilities includes Rs. 1,667,307 of advances collected from lease customers.

## Year ended 31 March 2014

25. POST EMPLOYMENT BENEFIT	2014 Rs.	2013 Rs.
<b>25.1 Defined Benefit Obligation</b>		
Defined Benefit Obligation (25.2)	1,281,514	497,918
	<b>1,281,514</b>	<b>497,918</b>
<b>25.2 Changes in the Defined benefit obligation are as follows</b>		
Opening Liability	497,918	-
Net Benefit expense (25.3)	783,596	497,918
Benefit paid	-	-
Defined Benefit Liability as of 31 March	<b>1,281,514</b>	<b>497,918</b>
<b>25.3 Net Benefit Expense</b>		
Interest Cost	57,260	-
Current Service Cost	576,348	497,918
Actuarial Loss on obligations	149,988	-
	<b>783,596</b>	<b>497,918</b>

**25.4 The principal financial assumptions used are as follows**

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2014. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

Long Term Interest Rate	10.5%
Future Salary Increment Rate	9.5%
Retirement age	55 Years
Mortality - GA 1983 Mortality Table issued by the Institute of Actuaries London	

**25.5 Sensitivity Analysis**

+/- 1% change on Discount Rate and Salary Increase- present value of defined benefit obligation as at 31 March 2014

	Present Value of Defined Benefit Obligation		
	31-Mar-14	31-Mar-14	31-Mar-14
Discount Rate	9.5%	10.5%	11.5%
Basic Salary Scale	9.5%	9.5%	9.5%
Census at	31-Mar-14	31-Mar-14	31-Mar-14
Total PVDBO	1,383,114	1,281,514	1,192,536

## Year ended 31 March 2014

	Present Value of Defined Benefit Obligation		
	31-Mar-14	31-Mar-14	31-Mar-14
Discount Rate	10.5%	10.5%	10.5%
Basic Salary Scale	8.5%	9.5%	10.5%
Census at	31-Mar-14	31-Mar-14	31-Mar-14
Total PVDBO	1,191,850	1,281,514	1,382,003

26. DEFERRED TAX LIABILITY	Statement of Financial Position		Statement of Comprehensive Income	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>Deferred Tax Liability</b>				
Property Plant & Equipment	2,252,958	693,726	1,559,232	693,726
Intangible Assets	4,285,839	2,936,920	1,348,919	2,936,920
Lease Rental	15,806,271	7,407,895	8,398,376	7,407,895
	22,345,069	11,038,541	11,306,527	11,038,541
<b>Deferred Tax Assets</b>				
Defined Benefit Obligation Plan	358,824	139,417	(219,407)	(139,417)
Brought Forward Tax Loss	17,449,155	10,017,072	(7,432,083)	(10,017,072)
	17,807,979	10,156,489	(7,651,490)	(10,156,489)
<b>Deferred income tax charge/(reversal)</b>			3,655,037	882,052
<b>Net Deferred Tax (Asset)/Liabilities</b>	4,537,090	882,052		

## 27. STATED CAPITAL

Issued and Fully Paid-Ordinary Shares	No of Shares	Rs.
Balance as of 1 April 2012	-	-
Issued during the Period		
Share issue	40,000,000	358,477,125
Right issue	40,000,000	244,770,000
<b>Balance as of 31 March 2013</b>	80,000,000	603,247,125
<b>Balance as of 1 April 2013</b>	80,000,000	603,247,125
Issued during the Period	-	-
<b>Balance as of 31 March 2014</b>	80,000,000	603,247,125

Transaction cost on share issued is deducted from the equity.

Notes to the Financial Statements cont. ...

**Year ended 31 March 2014**

<b>Issued and Fully Paid-Ordinary Shares</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Proceeds from Share Issue	-	400,000,000
Less		
Promoters Fee	-	(39,362,375)
Stamp Duty On Share Issued	-	(2,160,500)
	-	358,477,125
<b>Proceeds from Right Issue</b>	-	246,000,000
Stamp Duty On Share Issued	-	(1,230,000)
	-	<b>244,770,000</b>

<b>28. RESERVES</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Investment Fund Reserve (note 28.1)	1,859,802	796,270
Statutory Reserve Fund	891,603	-
Closing Balance	<b>2,751,405</b>	<b>796,270</b>

<b>28.1 Investment Fund Reserve</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Opening Balance	796,270	-
Provision for the period	1,063,532	796,270
	<b>1,859,802</b>	<b>796,270</b>

Investment Fund account has been utilized as follows.

<b>Investment Source</b>	<b>Interest rate</b>	<b>Maturity</b>	<b>Total Amount</b>
Government Securities	6.5%	August-14	209,173
Government Securities	6.5%	June-14	2,085,693

<b>29. CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF CASH FLOW STATEMENT</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Components of cash and cash Equivalents		
Favorable Cash & Cash Equivalents Balance		
Cash and Bank Balance (Note 12)	22,191,781	1,896,206
Investment in government securities	3,579,720	-
Investment in FD with short Term Maturities (Note 13)	96,960,953	300,126,428
	122,732,454	302,022,635
Un-Favorable Cash & Cash Equivalents Balance		
Bank Over Draft (Note 21)	17,386,631	15,467,030
<b>Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement</b>	<b>105,345,823</b>	<b>286,555,604</b>



## Year ended 31 March 2014

## 30. ANALYSIS OF FINANCIAL ASSETS &amp; LIABILITIES BY MEASUREMENT BASIS

As at 31 March 2014	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortizes Cost Rs.	Total Rs.
<b>Financial Assets</b>			
Cash & Bank Balances	-	22,191,781	22,191,781
Investment in government Securities	-	3,579,720	3,579,720
Placements with Other Banks & Financial Institutions	-	96,960,953	96,960,953
Lease Rentals Receivable and Stock out on Hire	-	574,375,990	574,375,990
Loans Stock	-	32,177,140	32,177,140
Financial Investments-Available for Sale	457,700	-	457,700
Other Financial Assets	-	5,970,126	5,970,126
<b>Total Financial Assets</b>	<b>457,700</b>	<b>735,255,709</b>	<b>735,713,409</b>
<b>Financial Liabilities</b>			
Due to Bank	-	22,331,079	22,331,079
Due to the Customers	-	205,445,700	205,445,700
Other Financial Liabilities	-	28,191,221	28,191,221
<b>Total Financial Liabilities</b>	<b>-</b>	<b>255,968,000</b>	<b>255,968,000</b>

## 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

## 31.1 Determination of Fair Value and Fair Value Hierarchy

The company use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1 : Quoted prices in active markets for identical assets and liabilities.

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

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

As at 31 March 2014	Level 1	Level 2	Level 3	Total
Financial Investments - Available for Sale				
Unquoted Equity	-	-	457,700	457,700
	-	-	457,700	457,700

There were no financial liabilities recorded at the fair value as at 31 March 2014.

Notes to the Financial Statements cont. ...

Year ended 31 March 2014

### 31.2 Fair Value of the Financial Instrument Carried at Amortized Cost

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial Statements. This table does not include the fair values of non financial assets and liabilities.

	Carrying Amount Rs.	Fair Value Rs.
<b>Financial Assets</b>		
Cash and Bank Balances	22,191,781	22,191,781
Investment in government Securities	3,579,720	3,577,909
Placements with Banks and Other Financial Institutions	96,960,953	96,960,953
Lease Rentals Receivable and Stock out on Hire	574,375,990	618,259,490
Loans Stock	32,177,140	33,069,778
Other Financial Assets	5,970,126	5,970,126
Financial Investments-Available for Sale	457,700	457,700
<b>Total Financial Assets</b>	<b>735,255,709</b>	<b>780,030,037</b>
<b>Financial Liabilities</b>		
Due to Bank	22,331,079	22,331,079
Due to the Customers	205,445,700	205,445,700
Other Financial Liabilities	28,191,220	28,191,220
<b>Total Financial Liabilities</b>	<b>255,967,999</b>	<b>255,967,999</b>

#### Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the Financial Statements.

#### Assets for which fair Value Approximates Carrying Value

For the financial assets and financial liabilities that have a short term maturity it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and call deposit without a specific maturity period.

## Year ended 31 March 2014

**32. CURRENT AND NON CURRENT ANALYSIS OF ASSETS & LIABILITIES**

Table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

	2014 - within 12 Months Rs.	2014 - after 12 Months Rs.	Total as at 31.03.2014 Rs.
<b>ASSETS</b>			
Cash and Bank Balances	22,191,781	-	22,191,781
Placements with Banks and Other Financial Institutions	100,540,673	-	100,540,673
Lease Rentals Receivable and Stock out on Hire	157,637,688	448,915,441	606,553,130
Other Financial Assets	3,024,099	2,946,027	5,970,126
Other Non Financial Assets	9,537,089	25,686,748	35,223,837
Financial Investments-Available for Sale	-	457,700	457,700
Inventories	34,524,588	-	34,524,588
Property, Plant and Equipment	-	46,087,945	46,087,945
Intangible Assets	-	33,141,358	33,141,358
<b>Total Assets</b>	<b>327,455,918</b>	<b>557,235,219</b>	<b>884,691,138</b>
<b>LIABILITIES</b>			
Due to Bank	18,420,068	3,911,010	22,331,078
Due to the Customers	204,445,701	1,000,000	205,445,701
Other Financial Liabilities	28,191,220	-	28,191,220
Other Non Financial Liabilities	3,667,567	-	3,667,567
Retirement Benefit Liability	-	1,281,514	1,281,514
Deferred Tax Liabilities	-	882,052	882,052
<b>Total Liabilities</b>	<b>254,724,556</b>	<b>7,074,576</b>	<b>261,799,132</b>
<b>Net Assets</b>	<b>72,731,363</b>	<b>550,160,643</b>	<b>622,892,006</b>

**33. COMMITMENT AND CONTINGENCIES**

There were no significant capital commitment and contingencies as of the reporting date.

**33.1 Litigation Against Company**

The company does not have contingent liabilities in respect of legal claims arising in the ordinary course of business.

**34. EVENT OCCURRING AFTER THE REPORTING DATE**

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

**35. RELATED PARTY TRANSACTIONS**

The company carries out transactions in the ordinary course of business with the parties who are defined as "Related Parties" in LKAS-24-Related Party Disclosures.

Details of related party transactions which the company had during the year are as follows:

## Year ended 31 March 2014

**35.1 Transactions with Key Managerial Personnel (KMPs)**

The company has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the company as "Key Management Personnel" in accordance with LKAS 24-"Related Party Disclosures". Accordingly, Board of Directors, Chief Executive Officer and Members of Corporate Management team have been identified as "Key Management Personnel".

	2014 Rs.	2013 Rs.
Short Term Employment Benefits	14,135,667	9,502,500
Post Employee Benefits	2,154,100	1,425,375

In addition to the above, the Company has also paid non cash benefits such as vehicles and fuel to key management personnel in line with the approved employment benefits of the Company.

**35.2 Transaction, arrangements and agreements involving with Entities which are controlled, and/or jointly controlled by the KMP's and their CFMs or shareholders**

	Nature of Relationship	Amount of the Transactions had During the year	Outstanding Receivable/ (Payable) Balance as at 31-3-2014	Outstanding Receivable/ (Payable) Balance as at 31-3-2013
<b>Ideal Motors (pvt) Ltd.</b>	Affiliate Company			
Lease Rentals Receivable			8,012,006	10,885,013
Capital repayment of Lease Rentals Receivable		2,872,996	-	-
Receivables from Dealership Commission		1,378,000	408,500	345,000
Finance Lease Equipment Purchase		130,618,841	(4,198,556)	(1,796,093)
Interest Expenses - Fixed Deposits		650,989	(311,002)	-
Interest Income - Lease Facility		1,702,756	5,656	10,372
Purchase of vehicles		18,579,057	3,166,000	3,800,000
<b>Ideal Automobile (pvt) Ltd.</b>	Affiliate Company			
Finance Lease Equipment Purchase		10,465,179	-	-
Fixed Deposits		(25,000,000)	(25,000,000)	-
Interest Expenses - Fixed Deposits		1,081,293	(221,918)	-
<b>Ideal Wheels (pvt) Ltd.</b>	Affiliate Company			
Fixed Deposits		4,605,510	(11,357,613)	(15,963,123)
Interest Expenses - Fixed Deposits		1,481,409	(346,238)	(373,288)
<b>Ideal Investment Lanka (pvt) Ltd.</b>	Affiliate Company			
Rent Expenses		2,922,880	524,576	-
<b>Transactions with Key Management Personnel's of the Company</b>	Director			
Fixed Deposits		(6,000,000)	(6,000,000)	-
Interest Expenses		106,918	(106,918)	-

**Year ended 31 March 2014****36. CAPITAL**

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

**36.1 Capital Management**

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

**37. RISK MANAGEMENT****37.1 Introduction**

Risk is inherent in the company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the company's continuing profitability and each individual within the company is accountable for the risk exposures relating to his or her responsibilities.

**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 delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by an Independent Non-Executive Director and is comprised of Executive and Non-Executive Directors and Officers performing Executive functions. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

**Risk Measurement & Reporting**

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

**37.2 Credit Risk – Default Risk**

Credit risk is risk arise due to the uncertainty in counterparty's ability to meet its obligations. The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

**37.2.1 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS**

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

	Note	Neither Past Due Not Impaired Rs.	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
<b>ASSETS</b>					
Cash and Bank Balances	12	22,191,781	-	-	22,191,781
Placements with Banks and Other Financial Institutions	13	100,540,673	-	-	100,540,673
Lease Rentals Receivable, Stock out on Hire and Loan Stock	14	599,599,274	6,953,856	-	606,553,130
Other Financial Assets	15	5,970,126	-	-	5,970,126
Other Non Financial Assets	16	35,223,837	-	-	35,223,837
Financial Investments-Available for Sale	17	457,700	-	-	457,700
		<b>763,983,391</b>	<b>6,953,856</b>	-	<b>770,937,247</b>

**Year ended 31 March 2014****Past Due But Not Impaired**

Past due but not impaired financial assets are those with contractual interest or principal payments are past due but the company believes that impairment is not appropriate on the basis of the stage of collection amounts owed, level of security / collateral available and significance of the financial assets.

**Individually Impaired**

All individual significant financial assets which the company determines that there are objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as impaired financial assets.

**37.2.1.1 Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets**

	Past Due Not Impaired				Total Rs.
	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	
Lease Rentals Receivable, Stock out on Hire and Loan Stock	981,582	3,522,041	1,029,376	1,420,856	6,953,855
	<b>981,582</b>	<b>3,522,041</b>	<b>1,029,376</b>	<b>1,420,856</b>	<b>6,953,855</b>

**37.2.1.2 INDUSTRY ANALYSIS**

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

Sector wise Break Down	Cash & Bank Balances Rs.	Placement with Bank & Other Financial Institutions Rs.	Lease Rental Receivable & Stock out on Hire Rs.	Financial Assets- Available for Sale Rs.	Other Financial Assets Rs.	Total Financial Assets Rs.
Agriculture	-	-	67,626,139	-	-	67,626,139
Manufacturing	-	-	22,039,788	-	-	22,039,788
Construction	-	-	31,557,665	-	-	31,557,665
Financial Services	22,191,781	100,540,673	21,419,764	-	-	144,152,218
Trading	-	-	185,789,945	-	2,713,500	188,503,445
Hotels	-	-	3,098,691	-	-	3,098,691
Services	-	-	175,669,429	457,700	3,256,626	179,383,755
Transport	-	-	11,389,362	-	-	11,389,362
Consumer	-	-	87,993,008	-	5,970,126	93,963,134
<b>Total</b>	<b>22,191,781</b>	<b>100,540,673</b>	<b>606,583,791</b>	<b>457,700</b>	<b>11,940,252</b>	<b>741,714,196</b>

Provincial break down for lease rental receivables, stock out on hire and Loan Stock within Sri Lanka as follows.

Province	Lease Rental Receivable & Stock Out On Hire	Loan Stock
Central	25,079,057	-
North Central	63,878,668	757,124
North Western	143,873,559	-
Northern	23,794,680	-
Sabaragamuwa	21,210,461	-
Southern	46,408,198	-
Uva	86,693,378	199,800
Western	167,222,798	31,350,907
<b>Total</b>	<b>578,160,799</b>	<b>32,307,830</b>

**Year ended 31 March 2014****37.2.2 Maximum Credit Exposure**

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Cash and Bank Balances	22,191,781	22,191,781
Placements with Banks and Other Financial Institutions	96,960,953	96,960,953
Lease Rentals Receivable, Stock out on Hire and Loan Stock	606,553,130	-
Other Financial Assets	5,970,126	5,373,113
Financial Investments-Available for Sale	457,700	457,700
	<b>732,133,689</b>	<b>124,983,547</b>

**37.3 LIQUIDITY RISK & FUNDING MANAGEMENT**

Liquidity risk refers to the possibility of Company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of Company's assets and liabilities. Adequate liquidity is critical to meet the Company's financial commitment and to accommodate additional funding needs of the growing business volumes.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control the liquidity risk.

**37.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities**

	On Demand Rs.	Less Than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 years Rs.	Over 5 Years Rs.	Total Rs.
<b>Financial Assets</b>						
Cash and Bank Balances	22,191,781	-	-	-	-	22,191,781
Placements with Banks and Other Financial Institutions	-	102,325,646	212,690	-	-	102,538,336
Lease Rentals Receivable and Stock out on Hire	14,514,537	65,199,387	191,997,150	568,102,638	220,916	840,034,626
Loans Stock	196,555	2,564,308	7,692,924	31,556,494	-	42,010,281
Financial Investments-Available for Sale	-	-	-	-	457,700	457,700
Other Financial Assets	-	-	3,024,099	2,946,027	-	5,970,126
<b>Total Financial Assets</b>	<b>36,902,873</b>	<b>170,089,341</b>	<b>202,926,863</b>	<b>602,575,081</b>	<b>678,616</b>	<b>1,013,172,773</b>
<b>Financial Liabilities</b>						
Due to Banks	-	17,819,855	1,299,672	4,991,922	-	24,111,449
Due to the Customers	-	120,391,262	91,944,573	1,461,796	-	213,797,630
Other Financial Liabilities	-	28,191,220	-	-	-	28,191,220
<b>Total Financial Liabilities</b>	<b>-</b>	<b>166,402,337</b>	<b>93,244,245</b>	<b>6,453,718</b>	<b>-</b>	<b>266,100,300</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>36,902,873</b>	<b>3,687,003</b>	<b>109,682,619</b>	<b>596,121,363</b>	<b>678,616</b>	<b>747,072,474</b>

**Year ended 31 March 2014****37.4 INTEREST RATE RISK**

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

**Interest Rate Risk Exposure on Financial Assets & Liabilities**

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

	Total As at 31-03-2014 Rs.	Interest Bearing			Non Interest Bearing Rs.
		Less Than 3 Months Rs.	3 to 12 Month Rs.	1 to 5 Years Rs.	
<b>Financial Assets</b>					
Cash and Bank Balances	22,191,781	-	-	-	22,191,781
Placements with Banks and Other Financial Institutions	100,540,673	100,331,500	209,173	-	-
Lease Rentals Receivable and Stock out on Hire	583,296,513	43,997,515	109,792,311	429,276,038	230,650
Loans Stock	32,965,625	2,012,402	7,659,630	23,293,592	-
Financial Investments- Available for Sale	457,700	-	-	-	457,700
Other Financial Assets	5,970,126	-	-	-	5,970,126
<b>Total Financial Assets</b>	<b>745,422,417</b>	<b>146,341,417</b>	<b>117,661,114</b>	<b>452,569,629</b>	<b>230,650</b>
<b>Financial Liabilities</b>					
Due to Banks	22,331,079	17,620,887	762,637	3,947,556	-
Due to the Customers	205,445,700	119,075,064	85,369,828	1,000,808	-
Other Financial Liabilities	28,191,220	-	-	-	28,191,220
<b>Total Financial Liabilities</b>	<b>255,967,999</b>	<b>136,695,951</b>	<b>86,132,465</b>	<b>4,948,364</b>	<b>28,191,220</b>
<b>Interest Sensitivity Gap</b>	<b>489,454,418</b>	<b>9,645,466</b>	<b>31,528,650</b>	<b>447,621,266</b>	<b>230,650</b>
					<b>428,386</b>



Notes to the Financial Statements cont....

Year ended 31 March 2014

<b>38. OPERATING SEGMENTS</b>					
<b>38.1 Entity-Wide Disclosures: Analysis of Gross Income on Product Basis</b>					
	Finance Lease Rs.	Hire Purchase Rs.	Loans and Advances Rs.	Other Rs.	Total Rs.
Interest Income	80,751,524	20,418,785	3,110,233	22,712,908	126,993,450
Commission Income	293,550	1,215,959	20,512	-	1,530,021
Other Income	-	-	-	2,733,636	2,733,636
	<b>81,045,074</b>	<b>21,634,744</b>	<b>3,130,745</b>	<b>25,446,544</b>	<b>131,257,107</b>
<b>38.2 Entity-Wide Disclosures: Analysis of Gross Income and Non Current Assets on Geographical Areas</b>					
Gross Income	Domestic		Oversees		Total
	Rs.		Rs.		Rs.
Interest Income	126,993,449		-		126,993,449
Commission Income	1,530,022		-		1,530,022
Other Income	2,733,636		-		2,733,636
	<b>131,257,107</b>		<b>-</b>		<b>131,257,107</b>
Non-Current Assets	Domestic		Oversees		Total
	Rs.		Rs.		Rs.
Property, Plant and Equipment	46,087,945		-		46,087,945
Intangible Assets	33,141,358		-		33,141,358
	<b>79,229,303</b>		<b>-</b>		<b>79,229,303</b>

The above Non- Current Asset analysis does not include the Financial Instruments and Deferred Tax Liabilities.

## Value Added Statement

<b>Value Added</b>	<b>2014 Rs.</b>	<b>2013 Rs.</b>
Income from Interest Related Activities	126,993,449	59,702,806
Income from Other Activities	4,263,658	(1,313,890)
	131,257,107	58,388,916
Depositors & Lenders	14,297,277	2,305,056
Cost of Sales & Services	31,229,574	18,920,407
Provision for Bad & Doubtful Debts	2,469,331	1,415,507
	47,996,182	22,640,970
<b>Total Value Added</b>	<b>83,260,925</b>	<b>35,747,946</b>
<b>Distribution of Value Added</b>		
To Employees as Remuneration	44,745,615	26,774,164
To Government as Taxation	7,322,640	2,076,457
To Expansion & Growth		
Depreciation	13,360,613	8,739,539
Retained Profits	17,832,057	(1,842,214)
<b>Total Distribution of Value Added</b>	<b>83,260,925</b>	<b>35,747,946</b>

# Capital Adequacy

## TOTAL RISK WEIGHTED ASSET COMPUTATION

As at 31 March 2014

<b>Assets</b>	<b>Amount</b>	<b>Risk Weight %</b>	<b>Risk weighted Assets Amount</b>
Cash & Current Accounts with Banks	22,191,781	0%	-
Sri Lanka Govt/Central Bank Securities	3,579,720	0%	-
Deposits with Banks	13,962,230	20%	2,792,446
Deposit with Finance Companies	82,998,723	20%	16,599,745
Loans and Advances :	606,553,130	100%	606,553,130
Fixed Assets	79,229,303	100%	79,229,303
Other Assets	76,176,251	100%	76,176,251
<b>Total Risk Weighted Assets</b>	<b>884,691,138</b>		<b>781,350,875</b>

<b>Constituents of Capital</b>	<b>Amount</b>
Issued and Paid-up Ordinary Shares/Common Stock (Cash)	603,247,125
Statutory Reserve Fund	891,603
Published Retained Profits/(Accumulated Losses)	13,238,438
Tier 1 : Core Capital	617,377,166
Tier 2 : Supplementary Capital	-
Total Capital	617,377,166
<b>Capital Base</b>	<b>617,377,166</b>

<b>Capital Adequacy Ratio</b>	<b>Amount</b>
Core Capital Ratio (Minimum 5%)	79%
Total Risk Weighted Capital Ratio (Minimum 10%)	79%

## Information of Ordinary Shares

### DISTRIBUTION OF SHAREHOLDING AS AT 31ST MARCH 2014

Shares	31 March 2014			
	No of Shareholders	% Shareholders	No of Shares	% Shareholders
Up to 2,000,000	1	14.29%	1,600,000	2.00%
2,000,001 - 6,000,000	2	28.57%	10,400,000	13.00%
6,000,001 - 14,000,000	2	28.57%	26,800,000	33.50%
Over 14,000,000	2	28.57%	41,200,000	51.50%
	7	100.00%	80,000,000	100.00%

### CATEGORIES OF SHAREHOLDERS

Type of Investor	31 March 2014			
	No of Shareholders	% Shareholders	No of Shares	% Shareholders
Local Individuals	4	57.14%	24,800,000	31.00%
Local Institutions	2	28.57%	28,400,000	35.50%
Foreign Institutions	1	14.29%	26,800,000	33.50%
	7	100.00%	80,000,000	100.00%

# Glossary of Financial Statements

## Earning Assets

Income earning assets held by the Company. Typically include interest bearing balances, Investment securities and loans.

## Interest Bearing Liabilities

Liabilities on which the Company is paying interest.

## Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to Maturity.

## Net Interest Margin

Ratio of net interest income to earning assets.

## Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on funds.

## Non-Performing loan (NPL)Ratio

The net Non-Performing Loans as a percentage of the total loan portfolio.

## Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills.

## Provision for Bad Debts

Amounts set aside against possible losses on financial leases, hire purchases, advances and other credit facilities according to the Finance Companies Direction 3 of 2006.

## Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

## Net Assets Value per Ordinary Share

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

## Risk Weighted Assets

On Balance Sheet Assets and the credit equivalent of off Balance Sheet Assets multiplied by the relevant risk weighting factors.

## Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

## Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

## Return on Average Equity (ROE)

Net income, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

## Revenue Reserve

Reserves set aside for future distribution and investment.

## Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

## Net Interest Income

The difference between income earned from interest earning assets and cost incurred on interest bearing liabilities.

## Non-Performing Loans

Loan advances and hire purchase/lease finance of which interest or capital is in arrears six months or more.

## Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

**Return on Average Assets(RoA)**

Profit After Tax divided by the average assets.

**Substance over Form**

The consideration that the accounting treatment and the presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

**Tier I Capital**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

**Tier II Capital**

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

**Value Added**

Value of wealth created by providing financial and other related services less the cost of providing such services.

**Debt to Equity Ratio**

Long term Borrowings of the Company including Debentures divided by shareholders funds.

**Interest Cover**

Earnings before interest and taxes divided by interest cost.

**Liquid Assets Ratio**

Liquid Assets divided by public Deposits.

**Capital Adequacy Ratios**

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying international best practices on maintenance of capital for financial institutions, to suit the local requirements.

**Interest in suspense**

Interest suspended on non-performing contracts without recognizing to the Income.

**Earnings per Share**

Net profit after tax divided by the number of ordinary shares in issue.

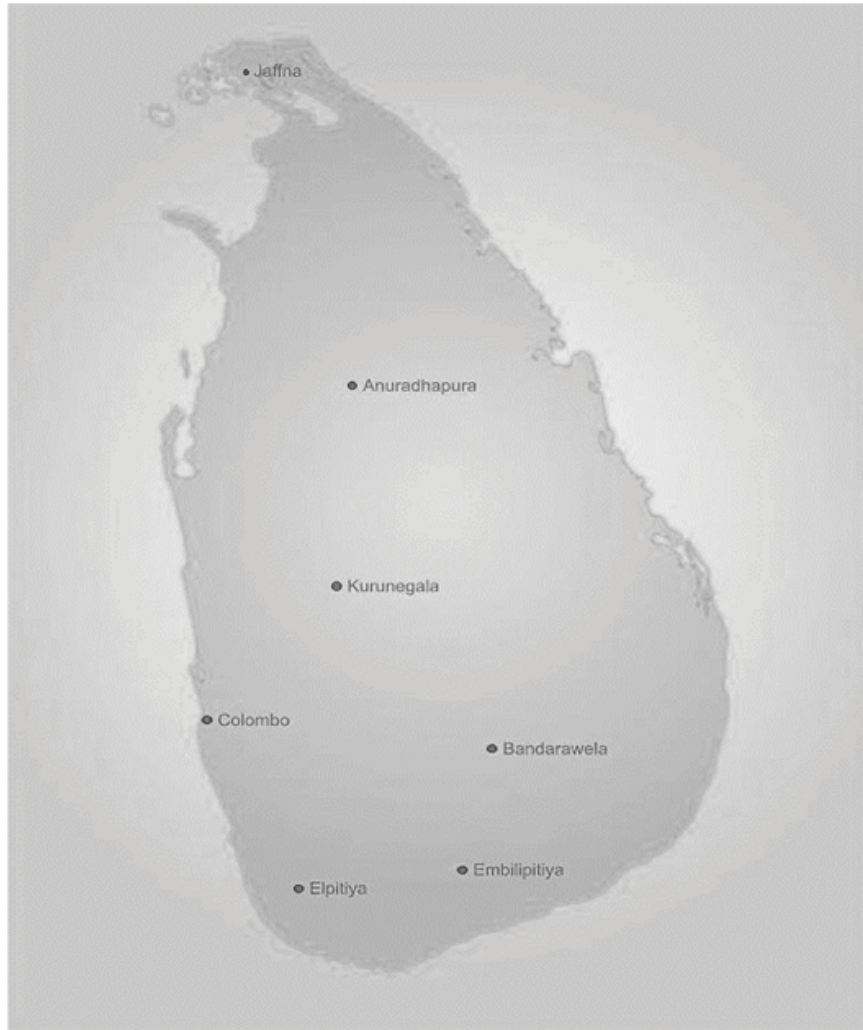
**Deferred Tax**

Sum set aside in the financial statements or taxation that may become payable /receivable in a financial year other than the current financial year.

**Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

## Distribution Channels



S/N	BRANCH NAME	ADDRESS	TELEPHONE NUMBER	FAX NUMBER
01	Bandarawela	Thanthiriya, Badulla Rd, Bandarawela	0572230022 0572221025	0572230030
02	Jaffna	620, Hospital Rd, Jaffna	0212219990	0212219991
03	Kurunegala	262/A, Puttalam Rd, Kurunegala	0372232110	0372232010
04	Elpitiya	10/B, Pituwala Rd, Elpitiya	0912291427	0912291428
05	Anuradhapura	9, Main Street, Anuradhapura	0252237925	0252237905
06	Embilipitiya	Main Street, Pallegama, Embilipitiya.	0472261467 0473620040	0472261468

# Notice of Annual General Meeting

## IDEAL FINANCE LIMITED

Notice is hereby given that the Second Annual General Meeting of Ideal Finance Limited will be held at the Board Room of Ideal Motors (Pvt) Limited on Monday 28<sup>th</sup> July 2014 and at 3.30 pm the business to be brought before the meeting will be:

### AGENDA

1. To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Statement of Accounts for the year ended 31<sup>st</sup> March 2014 with the Report of the Auditors thereon.
2. To re-elect as a Director Mr. Kiyoshi Matsui who retires by rotation in terms of Article No.24(6) of the Articles of Association of the Company.
3. To re-elect as a Director Mr. J.V.W. Malawana, who retires by rotation in terms of Article 24(6) of the Articles of Association of the Company.
4. To re-elect as a Director Dr. P.L. Suren Peter who retires in terms of Article 24(2) of the Articles of Association of the Company.
5. To re-elect as a Director Mr. Ajith N. Dias who retires in terms of Article 24(2) of the Articles of Association of the Company.
6. To re-elect as a Director Mr. Norihiro Yoshino who retires in terms of Article 24(2) of the Articles of Association of the Company.
7. To authorize Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act No.07 of 2007.

By Order of the Board

S S P CORPORATE SERVICES (PRIVATE) LIMITED

SECRETARIES

Colombo

Friday, 04<sup>th</sup> July 2014

The member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him/her. Such proxy need not be a member of the Company.

A Form of Proxy is enclosed.

Note:-

The completed Form of Proxy should be deposited at the Registered Office of the Company, at No.299, Union Place, Colombo 2, not later than 48 hours before the time appointed for the holding of the meeting.





IDEAL FINANCE LIMITED

FORM OF PROXY

I.....(NIC No .....)  
 .....) of ..... being a member of the above Company, hereby  
 appoint:

Mr. Nalin Jayaraj Welgama	of Colombo or failing him
Mr. Pinnaduwege Aravinda De Silva	of Colombo or failing him
Mr. Kiyoshi Matsui	of Colombo or failing him
Mr. John Viraj Winston Malawana	of Colombo or failing him
Mr. Duminda Mahali Weerasekare	of Colombo or failing him
Mr. Hiran Manil Camillus De Alwis	of Colombo or failing him
Mr. Paul Leslie Suren Peter	of Colombo or failing him
Mr. Ajith Nissanka Dias	of Colombo or failing him
Mr. Norihiro Yoshino	of Colombo or failing him

Mr./Mrs./Miss ..... (NIC  
 No.....)  
 of.....

as my proxy to represent me and vote on my behalf at the Annual General Meeting of the Company to be held on 28<sup>th</sup> July 2014 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting and to VOTE as indicated below:

		<u>FOR</u>	<u>AGAINST</u>
1.	To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Statement of Accounts for the year ended 31 <sup>st</sup> March 2014 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
1.	To re-elect as a Director Mr. Kiyoshi Matsui who retires by rotation in terms of Article No.24(6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2.	To re-elect as a Director Mr. J.V.W. Malawana who retires by rotation in terms Article No.24(6) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4.	To re-elect as a Director Dr. P.L. Suren Peter who retires in terms of Article 24(2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5.	To re-elect as a Director Mr. Ajith N. Dias who retires in terms of Article 24(2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>

- |    |   |                          |                          |
|----|---|--------------------------|--------------------------|
| 6. | To re-elect as a Director Mr. Norihiro Yoshino who retires in terms of Article 24(2) of the Articles of Association of the Company.                                     | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. | To authorise Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors. | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this ..... day of .....Two Thousand and Fourteen.

Signature: .....

Note :

1. Please delete the inappropriate words.
2. Instructions for completion of form of proxy are noted on the reverse
3. A proxy need not be a member of the Company

## INSTRUCTIONS FOR COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, and your instructions as to voting, by signing in the space provided and filling in the date of signature.
2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given or if there is any doubt as to how the Proxy should vote by reason of the manner in which the instructions are carried out, the proxy in his/her discretion may vote as he/she thinks fit.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company at No.299, Union Place, Colombo - 02, not less than 48 hours before the time appointed for holding the meeting.
4. If the Form of Proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration, if such power of attorney has not already been registered with the Company.

### Note:

If the shareholder is a Company or body corporate, Section 138 of the Companies Act No.7 of 2007 applies to corporate shareholders of Ideal Finance Limited. Section 138 provides for representation of Companies at meetings of other Companies. A Corporation, whether a Company within the meaning of this Act or not, may, where it is a member of another Corporation, being a Company within the meaning of this Act, by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company. A person authorised as aforesaid shall be entitled to exercise the same power on behalf of the Corporation which it represents as that Corporation could exercise if it were an individual shareholder of that other Company.

## Corporate Information

Name of the Company	:	IDEAL FINANCE LIMITED																					
Date of incorporation	:	24 <sup>th</sup> January, 2012																					
Head Office	:	No 299, Dr. Colvin R De Silva Mawatha, (Union Place) Colombo 02 Telephone: +94112396060 Fax : +94112396757 E-mail : info@idealfinance.lk Website: www.idealfinance.lk																					
Legal Form	:	Private Limited Liability Company incorporated in Sri Lanka under The Companies Act No.7 of 2007. A Finance Company registered under the Finance Companies Act No. 42 of 2011. A registered Finance Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.																					
Secretaries	:	SSP Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 07																					
Bankers	:	Bank of Ceylon Seylan Bank PLC Commercial Bank PLC Pan Asia Banking Corporation PLC																					
Company Registration	:	PB 4963																					
VAT Registration	:	134049634 7000																					
Auditors	:	Ernst & Young Chartered Accountants 201, De Saram Place, Colombo 10.																					
Directors	:	Mr. Nalin Welgama (Chairman) Mr. Kiyoshi Matsui (Deputy Chairman) Mr. Duminda Weerasekare (Chief Executive Officer) Mr. Aravinda De Silva (Non-Executive Director) Mr. Viraj Malawana (Non-Executive Director) Mr. Norihiro Yoshino (Non-Executive Director) Mr. Hiran De Alwis (Independent Non-Executive Director) Mr. Ajith Dias (Independent Non-Executive Director) Dr. Suren Peter (Independent Non-Executive Director)																					
Share Holding	:	<table><tr><td>Nishiya Holdings (Pvt) Ltd.</td><td>-</td><td>33.5%</td></tr><tr><td>Ideal Motors (Pvt) Ltd</td><td>-</td><td>18.0%</td></tr><tr><td>Ideal Investments Lanka (Pvt) Ltd</td><td>-</td><td>17.5%</td></tr><tr><td>Mr. Nalin J Welgama</td><td>-</td><td>06.5%</td></tr><tr><td>Mr. Aravinda De Silva</td><td>-</td><td>06.5%</td></tr><tr><td>Mr. Viraj Malawana</td><td>-</td><td>16.0%</td></tr><tr><td>Mr. Duminda Weerasekare</td><td>-</td><td>02.0%</td></tr></table>	Nishiya Holdings (Pvt) Ltd.	-	33.5%	Ideal Motors (Pvt) Ltd	-	18.0%	Ideal Investments Lanka (Pvt) Ltd	-	17.5%	Mr. Nalin J Welgama	-	06.5%	Mr. Aravinda De Silva	-	06.5%	Mr. Viraj Malawana	-	16.0%	Mr. Duminda Weerasekare	-	02.0%
Nishiya Holdings (Pvt) Ltd.	-	33.5%																					
Ideal Motors (Pvt) Ltd	-	18.0%																					
Ideal Investments Lanka (Pvt) Ltd	-	17.5%																					
Mr. Nalin J Welgama	-	06.5%																					
Mr. Aravinda De Silva	-	06.5%																					
Mr. Viraj Malawana	-	16.0%																					
Mr. Duminda Weerasekare	-	02.0%																					



IDEAL Finance Limited

299, Union Place, Colombo 02, Sri Lanka

T : +9411 2396060 F : +9411 2396757

W: [www.idealfinance.lk](http://www.idealfinance.lk)

E: [info@idealfinance.lk](mailto:info@idealfinance.lk)