

# STRENGTH REDEFINED

 **LB FINANCE**

Annual Report 2011/12



# STRENGTH REDEFINED



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## Vision

To contribute to the quality of life experienced by our depositors, customers, employees and the general public through partnerships that fuel the growth of our company and to create shareholder value both in the short and long term.



## Mission

To mobilise public funds by innovating investment products that will enhance the value delivered to our depositors. To engage in prudent lending to entrepreneurs to assist them in the creation of wealth. To embark on investments in which results can be clearly assessed and seize new opportunities in the market. To offer a caring and personalised service that will form the foundation for developing lasting partnerships with our stakeholders, employees and the general public. To use training and career development to create an empowered and committed group of employees who will drive the company to high levels of achievement.



## Values

Excellence. Ethics. Professionalism.  
Transparency. Innovation. Quality



## Goals

To be a major player in the financial services sector in Sri Lanka.

# STRENGTH REDEFINED

A towering stronghold, an icon of stability and a testament to exquisite workmanship and excellence, Sigiriya is renowned for its heritage. Here at L B Finance, our heritage is no less impressive, with values that have stood the test of time and a team that has created a business like no other.

Just as the rock fortress is a testament to strategy, sophistication and innovation, we have always strived to provide the best in products and services, whilst retaining our vision of contributing to the value of life for Sri Lankans all over the island. Our ethics and dedication has ensured our legacy in the financial sector and we are re-writing and re-defining the concepts of stability, excellence and strength.





# WHY SIGIRIYA ?

Sigiriya is truly a work of art.

It represents a unique concentration on planning, architecture, gardening, engineering, hydraulic technology and art, the facets of which remain close to the philosophy of L B Finance as a future-oriented, innovative company whose strategy is based on longevity and strength. Likewise, the visual icons represented throughout this report depict the unfolding vistas of a future Sri Lanka; one that is poised for the future with stability on its side.

Our nation is in the process of rebuilding and the nation's finance sector is playing a vital role in that process. Therefore we have taken an initiative in working alongside our nation to further highlight and promote our national heritage. Not just an Annual Report that states facts and figures; this report also celebrates a heritage of the world which

is also symbolised as the 'Mount of Remembrance' or 'Sihi Giri', one of its earlier names. We believe this report will broaden the horizons of opportunity for the tourism industry through the discussion and preservation of this legacy. We are confident that the company will define a new era of prosperity to the nation by bringing out the values of the national heritages that Sri Lanka has given the world.

We have always focused on giving back to the society and we will continue to follow the concept of values embodied in our national heritage in the future, hence preserving this legacy of Sri Lanka for the generations ahead. Much like the long-standing Lion Rock that

is etched in the hearts of many, our success has been our might and we will continue to redefine the notions of solidity and strength as we move forward.

## Strategic Focus

### 2005 Enhancing volumes

Our strategic focus in 2005 was on increasing business volumes, as we believed that this would be a catalyst to achieving future growth objectives. During the 15 months ended March 31, 2005 our top line surged to Rs.779 Mn. a sharp growth of 44%, while the bottom line increased Rs.45 Mn. to Rs.48 Mn. We successfully ballooned our total advances to Rs.3.730 Bn. while our deposit base increased by 30% to surpass Rs. 2,600 Mn.

### 2006 Sustaining growth

The year 2006 was a year of consolidation, where strategies were adopted to sustain the growth achieved in the previous year. The total advances maintained a growth rate of 41% to record Rs.5.262 Bn., while the company's deposit base grew by 28% to stand at Rs.3,345 Mn. Gross income reflected the growth momentum with an increase of 17% to record Rs.914 Mn. and net profit rose by 59% to Rs.77 Mn.

### 2007 Improving portfolio quality

2007 witnessed a strategic focus on improving the quality of our lending portfolio. Successful measures taken to re-engineer internal processes especially on recoveries, credit and portfolio management, reflected in a year-on-year drop of Rs.11 Mn. in our non performing advances balance for 2007, a reduction of 4%. The NPL ratio too was curtailed to 4.83% from 7.59%, in the previous year.

### 2008 Exploring opportunities

Diversification into new business sectors and exploiting new and under-developed market segments underpinned our strategies in 2008. Gold loans and micro financing segments were our key concerns during the year and plans enforced resulted in a mammoth 89% growth in gold loans advances to Rs.1.170 Bn.

### 2009 Strengthening our business fundamentals

A measured growth tempered by tight internal control measures helped face the challenges of 2009. A determined adherence to strict guidelines especially in the areas of credit, administration & risk management, helped us to remove non-value adding activities and focus on the strategic direction.

### 2010 Aggressively expanding our reach

A rapid expansion of our distribution channels in 2010 opened new vistas of opportunities presented by a post-conflict development climate. We expanded our lending and deposit operations with 6 new branches across the country, of which 3 were located in the former war-torn areas of Batticaloa, Trincomalee and Ampara. Rising to the challenge of a tight economic climate, we set up 18 new gold loans centers, including a centre in Sahindamarthu.

### 2011 Gearing for profitability

2011 saw us preparing for success. The company continued to perform commendably through the challenging years of the past and has evolved into a solid financial institution etched in stone. L B Finance recorded impressive results in 2010/11; profit before tax reached Rs. 2 Bn., recording a whopping YoY growth of 90%. Our deposits grew tremendously during the year to reach Rs.

20 Bn. recording a remarkable increase of 57%. We successfully ballooned our total assets to reach Rs. 28 Bn. recording a YoY growth of 63%.

### 2012 Strategising a best-in-class business model

We believe in longevity and it is evident in how far we have come in the last eight years. The year under review enabled the company to sustain its growth trajectory while redefining the strength. One of the key initiatives taken to this is capacity building of our human capital through effective implementation of people management policies, processes and technology. The architectural elegance and grandeur of the new corporate office also reflects the glorious 40 year tradition that L B proudly flaunts which has an international level atmosphere for our customers and employees.

**Performance in a Nutshell**

**112**

Distribution Channels

**2.82%**

NPL Ratio

**A-**

RAM Rating Upgrade

**1.6 Bn.**

Profit After Tax

**18**

Tailor-made Financial  
Solutions

**415**

New Employees

## Financial Highlights

Financial Year	2011/12	2010/11	% Change
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### Results from Operations

For the year ended Rs. Mn.

Gross income	7,850	5,502	43%
Interest income	7,239	5,139	41%
Interest expense	3,552	2,418	47%
Net interest income	3,687	2,720	36%
Profit before income tax	2,353	1,668	41%
Income tax on profits	727	647	12%
Profit after income tax	1,625	1,020	59%
Gross dividends	346	242	43%

### Financial Position

At the year end Rs. Mn.

Total assets	42,774	28,262	51%
Lending portfolio	36,727	23,875	54%
Deposits from public	26,258	19,620	34%
Borrowings	8,976	3,526	155%
Shareholders' funds	4,006	2,614	53%
Market capitalisation	9,343	12,127	-23%

### Information per Ordinary Share

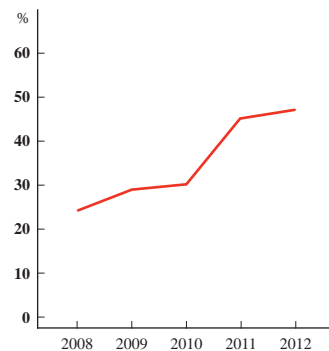
Earnings - basic (Rs.)	23.46	14.73	59%
Dividends (Rs.)	5.00	3.50	43%
Net assets value (Rs.)	57.85	37.74	53%
Market value at the end of the period (Rs.)	134.90	175.10	-23%
Price earnings (times) - ordinary shares	5.75	11.88	-52%

### Ratios

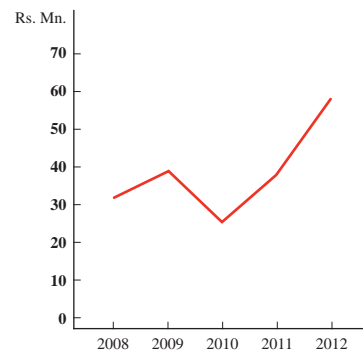
Return on average assets (%)	4.58	4.49	2%
Return on average shareholders' funds (%)	49.09	46.70	5%
Interest spread (%)	10.48	11.63	-10%
Net interest margin (%)	11.39	12.96	-12%
Interest cover (times)	1.66	1.69	-2%
Dividend cover (times)	4.69	4.21	11%
Dividend payout ratio (%)	21.31	23.76	-10%
Equity to assets (%)	9.37	9.25	1%

### Compliance Ratios

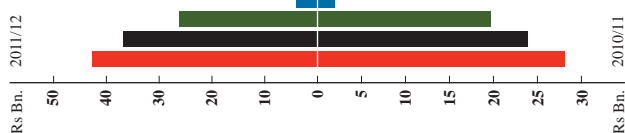
Core capital to risk weighted assets (Tier I) (%)	12.58	12.90	-2%
Total capital to risk weighted assets (Tier I & II) (%)	14.86	14.23	4%
Liquid assets to total assets (%)	6.78	8.15	-17%
Liquid assets to deposits (%)	11.04	11.58	-5%
NPL (%)	2.82	4.69	40%
NPL (net) (%)	0.7	1.68	58%



Return on Average Equity

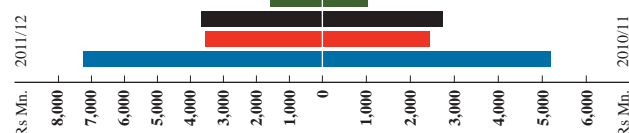


Net Asset Value per Ordinary Share



Financial Position

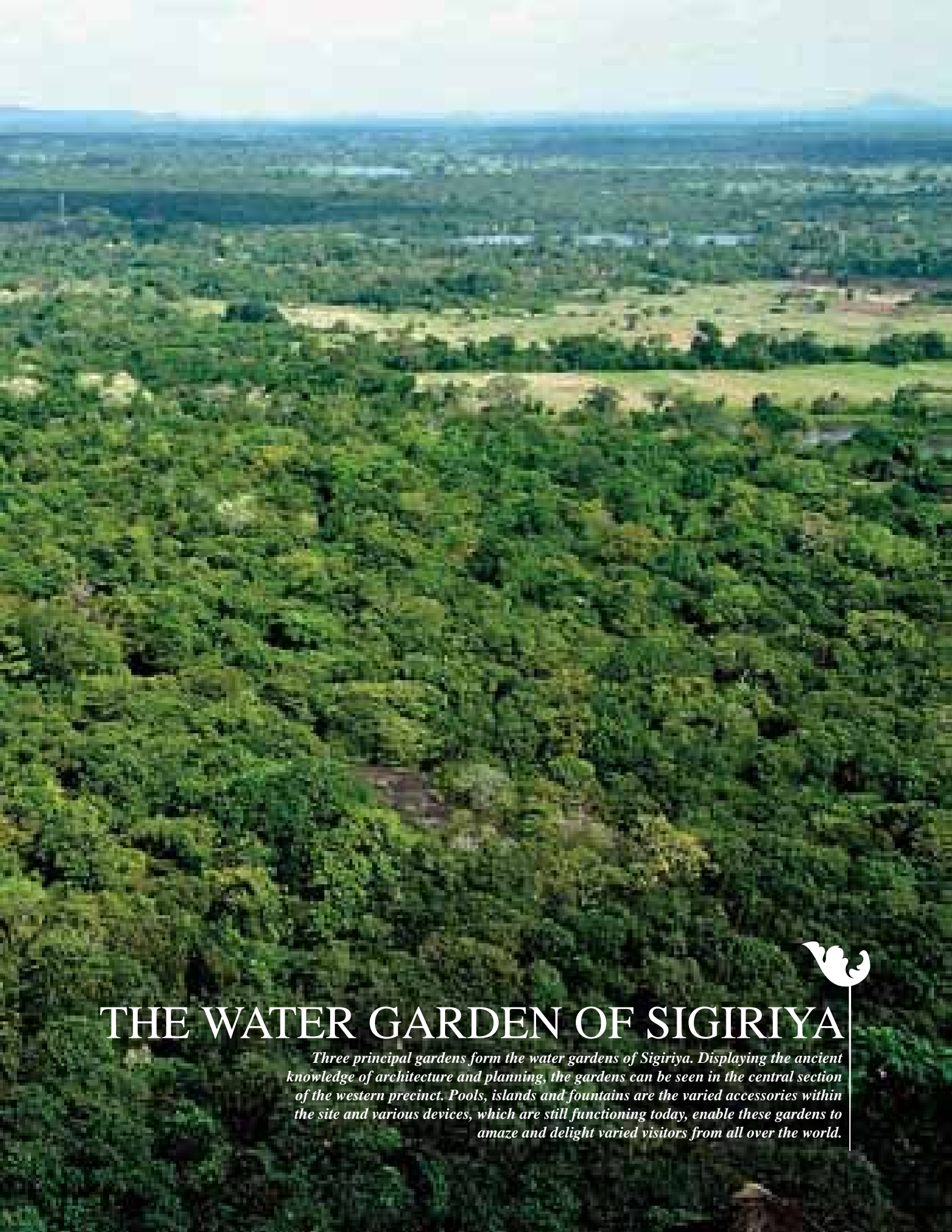
Deposits From Public  
 Lending Portfolio  
 Total Assets  
 Shareholders' Funds



Operational Results

Profit After Tax  
 Net Interest Income  
 Interest Expense  
 Interest Income





# THE WATER GARDEN OF SIGIRIYA

*Three principal gardens form the water gardens of Sigiriya. Displaying the ancient knowledge of architecture and planning, the gardens can be seen in the central section of the western precinct. Pools, islands and fountains are the varied accessories within the site and various devices, which are still functioning today, enable these gardens to amaze and delight varied visitors from all over the world.*

## Lalit N de S Wijeyeratne

Acting Chairman

“Over the past years the company has built a strong balance sheet, a large customer base and a loyal and productive workforce. We therefore remain confident that the company is now well poised to meet the challenges that may spring up from time to time and continue the growth momentum achieved in the recent past.”

**Chairman's Review**



## Chairman's Review

Dear Shareholder,

It is my pleasure to welcome you to the 39th Annual General Meeting of L B Finance PLC (LBF) and share with you the best ever results achieved by your company.

### Performance

Our profits after tax during the year surpassed the previous year's by 59.26% to reach Rs. 1.62 Bn. propelling LBF to be the second largest Licensed Finance Company (LFC), during the year under review. Your company's return on equity also improved to 49.09% compared with 46.70% in 2010. The company's strong loan growth and lower funding costs were key contributors to this sharp increase in profitability and a performance that surpassed that of the industry.

It would be appropriate to view this year's performance in the context of past five year period, from 2008 to 2012. During this period our profits grew by a compounded annual rate of 51.17 % while our assets grew by a compounded annual rate of 31.83% and deposits by 29.15%. A truly staggering story of growth and consistency brought about by a strong focus on core income generating activities and sound business strategies.

Another significant achievement during the year was the upgrade of the rating achieved by your company to A-/P2 from BBB+/P2, by RAM Ratings (Lanka) Limited. As noted by the independent third party evaluator, the rating "reflects LBF's consistently expanding market share and improving asset-quality indicators".

In January 2012, we moved into our new corporate office, located in Dharmapala

Mawatha in Colombo 03. A seven storied iconic structure, with state of the art facilities, would serve as our hub, and the nerve centre for our island wide operations.

Our distribution channels expanded during the year with twenty new channels opened across the island; making it the highest expansion drive in the sector and bringing the total distribution channels to 112. Four of the new channels opened during the year were in the Northern and Eastern provinces, where an economic revival, since the dawn of peace, offers much potential for growth, not just for your company but for the collective benefit of the country.

The company has continued to maintain its interest earning asset ratio at over 91%, a strategy that has proven to be successful in the past and will be continued with to ensure the sustainability of our profitability.

Enhanced profitability this year has facilitated a higher dividend, and your Board is pleased to recommend to shareholders a dividend of Rs. 5.00 per share for the financial year 2011/12.

### Economic Environment

The buoyancy of Sri Lanka's post war economy in 2011 provided an ideal environment for the growth achieved by the LFC sector. The economy was able to sustain the high growth momentum it achieved since the cessation of decades long hostilities and surpass previous year's record high, to grow by 8.3%. The rapid pace of expansion and an environment of low interest rates and mid-single digit inflation were most conducive to business. These domestic

economic factors and the less favourable global environment are adequately discussed in the Managing Director's Review as well as the Management Discussion and Analysis of this report in the pages that follow.

### Outlook

The year ahead is likely to pose many challenges to the finance sector. The growth rate of private sector credit is expected to reduce substantially in 2012, as a result of the limits imposed by the Central Bank on commercial banks' credit disbursements.

The rapidly depreciating exchange rate, rising interest rates, increased vehicle import duties and the reduced availability of long term funding will result in a significant change in the dynamics in the economic and business environment. These changes has necessitated that we re-examine some of our strategies. Several measures including product diversification and realignment of our portfolio will be adopted to respond to these challenges. Areas of risk and cost management would also receive greater attention.

The Board will direct more attention on identifying and sourcing funds to finance the company's expansion. In addition to the internal generation of funds through retained earnings your company will look to raising Tier II capital by way of debentures to meet its capital adequacy requirements. The company's strong brand image will be utilised to expand its primary funding source, the deposit base to constitute a higher share of our source of funds.



We will continue to expand our distribution channels across the country in the next financial year. Whilst expanding our portfolio to the corporate and high end segments of the market we would not be detracted from what has been our core area of focus which is the Small and Medium Enterprises (SME) sector of the country. By playing a key role in empowering the SME sector, we have been able to engage in one of Sri Lanka's thrust areas of development and play a part in seeing the country move towards some of its developmental objectives such as reducing the geographical disparities in income distribution in the country.

Over the past years the company has built a strong balance sheet, a large customer base and a loyal and productive workforce. We therefore remain confident that the company is now well poised to meet the challenges that may spring up from time to time and continue the growth momentum achieved in the recent past.

### Acknowledgement

I am delighted with results the company has achieved this year and wish to express my sincere appreciation to my colleagues on the Board of Directors for their support and encouragement and the confidence placed in me. I wish to make special mention of the contribution made by the Managing Director Mr. Sumith Adhihetty and the other Executive Directors, to the growth and the development of the company. Without their initiative, enthusiasm and strong work ethics we could not have achieved these extraordinary results.

I would also like to express my sincere thanks to Mr. M D S Goonetilleke - Director, who resigned during the year for his valuable services to the company. I also extend my gratitude to our customers, business associates and shareholders whose loyalty and faith in the company has stood the test of time; and to all our employees for their unwavering dedication and drive.

**Lalit N de S Wijeyeratne**  
Acting Chairman

6th June 2012



*The finding of walls that have been built on existing rock formations, were a clear cut insight into the superior architectural knowledge displayed by the builders. Their practical approach also meant that they were well aware of their impact on the environment and minimized the harm done through their activities.*





## Executive Deputy Chairman's Message

### K D D Perera

Executive Deputy Chairman

“Growth and a performance as awe inspiring as the craftsmanship of the iconic rock fortress, the story of L B Finance is also, one that is ahead of its time in the Sri Lankan financial landscape. Today L B Finance, a member of the Vallibel Group, is an icon of stability and lasting strength; a rock solid enterprise which is built on the excellence of its operating model, its management team and state of the art technology. As the palace in the sky that was built to stand the test of time, L B Finance is an enterprise that looks to the long term; proving that rapid growth and stability can go together.”



## Sumith Adhithetty

Managing Director

“We will continue to focus on strategies which have served us well in the past and still remain suitable despite changes in the industry environment. Maintaining asset quality, focus on high growth segments of the economy, expansion, control and a constant eye on emerging opportunities will underpin our actions in the years ahead.”

## Managing Directors's Review





## Managing Director's Review

Dear Shareholder,

It is my pleasure to present to you, a review of another year of an excellent performance; as we move into our 41st year in enterprise, driven by the hallmarks of the brand which have stood the test of time stability, excellence and strength.

### Economic Environment

Sri Lanka's economy sustained its high growth momentum surpassing last year's record high to grow by 8.3% in 2011. This was amidst several political and economic challenges in the world economy. Improved consumer and investor confidence in post war Sri Lanka; favourable macroeconomic conditions, increased capacity utilisation, expansion of infrastructure facilities and renewed economic activity in the Northern and Eastern provinces underpinned this growth. Sri Lanka's per capita income increased to US Dollars 2,836 from previous year's 2,400; whilst a further decline in the unemployment level to reach the lowest ever rate of 4.2%, was another positive indicator of Sri Lanka's high growth trajectory. Subdued inflation, at mid-single digit levels; and low interest rates, provided a growth facilitating environment during the year.

The performance of Sri Lanka's financial sector improved significantly during the year with the continuing expansion in economic activity. The accelerated credit growth and the performance of financial institutions improved with enhanced growth in assets, healthy profitability, higher capitalisation and lower risk levels. All financial sector institutions expanded their branch network and activities in this

flourishing environment. The regulatory and prudential framework governing the financial system was strengthened facilitating greater investor confidence and safeguards. The key reform during the year was the new "Finance Business Act" which aims to further strengthen the regulation of finance companies by enhancing powers to combat unauthorised deposit taking and finance business activities. It also introduced new requirements for capital adequacy and liquidity for finance companies.

Sri Lanka's external sector which performed well during the first half of the year, faced several challenges during the latter half due to adverse developments in the global front and a rapid growth in imports. This weakening of the balance of payments necessitated the introduction of a broad package of remedial measures by the authorities. These measures introduced during the first quarter of 2012 included the tightening of monetary and credit policy, increasing petroleum and electricity prices and petroleum taxes, and the Central Bank's abolishment of the rupee trading band to allow the exchange rate to adjust more flexibly. The near term impact has been one of market volatility and uncertainty, we are of the view that these recent adjustment measures adopted by the government to address the widening current account deficit and the decline in external reserves; would place Sri Lanka on a more sustainable trajectory in the medium to long term.

### Performance

Your company recorded an excellent performance achieving its highest ever after tax profit, of Rs.1.62 Bn. during the

year, which is a 59.26% increase over the previous year. The company's strong loan growth, and lower funding costs were key contributors to this sharp increase in profitability. Expansion of our distribution channels, an aggressive marketing strategy, improved recoveries and careful lending supported these achievements. It is particularly encouraging that this record growth was representative of all the product segments of your company.

The company's loan expansion during the year under review was driven mainly by its core segments, leasing, hire purchase, and gold loans. The growth in leasing and hire purchase stemmed mainly from micro leasing and motor vehicles. Our exposure in key growth areas of the economy, namely services, trading, manufacturing distribution and transport also increased.

The strategies we have implemented over the years enabled us to continue maintaining over 91% of our assets as interest earning assets such as leases, hire purchases and gold loan advances. This has been a key factor behind the consistency with which we have delivered, and will continue to be a cornerstone of ensuring the sustainability of our profitability.

Another significant achievement during the year was the upgrade of the rating to A-/P2 received from RAM Ratings (Lanka) Limited. It is noteworthy that the company has been able to maintain high asset quality whilst rapidly growing its credit assets. Additionally the market share augmented at end March 2012, and your company has emerged as the second largest Licensed Finance Company (LFC) in Sri Lanka.



The company's interest income expanded by 40.87% YoY in 2011, to reach Rs. 7.23 Bn.; driven mainly by growing contributions from the company's leasing, hire purchase and gold loan portfolios. The high yielding gold loan segment accounted for 20.21% of total interest income during the year under review. The company's other operating income grew by 62.42% to Rs. 574 Mn. during the year mainly driven by fee based activities which accounted for 86.49%.

Deposits continued to account for the bulk of the company's funding base. However, the reliance on the deposit base as a source of funds marginally declined during the year under review to 65% from 75% the previous year as the company relied more on long term securitised borrowings and bank sources to fund its lending expansion. Lower interest rates and the more increased attractiveness of equity investments in a booming stock market were also factors which moderated the growth in deposits.

Your company continued its strategy of volume growth, and expanded its distribution channels during the year under review. Twenty new distribution channels were opened across the country making it the highest expansion drive in the Licensed Financial Companies (LFC) sector. This brings the total number of distribution channels to 112. The company also recorded another first by opening ten new distribution channels on a single day. Our entry into the North and East was within weeks of the end to the war in 2009; and this expansion will further strengthen our ability to support the creation of livelihoods and the economic resurgence in these areas.

On 5th January 2012, L B Finance moved into a new corporate office, a landmark in the Colombo 03 skyline which reflects the value we place on service excellence and quality. It is equipped with energy saving technology and a cutting edge ICT platform that enables it to serve as the hub and the nerve centre for our Island wide operations; and provides dedicated floors or spaces for personalised financial services, VIP gold loan services and a state of the art auditorium. The ambience and facilities of this new office will also support our plans to expand products and services to the higher end clientele in the future.

A customer centric approach pervades our corporate culture and is fostered in every department. The company has its internal team of market researchers whilst services of external consultants are also obtained as and when the scope of research requires it. One of the key responsibilities of our marketing expertise is to advise and influence the leadership in the formulation of strategy and in aspects such as product and service development. A number of new measures were introduced during the year to enhance the ease of doing business with us.

The SME sector continued to be the key driver of your company's business. Whilst we will continue to focus on this sector, we will also expand the product portfolio we have for the corporate sector. Operating leases, margin trading and certain working capital products such as power drafts and factoring are targeted to cater this segment.

As mentioned in our previous annual reports, technology is considered an

important element of our competitive edge and a vital conduit for our vision to be a fully integrated finance company. Our entire network of distribution channels are now on a single web based platform enabling greater speed, accuracy and security in meeting our customer needs. Our factoring customers are now able to transact business on line and access their accounts from anywhere in the world.

The success with which the company's business proceeds from drawing board to market whilst achieving business objectives is largely dependent on quality and strength of the people who work within it. Thus, we focus on recruiting the best and on developing and retaining them. We took steps to further strengthen our senior management team, and several new recruitments of qualified professionals took place during the year under review. The total workforce in the company as at year end rose to 1,679. Training and development of our people will continue to be a priority area for investment. The auditorium in our new corporate office building is to be the main venue for all our training and development programmes.

### Outlook and Strategies

Estimate for Sri Lanka's GDP growth in 2012 has been revised downward to 7.2% from an earlier projected 8%, considering the likely impact of the developments in the domestic and global environments and the policy measures that have been implemented in early 2012 to curtail aggregate demand and strengthen the external sector. International oil prices, which remained at elevated levels in 2011 and were above previous peak levels in

## Managing Director's Review Contd.

mid March 2012, mainly due to supply side constraints; are expected to further increase during 2012 and would thus continue to exert pressure on Sri Lanka's balance of payments as well as cost of living. As indicated by the Central Bank, the growth rate of "private sector credit is expected to reduce substantially", as a result of higher interest rates and limits imposed on credit disbursement.

In an environment of rising interest rates and a contraction in economic activity, your company will focus on consolidation of its portfolio based on quality driven rather than a volume driven strategy of expansion. We will build on our stringent monitoring procedures to further maintain our strong Non-Performing Loans (NPL) ratio, which was 2.82% during the year under review, and below the industry average of 4%. Moreover, this was despite the company expanding its portfolio faster than the industry. Our focus on service excellence would also be a key factor in enhancing the quality of our portfolio.

The dual impact of the recent Rupee depreciation, and the increase in duties on vehicle imports, has resulted in a sharp rise in vehicle prices. The demand for vehicle leasing could thus be dampened. The price hike is likely to impact the small and medium sector, such as the leasing of three wheelers; in particular. The resulting increase in the monthly installments of these customers, combined with a possible rise in cost of living due to higher prices of fuel and electricity and other essentials, could increase the likelihood of default, requiring us to further strengthen our recovery processes. The micro leasing segment is

one which has enjoyed rapid expansion as of late and has traditionally exhibited low NPL's. Your company is estimated to be amongst the two largest players in the micro leasing segment commanding a high market share. The company is bound to see some impact on the demand for its vehicle leasing segment, which, comprising of micro leasing and motor vehicles, accounts for 95% of its leasing portfolio. However measures we would take, such as altering the structure of our portfolio, will help us meet these challenges effectively.

The recently imposed ceiling of 18% on the licensed commercial banks' credit disbursements, signals a need for our deposit base to constitute a higher share of our funding sources in the year ahead. Strong investor confidence, as reflected in high renewal rates for instance; supported by strong fundamentals, finds your company well placed to enhance its deposit base in the next financial year.

Service excellence would continue to be a key differentiator and our continuous search to enhance the customer experience and ease of doing business, will spring new innovations in products and services. The products launched during the year included margin trading and savings accounts with a link to Sampath Bank ATM facilities. The concept of making all our distribution channels a "One Stop Shop" will enable customers across all ages and sectors to obtain prompt solutions for all their financial needs, under one roof. The company will also utilise its gold loan centres as collection points with the aim of improving collections in the medium term.

We will continue to focus on strategies which have served us well in the past and still remain suitable despite changes in the industry environment. Maintaining asset quality, focus on high growth segments of the economy, expansion, control and a constant eye on emerging opportunities will underpin our actions in the years ahead. Any steps we may take to diversify would also be into interest earning assets, a principle which has served your company well. Each strategy will be reviewed constantly to ensure that our plans comply with regulations stipulated for LFC's and the prudent risk management framework as detailed in the corporate governance and risk management sections of this report.

We believe that the sustainability of our business goes hand in hand with the progress of the communities and the environment in which we operate. Our financial products mainly benefit the small to medium scale entrepreneurs and we have become a household name in the multitude of rural, semi urban and urban locations we operate in. This has enabled us to become an integral part of the empowerment and enrichment of these communities. This year, we have adopted the principles and methodology of the Global Reporting Initiative (GRI) to report on our sustainability initiatives; and this is our first year of reporting according to these guidelines. It is presented as a comprehensive section in this report from pages 80 to 105.

### Acknowledgement

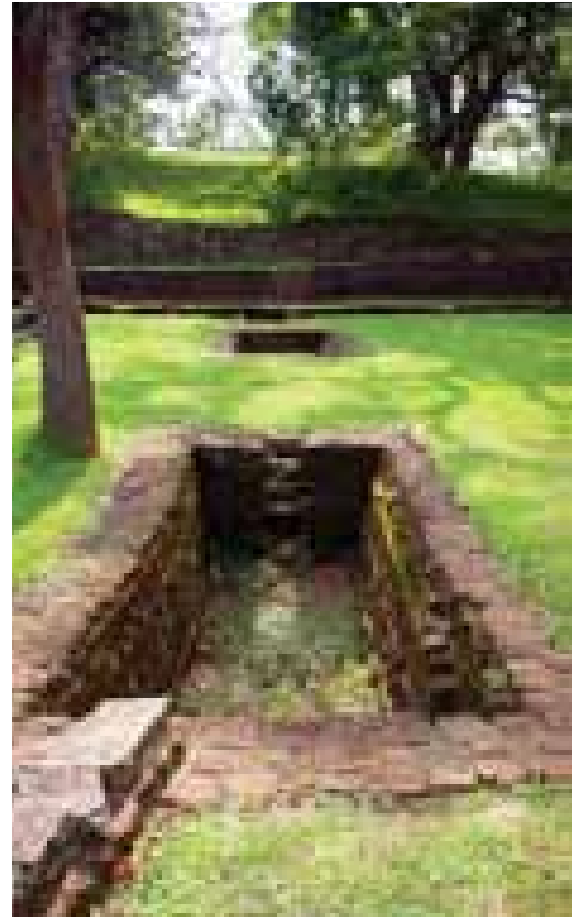
I wish to express my sincere appreciation to the Chairman and my colleagues on the Board for their invaluable support and



encouragement and for the confidence placed in me. I would also like to express my appreciation of the valuable service rendered by Mr. M D S Goonatileke a member of the Board who retired during the year. I also extend my gratitude to our management team and staff for their unwavering dedication and tireless efforts towards reaching our vision, and to our shareholders and customers for their loyalty and the confidence placed in us; as we look to forge ahead capitalising on the immense opportunities to create value to our shareholders with exemplary achievements.

**Sumith Adhietty**  
Managing Director

6th June 2012



*One of the many water collection points situated all over the water garden, these engineering marvels ensured that the water collected at the top of the rock would be funneled down to the numerous water gardens in order to maintain the cycle. This also indicates that the ancients had in-depth knowledge of weather patterns which would sustain this concept.*



## LIONS PAW

*The Lion's Paw is an architectural marvel that has stood the test of time as a detailed yet glamorous aspect of Sigiriya. Not only does it signify sensationalism and prestige, the paw represented the glamour of the fortress and still manages to inspire awe and wonder in all who see it.*



## Board of Directors



**Mr. Lalit N de S Wijeyeratne**

*Acting Chairman*

Mr. Lalit N de S Wijeyeratne who was appointed to the Board of L B Finance PLC on 1st November 2008 is a Fellow of the Institute of Chartered Accountants of Sri Lanka and counts over 37 years experience in Finance and General Management both in Sri Lanka and overseas. He was the Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Ltd. He is presently a Director of several listed and unlisted Companies.



**Mr. K D Dhammika Perera**

*Executive Deputy Chairman*

Appointed to the Board on 22nd October 2002, Mr. Dhammika Perera is the quintessential strategist and business specialist with 24 years of business experience.

His business interests include hydropower generation, manufacturing, hospitality, entertainment, banking and finance. Currently he holds the position of Secretary to the Ministry of Transport, Sri Lanka. He is the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Finance PLC, Vallibel Power Erathna PLC, The Fortress Resorts PLC, Delmege (Private)Ltd and Greener Water Ltd. He is the Deputy Chairman of Hayleys PLC. He also serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, Hotel Services (Ceylon) PLC, Dipped Products PLC, Orit Apparels Lanka (Private) Ltd, Nirmalapura Wind Power (Private) Ltd, Alutec Anodising & Machine Tools (Private) Ltd and Sri Lanka Insurance Corporation Ltd.

He is also a member of the Board of Directors of Strategic Enterprise Management Agency (SEMA).



**Mr. J A S Sumith Adhihetty**

*Managing Director*

A well-known professional in the marketing field was appointed to the Board of L B Finance PLC on 10th December 2003. Mr. Adhihetty has over 33 years of experience in the finance sector. He was formerly the Deputy Managing Director of Mercantile Investments Ltd and served as a Director of Nuwara Eliya Hotels Company Ltd, Grand Hotel (Private) Ltd, Royal Palm Beach Hotels Ltd, Tangerine Tours Ltd and Security Ceylon (Private) Ltd. Mr. Adhihetty also serves on the Board of Vallibel Finance PLC, Vallibel One PLC, The Fortress Resorts PLC and Pan Asia Banking Corporation PLC.



#### **Mr. W D Nimal H Perera**

*Director*

Mr. Nimal Perera joined the Board of L B Finance PLC on 2nd September 2003. He is the Chairman of Pan Asia Banking Corporation PLC, Managing Director of Royal Ceramics Lanka PLC, Group Finance Director of Amaya Leisure PLC and also serves on the Boards of Hayleys PLC, Hotel Services (Ceylon) PLC, The Fortress Resorts PLC, Vallibel One PLC, Vallibel Finance PLC and Vallibel Power Erathna PLC. Mr. Perera, a member of the Sri Lanka Institute of Marketing, counts over 30 years of experience in the fields of finance, capital market operations, manufacturing, marketing and management services. He is also the Treasurer of the Sri Lanka Cricket Interim Committee.

#### **Mr. A M Weerasinghe**

*Director*

A Gem Merchant by profession and presently serves as the Chairman of Royal Ceramics Lanka PLC and its subsidiaries. Mr. Weerasinghe joined the Board of L B Finance PLC on 6th January 2004.

#### **Mr. K D Anurada Perera**

*Director*

Mr. Anurada Perera joined the Board of L B Finance PLC on 6th January 2004. He is a Director of Vallibel Holdings (Private) Ltd, Vallibel Lanka (Private) Ltd and also of several other Vallibel Companies.

## Board of Directors Contd.



### **Mr. Niroshan Udage**

*Executive Director*

Mr. Udage was appointed as a Director of L B Finance PLC on 1st January 2007.

He holds a Bachelor's Degree in Science from the University of Colombo and possesses 22 years experience in the field of leasing and finance, including 10 years at Lanka Orix Leasing Company PLC and 3 years at Mercantile Investments Ltd prior to joining L B Finance PLC in 2004. He also serves as a Director of Hayleys Exports PLC with effect from December 2011.



### **Mr. B D St A Perera**

*Executive Director*

Mr. Perera who was appointed as a Director of L B Finance PLC on 1st January 2007 and counts over 15 years experience in the leasing industry that includes positions at Commercial Leasing Company Ltd, Lanka Orix Leasing Company PLC and a Merchant Bank in Bangladesh.

Mr. Perera is an Associate Member of the Chartered Institute of Management Accountants - ACMA (UK) and holds a BSc. (Business Administration) Special Degree from the University of Sri Jayewardenepura. He also serves as a Director of Hayleys Exports PLC with effect from December 2011.



### **Mrs. Kimarli Fernando**

*Director*

Mrs. Kimarli Fernando holds a LLB (Hons) from the London School of Economics and Political Science, London, UK. She is a Barrister-at-Law, Lincoln's Inn, UK. (1987) and an Attorney-at-Law, Sri Lanka. She was appointed to the Board of L B Finance PLC on 26th August 2008.

She is currently a Director of Vallibel One PLC, NDB Bank PLC and Delmege (Private) Ltd. She has more than 22 years experience in the field of banking and had held senior positions at Pan Asia Banking Corporation PLC, Standard Chartered Bank, Sri Lanka and Deutsche Bank AG, Sri Lanka. She has also served Deutsche Bank, AG Frankfurt, Germany and had been the first Asian to be transferred from Asia to Frankfurt.

Mrs. Kimarli Fernando is the author of "Company Law of Sri Lanka, 2nd Edition" which was the definitive reference book for students and practitioners of Company Law in Sri Lanka, published in 1992.



**Mrs. Shirani Jayasekara**

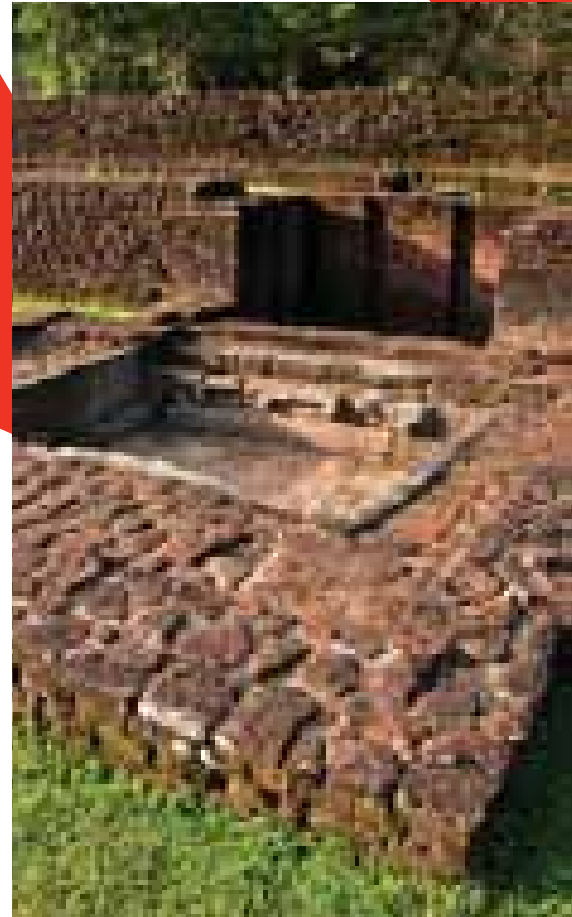
*Director*

Mrs. Shirani Jayasekara was appointed to the Board of L B Finance PLC on 25th August 2010. She is a Director of Asian Hotels PLC (AHPL) which is a subsidiary of John Keells Holdings PLC. She has over 30 years experience combining Finance and IT, Audit and Risk Management in Sri Lanka, Zambia and Bahrain.

She is currently attached to Carson Cumberbatch PLC, with oversight of the Group Internal Audit function, covering group interest in Sri Lanka, Indonesia and Malaysia.

She has been selected to serve on committees of the Institute of Chartered Accountants of Sri Lanka such as; the Annual Reports Awards Committee (Social Reporting) and Audit Committee of the Institute. She was a member of the Corporate Governance Committee which contributed to the process of developing a Code of Best Practices of Corporate Governance – issued jointly by the Securities and Exchange Commission and the Institute of Chartered Accountants of Sri Lanka in 2008.

She is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants UK.



*Dabbling in innovation beyond it's time, the water filtering system at the rock fortress was a marvel. Through the process that the water undergoes after straining through the top of the rock, it was purified with the removal of mud, dirt and other effluents.*

## Senior Management



**Mr. Ravi Yatawara**  
*General Manager*

B.Sc. Business Administration (Oklahoma State University USA)  
Joined LBF in 2010, counts over 17 years of experience in the finance industry.



**Mrs. Sandhya Silva Hasthimuni**  
*General Manager - Administration*

Joined LBF in 1984, counts over 25 years of experience in the finance industry.



**Mr. Manjula Gooneratne**  
*Deputy General Manager - Credit and Operations*

M.Sc. Finance (UK), B.Sc. (Hons.) (University of Colombo)  
Joined LBF in 2005, counts over 14 years of experience in the finance industry.



**Mr. Ransith Karunaratne**  
*Deputy General Manager - Factoring, Corporate Lending and Investments*

FCMA (UK), MBA (University of Sri Jayewardenepura)  
Joined LBF in 2010, counts over 17 years of experience in the finance industry.



**Mr. Athula Jayasekera**  
*Assistant General Manager - Business Development*

MBA (ICFAI University of India)  
Joined LBF in 1999, counts over 28 years of experience in banking and finance industry.



**Mrs. Shyamalie Weerasooriya**  
*Chief Financial Officer*

ACA (Sri Lanka), B.Sc. (University of Colombo)  
Joined LBF in 2001, counts over 11 years of experience in the finance industry.



**Mr. Marlon Perera**

*Assistant General Manager - Deposits*

Joined LBF in 1986, counts over 26 years of experience in the finance industry.



**Mr. Chethana Kahandugoda**

*Assistant General Manager - IT*

M.Sc Information Technology (University of Colombo)  
Joined LBF in 2010, counts over 12 years of experience in Information and communication technology, principally in the finance industry.



**Mr. Palitha Abeysekera**

*Assistant General Manager - Treasury and Planning*

ACA (Sri Lanka), ACMA (Sri Lanka), B.Sc. Accountancy and Financial Management (University of Sri Jayewardenepura)  
Joined LBF in 2011, counts over 11 years of experience in the finance industry.



**Lt Col Chandana Wijeratne**

*Assistant General Manager - Human Resource*

BA (Def) (Kothalawala Defense University)  
Joined LBF in 2011, counts over 22 years of experience in military in the fields of personnel management, management of resources, training and development and civil operations.



**Mr. Amal Silva**

*Senior Manager - Recoveries*

Joined LBF in 1987, counts over 24 years of experience in the finance industry.



**Mr. Roshan Jayawardena**

*Senior Manager - Marketing*

DipM, MCIM (UK), MBA (University of Sunderland UK), FSSM (UK),  
Joined LBF in 2007, counts over 21 years of experience in the fields of banking, finance, retail, telecom and food industries.

## Senior Management Contd.



**Ms. Harshani Mapatuna**  
*Senior Manager - Legal*

LLB (University of Colombo), Attorney-at-Law  
Joined LBF in 2004, counts over 14 years of experience in the finance industry.



**Mrs. Nirosha Amanulla**  
*Senior Manager - Kandy Branch*

Joined LBF in 1985, counts over 26 years of experience in the finance industry.



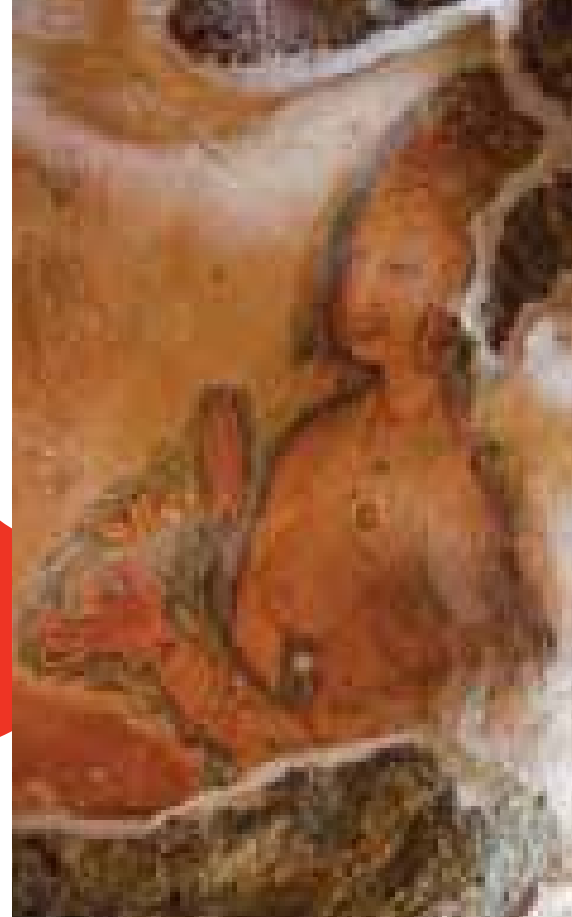
**Mr. Wiraj De Mel**  
*Senior Manager - National Sales*

Joined LBF in 2009, counts over three decades of experience in automobile industry in both local and foreign entities.



**Mr. Lakshman Wanniarachchi**  
*Senior Manager - Micro Finance*

MBA (ICFAI University of India), EDBA (University of Colombo)  
Joined LBF in 2006, counts over 15 years of experience in the finance industry.



*Stemming from the artistic traditions of the Ajanta cave frescoes in India, the Sigiriya frescoes are world-renowned as one of only types of secular art to have survived from the early Sinhalese Kingdoms. Created by an unknown artist the value and beauty of these paintings are a testament to a sophisticated and refined civilization.*



## THE MIRROR WALL

*The Mirror Wall is one of the most iconic attractions of Sigiriya. Created with a polished surface that would reflect the frescoes above, currently it is partially covered by the many verses scribbled on it by visitors to the rock from the 8th century. From love to irony, the themes of the messages scrawled on the wall were diverse, but many professed their wonder at its beauty and the wonder of the frescoes.*

Handwritten text in a script, possibly Indic, on a reddish-brown background with a cracked texture. The text is faint and difficult to decipher.

## Management Discussion and Analysis

**“The increase in policy interest rates, the inhibition of domestic credit expansion and raising domestic fuel prices are likely to slow down the country’s economic activity.”**

L B Finance PLC is a public limited liability company which was incorporated under the Companies Ordinance No.51 of 1938 as a private limited liability company on 30th May 1971, converted to a public limited liability company on 29th September 1982, listed on the Colombo Stock Exchange in January 1998 and re-registered as per the Companies Act, No.7 of 2007 on 6th June 2008 with PQ 156 as the new number assigned to the company.

L B Finance PLC is a finance company registered under the Finance Companies Act No.78 of 1988 and is a registered finance leasing establishment in terms of the Finance Leasing Act No.56 of 2000.

Today LBF is one of the leading players in the Licensed Finance Companies (LFC’s) sector and is estimated to be the second largest in terms of asset base. The company’s product portfolio mainly includes deposits, leasing, hire purchase, gold loans, micro finance, factoring and working capital management and Islamic financing.

As the macroeconomic and industry environments have a significant influence on the performance of the company, an economic overview of 2011 and a prognosis for 2012 is provided below, prior to the discussion of the company’s performance.

### Economic Environment

#### Global Economy

The world economy faced several significant challenges during the year, due to higher oil prices, a down turn in the Euro Zone and an escalation of the geo political tensions in the Middle East. According to IMF data, world output thus grew at a lower rate, at 3.9% in 2011, compared with 5.3% in 2010. Economies in developing Asia marked a decline in their average growth to 7.8% in 2011 compared to the strong recovery at 9.7% in 2010.

Oil prices remained high in the international market in 2011, although other commodity prices showed a deceleration towards the latter part of the year. The rising trend in commodity prices that began in the second half of 2010 extended into 2011. International oil prices, which remained at elevated levels in 2011, and were also above previous peak levels in mid March 2012 mainly due to supply side constraints, are expected to further increase during 2012 despite a slower than expected global recovery. Price increases in food and energy remain the main concern over the near term, particularly in the context of geopolitical factors in oil exporting countries.

As per IMF’s latest estimates, world output is likely to grow by 3.5% in 2012 compared to a 3.9% growth in 2011, whilst output in the Euro area is estimated to decline by 0.3% in 2012 reflecting a mild recession, compared with a growth of 1.4% in 2011. Growth is expected to resume in 2013 with output estimated to increase by 0.9% in 2013. Growth prospects in the United States are improving, underpinned by fiscal policy stimulus, accommodative monetary conditions, and gradual strengthening

of investment and private consumption. However, indicators such as a high unemployment rate caution us that this recovery is still fragile. IMF estimates the United States economy to grow by 2.1% in 2012 and by 2.4% in 2013, compared with a growth of 1.7% in 2011.

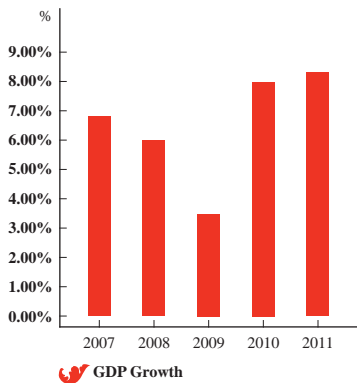
According to the world economic outlook of the IMF, growth estimates for developing and emerging markets as a whole have been revised down to 5.7% in 2012 compared with a projected 6.2% for 2011 and an actual of 7.5% in 2010. Growth is expected to reaccelerate to 6% in 2013. This downward revision for 2012 is on account of a likely decline in domestic demand due to macroeconomic policy tightening measures by these economies, a deterioration in the external environment and a resulting reduction in external demand. Asia is one of the world’s most trade-dependent regions, exporting everything from commodities such as metals and rice to sophisticated electronic products and cars. Nonetheless, growth would be robust relative to the developed economies as these economies are expected to be able to counter weaker foreign demand through appropriate policy measures. High credit and asset price growth remains a major concern in a number of emerging and developing economies while any disruption to the global oil supply due to geopolitical factors could dampen activity throughout the world. Developing Asia is estimated to grow by 7.3% in 2012 and by 7.9% in 2013 compared with a growth of 7.8% in 2011.

#### Sri Lankan Economy

##### GDP

Sri Lanka’s economy sustained its high growth momentum surpassing last year’s record high to grow by 8.3% in 2011. The peace dividend of improved consumer

and investor confidence in Sri Lanka; favourable macroeconomic conditions, increased capacity utilisation, expansion of infrastructure facilities and renewed economic activity in the Northern and Eastern provinces underpinned this growth. Sri Lanka's per capita income increased to US Dollars 2,836 from previous year's 2,400.



The industry and services sectors which recorded their highest rates of growth in 33 and 46 years respectively, were the key drivers of growth in 2011. The industry sector grew by 10.3% in 2011 compared with 8.4% in 2010, while its share in the total GDP increased to 29.3% in 2011 from 28.7% in 2010. The services sector, which is the largest sector in the economy constituting 59.5% of GDP, grew by 8.6% in 2011. Expansion of infrastructure services and increasing income levels helped to sustain the growth of the services sector. Services such as domestic and foreign trade, transport, tourism, financial services, and communication, also grew at a higher rate.

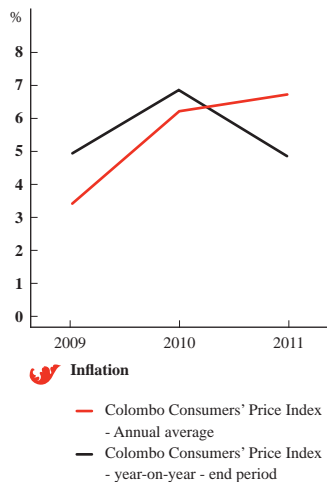
### Unemployment

A noteworthy achievement was that Sri Lanka's unemployment rate declined to reach the lowest ever rate of 4.2% compared with the 4.9% recorded in the previous year. This decline was associated with the healthy growth experienced

in all three sectors of the economy which facilitated more employment opportunities in 2011. The unemployment rate amongst age group of 15-19 years and 20-29 years dropped significantly to 15.4% and 12.4% respectively from 20.3% and 13.8% in 2010.

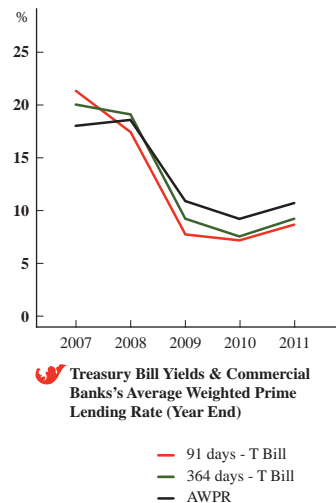
### Inflation

Inflation continued to remain at mid-single digit levels for the third consecutive year. In 2011, annual average inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), moved upward gradually since February 2011 to reach its peak level of 7.2% mainly due to an upsurge in prices as a result of supply disruption caused by adverse weather conditions that prevailed in major cultivation areas. However the inflation recorded at 6.7% by year end. Year-on-year inflation, which followed an increasing trend from February 2011, reached 8.9% in April 2011 and moderated thereafter recording 4.9% in December 2011.



quarters of 2011, the market interest rates including yields on government securities remained broadly stable. However, with the declining excess liquidity in the domestic money market, an upward movement in market interest rates and yields on government securities was observed during the fourth quarter of 2011.

In line with other interest rates, lending rates also remained stable during the first nine months of the year before moving upward in the last quarter of 2011. The weekly Average Weighted Prime lending Rate (AWPR), which is based on lending rates offered by the commercial banks to their most creditworthy customers, floated within a range of 8.92% to 9.96% until early November before increasing substantially to reach 10.77% in the last week of the year. The increase in the weekly AWPR during the year was 1.48%.



### Interest Rates

The government maintained a low interest regime during most of 2011, in order to encourage investments and expansion in economic activity. During the first three

### Exchange Rate

The rupee appreciated by 1.23% against the US Dollar in the first half of the year supported by substantial receipts on account of remittances, tourism



## Management Discussion and Analysis Contd.

and inflows to the capital and financial accounts. Whereas this was depreciated by 0.54% during the third quarter of 2011, due to the sharp increase in import expenditure, with the intention of improving export competitiveness, the Rupee was depreciated by a further 3% in November 2011. The Rupee depreciated against the US dollar by 2.59% to reach Rs.113.90 as at end 2011, whilst the annual average exchange rate against the US Dollar in 2011 stood at Rs.110.57 compared with Rs. 113.06 in 2010.

In the first quarter of 2012, the Central Bank of Sri Lanka abolished the Rupee trading band to allow the exchange rate to adjust more flexibly necessitated by the tremendous pressure on the country's balance of payments due to significant increase in import expenditure. This has resulted in sharper than expected depreciation of more than 11% against the US Dollar during the first quarter of 2012.

### Stock market

The price indices of the Colombo Stock Exchange (CSE) declined during 2011, resulting in a market correction following the continuous upsurge in prices since mid 2009. The All Share Price Index (ASPI) and the Milanka Price Index (MPI) dropped by 9% and 26%, respectively, by end 2011. Equity prices rose to an all-time high in mid February 2011 and moved downward thereafter, due to restrictions on credit extended by brokers, continued net foreign outflows, a liquidity drain on account of several initial public offerings, rights issues and private placements as well as the impact of the downturn in the global financial markets. The price indices of the majority of sectors declined in 2011. Consequently, the market Price to Earnings Ratio (PER) of the CSE declined from 25 at end 2010 to 16 as at end December 2011.

### Financial Sector

The performance of Sri Lanka's financial sector improved significantly during the year with the continuing expansion in economic activity. Financial stability continued to be strengthened, thereby supporting the growth momentum despite the uncertainties in global prospects and turbulence in international financial markets. Credit growth accelerated during the year and the performance of financial institutions improved with enhanced growth in assets, healthy profitability, higher capitalisation and lower risk levels. The regulatory and prudential framework governing the financial system was strengthened facilitating greater investor confidence and safeguards. The key regulatory reform measure during the year was the new "Finance Business Act" aimed at further strengthening the regulation of finance companies by enhancing powers to combat unauthorised deposit-taking and finance business activities. It also introduced new requirements for capital adequacy and liquidity for finance companies.

### External Sector

Sri Lanka's external sector which performed well during the first half of the year, faced several challenges during the latter half due to adverse developments in the global front and a rapid growth in imports. The growth of imports, at 50.7%, far outpaced the growth of exports which was at 22.4 %, leading to an unprecedented rise in the trade deficit in 2011. A combined effect of these factors adversely impacted the balance of payments thus necessitating urgent remedial measures. Central Bank's abolishment of the Rupee trading band to allow the exchange rate to adjust more flexibly was one of the key measures adopted during the first quarter of 2012. This has resulted in a

sharper than expected depreciation of the Rupee between 1st January and 31st March 2012, by 11.15% compared with a depreciation of 2.59% for the entire year in 2011, leading to considerable market uncertainty in the short term and adversely impacting importers.

### Outlook

The Sri Lankan economy is projected to grow at a slower pace of 7.2 % in 2012. This is a downward revision of original growth projections of 8 %, and is considering the likely impact of the developments in the domestic and global environment and the policy measures that were taken in early 2012 to curtail aggregate demand and strengthen the external sector. The increase in policy interest rates, the inhibition of domestic credit expansion and raising domestic fuel prices are likely to slow down the country's economic activity. The recent depreciation of the exchange rate is expected to curtail imports, and the expected increase in export competitiveness is likely to contain the impact of reducing external demand originating from the turbulent conditions in trading partner economies. Further, the high international energy prices, particularly of petroleum, the sluggish recovery of the global economy and weakening investor sentiments on a global scale too have been factored into the downward revision of the growth forecast for Sri Lanka for 2012.



**“The industry thus stands to benefit from increased public confidence in the industry and from enlarged volumes from the recovery of deposits previously lost to illegitimate operators.”**



Key Economic Indicator	2011	2010
GDP (percentage change)	8.3	8.0
GNP (percentage change)	8.4	7.9
<b>Sectorial Classification of GDP</b>		
-Agriculture	1.5	7.0
-Industry	10.3	8.4
-Services	8.6	8.0
<b>Inflation (percentage Change)</b>		
CCPI Annual Average	6.7	6.2
CCPI year on year end period	4.9	6.8
<b>External Sector</b>		
Trade balance (USD Millions)	-9,710	-4,825
Overall Balance (USD Millions)	-1,061	921
Exchange Rate year end (Rs/US\$)	113.90	110.95
Interest Rates (percent per annum at year end)		
Repurchase Rate (overnight)	7.0	7.25
Reverse Repurchase Rate (overnight)	8.5	9.0
<b>Treasury Bill Yields</b>		
-91 days	8.68	7.24
-364 days	9.31	7.55
<b>Lending Rates</b>		
Commercial banks' Avg. Weighted Prime Lending Rate (AWPR)	10.77	9.29
Commercial bank's Avg. Weighted Lending Rate (AWLR)	13.44	14.8
<b>Deposit Rates</b>		
Commercial banks Avg. Weighted Deposit Rate (AWDR)	7.24	6.23
Commercial banks 12 months fixed deposit rate (max.)	11.00	7.0

Source: Central Bank of Sri Lanka.

### Industry Overview of Non-Bank Financial Sector

The Non-Bank Financial (NBF) sector consisting of Licensed Finance Companies (LFC) and Specialised Leasing Companies (SLC) whereas, the Registered Finance Companies (RFC) sector was renamed as Licensed Finance Companies in 2011 as per the Finance Business Act No. 42 of 2011.

The provision of hire purchase and leasing facilities for vehicle financing remains

this sector's mainstay, complemented by the development role of promoting small and medium-sized enterprises (SME's) and the micro-financing industry.

This sector revived in 2011 driven by rising credit demand amidst a more conducive economic climate. The main indicators in respect of capital, profitability, asset quality, credit growth and deposit base recorded impressive growths. A few LFC's however, continued to experience a deterioration of capital

and a shortage of liquidity, somewhat dampening the overall performance of the sector.

During 2011, two Specialised Leasing Companies (SLC's) migrated to LFC status; the Non-Banking Financial (NBF) sector comprised of 39 LFC's and 16 SLC's as at end 2011. Many LFC's expanded their geographic reach and established full-fledged outlets and service centres in time to meet the rebound in investor confidence. The branch network of the entire NBF sector increased by 104 to 704 in 2011 out of which 28 branches were opened in the Northern and Eastern provinces during the year, reflecting the importance given by the sector to the growth potential in these areas.

Total asset base of the NBF sector grew by 26% during 2011 to Rs. 490 Mn. compared with a growth of 30% in 2010. The main contributory factor in the expansion of the asset base has been the growth of the accommodations portfolio. Accommodation grew by 46% to Rs. 388 Bn. as at end 2011, compared to a growth rate of 35% during 2010. Finance leases, hire purchases and other secured advances were the major sources of the increase in accommodations accounting for 43%, 30% and 15% respectively, of total accommodations. Among the products, finance leasing, other secured loans and pawning indicated high growth rates of 90%, 58% and 35%, respectively. Increased awareness and efforts to improve asset quality bore fruit in 2011, as reflected by the slower accretion of NPL's compared to previous years.

Notwithstanding the robust credit growth, most LFC's managed to maintain adequate capitalisation levels, underpinned by strong internal capital

## Management Discussion and Analysis Contd.

generation and capital infusions by way of initial public offerings to comply with the regulatory listing requirement by mid 2011. However, the industry's funding composition altered with borrowings gaining an increasing share, as deposit growth had not kept pace with credit expansion. Increased attractiveness of the booming stock market and lower interest rates were factors which reduced public demand for deposits in 2011. Also, many industry players increased their reliance on long term borrowings due to low interest rates thereby reducing near term industry mismatches. The total borrowing in the NBF sector, as at end 2011 reached Rs. 172 Bn., an increase of 24% compared to the growth rate of 49% recorded in 2010. Deposits however remained the main source of funding for the LFC's, accounting for 38%. Deposits grew by 27% to Rs. 186 Bn. as at end 2011 compared with the 22% growth in 2010 reflecting the regaining of confidence in the LFC sector.

The total amount of non-performing accommodations decelerated by 6% during 2011 to Rs. 20 Bn. from Rs. 21 Bn. in 2010. The single digit interest rate regime coupled with increased business volumes of the NBF sector continued to have a favorable impact on the earnings during 2011.

Liquid assets of the LFC sector recorded an increase of 52% to Rs.22 Bn. as at end 2011 from Rs.15 Bn. as at end 2010, having decreased by 22.5% in the previous year. The overall statutory liquid assets available in the LFC sector by end 2011 was a surplus of Rs. 3.5 Bn. compared to the stipulated minimum requirement of Rs. 19 Bn.

The sector posted a remarkable profit after tax of Rs. 16 Bn. during 2011 compared

to a profit of Rs.5 Bn. in 2010. This was mainly attributed to the improvement in net interest income due to the growth of core business of NBFIs, and the reversal of loan loss provisions due to reduced provisioning requirements and recoveries.

### Composition of Assets and Liabilities of NBFIs Sector

Item	2010 (a)		2011 (b)		Change (%)	
	Rs. Bn	Share (%)	Rs. Bn	Share (%)	2010	2011
<b>Assets</b>						
Accommodation	265.5	68.4	388.4	79.3	35.3	46.30
Finance Leasing	87.5	22.6	166.1	33.9	35.7	89.8
Hire Purchase	96.0	24.7	118.4	24.2	37.2	23.3
Investments	25.2	6.5	13.5	2.8	130.6	-46.4
Others	97.2	25.1	88.0	18.0	8.1	-9.5
<b>Liabilities</b>						
Total Deposits	146.1	37.7	186.0	38.0	22.0	27.3
Total Borrowings	138.9	35.8	171.6	35.0	49.3	23.5
Capital Elements	48.1	12.4	77.0	15.7	16.8	60.1
Total Funds	333.2	85.9	434.6	88.7	31.1	30.4
Other	54.7	14.1	55.3	11.3	27.2	1.1
Total Assets/ Liabilities	387.9	100.0	489.9	100.0	30.6	26.3

Source : Central Bank of Sri Lanka

- (a) Revised  
(b) Provisional

### Developments in the Supervisory and Regulatory Environment

The Finance Business Act No. 42 of 2011 was enacted in November 2011 to strengthen the regulation of finance companies. The new law which replaces the Finance Companies Act has broadened the definition of "deposits" and "finance business" and has empowered the

regulator with more investigative powers and enhanced penalties for offences. Three new directions were issued to LFCs, with respect to assessment of fitness and propriety of directors and officers performing executive functions; reporting requirements, introducing

sanctions for non-compliances; and increasing the minimum core capital to Rs.400 Mn. All LFCs were required to list on the Colombo Stock Exchange (CSE) by 30th June 2011.

The "fit and proper" criteria imposed on senior management of LFC's will assist in preventing another crisis as in 2009 and also narrows the gap between regulations governing LFC's and commercial banks. The industry thus stands to benefit



from increased public confidence in the industry and from enlarged volumes from the recovery of deposits previously lost to illegitimate operators.

The introduction of sanctions for not reporting spurs greater transparency and governance and would benefit all legitimate players of the industry and the public by facilitating greater awareness.

Raising the minimum core capital requirement from Rs. 200 Mn. to Rs. 400 Mn. with a deadline of December 2014, is a positive step that would strengthen the industry in the light of much improved profitability in 2011 that had rendered better internal capital generation. However, smaller family held LFC's could find it challenging to meet the requirements.

#### Sector Outlook

The LFC industry's asset quality is expected to be pressured, thus testing the strength of underwriting and collection procedures against the backdrop of rising interest rates and inflationary pressures. With the rising interest rates the industry's credit assets are estimated to expand at a slower pace than the previous year.

The ceiling imposed on commercial banks' credit disbursement, combined with rising interest rates would also influence the LFC's demand for alternative sources of credit to fuel their rapid loan growth. Thus, deposits are expected to gain prominence whilst an increased focus on subordinated debt and better internal capital generation are envisaged to preserve the industry's overall capitalisations at adequate levels. Preserving margins amidst rising interest rates and higher costs of funding would be a key challenge for the industry.

Moreover, commercial banks moving into the traditional spheres of LFC's such as micro leasing segment could result an intense competition for the LFC's especially due to the capacity that banks have to lend at lower rates.

Despite these challenges, the demand for lending with the LFC sector will remain strong due to certain advantages such as the relative ease with which they can be obtained due to less stringent underwriting criteria.



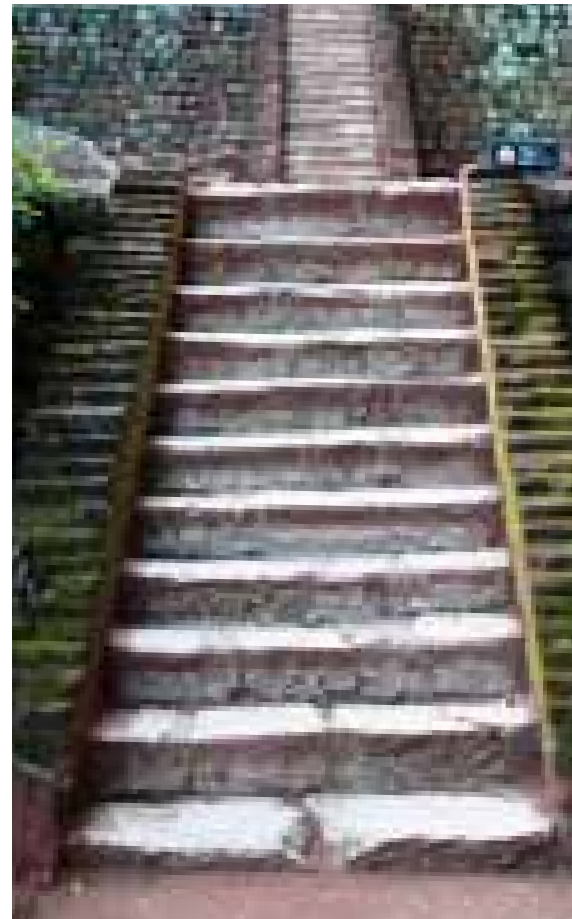
**“brand stability, excellence and strength, which have stood the test of time, were once again a factor in the company's excellent performance, and will continue to be so in the years to come.”**

#### The Company

##### Timely Strategies

An outstanding performance by the company in 2011 helped pave the way for exceptional results in the year under review. These results were an outcome of our stability and enhanced growth made possible by timely strategies. Expansion of our distribution channels, an aggressive marketing strategy, improved recoveries and careful lending also supported these achievements.

The key attributes of the LBF brand stability, excellence and strength, which have stood the test of time, were once again a factor in the company's excellent performance, and will continue to be so in the years to come. Our commitment to ensuring that our profitability and



*Creating safety and being a guide to the many visitors to the rock were the numerous steps that line the rock palace. All of them have been covered with a layer of moonstones that would light up during the night, illuminating the stairway for evening revelers.*

## Management Discussion and Analysis Contd.

growth is sustainable is a key factor in the confidence and trust we have earned amongst our customers and investors. This commitment will see us continuing with the strategies that have served us well in the past while continuously reviewing and amending those that need to adapt to changes in the business environment.

A key strategic strength for the company has also been the synergies it benefits from by operating under the Vallibel One group.

Our strategies and the impact of the changing dynamics in the current economic environment of 2012 have been dealt with adequately in the Managing Directors' Review.

### Expansion of the Distribution Channels

The rapid expansion of our distribution channels which includes branches and gold loan centers saw the largest expansion drive in 2011 in the LFC sector with a total of 20 new distribution channels opened across the country. The company also recorded another first by opening 10 distribution channels; the highest number to be opened within a single day, 4 of the 10 channels were opened in the North and East reflecting the high growth potential we have identified in the backdrop of the post war economic revival that is taking place in these areas. Our distribution channels follow a concept of a 'One Stop Shop' that meets diverse financial requirements of customers of all age groups whereas our gold loan centres offer customers the convenience of being open seven days of the week.

Our branch network accounted more than 70% of overall credit growth achieved by the company, and contributed over 42% to the deposit base during the year.

### Province wise breakdown of distribution channels

Province	2012	2011	2010	2009
Central	10	9	8	6
Eastern	9	7	4	-
Northern	7	3	-	-
North - Central	5	3	3	3
North - Western	6	5	5	3
Sabaragamuwa	5	4	4	4
Southern	7	6	6	5
Uva	5	5	4	3
Western	58	50	41	33
<b>Total</b>	<b>112</b>	<b>92</b>	<b>75</b>	<b>57</b>



The company opened 14 new branches including the corporate office whilst 17 gold loans centres were upgraded as fully fledged units.

On 5th January 2012, LBF moved into a new corporate office located in Dharmapala Mawatha in Colombo 3. This seven storied landmark in the Colpetty skyline would serve as our hub and the cutting edge ICT platform will make it the nerve centre for our island wide operations. The state of the art building is also a tribute to the value we place on service excellence to our customers and

to our forty year history. The building provides dedicated floors or spaces for personalised financial services, VIP gold loan services, and a state of the art auditorium. The auditorium will mainly be used for training and development of our 1,600 strong employee team. The ambience and facilities of this new building will also support our plans to expand products and services to the higher end clientele in the future.

### New Product Offerings

The company has today moved beyond its initial role as a pioneer and a provider

of financial services to an enhanced role to offer solutions in areas such as savings and margin trading.

### Savings

The company recently announced a new addition to its portfolio the L B Savings Accounts which offers “benefits without boundaries”, as the tag line indicates it truly reflects a no-holds-barred approach to saving and earning returns. It provides savers a secure saving of funds without the pressure of a minimum balance requirement and the added benefit, and comfort of knowing that the high interest can be enjoyed regardless of the balance maintained.

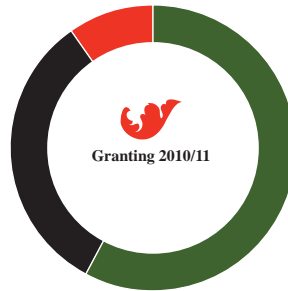
The company also launched the ‘Kids Savings Zone’ account for children and the ‘Senior Savings’ account for senior citizens. Both come with special benefits for their target group and would offer customized solutions which are need specific.

### Margin Trading

In line with our objective of becoming a “major player in the financial sector”, the company launched margin trading operations in May 2011. Margin trading is a flexible financial tool, which provides leverage for stock market investors, to grow their share portfolio. It enables investors to take advantage of attractive opportunities open to them in the market and in turn increase their returns.

### Lending

The company’s loan expansion during the year under review was driven mainly by its key segments, leasing, hire purchase, vehicle loans and gold loans. The growth in the leasing and hire purchase segments stemmed mainly from micro leasing and motor vehicles.



Lease	57.93%
Hire Purchase	32.37%
Vehicle Loans	9.70%



Lease	72.88%
Hire Purchase	17.80%
Vehicle Loans	9.33%

### Leasing

The reduction of duties on imports of motor vehicles, provided a significant boost to the leasing industry and the company has seen a sharp growth in this sector.

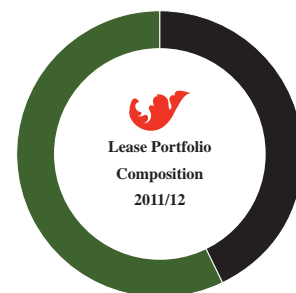
The lease portfolio grew year on year by 78.36%; which has reached to Rs. 17.5 Bn. However the portfolio for the last financial year recorded a growth of 83% which amounted to Rs. 14 Bn. The recent expansion in the lease portfolio stemmed mainly from micro leasing.

The competitive edge held by the company in terms of speed of service, ease of transacting, excellent customer care and rapport with customers; and the constant monitoring which helped

in maintaining a higher recovery ratio, were factors which supported this result and enabled the company to be a leading player in this market.

### Micro Finance

Micro finance is intended to provide financial support to individuals who have limited access to credit facilities. Priority is given to self-employed and low and middle income earners who are eager and have sufficient income levels to repay a loan. These loans play an important role in the country’s economy by supporting the government’s efforts to grow the SME sector and in bridging the wide income disparities. The most common micro finance product is micro leasing which includes three-wheelers and motor bikes. The company is today one of the largest players in the three-wheelers financing market.



Micro lease	47%
Other lease	53%

Our island wide branch network coupled with the competencies and friendliness of our staff have helped us build strong relationships with customers and to reach out to potential customers; and it has also been a key factor in the strong performance of this business segment.

The micro leasing segment of our lease portfolio has been an attractive market owing to its income generating nature, as



## Management Discussion and Analysis Contd.

bulk of three wheelers are used as taxis, and the low delinquency rates hence. This market has experienced rapid growth during the recent past. The portfolio which stood at Rs. 5 Bn in the last year, has now surpassed Rs.8 Bn. recording a growth rate of 42.06% YoY.

However the expansion into this market will now be tempered by a more cautionary approach in a changed environment of higher interest rates and increased vehicle import duties introduced in 2012, which are bound to have an impact in the year ahead. Expected rise in cost of living coupled with the above two changes could result in a higher rate of delinquencies in this hitherto lower risk segment. The limited opportunities this segment has to earn a higher income to bridge the gap of higher costs of living could augment the impact of a higher lease payment on a three wheeler. More stringent lending procedures and recoveries will thus have to follow suit in the year ahead.

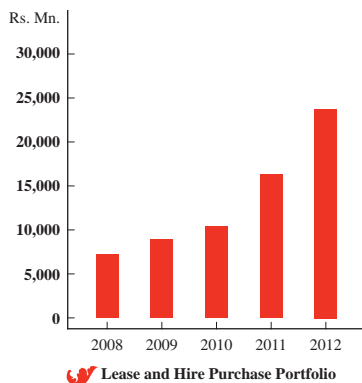
Supporting the SME sector through our micro leasing solutions will continue to be a key element of our future strategy and we foresee expanding our portfolio in this segment to support thrust areas of Sri Lanka's economy.

### Hire Purchase

Hire purchase remained a key product in the company's portfolio and the one of which the brand has been closely identified since its inception. The non applicability of Value Added Tax (VAT) for registered vehicles used over 12 months in Sri Lanka is the main feature of this product.

The performance of this product segment declined during the year due to the growth in the lease portfolio. And this

mainly due to the reduction in import duties and the ensuing increases in demand for unregistered vehicles. The total hire purchase granted decreased by 20.87% which has reached to Rs. 3.6 Bn. compared with the last year's increase of 64.33% which amounted to Rs. 4.6 Bn. The year ahead is likely to see a reversal of this fact due to the sharp rise in duties on the import of vehicles. The resulting increase in prices for unregistered vehicles would thus adversely impact the lease portfolio whilst increasing the demand for the hire purchase segment. Thus, a change in the lending mix is expected due to a change in the portfolio.



### Gold Loans

Gold loans have emerged to be a pivotal line of business in the company portfolio; with a significant contribution to profitability and consistent growth over the years. Rising gold prices and the quick disbursement of advances have made gold loans an attractive alternative to other finance solutions for individuals and the SME sector. Moreover a 10% risk weight gives an advantage to the company in computation of capital adequacy ratios, compared to other lending products.

The portfolio base increased by 49.83% YoY to Rs. 8.4 Bn and the corresponding interest income increased by 37.76% YoY

to Rs. 1.4 Bn. during the year ended 31st March 2012.

Several strategies adopted over the past few years have facilitated this growth. One amongst them was opening of multiple distribution channels in metropolitan areas whereas 47 distribution channels were specifically allocated for gold loans, whilst another was making the gold loan service open to customers all seven days of the week. Given the unplanned nature of demand, and the urgency of need which is often a characteristic of demand for gold loans, these strategies have proved to be particularly beneficial.

Implementation of new software developed in house with enhanced security features has brought about several advantages to the internal processes and to enhancing the service to our customers.

The company will intensify its focus in this lucrative market with an expansion of its distribution channels development. In addition, a few new products will be introduced in the coming year.

### Islamic Finance

Branded as Al Salamah, the Islamic Finance Unit was launched in June 2010. The non interest earning Islamic financing products offered by the company includes Mudharabah investment accounts based on profit sharing, Ijarah Islamic leasing and Murabaha, cost plus mark up sales contracts.

The operations of Islamic finance are governed by the Islamic Sharia Law and all transactions are closely monitored by a qualified Sharia Supervisory Council. The certificate of Shariah compliance was awarded to the company by the Sharia



Supervisory Council during the year for its business being in accordance with the principles of Islamic finance.

Concurrent to the opening of a channel dedicated to Islamic finance, in Maradana, the company, in addition to monitoring by the independent Sharia Supervisory Council, made initiatives to further strengthen its Sharia compliance.

The total granting of Ijarah and Murabaha products during the year was Rs. 1.4 Bn. compared with Rs. 574 Mn. for the nine month period of 2010. However, Mudarabah deposits declined by 50% during the year.

One of the key competitive advantages that the company has in this segment is that we offer at all our island wide distribution channels are able to offer Islamic financing solutions.



### Factoring and Working Capital

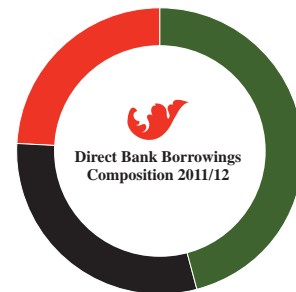
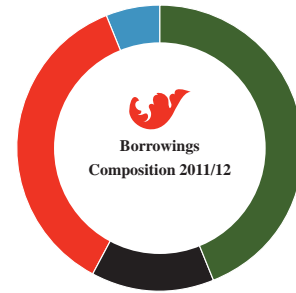
Factoring is a time-tested financial tool utilised by companies worldwide to finance working capital requirements. Factoring involves the purchase of account receivables by the factoring company for immediate cash. The benefits of factoring are three fold; improved cash flow, professional sales ledger management and collection of receivables.

In short span of one year the company factoring has established itself among the top three factoring service providers in the Island. In this period, our factoring portfolio crossed the Rs. 1 Bn. milestone, to reach 1.1 Bn. surpassing most of the long standing factoring service providers in the Island. The strategies which supported this high growth were the company's focus on a high quality service delivery, customised solutions supported by technology, aggressive personal selling and advertising. The company has deployed a state of the art factoring system with advanced risk management techniques and management information, and the clients have online access to the system 24/7.

The factoring portfolio mainly remained concentrated in the Western Province with limited penetration into other provinces. The company has identified opportunity for growth into other provinces through its island wide branch network in the future. The company will continue to service the working capital requirements of the SME sector geographically, widening our reach through our island wide branch network, and are confident that we can maintain the same levels of growth in the coming financial year.

### Borrowings

Borrowings comprises of bank sources, securitised borrowings, syndicated loan facilities and other debt instruments; whilst bank sources include overdraft facilities, money market loans and term loan facilities. Other debt instruments mainly include commercial papers. The total borrowings comprise of 67% long term whereas short term comes to 33%.



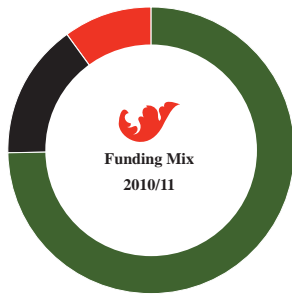
During the year under review, the company relied more on borrowings to fund its loan expansion, and accordingly, the contribution of borrowings in the funding mix grew to 25% in the year under review from 15%, the previous year. Low interest rates that prevailed, and excess market liquidity during the first half of the financial year, were key factors that made borrowings more attractive as a source of funds.

The recently imposed ceiling of 18% on the commercial banks' credit disbursements, signals a need for our deposit base to constitute a major share of our funding sources in the year ahead. Hence, the reliance on commercial bank borrowings is likely to be reduced in the next financial year.

## Management Discussion and Analysis Contd.



■ Deposits 65.26%  
 ■ Borrowings 24.78%  
 ■ Equity 9.96%



■ Deposits 74.86%  
 ■ Borrowings 15.17%  
 ■ Equity 9.97%

### Debenture

During the year Rs. 545 Mn. unsecured redeemable subordinated 5 year debentures were issued at rates of 12.68% annually and 12.30% bi-annually.

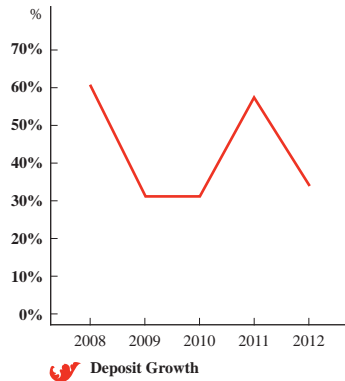
### Deposits

Fixed deposits, certificate of deposits and savings deposits constitute the company's deposit base. The strength of our deposit mix enabled us to offer a range of services in lending.

Despite the low interest rates that prevailed during the first three quarters of the year under review, the company recorded a commendable growth through prudent mobilisation strategies.

During the year the company's deposit base surpassed Rs. 26 Bn. Our deposit

mix remained virtually unchanged from 2011 with fixed deposits contributing to 98% of the total deposits.



### Fixed Deposits

Fixed deposits grew by 33.52% during the year and continued to account for the bulk of the company's funding base. The reliance on the deposit base as a source of funds however, marginally declined to 65%, from 75% the previous year. Lower interest rates and the more increased attractiveness of equity investments in a booming stock market were also factors which moderated the growth in deposits.

Given the changing dynamics in an environment of tighter monetary policy, and hence higher cost of borrowing, augmented by the ceiling on credit disbursement by banks, we will focus on increasing our deposit base in 2012. Several deposit mobilisations have been initiated for the new financial year that has begun. A special Avurdu promotion which was carried out harnessing

significant value of deposits in 2011 is to be repeated this year as well.

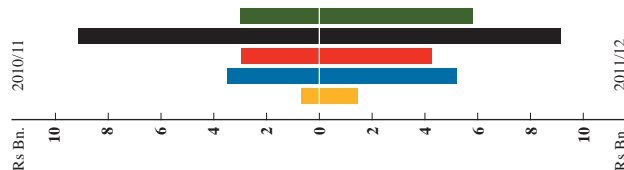
Our deposit mobilisation efforts during the year under review were directed at expanding the company's medium and long term deposit base, reflecting the company's well planned strategies to minimize the maturity mismatches. As a result, 22.5% of the company's deposits as at year end comprise of deposits of above one year, compared with 15.63% in the previous year.

The company was able to achieve a commendable growth of 21.06% in the no of its fixed deposit customers bringing total no of fixed deposit customers to 27,265. This increase compares with a 9.05% growth in the previous year. A sense of goodwill and warmth amongst the public, where customers and public perceived the company as a considerate organisation, in addition the stability associated with the brand were also factors which spurred customers to entrust their money to LBF.

The special senior citizen scheme offered by the company in which senior citizens are offered interest of 1% above published rates also supported the fixed deposit mobilisation efforts of the company.

### Certificate of Deposits

Certificates of Deposits (CD's) constitute an insignificant 2% share of deposits. Prevailing laws which require to "Know-Your-Customer" permitting institutions to accept deposits only upon proper



Fixed Deposit Base Composition

■ Above 1 Year  
 ■ 1 Year  
 ■ 6 Months  
 ■ 3 Months  
 ■ 1 Months



customer identification is likely to be a factor behind the low volume of CD's as a savings option.

### *Savings Deposits*

The company announced a brand new addition to its portfolio, in February 2012, the 'LB Savings' which offers 'benefits without boundaries'. The new scheme offered customers 8.66% interest rate per annum, regardless of the balance they hold in the account. A minimum cash balance is hence not a requisite. The company has also set a trend in the industry by liaising with Sampath Bank PLC to enable customers to share the Sampath Bank ATM facilities which are widespread across Sri Lanka.

The company's efforts at mobilising savings deposits have been a success with the base as at 31st March 2012, registering a volume of Rs. 58 Mn. which is within a mere one month. Similarly the number of accounts also surpassed 2,000 achievement of which has been supported by one of our finest offerings warm customer relations. The newly launched saving accounts will be available at company's extensive island wide network.

The likelihood of a reduction in the availability of long term funds during the next financial year could pose some challenge to the LFC sector as a whole. Such an environment hence points to a need for our deposit base (vis a vis bank borrowings) to constitute a higher share of the source of funds in the year ahead. The strong fundamentals combined with the stability and dynamism; will find the company well poised to do so with expanded deposit mobilisation efforts in the year ahead.

### **Support Services**

#### **Information Technology (IT)**

Information Technology (IT) and Information Communication Technology (ICT) is a vital cog that moves our

enterprise in today's market. For providing timely and accurate information that enables better and faster decision making, to serving our customers' needs better, and providing speedier solutions and service, to anticipating market needs, or for developing and motivating employees; the IT systems are an essential.

Since the introduction of a web portal in 2010, the company enhanced its ERP system in 2011, with further integration and improving on line availability of information, thereby facilitating a seamless sharing of knowledge. Employees are now able to access information such as the daily price of gold or an interest rate on a product, on line on their intranet. The integrated modules which currently provide end to end solutions are the modules for leasing, hire purchase, fixed deposits, power drafts, gold loans, factoring and general ledger.

The developments during the year; a savings system to facilitate the new savings account introduced ; ATM connectivity with Sampath Bank to enable company's savings account holders to use a Sampath Bank ATM at any location in the country. The introduction of a margin trading system, that is linked to most of the stockbrokers.

As we moved into our corporate office, the company enhanced its communication system to an Internet Protocol (IP) system supplied by Cisco systems, enabling IP facilities such as video conferencing.

The plans for the next year include a Document Management System to digitize all agreements, mailing solution, an online Vehicle Sales Portal, an implementation of BNA (Bulk Note Accepting) ATMs at company premises, and achieving a paperless board room.



*Relying on natural resources and simple physics, the water fountains in the rock fortress were powered by the accumulation of water from the top of the rock. Gaining momentum as it rushed down, enough pressure would be created to allow to the water to shoot through the holes creating a beautiful and relaxing sight at the varied water gardens.*



## Management Discussion and Analysis Contd.

### Human Capital

A cornerstone of the company's success has been the dynamism of its people, while continuing to focus on recruiting the best and on developing and retaining them.

A knowledge sharing culture is nurtured and supported throughout the organisation, and training programmes conducted by in house as well as external trainers is an important element of our HR strategy. A performance driven culture has resulted in employee recognition and remuneration that is performance based.

A comprehensive account of our HR practices, developments during the year and strategy is provided in the sustainability section of this report on pages 88 to 93.

During the year we further strengthened our team and the organizational structure by bringing in more professionals to head key management functions of strategic importance. The recruitments included a Head of Human Resources and a Head of Treasury and Planning.

One of the challenges that the company faces and is taking steps to address is the high rate of staff turnover due to intense competition within the industry and a new employment opportunities created by many new business entrants to the LFC sector.

The total number of employees that make up the family of LBF in 2012 increased to 1,679, from 1,264 in 2011. The percentage of female employees at 39% was the highest over the last four years. We foresee an increase in our employee strength in the year ahead on account of our branch expansion, the development of new products and the growth of existing products.

### Marketing

Our customer centric approach permeates our corporate culture and is nurtured in every department. We see the main objective of our marketing team as creating value to customers and thus to shareholders, through our products and services. One of the key responsibilities of our marketing expertise is to advise and influence the leadership of the company on product and service development and in formulating future strategies of the company.

Recognising the influence that a marketing team must have on the entire workforce of an organisation, the team's involvement during the year ranged from product and service development, to process improvements, which even translated into a detail such as how an invoice can be made more reader friendly.

The company also has an internal team of market researchers whilst services of external consultants are also obtained when the scope of research requires it. A number of new measures were added during the year to enhance the ease of doing business with us.

Some of the key initiatives during the year include; the introduction of a "Mystery Shopper" with the help of an outsourced team to monitor service delivery and the implementation of a more customer oriented service approach with a dedicated team to handle customer grievances, complaints and suggestions.

The company also continued its brand building with focus on brand establishment, creating greater brand awareness as well as the development of product brands with logos for each product.

### Recoveries

The recoveries unit of the company has been at the forefront of our efforts to achieve a sustainable long term growth. The unit has expedited and simplified the recovery process through greater collaboration with the regional and branch network as well as the credit and legal divisions.

Each distribution channels were allocated an experienced and dedicated officer to manage the recoveries within their geographical area. Regular meetings between the recoveries unit and recovery officers led to specific recommendations and timely decisions which contributed to the improvement in our lower NPL ratio during the year.

### Awards and Accolades

The company won several accolades during the year and these are valuable endorsements of our efforts to reach excellence in all we do.

### Rating Upgrade

Reflecting the improvement in the company's assets and healthy financial performance as reflected by wider margins and improved profitability indicators, the RAM Ratings upgraded the long term and short term financial institutions rating to A- and P2 (stable), from BBB+ and P2 (stable) respectively. With this year's ratings upgrade, LBF has achieved ratings upgrades in the investment grade for three consecutive years as listed below.



## LBF's Long Term Short Term Ratings Outlook

Financial Institution's Rating	Long Term	Short Term	Ratings Outlook
2009/10	BBB	P3	Stable
2010/11	BBB+	P2	Stable
2011/12	A-	P2	Stable

### Rating Definitions

#### A

Adequate safety for timely payment of interest and principal. More susceptible to changes in circumstances and economic conditions than debts in higher rated categories.

#### BBB

Moderate safety for timely payment of interest and principal. Lacking in certain protective elements. Changes in circumstances are more likely to lead to weakened capacity to pay interest and principal than debts in higher-rated categories.

#### +(plus) or – (minus)

For long-term ratings, RAM Ratings applies the signs plus (+), flat and minus (-) in each rating category from AA to C. The sign '+' (plus) indicates that the rating ranks at the higher end of its generic rating category; and the sign '-' (minus) indicates that the rating ranks at the lower end of its generic rating category."

#### P2

A financial institution rated P2 has an adequate capacity to meet its short-term financial obligations. The financial institution is more susceptible to the effect of deteriorating circumstances than those in the highest-rated category.

#### P3

A financial institution rated P3 has a moderate capacity to meet its short term financial obligations. The financial institution is more likely to be

weakened by the effects of deteriorating circumstances than those in the higher-rated category. This is the lowest investment-grade category.

### ISO Certification

The company obtained ISO certification the internationally recognized certification awarded to companies that have implemented quality Management Systems which meet or exceed the standards recognised by the International Standards organisation. The company was awarded the highly sought after certification by the global leader and innovator in inspection, verification, testing and certification services, SGS UK Limited.

### Annual Report Awards

The company won the bronze award in the finance companies sector at the annual report competition organised by the Institute of Chartered Accountants of Sri Lanka (ICASL). However the company won the silver award in 2010. These awards are a reflection of our commitment to the communication of financial as well as non-financial information to our stakeholders and to the excellence we strive for in meeting reporting standards and accepted accounting practices and legislative requirements.

### Adopting Sri Lanka Accounting Standards (SLFRS/LKAS)

In line with the global trend in enabling a common language for financial reporting process, Institute of Chartered Accountants (ICASL) adopt International Financial reporting Standards (IFRS) by

issuing Sri Lanka Accounting Standards SLFRS and LKAS for annual financial periods beginning on or after January 1, 2012. It is required the Sri Lankan Specified Business Enterprise to convert to Lankan Accounting Standards – SLFRSs and LKASs. L B Finance PLC is required to adopt SLFRSs/ LKASs with effective for interim and annual periods commencing April 1, 2012 and will include the preparation and reporting of one year of comparative figures, including an opening balance sheet as at April 1, 2011.

Converting to SLFRS will not merely be an accounting exercise; it is an exercise in change management. Therefore the company has adopted the following methodology consists of the following elements;

1. Diagnostic phase
2. Design and planning phase
3. Solution Development phase
4. Implementation phase
5. Post- Implementation phase

The diagnostic phase is now completed and in the processes of the finalization of accounting decisions by management and approval by the Board and Audit committee.

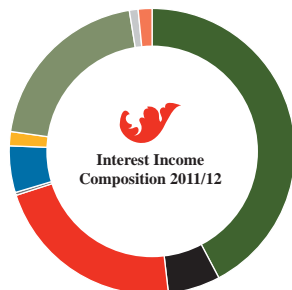
As per the preliminary assessment on the implementation, adoption of LKAS 32- Financial Instruments Presentation, LKAS -39 Financial Instrument Recognition and Measurement and SLFRS 7 – Financial Instruments Disclosures will bring changes particularly on areas of Financial instruments classification, measurement basis used and impairment accounting processes. In order to facilitate such changes, the company is in the processes of establishing internal control and system requirement. Thus, the company now focused on finalising implementation decisions regarding first time adoption and ongoing accounting policy choices.

## Financial Review

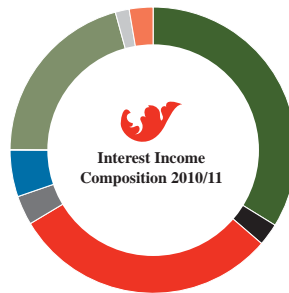
The company completed another successful year achieving tremendous growth in new business executions and profitability. The company's aggressive marketing strategies resulted in an increase in executions which enabled gross income to increase by 42.69% to reach Rs. 7.85 Bn. One of the company's key strategies for the ambitious growth it targets has been the rapid expansion of its distribution channels, and during the year LBF opened 14 new branches and upgraded 17 gold loans centres to be fully fledged units.

### Interest Income

The company's interest income in 2012 amounted to Rs. 7.23 Bn. compared with Rs. 5.13 Bn. in 2011. During the year under review, leasing emerged the highest interest income generator, accounting for 42.27% of interest income which amounted to Rs. 3.05 Bn. compared with Rs. 1.73 Bn. in the previous year, while the hire purchase segment which constituted 21.86% of interest income contributed Rs. 1.58 Bn. compared to Rs. 1.54 Bn. the previous year. Further, LBF's star product, gold loans which accounted



Interest on Leases	42.27%
Interest on Loans	5.91%
Interest on Hire Purchase	21.86%
Interest on Trade Finance	0.33%
Overdue Interest	5.27%
Interest on power draft & Factoring Income	1.60%
Interest on Gold Loans	20.21%
Interest on Bank Deposits	0.99%
Interest on Treasury Bills	1.57%



Interest on Leases	33.78%
Interest on Loans	2.53%
Interest on Hire Purchase	30.11%
Interest on Trade Finance	3.32%
Overdue Interest	5.28%
Interest on power draft & Factoring Income	0.04%
Interest on Gold Loans	20.67%
Interest on Bank Deposits	1.57%
Interest on Treasury Bills	2.69%

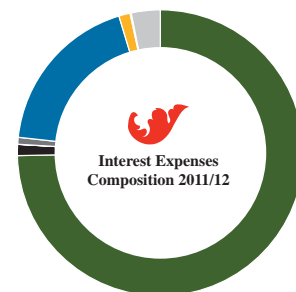
for 20.21% of interest recorded a remarkable growth of 37.76% increasing to Rs. 1.46 Bn. during the year.

### Interest Expenses

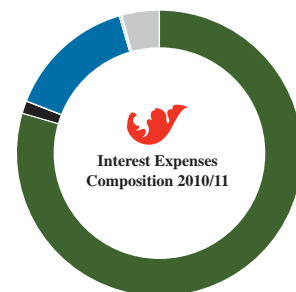
During the year under review the management focused on maintaining competitive deposit rates in the industry. The total interest expenditure for the year reached Rs. 3.55 Bn. compared to previous year's Rs. 2.41 Bn. Overall interest expenditure increased by 46.87% due to an increased demand for funding to support the overall increase in new business executions. Identifying the importance of other sources of financing, LBF strategically increased its exposure to borrowings to take advantage of reduced interest rates and excess market liquidity during the first half of the financial year.

Interest expense on fixed deposits increased by 37.96% to Rs. 2.65 Bn. Interest expense on loans increased by 87.82% to Rs. 659.93 Mn., from Rs. 351.35 Mn. the previous year. Deposits, the main contributor, accounted for 75.97% of total interest expense, albeit

decreasing marginally, by 4.97% over the previous year and contribution from loans to interest expenses accounted 18.58%. Other borrowing sources accounted for the remaining 5.45% of total interest expense.



Interest on Fixed Deposits	74.69%
Interest on Certificates of Deposit	1.27%
Interest on Saving Deposits	0.01%
Interest on Commercial Papers	0.77%
Interest on Loans	18.58%
Interest on Bank Overdrafts	1.27%
Interest on Finance Leases	0.14%
Interest on Debentures	3.27%



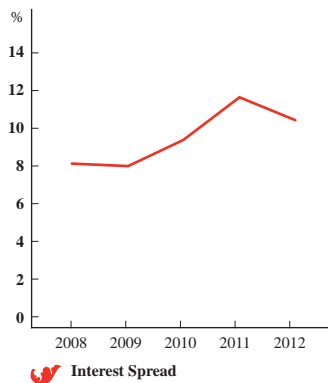
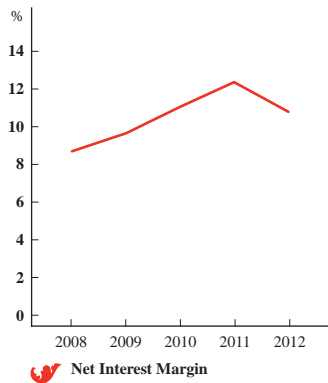
Interest on Fixed Deposits	79.51%
Interest on Certificates of Deposit	1.43%
Interest on Saving Deposits	-
Interest on Commercial Papers	-
Interest on Loans	14.53%
Interest on Bank Overdrafts	0.19%
Interest on Finance Leases	0.08%
Interest on Debentures	4.26%

### Analysis of Interest Margin and Interest Spread

Interest spread decreased to 10.48% during the year compared with 11.63% in the previous year. Although the company has maintained a wide net interest margin,



it was slightly impacted by competitive lending rates and the downward re-pricing of loans, and was further affected by the deterioration in the net interest margin ratio to 11.39%, from 12.96% during the previous year.

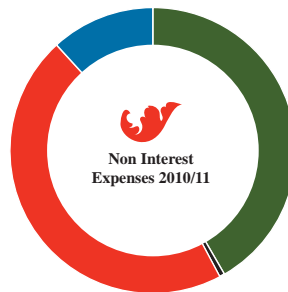


### Analysis of Non-Interest Income

Non-interest income improved significantly during the year to reach Rs. 574.38 Mn. compared with Rs. 353.64 Mn. in 2011. An analysis of the constituents of non-interest income, reveals a 86.49% contribution from fee based income, compared with a 68.58% contribution in 2011, and all other income streams contributing the remaining

13.51% of total non-interest income, amounting to Rs. 77.59 Mn. However, the reduction in the market value of quoted shares, to Rs. 92.74 Mn., due to the declining performance of the stock market affected the other income segment of non-interest income.

### Analysis of Non-Interest Expenses



Staff Costs	41.67%
Provision for Staff Retirement Benefits	0.58%
General & Administration Expenses	46.00%
Provision for fall in value of Investments, Bad and Doubtful Loans and Write Offs	11.75%



Staff Costs	48.14%
Provision for Staff Retirement Benefits	0.64%
General & Administration Expenses	46.74%
Provision for fall in value of Investments, Bad and Doubtful Loans and Write Offs	4.48%

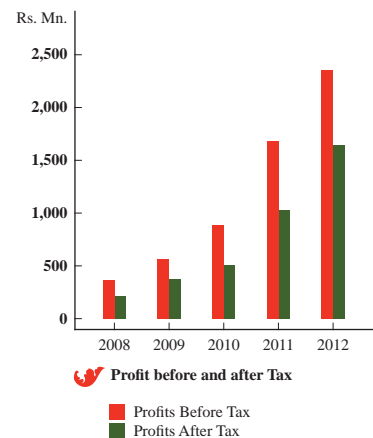
Non-interest expenses which has increased over the years, improved by 49.59%, to reach Rs. 1.75 Bn. during the year under review. Due to the rapid expansion of the company's operations and the opening of new distribution channels, the general and administrative expenses rose by 51.97% to Rs. 818.68 Mn. during the year, whilst staff costs

increased by 72.83% to Rs. 843.35Mn. as a result of new recruitments and employment benefits. The efficiency ratio, which calculates the ratio of overheads to total income increased from 38.10% to 41.11%, reflecting the aggressive expansion of operations.

### Taxation

During the year under review total taxation of the company amounted to Rs. 884.38 Mn. compared to previous year's Rs. 882.49 Mn. The two components of total taxation are VAT on financial services and the provisions for income tax. VAT on financial services decreased from Rs. 235.04 Mn. to Rs. 156.86 Mn. due to the reduction in the applicable rate of VAT on financial services and the provision for income tax increased from Rs. 647.45 Mn. to Rs. 727.52 Mn. respectively.

### Profitability



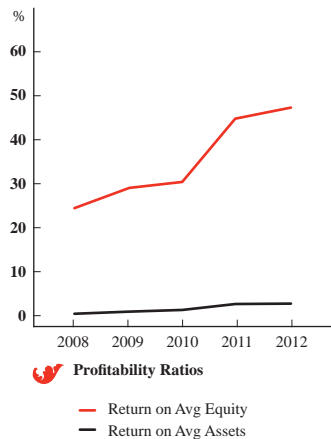
The company performed impressively in terms of profitability during the year under review. Profit after tax reached a record of Rs. 1.62 Bn. during the year achieving a growth of 59.26%. This achievement is particularly note worthy considering that it despite an allocation of a considerable tax component of Rs.

## Financial Review Contd.

884.38 Mn. to the Government. Profit before tax reached Rs. 2.35 Bn. compared to previous year's of Rs. 1.66 Bn.

### Profitability Ratios

The considerably higher growth in profits enabled the company to achieve higher profitability ratios. The return on average assets, which measures the company's profitability against the asset base, increased to 4.58% from 4.49% in 2011, despite the robust growth in assets. Return on equity, the measure of profitability of shareholders' wealth, improved significantly to 49.09% in 2012 from 46.70% in 2011.



### Total Assets

Company's asset base increased significantly, from 28.26 Bn. in 2011 to Rs. 42.77 Bn. in 2012, recording a Year on Year (YoY) growth of 51.35%. This remarkable increase was due to the improvement in the customer base coupled with the rise in business volumes during the year. Interest earning assets which represent 91.08% of the total asset base of the company rose by 51% YoY to Rs. 38.95 Bn.

### Lending Assets

The lending portfolio base of the company increased to Rs. 36.72 Bn. in 2012 vis a vis Rs. 23.87 Bn. in the previous year, recording a YoY rise of 53.83%. Gold loans recorded an impressive growth of 49.83% to reach Rs. 8.49 Bn. in 2012 compared to Rs. 5.66 Bn. in 2011. The lease and hire purchase portfolio soared by 45.94% to Rs. 23.83 Bn. during the year under review.



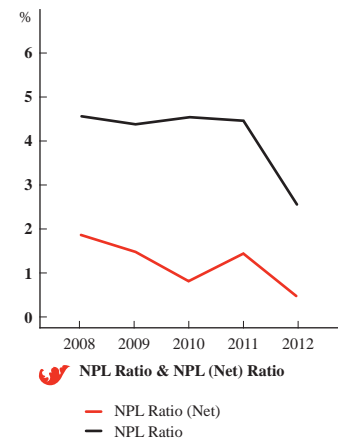
Asset Class	Percentage
Real Estate	0.01%
Term Loans	2.43%
Trade Finance	0.47%
Quick Loan	0.01%
Margin Trading	0.34%
Factoring Receivable	2.95%
Power Drafts	0.48%
Vehicle Loans	5.12%
Gold Loans	22.76%
Lease	47.84%
Hire Purchase	17.59%



Asset Class	Percentage
Real Estate	0.03%
Term Loans	3.00%
Trade Finance	0.12%
Quick Loan	0.002%
Margin Trading	-
Factoring Receivable	0.47%
Power Drafts	0.11%
Vehicle Loans	4.08%
Gold Loans	23.19%
Lease	41.38%
Hire Purchase	27.62%

### Asset Quality and Provision for Loan Losses

In accordance with the company's strategy of maintaining a high quality portfolio, the company managed to reduce its non-performing loan ratio to 2.82% in 2012, from 4.69% in 2011. As at 31st March 2012 the non performing advances amounted to Rs. 1.05 Bn. compared to Rs. 1.15 Bn. as at 31st March 2011. Net non-performing portfolio, which is net of interest in suspense and provision, stood at 0.70% in 2012 from last year's 1.68%. The provision for bad debts for the year increased to Rs. 610.45 Mn. from previous year's Rs. 561.62 Mn. following the significant rise in the lending portfolio, which stood at Rs. 36.72 Bn. as at 31st March 2012.



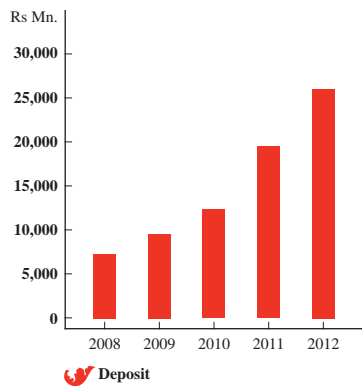
### Total Liabilities

The total value of liabilities increased by 51.15% to Rs. 38.76 Bn. as at 31st March 2012 compared to Rs. 25.64 Bn. the previous financial year. Deposits from non-banking customers was the main component of liabilities which accounted for 67.73% compared to 76.49% the previous year, followed by borrowings and other liabilities which amounted to 23.15% and 9.12% respectively.



### The Deposit Base

LBF acquired a competitive edge and consolidated its position in the finance industry in terms of deposits. The company's deposit base which comprises fixed deposits, savings and certificates of deposits increased by 33.83% YoY and stood at Rs. 26.25 Bn. Out of the total deposits, fixed deposits accounted for 98.07% while savings and certificates of deposits contributed to a marginal 1.93%.

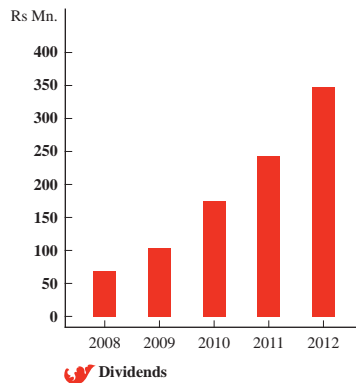


### Shareholders' Funds

Total shareholders' funds increased by 53.29% and stood at Rs. 4 Bn. as at 31st March 2012 compared to Rs. 2.61 Bn. at previous financial year end.

### Dividends

The proposed dividend of Rs. 346.28 Mn. for 2012 is a 42.86% YoY increase compared to the previous year's of Rs.242.39 Mn. Dividend per share stood at Rs. 5.00 in comparison to last year's of Rs. 3.50. The dividend payout ratio in 2012 is 21.31% compared to 23.76% in the previous year, due to an increase in viable investments of which profits are yet to be delivered.



### Liquidity Position

Liquid assets of the company improved by 27.63% to Rs. 2.9 Bn. during the year under review. The liquid cash and amounts due from banks increased to Rs. 669 Mn. with a growth of 92.69% YoY. This gave the company a comfort buffer for temporary liquidity shortfalls. Placements with other banks, which include interest bearing deposits in banks, increased during the year to Rs. 963.59 Mn. from Rs. 302.58 Mn. Investments in treasury bills reduced during the year, from Rs. 1.62Bn to Rs. 1.26 Bn. This shift was due to attractive rates offered by commercial banks for fixed deposits.

### Capital Adequacy

In line with the Central Bank directives, the two key capital adequacy ratios, namely the core capital ratio and total risk weighted capital ratio hovered well above the statutory standards of 5% and 10% respectively. As at end March 2012, the core capital ratio stood at 12.58% and total risk weighted capital ratio at 14.86% compared to previous year's ratios of 12.90% and 14.23% respectively. During the year, the company issued subordinated unsecured redeemable debentures worth of Rs. 545 Mn. in order to improve the company's capital adequacy as well as to raise long term funds to match long term lending.

Tailor-made Financial Solutions



## Corporate Governance

Corporate governance is popularly understood as the system by which companies are directed and controlled. The Board of Directors is responsible for the governance of the company. Your Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all of company's dealings and on 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 all the time that we are accountable to our stakeholders and the general public.

This statement describes the application of the corporate governance practices within the company during the year under review.

### Board of Directors

The Board is the topmost body of L B Finance PLC that carries the responsibilities of directing the company and of supervision. The responsibilities of the Board includes making an accurate assessment of the company's position, making strategic decisions, attending Board meetings and Board sub committees, ensuring good governance and overseeing the risk management of the company.

### Composition

The Board comprises ten members, six of whom including the Acting Chairman are Non Executive Directors with a balance of skills and experience which is appropriate for the business carried out by the company. The Board has determined that three Non Executive Directors are 'independent' as per the criteria set out in the listing rules of the Colombo Stock Exchange.

The names of the Directors who served during the year under review are disclosed

in the annual report of the Board of Directors on the affairs of the company on pages 110 and 113.

### Tenure, Retirement and Re-election of Directors

At each Annual General Meeting (AGM) one-third of the Directors for the time being who are subject to retirement, or, if their number is not a multiple of three, the number nearest to (but not greater than) one-third, retire and seek re-election by the shareholders.

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 that meeting.

### Appointments to the Board

The Nominations Committee recommends the appointments to the Board as per the Articles of Association of the Company.

### Board Meetings

During the year ended 31st March 2012, 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. L N De S Wijeyeratne	Independent Non-Executive	12/12
Mr. K D D Perera	Executive Director	11/12
Mr. Nimal Perera	Non-Executive	11/12
Mr. J A S S Adhithetty	Executive	12/12
Mr. A M Weerasinghe	Non-Executive	10/12
Mr. K D A Perera	Non-Executive	10/12
Mr. Niroshan Udage	Executive	12/12
Mr. B D St A Perera	Executive	12/12
Mrs. Kirmali Fernando	Independent Non-Executive	11/12
Ms. Shirani Jayasekara	Independent Non-Executive	11/12
Mr. M D S Goonatilleke (Resigned w.e.f 20.5.2011)	Independent Non Executive	01/12

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

Following the best practices of good corporate governance the two positions of the Chairman and the Managing Director are held by separate persons, which enable balance of power, better accountability and enhance the independence of the Board.



## Corporate Governance Contd.

### The Chairman

Mr. L N D de S Wijeyeratne an Independent Non-Executive Director was appointed the Acting Chairman to ensure a greater independent element as required by the Finance Companies (Corporate Governance) Direction No. 03 of 2008., Mr. K D D Perera assumed office as the Executive Deputy Chairman of the Company.

### The Managing Director

Mr Sumith Adhietty has been the Managing Director of the company since January 2004.

The Managing Director is responsible for the effective running of the company and the implementation of the policies approved by the Board.

### Board Sub-Committees

An Audit Committee, a Remuneration Committee, an Integrated Risk Management Committee, a Management Committee and a Nomination Committee function as Sub-Committees of the Board. The above Committees consist of a majority of Non-Executive Directors and their names are given on page 113.

The Chief Financial Officer functions as the Compliance Officer to ensure compliance with the Regulatory and Statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and, generally, in business activities undertaken by the company. Besides, the company had identified committees in-house for recoveries, credit and asset and liability management to regulate the relevant areas thereby ensuring that decision-making is on a participatory basis.

The reports of the Remuneration Committee, and Audit Committee are given on pages 116 and 117.

### The Management

The day-to-day operations of the company are entrusted to the corporate and senior management headed by the Managing Director. They ensure that risks and opportunities are identified and steps are taken to achieve targets within defined time frames and budgets.

### Financial Disclosures and Transparency

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, the Companies Act, the Finance Companies Act and the directions and rules issued thereunder. The unaudited provisional quarterly statements of accounts are released to the Colombo Stock Exchange (CSE) in compliance with the Listing Rules of the Colombo Stock Exchange.

Messrs Ernst & Young act 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. All the required information is provided for examination to the Auditors.

### 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, who will drive the

company to high levels of achievement in keeping with its mission, vision, goals and values.

### Statutory Payments

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for, except for certain assessments against which appeals have been lodged. 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 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 has 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

In the year ended 31st March 2012, the members of the Board of Directors have reviewed in detail the quarterly financial statements and annual financial statements in order to satisfy themselves that they present a true and fair view of the company's affairs and these practices have been further strengthened as per the code of best practice on corporate governance, listing rules of the Colombo Stock Exchange and Directions issued under the Finance Companies Act.

A summary of Directors' responsibilities in respect of financial statements is given on page 118.

### **Investor Rights and Relations**

The company is bound to safeguard the rights of all shareholders and secure equal treatment for all shareholders. The company provides its annual financial statements within the mandatory period to all shareholders and debentureholders and the unaudited provisional financial statements are released to the Colombo Stock Exchange (CSE) in accordance with the listing rules of CSE.

All shares carry equal voting rights and the shareholders are informed of the Annual General Meeting before the mandatory period. The Board, senior management and the auditors attend the Annual General Meeting to answer the questions of shareholders.

By Order of the Board  
L B Finance PLC



**P W Corporate Secretarial (Pvt) Ltd**  
*Secretaries*

6th June 2012

## Corporate Governance Contd.

In terms of Section 2 of the Finance Companies Act No. 78 of 1988, the Monetary Board of the Central Bank of Sri Lanka issued the Finance Companies Corporate Governance Direction No 3 of 2008 which came to effect from 1st January 2009 and applies to every registered finance company.

<b>(2) RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>		
2(1)	The Board shall strengthen the safety and soundness of the Company by ensuring the implementation of the followings	
	(a) Approving and overseeing the Finance Company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the Company	Approving, overseeing and communicating the strategic objectives to the Board of Directors mainly through the monthly Board meetings and implementing and communicating such strategic objectives are through management meetings, ALCO meetings and other meetings.
	(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.	The strategic plan includes overall business strategy of the Company. The Integrated Risk management policy and procedures were introduced to manage all business risks arising from the operations of the company.  Action will be taken to include measurable goals for the next three years in the Overall business strategy of the company.
	(c.) Identifying the risk and ensuring implementation of appropriate systems for the prudent management of the risks.	The Board appointed Integrated Risk Management Committee identifies the overall risk of the Company and a monthly review of the risk reporting and management procedures approved by the Board are in place.  Company will further strengthen this area by initiating action to evaluate all risks such as Credit, Market, Liquidity and Strategic risk by the Board Risk Management Committee.
	(d) Maintaining a policy of communication with all stake holders, including depositors, creditors, share-holders and borrowers .	The Company has a Board approved communication policy which addresses how they communicate with all stakeholders including depositors, creditors, share-holders and borrowers of the Company.
	(e) Reviewing the adequacy and the integrity of the finance company's internal control system and management information system	The adequacy and the integrity of the company's internal control systems are reviewed by the Board Audit Committee by reviewing the internal audit reports, the minutes of the Audit Committee meetings are tabled at the Board meetings.
	(f) Identifying and 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.	Members of the Board have been identified and designated as KMPs by the Board as defined in the Sri Lanka Accounting Standards.
	(g) defining the areas of authority and key responsibilities for the Board and for the key management personnel	Complied with
	(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 with

<b>(2) RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>		
	(i) periodically assessing the effectiveness of its governance practices including (i) the selection , nomination , and election of Directors and appointment of key management personnel (ii)the management of conflicts of interest and (iii) the determination of weaknesses and implementation of changes where necessary.	Board has delegated the functions of the Board such as the selection , nomination, and election of Directors to the relevant sub-committee i.e. the Board Nomination Committee (BNC). As per section 96 of the articles of association on “Declaration of interest” evidence the procedure to manage the conflicts of interests among the Board members. The Board appraises the performance of the Board through a Board performance evaluation form to be filled by each director.
	(j) ensuring the company has an appropriate succession plan for key management personal	An effective succession plan for all key management personal will be developed by the Company in 2012.
	(k) meeting regularly with key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives	A review of the policies of the Company will have the participation of all the key management personnel .
	(l) understanding the regulatory environment	The Board of Directors of the Company monitors the regulatory compliances at the monthly Board meetings.
	(m) exercising due diligence in the hiring and oversight of external auditors	The hiring and oversight of external auditors are carried out through the Board Audit committee and subsequently approved at the AGM, as per section 140 of the articles of association prevails the hiring and oversight of external audition.
2(2)	The Board shall appoint; define and approve the the functions and responsibilities of, the Chairman and the Chief Executive Officer.	The Chairman and the Managing Director of the Company have been appointed by the Board and the positions of Chairman and Managing Director are separate and held by two individuals.
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 company’s expense.  The Board shall resolve to provide separate independent professional advice to Directors to assist them in discharging their duties to the company	A Board approved procedure to obtain professional advice is in place and the Board has obtained professional advice in appropriate circumstances.
2(4)	A Director shall abstain from voting on any Board resolution in relation to matters in 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.	Any interests are disclosed at the Board meetings and the Directors abstains from voting in such a situation and he/she is not counted in the quorum
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Finance Company is firmly under its authority	A pre-set agenda for meetings ensures the direction and control of the Finance Company is firmly under Board’s control and authority. The Board is in the process of implementing a new procedure with regard to the schedule of matters specifically reserved to it for decision.

## Corporate Governance Contd.

<b>(2) RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>		
2(6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions prior to taking any decision or action	No such situation has arisen during the year 2011/2012.
2(7)	The Board shall publish in the Finance Company's Annual Report, an Annual Corporate Governance Report setting out the compliance with this Directions	Complied with.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments	The Company has adopted a scheme of self assessment to be undertaken by each Director annually.

<b>3. 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.	Board held twelve Board meetings during the year .
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	All the members were given equal opportunity to include matters and proposals in the agenda. Company will prepare a procedure to enable all Directors to include matters and proposals in the agenda in a formal manner for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company
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.	Annual calendar of Board meetings was issued at the beginning of the year and the Agenda of the meeting is issued prior to 7 days of a Board meeting.
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.	An event where a Directors has not attended at least two-thirds of the meetings in a period of 12 months or the immediately preceding three consecutive meetings, will be brought to the attention of the Board for a decision.
3(5)	Board shall appoint a Company Secretary, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	PW Corporate Secretarial (Pvt) Ltd, a Company registered with the Registrar of Companies as a qualified secretary under Registration No SEC/(2)2008/216 handles the secretariat services to the Board and shareholder meetings and carryout other functions specified in the statues and other regulations.



3. MEETINGS OF THE BOARD		
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.	A pre-set agenda is prepared and any other matters will be added to the agenda by the Secretary upon prior approval.
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	A documented board approved procedure is in place for all the Directors to access the Company secretary in order to ensure that Board procedures and all applicable laws, directions, rules and regulations are followed.
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	The Company secretary maintains the minutes which are open for inspection by any Director at any reasonable time.
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> <ul style="list-style-type: none"> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> <li>(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;</li> <li>(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;</li> <li>(e) the Board's knowledge and understanding of the risks to which the Finance Company is exposed and an overview of the risk management measures adopted; and</li> <li>(f) the decisions and Board resolutions</li> </ul>	The Company secretary maintains minutes with sufficient details.

4. COMPOSITION OF THE BOARD		
4(1)	The number of Directors on the Board shall not be less than 5 and not more than 13.A transitional provision will apply if the number of Directors on the Board of a finance Company is either less than 5 or exceed 13 such Companies may continue for a maximum of three years commencing January 1,2009.	The Board comprises of 10 Directors which is within the statutory limits.

**Corporate Governance Contd.**

<b>4. COMPOSITION OF THE BOARD</b>		
4(2)	<p>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 1st January 2009.</p> <p>A transitional provision will apply to a Director who has completed 9 years as at 1st January 2009, or who completes such term at any time prior to 31st December 2009, may continue for a further maximum period of 3 years commencing 1st January 2009.</p>	<p>Complied with. The total period of service of the current directors, other than Chief Executive Officer is less than nine years.</p>
4(3)	<p>An employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.</p> <p>A transitional provision will apply that on the date of this Direction, if the number of executive directors in a Finance Company is more than one half of the number of directors on its Board, the Board shall expressly identify the number of executive directors in excess and inform the name of such executive directors to the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka within three months from 1st January 2009. Thereafter such excess executive Directors shall not be considered members of the Board.</p>	<p>The Board consists of 10 members of whom 4 are Executive Directors, including the Chief Executive Officer, thus complying with the requirement.</p>
4(4)	<p>From 1st January 2012, the total number of independent non-executive Directors, of the board shall be at least one fourth of the total number of directors.</p> <p>A Non-Executive Director shall not be considered independent if he/she:</p> <p>has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance Company.</p>	<p>Complied with</p> <p>Board has complied with this requirement with 6 Independent, Non-Executive Directors.</p>



#### 4. COMPOSITION OF THE BOARD

4(4)	<p>(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 Direction hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the Finance Company as shown in its last audited balance sheet .</p> <p>(c) has been employed by the Company during the two-year period immediately preceding the appointment as Director;</p> <p>(d) has a relative who is a Director or Chief Executive Officer or a key member of the Management team, or holds shares exceeding 10% of the paid up capital of the Finance Company or exceeding 12.5% of the paid up capital of another finance company.</p> <p>(e) represents a shareholder , debtor , or such other similar stakeholder of the Finance Company ;</p> <p>(f) is an employee or a Director or has a share holding of 10% or more of the paid up capital in a company or business organisation</p> <p>(i) which currently has a transaction with the finance Company as defined in 9 of this direction, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company</p> <p>(ii) in which any of the other Directors of the finance Company is employed or is a director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the Finance Company ; or</p> <p>(iii) in which any of the other Directors of the finance Company has a transaction as defined in Direction of these Directions, of which aggregate value outstanding at any particular time exceeds 10% of capital funds as shown in its last audited balance sheet of the Finance Company.</p>	
4(5)	<p>In the event an alternate Director is appointed to represent an Independent Non - Executive Director, the person so appointed shall also meet the criteria that applies to the Independent non-executive Director</p>	<p>No such situation arose during the year under review.</p>
4(6)	<p>Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources</p>	<p>Complied with and their detailed profiles are noted in the Annual report.</p>
4(7)	<p>A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one-half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from January 1, 2012 onwards.</p>	<p>All the Board meetings held during the financial year 2011/12 are duly constituted with more than one half of the number of Directors present at such meeting being consist of non-executive Directors.</p>

## Corporate Governance Contd.

4. COMPOSITION OF THE BOARD		
4(8)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Finance Company. The Finance Company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non- Executive Directors in the Annual Corporate Governance Report which shall be an integral part of the annual report.	Profiles of the Non-Executive Directors are disclosed in 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	The new appointments to the Board are based on the recommendations made by the Board Nomination Committee.
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	The section 93 of the Articles of association guides the filling of casual vacancies in the Board who are subject to election by share holders at the first Annual General Meeting.
4(11)	If a Director resigns or is removed from office , the Board shall announce to the Share holders and notify the Director of the Department 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 Board, if any	All the resignations of the Directors has been duly informed to the Director of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka. Company will take necessary action in future to include 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

5. CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETY OF DIRECTORS		
5(1)	The age of a person who serves as Director shall not exceed 70 years. In this connection, the following general exemption shall apply for a Director who has reached the age of 70 years as at January 1, 2009 or who would reach the age of 70 years prior to December 31, 2009 may continue in office for a further maximum period of 3 years commencing January 1, 2009	All the age limits of the Directions are complied by the Directors.
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 Company. Provided that such director shall not hold office of a director or any other equivalent position in more than 10 companies that are classified as Specific Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995	The total number of positions held as a Director or any other position in companies/societies/body corporate including subsidiaries or Associate Companies of the Finance Companies are less than 20 .  Information on holding in not more than 10 companies classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 are not available.

6.THE MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD		
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.	As per Article No 102 , the Board may may delegate any of their powers to the Board appointed committees such as Audit and Integrated Risk Management Committee
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	The Company is in the process of implementing a procedure to review the delegation process

7.THE CHAIRMEN AND CHIEF EXECUTIVE OFFICER		
7 (1)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual	Positions of the Acting Chairman and Chief Executive Officer are separated. The Acting Chairman is a non-executive Director and the Chief Executive Officer is an executive Director
7(2)	The Chairman shall be a Non-Executive Director In the case where the Chairman is not an Independent non-executive Director, the Board shall designate an Independent non – executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Finance Company Annual Report.	The Acting Chairman is an independent non-executive Director
7(3)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board	Board has agreed to disclose director’s interest and relationship including financial business family or other material relationships between the Acting Chairman and the Chief Executive Officer and the relationships among members of the Board as an agenda item at the board meetings with effect from April 2012.
7(4)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner	The Company is having a process of evaluating the Chairman by a Board Appraisal form to evaluate whether the Chairman is providing the leadership to the Board, and ensuring that the Board works effectively and discharge its responsibilities and whether the appropriate issues are discussed by the Board in a timely manner.
7(5)	The Chairman shall be primarily responsible for preparation of the agenda for each Board meeting, The Chairman may delegate the function of preparing the agenda to the Company Secretary.	The Agenda is a prearranged document and any additional issues are added to the agenda by the secretary with the approval of the Chairman.
7(6)	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meetings.	The Chairman ensures that all the Directors are properly briefed on issues arising at Board Meeting by submission of the agenda and board papers with sufficient time prior to the meeting

## Corporate Governance Contd.

7.THE CHAIRMEN AND CHIEF EXECUTIVE OFFICER		
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 with
7(8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between executive and Non-Executive Directors.	Complied with
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	The acting Chairman is a Non Executive Director and the Chairman does not directly get involved in the supervision of key management personnel or any other executive duties
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	The AGM of the company is the main forum where the Board maintains effective communication with shareholders and that the views of shareholders are communicated to the Board
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Finance Company's operations and business	As per the Company's organisation chart it reveals that the Chief Executive Officer functions as the apex executive-in-charge of the day-to-day management of the Finance Company's operations and business

8.BOARD APPOINTED COMMITTEES		
8(1)	Every Finance Company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The board shall present a report on the performance, duties and functions of each committee, at a annual general meeting of the company.	The Board has established three board Committees namely an Audit Committee, Integrated Risk Management Committee and Board Nomination Committee.
	<b>AUDIT COMMITTEE</b> The following rules shall apply in relation to the Audit Committee	
	(a) The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	The Chairman of the Audit Committee is a non-executive, independent director and a fellow member of Chartered Accountants of Sri Lanka and possesses qualifications and related experience.
	(b) All members of the Committee shall be Non-Executive Directors	All the members of the audit committee are non-executive Directors
	(c) The Committee shall make recommendations on matters in connection with:	



	<ul style="list-style-type: none"> <li>(i) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of 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.</li> </ul>	
	(d) The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with
	(e) The Committee shall develop and implement a policy with the approval on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:	<p>The committee has obtained the services of external auditors as and when they were required and also ensured that the provision by an external auditor of non-audit services, did not impair the External Auditors independence or objectivity</p> <p>The Committee will develop and implement a policy on the engagement of an External Auditor to provide non-audit services</p>
	<ul style="list-style-type: none"> <li>(i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services</li> <li>(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and</li> <li>(iii) whether the nature of the non-audit services, the related fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the External Auditor</li> </ul>	
	<ul style="list-style-type: none"> <li>(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 issued under the act and the management's internal controls over financial reporting;</li> <li>(ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and</li> <li>(iii) the co-ordination between auditors where more than one auditor is involved.</li> </ul> </li> </ul>	Before the commencement and finalisation of the audit , the audit committee meets the external auditors to discuss the nature and the scope of the audit and an assessment of the Finance Company's compliance with the relevant Directions, guidelines and according to the Sri Lanka Accounting standards and auditing guidelines

## Corporate Governance Contd.

(g)	<p>The Committee shall review the financial information of the Finance Company, in order to monitor the integrity of the financial statements of the Finance Company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Finance Company's Annual Report and accounts and periodical reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption; and</li> <li>(v) the compliance with relevant accounting standards and other legal requirements.</li> </ul>	<p>The Board audit committee is reviewing the financial statements before forwarding it to the Board for the approvals. With effect from year 2012/13 the Company is in the process of formulating a documented procedure to comply all the aspects.</p>
(h)	<p>The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	<p>The audit committee meets the external auditors in the absence of the key management personals as and when it requires.</p>
(i)	<p>The Committee shall review the External Auditor's management letter and the management's response thereto.</p>	<p>The audit committee has reviewed the External Auditor's management letter and the management responses thereto.</p>
(j)	<p>Committee shall take the following steps with regard to the internal audit function of the Finance Company</p> <ul style="list-style-type: none"> <li>(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.</li> <li>(ii) Review the internal audit 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.</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function</li> <li>(v) Ensure that the Committee is 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;</li> <li>(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;</li> </ul>	<p>The Company's internal audit functions were outsourced and carried out by two independent professional audit firms and the audit reports were discussed at the audit committees and the relevant recommendations /actions were taken.</p> <p>Audit committee has reviewed the adequacy of the scope, functions and resources of the Internal Audit Department.</p> <p>The Company's internal audit functions have been outsourced</p> <p>Internal audit function is independent of the activities since it is handled by outsourced people and they are reporting direct to the Audit Committee.</p>

(k)	The Committee shall consider the major findings of internal investigations and management's responses thereto;	Whenever a need arises, the audit committee assigns special internal investigations on certain matters and obtains responses from the management.
(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.	The Chief Financial Officer and the internal auditor attends the meetings and Chief Executive Officer attend Meetings upon the invitation.
(m)	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary	Terms of Reference has been presented and approved at the board meeting held on 24.04.2012
(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.	The committee has met regularly and the audit reports were issued to its members in advance, with issues discussed at meetings and appropriate actions taken
(o)	The Board Shall, in the Annual Report, disclose in an informative way (1) details of the activities of the audit committee, (2) the number of audit committee meetings held in the year and (3) details of attendance of each individual member at such meeting	Complied with
(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.	The Company secretary acts as the secretary of the audit committee.
(q)	The Committee shall review arrangements by which employees of the Finance Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Finance Company's relations with the External Auditor.	The Company has introduced a "Whistle Blower Policy" which will be further developed during year 2012/13.

## Corporate Governance Contd.

INTEGRATED RISK MANAGEMENT COMMITTEE		
(3)(a)	The Committee shall consist of at least one Non-Executive Director, a 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.	The Integrated Risk Management Committee consists of two non executive Directors, the Chief Executive Officer and other key management personnel who are supervising the Company's credit, market, liquidity, operational and strategic risks.
(3)(b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Finance Company on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on the finance company basis and group basis.	The Company has developed a "Monthly Risk Reporting and Managing Procedure" to assess the risks on a monthly basis .  Company will take appropriate action to strengthen this area from April 2012 onwards.  The Company does not have any subsidiary or associate companies.
(3)(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.	The company has established certain risk indicators to assess and manage risks and the Company is in the process of strengthening it further.
(3)(d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks where 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.	The risk indicators introduced were reviewed, the benchmark as well as the tolerance levels and the deviations periodically monitored and corrective actions were taken. The Company is also in the process of strengthening this further to cover other products of the company.
(3)(e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans	During the year, the Risk Management Committee met three times to assess the the Company is in the process of strengthening this future covering all risks of the company.
3(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka	The Company is in the process of documenting a disciplinary procedure.
3(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	The process will be further improved and strengthened from April 2012 onwards.
3(h)	The Committee shall establish a compliance function to assess the Finance Company's compliance with laws, regulations, Directions , rules ,regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	The Company's compliance with laws & regulations were monitored and the Company is in the process of recruiting a dedicated independent compliance officer to strengthen the process further.

9.RELATED PARTY TRANSACTION		
9(2)	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Finance Company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ul style="list-style-type: none"> <li>(a) Any of the Finance Company’s subsidiary companies;</li> <li>(b) Any of the Finance Company’s associate companies;</li> <li>(c) Any of the Directors of the Finance Company;</li> <li>(d) Any of the Finance Company’s Key Management Personnel;</li> <li>(e) A close relation of any of the Finance Company’s Directors or Key Management Personnel</li> <li>(f) A shareholder 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 relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company , has substantial interest.</li> </ul>	<p>The Related Party Transaction Policy is in place which describes the related parties, types of related party transactions and the favourable treatment granted to the said parties and stipulates Board members to avoid any conflicts of interest that may arise from any transaction of the company.</p> <p>The Company is in the process of strengthening the monitoring mechanism in this regard, during the year 2012/13</p>
9(3)	<p>The transactions with a related party that are covered in this Direction shall be the following</p> <ul style="list-style-type: none"> <li>(a) Granting accommodation</li> <li>(b) Creating liabilities to the finance company in the form of deposits, borrowings and investments</li> <li>(c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company</li> <li>(d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</li> </ul>	<p>The Company compiles the dealings with regard to related party transactions from the information generated through the integrated system . However the Company is in the process of further strengthening the monitoring mechanism in this regard.</p>

## Corporate Governance Contd.

9. RELATED PARTY TRANSACTION		
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 parties “more favourable treatment” than that is accorded to other similar constituents of the finance company. In this context, “more favourable treatment” shall mean</p> <p>(a) Granting of “total net accommodation” to a related party, exceeding a prudent percentage of the finance company’s regulatory capital, as determined by the Board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the Finance company’s share capital and debt instruments with a remaining maturity of 5 years or more</p> <p>(b) Charging of a lower rate of interest than the finance company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty</p> <p>(c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/ commissions, that extend beyond the terms granted in the normal course of business with unrelated parties;</p> <p>(d) Providing or obtaining services to/from a related-party without a proper evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party except, as required for the performance of legitimate duties and functions.</p>	<p>The Board has ensured that the Company does not provide more favourable treatment at the time of engaging in transactions with the related parties. However the streamlined monthly process will be implemented to monitor related party activities.</p>

10. DISCLOSURES		
10(1)	<p>The Board shall ensure that:</p> <p>(a) Annual Audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that</p> <p>(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p>Annual Financial statements and periodical financial statements are prepared and published in accordance with the defined standards.</p> <p>Published the statements in the newspapers in all three languages.</p>

10. DISCLOSURES		
10(2)	<p>The Board shall ensure that the following minimum disclosures are made in the Annual Report:</p> <p>(a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p> <p>(b) A report by the Board on the Finance Company’s internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements has been done in accordance with relevant accounting principles and regulatory requirements.</p> <p>(c) The External Auditor’s certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.</p> <p>(d) Details of Directors, including names, transactions with the Finance company</p> <p>(e) Fees remuneration paid by the finance company to the Directors in aggregate in the annual reports published after January 1,2010.</p> <p>(f) Total net accommodation as defined in 9(4)outstanding in respect of each category of related parties and the net accommodation outstanding in respect each category of related parties as a percentage of the finance Company’s capital funds.</p> <p>(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, deposits or investment made in the finance company.</p> <p>(h) A report setting out details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.</p>	<p>A statement to the effect has been included in the “Statement of Directors’ Responsibility”</p> <p>The effectiveness of the finance company’s internal control mechanism has been certified by the Directors in the “Directions statement on Internal Control over Financial Reporting”</p> <p>The auditors’ certification on the effectiveness of the internal control mechanism has been obtained.</p> <p>This has been disclosed under the “Annual Report of the Board of Directors on the affairs of the company.</p> <p>The fees &amp; remuneration paid has been disclosed under short term employment benefits paid on note 34 of the notes to the Financial statements</p> <p>The total net accommodations granted to related parties are disclosed in note 34 of the Notes to the Financial Statements</p> <p>Disclosed in the note 34 of the notes to the financial statements</p> <p>Disclosed in the Annual Report of the Board of Directors on the Affairs of the Company</p>

## Corporate Governance Contd.

10. DISCLOSURES	
<p>(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 the rules and Directions that have been communicated by the Director 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.</p>	<p>There were no considerable non compliance by the company, however the minor lapses were addressed by the company has been communicated to the Director of Supervision of non bank financial institutions.</p>
<p>(j) The external auditors certification of the compliance with the act and rules and direction issued by the monitory board in the annual corporate governance report published after January 1,2011.</p>	<p>The company has obtained a certificate from External Auditors over the compliance of corporate governance directions and the Company is in the process of strengthening the procedures</p>



## Risk Management

The company recognises that risk is an inherent part of business which cannot be eliminated completely, and hence, the management of that risk must be a central element of an organisation's strategy as it is fundamental to sustainable profitability and stability. Risk can be defined as the volatility that surrounds the expected outcome or the probability of a negative occurrence caused by external or internal vulnerabilities. The risk could be neutralized through pre-emptive actions. An effective risk management framework can make an immense contribution to a company's efforts to optimise the use of available resources.

### Risk Management Approach

The company, while being cognisant of the risk and reward relationship has adopted a proactive approach by carrying out a gap analysis of the company's risk management practices and regulatory recommendations with the objective of achieving the optimum trade-off between risks and returns. Having identified and understood the individual types of risks and their interrelationships, our approach to management of risks is an integrated one. Over the years, considerable resources have been deployed to activate the process of risk management in the company and a continuous monitoring process is in place.

Our risk management approach embraces best practices in risk management which include the regular review of internal standards organisation structure, and systems and processes, to minimise risk and improve returns across the organization. These have supported the company by providing direction in understanding the key risks and in determining our risk appetite and by internally communicating the risk management framework to help support

the process to manage risk events to be within our risk appetite.

### Integrated Risk Management Committee (IRMC)

The committee headed by a Non-Executive Director comprises two Non-Executive Directors, two Executive Directors, the Managing Director, Chief Financial Officer and the Head of Treasury. Its main responsibilities include the establishment and implementation of a risk policy framework, the review of materiality and the ascertainment and definition of the company's risk appetite, the setting of risk limits and the formulation of strategy.

The Committee plays an oversight role in assessing all risk viz credit, liquidity, market, operational and strategic risk on a regular basis, reviewing the adequacy and effectiveness of all management committees including ALCO, Credit Committees etc, in order to manage risk to be within the set tolerances.

### Integrated Risk Management Framework

We believe that a vigorous risk management framework should provide insight into the business decision making process, enhance management effectiveness and ultimately reflect the corporate culture of a company. By employing the risk management framework as a business tool the company aims to optimise stakeholder value through the proactive management of exposure to risk. We have taken steps to maximise the utilisation of risk related procedures, tools and techniques to strengthen the risk management capabilities and thus invested in human capital, IT infrastructure and processes during the year.

Our framework has been designed in line with standards and its implementation is well supported by a process which has allocated each member of the upper management, a well-defined role and responsibility in managing risks. Recognizing that the type and extent of risk that we are exposed to may change from time to time due to changes in the environment, our risk management system ensures a regular monitoring and review of the framework, and a recommendation an implementation of improvements where necessary.

### The Board's Role in Risk Management

We adopt a top down approach to risk management where the board approves the strategies and policies, monitors compliance and the activities of the senior management, and this approach is facilitated via the Board approved committees which have been setup for this purpose. The committees consist of members of the Board, senior management and industry specialists who bring in wide knowledge of the best practices in risk management. The committees which ensure the practice of an effective risk management policy in the company are as depicted below.

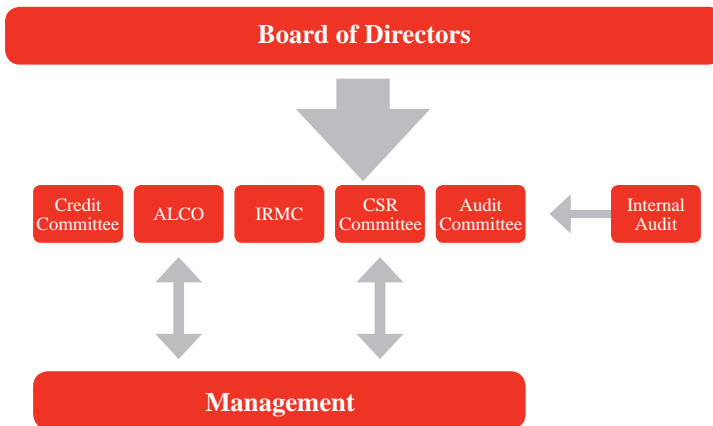
### Credit Committee

The committee is chaired by the Managing Director and consists of the Executive Director who overlooks Asset Finance, and the Executive Director responsible for Asset Management and the General Manager of credit.

Regular meetings are held to review credit risk, existing lending policies, credit risk evaluation and credit worthiness of customers and of guarantors.

The main objectives of the committee are to facilitate quality lending and minimise

## Risk Management Contd.



possibilities of credit default. Thus, the company's credit portfolio is subject to continuous and close monitoring against key predefined benchmarks and thresholds.

### Asset and Liability Management Committee (ALCO)

The responsibility for managing and controlling the liquidity of the entire company lies with the Asset and Liability Management Committee (ALCO) which meets regularly. The committee is headed by the Managing Director and comprises Executive Directors and heads of departments representing finance, treasury, credit and deposits. The committee develops long term strategies to maintain the balance sheet structure in an optimal manner and to ensure that controls which are currently in place address risks in an effective manner. The committee is responsible for establishing and implementing policies for asset and liability management, and closely monitors and controls asset and liability management, capital structure, fund management and liquidity position. These functions of the committee are supported by cash flow forecasts, gap reports, variance analysis and sensitivity analysis.

### Audit Committee

This is a formally constituted subcommittee of the main Board, and consists of three Board members who are Non-Executive Directors out of whom two are independent. The members of the committee are appointed by the Board. The primary function of the committee is to assist the Board to fulfill its stewardship responsibilities with regard to financial reporting requirements and information requirements of the companies Act No 7 of 2007 and other relevant financial reporting regulations and requirements. It also has oversight responsibility for reviewing the effectiveness of internal control and risk management systems. It must assess the independence and performance of the company's auditors, both internal and external auditors.

### Corporate Social Responsibility (CSR) Committee

The CSR committee constituted during the year under review has as its main responsibilities, the formulation and the review of the company's CSR strategy, and ensuring that CSR is integrated into the company's strategies. In line

with our triple bottom line focus on sustainability the committee provides leadership to the company's activities to benefit the communities and the environment. The committee is headed by the Senior Manager of Marketing, reflecting the close links of our social and environmental initiatives and brand visibility which demonstrates how the CSR strategy will be integrated in to our marketing strategy.

### Risk Management Process

Our risk management process includes comprehensive, transparent and objective risk disclosures to the Board of Directors, senior management, shareholders and other stakeholders of the company. The context for the risk management process is established through the risk management framework for identifying, analysing, evaluating, mitigating, monitoring, and reporting of all risks. The company identifies and categorises risk exposure and records them systematically in a structured format. The risk assessment is then carried out to estimate likely impacts which are prioritised to respond accordingly.

Formulation of risk management strategy is based on the level of risk tolerance which in turn is determined by the risk appetite of the company. Broadly, the options of responses available for each identified risk includes the various risk mitigation strategies used by the company; namely, risk control, risk avoidance, risk sharing, and risk transfer.

Whilst each employee in the company is responsible for the effective management of risk, senior management and line managers develop risk mitigation plans and implement risk reduction strategies. The risk management process is integrated with the company's other

planning processes and management activities, to encompass a complete integrated risk management framework which complies with the regulatory requirements and best practices. Risk reporting involves the regular submission of reports to the Board to enable them to monitor the effectiveness of policies which are being practiced.

**Types of Risks**

**Credit Risk**

Credit risk is the potential variation in income and the market value of equity resulting from non payment or delayed payment. This can be broadly categorised into two types; default and concentration risk. We expose ourselves to credit risk in every lending transaction we enter into with clients. Taking up credit risk is an essential aspect of the daily operational functions of our business; hence, our response strategy here is not to eliminate risk but to contain it within acceptable levels.

**Market Risk**

Market risk refers to the possible losses to the company that could arise from

changes in market variables like interest rates, exchange rates and commodity prices. Among them, interest rates have the most severe impact on our risk profile.

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.

**Liquidity Risk**

Liquidity risk is the possibility of the company not having sufficient cash to meet its obligations. This arises due to unmatched maturities of assets and liabilities and would hamper the company’s capacity to honor its commitments. Cash is required to meet the company’s financial commitment and to accommodate business expansions on a timely basis under various market conditions.

**Operational Risk**

Operational risk is the risk of financial losses due to the failure or inadequacy of internal processes or systems, employee error or external events. Management of operational risk is integrated across the functions since occurrence of one such risk may compound another.

**Regulatory Risk**

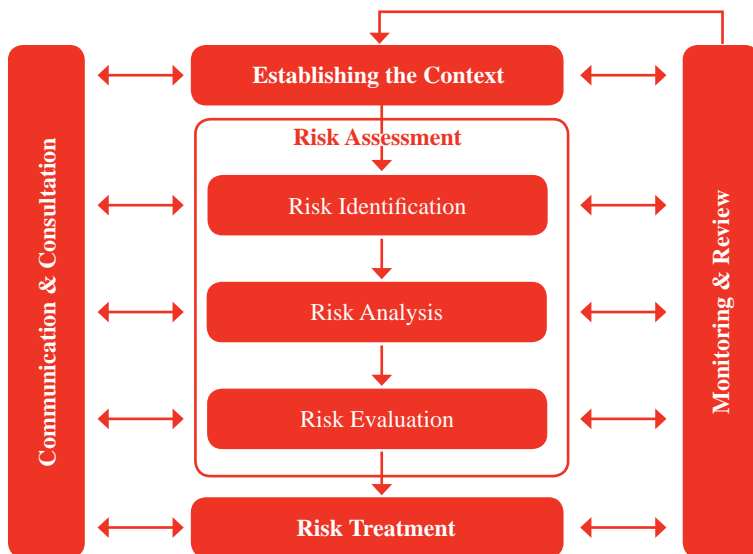
Regulatory risk is the financial loss and damage to the reputation of the company that arises from failing to comply with the laws and regulations applicable to the company. The financial industry is highly regulated and is continuously monitored for compliance by the regulatory bodies.

**Reputation Risk**

Reputational risk arises from an event or behavior that could adversely impact market ‘perception’ thereby affecting its going concern. Since reputation itself is a valuable business asset, we take great care in the management of reputation risk. As all other risks impact reputation risk, efficient management of other risks also forms part of our management of reputational risk.

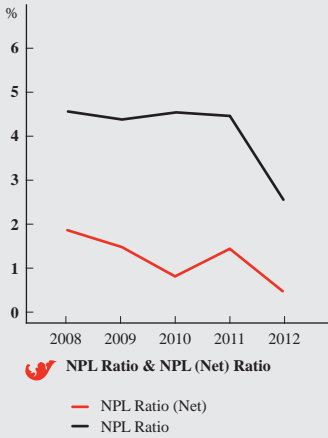
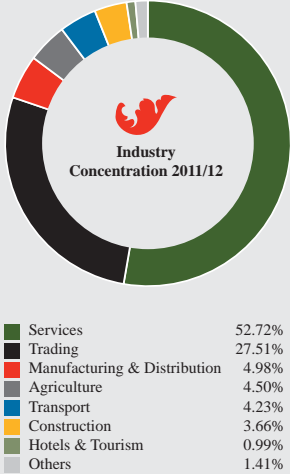
**Technological Risk**


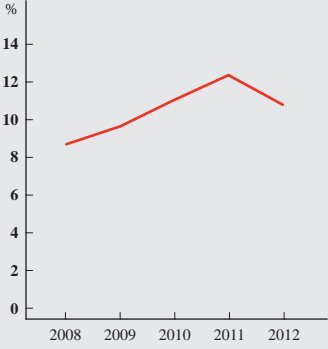
Technology permeates the operations of an entire institution and hence the risks to and risks arising from technology cannot be considered in isolation or as applicable only to a particular area or a function. Technology is an enabler of key processes in an organisation that involves the development, delivery and management of its services, operations and support functions. Understanding the role of technology in enabling core business operations establishes the framework for understanding where relevant technology risks lie.



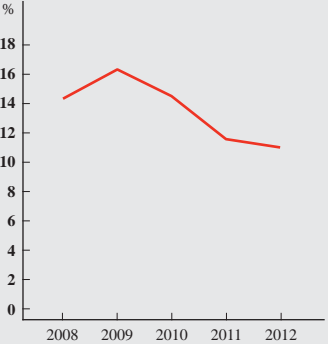
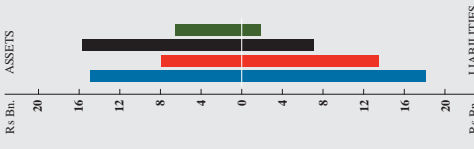
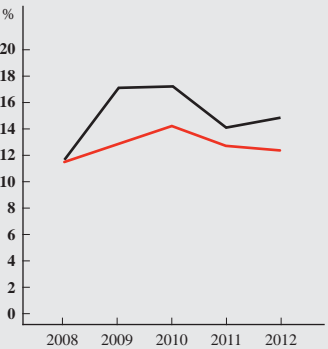
## Risk Management Contd.

### The Key Risks and Mitigation Strategies

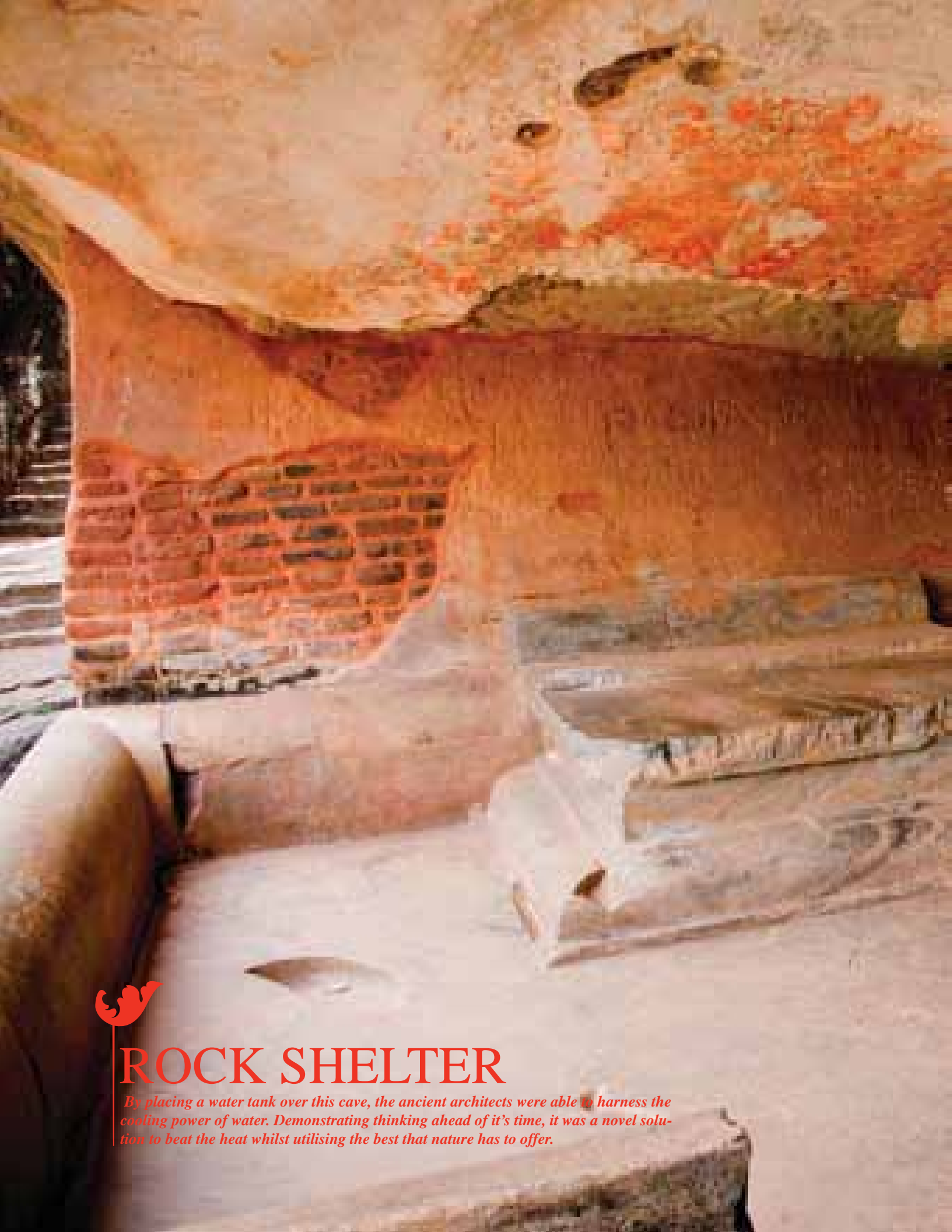
Risk Category	Rating	Assessment	Mitigation Strategies
<b>Credit Risk</b>			
Default Risk	Low	<p>Structured and standardised credit evaluation process</p> <p>Non-performing loan ratio is analysed over a period of time</p> <p>Adequacy of control policies are assessed regularly</p>  <p><b>NPL Ratio &amp; NPL (Net) Ratio</b></p> <p>— NPL Ratio (Net)                      — NPL Ratio</p>	<p>Carry out through evaluation of credit worthiness of the client by obtaining necessary internal and external information</p> <p>Follow aggressive recovery procedures to maintain healthy collection ratio</p>
Concentration Risk	High	<p>Concentration levels are identified in evaluating and assessing the risk associated to lending</p>  <p><b>Industry Concentration 2011/12</b></p> <ul style="list-style-type: none"> <li>Services 52.72%</li> <li>Trading 27.51%</li> <li>Manufacturing &amp; Distribution 4.98%</li> <li>Agriculture 4.50%</li> <li>Transport 4.23%</li> <li>Construction 3.66%</li> <li>Hotels &amp; Tourism 0.99%</li> <li>Others 1.41%</li> </ul>	<p>Maintain of single borrower, sector and product limits</p> <p>Portfolio monitoring and management</p>

Risk Category	Rating	Assessment	Mitigation Strategies
		 <p style="text-align: center;">Credit Exposure to Top 20 Customers 2011/12</p> <p> <span style="display: inline-block; width: 10px; height: 10px; background-color: black; margin-right: 5px;"></span> TOP 20 Customers      2%  <span style="display: inline-block; width: 10px; height: 10px; background-color: green; margin-right: 5px;"></span> Other Customers      98 %         </p>	
<b>Market Risk</b>			
Interest Rate	Medium	<p>Rate shocks of different degrees are applied to rate sensitive assets and liabilities at periodical intervals to monitor the impact</p>  <p style="text-align: center;">Net Interest Margin</p>	<p>Gap analysis on rate sensitive assets and liabilities monitored on regular basis.</p> <p>ALCO closely monitor the interest rate movement, forecast the future trend by extrapolation and inform the relevant parties of the potential variations of the interest rate movement.</p> <p>Negotiate interest rate caps on new borrowings</p> <p>Increase fixed rate borrowings</p> <p>Promote short cycled products such as factoring, gold loans and power draft which re-price in short periods</p>
Liquidity Risk	Medium	<p>Monitor and evaluate key liquidity risk indicators</p> <ul style="list-style-type: none"> <li>• Liquid asset ratio</li> <li>• Maturity gap analysis</li> <li>• Deposit renewal ratio</li> <li>• Capital adequacy ratio</li> </ul>	<p>Proper coordination of funding activities by identifying maturity mismatches</p> <p>Contingency funding plan.</p> <p>Diversify funding sources – maintain a proper funding mix.</p>

## Risk Management Contd.

Risk Category	Rating	Assessment	Mitigation Strategies												
		 <p><b>Liquid Assets to Deposits Ratio</b></p> <table border="1"> <caption>Liquid Assets to Deposits Ratio (%)</caption> <thead> <tr> <th>Year</th> <th>Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>14</td> </tr> <tr> <td>2009</td> <td>16</td> </tr> <tr> <td>2010</td> <td>14</td> </tr> <tr> <td>2011</td> <td>11.5</td> </tr> <tr> <td>2012</td> <td>11</td> </tr> </tbody> </table>  <p><b>Maturity of Assets and Liabilities 2011/12</b></p> <ul style="list-style-type: none"> <li>Over 3 Years</li> <li>1 - 3 Years</li> <li>3 - 12 Months</li> <li>Less than 3 Months</li> </ul>  <p><b>Capital Adequacy Ratios</b></p> <ul style="list-style-type: none"> <li>Core Capital Ratio</li> <li>Total Risk Weighted Capital Ratio</li> </ul>	Year	Ratio (%)	2008	14	2009	16	2010	14	2011	11.5	2012	11	<p>Increase gold loan advances and factoring portfolio which covers a significant percentage of short term maturing liabilities.</p> <p>Properly manage the credit risk to mitigate liquidity risk.</p> <p>Maintain balance sheet liquidity ratios.</p> <p>Set maximum tolerance size of short term buckets in the maturity gap</p> <p>Maintaining a right mix of debt and equity</p> <p>Maintaining healthy deposit renewal ratio.</p> <p>Promote long term deposit products to reduce liquidity gaps.</p> <p>Maintain liquidity ratios above the statutory minimum limit.</p> <p>Establishing effective internal control system over liquidity risk management process</p>
Year	Ratio (%)														
2008	14														
2009	16														
2010	14														
2011	11.5														
2012	11														

Risk Category	Rating	Assessment	Mitigation Strategies
<b>Operational Risk</b>			
Fraud Risk	Low	Operational reviews are conducted regularly to identify bottlenecks	<p>Segregation of duties ,well defined demarcated responsibilities for employees, procedure manuals, dual controls</p> <p>Transferring insurable risk by obtaining insurance policies</p> <p>Internal audits conduct on a regular basis in high risk areas</p> <p>Establishment of an information security systems</p>
Regulatory Risk	Low	<p>Timely reviews are carried out to assess the extent of compliance.</p> <p>Compliance unit centrally monitors adherence to laws and regulations</p>	Comply with the regulatory requirements and our documentation meets the standards set by the regulating bodies
Reputation Risk	Low	<p>An active CSR committee is in place to assess the company image.</p> <p>Conduct customer surveys, review customer grievance</p>	<p>Establishment of CSR committee to conceptualise and monitor CSR initiatives</p> <p>Closely monitor any events which could lead to reputation risk by adopting an early warning system including media reports, inputs from frontline staff and market survey results.</p> <p>Training given to employees on professionalism, behavior and educate them on business ethics</p>
Technology Risk	Medium	<p>Analyse the number of system break downs, telecommunication failures, malfunctions and hacking.</p> <p>Conduct gap analysis to identify vulnerabilities in systems</p>	<p>System upgrades, developing an up-to-date and comprehensive system and network diagram, reviewing controls over data transfer points, having comprehensive service provider contracts</p> <p>Staff training on technical aspects to comply with security regulations</p> <p>Conduct post completion audits after a successful implementation of systems</p> <p>Disaster recovery planning</p>



## ROCK SHELTER

*By placing a water tank over this cave, the ancient architects were able to harness the cooling power of water. Demonstrating thinking ahead of it's time, it was a novel solution to beat the heat whilst utilising the best that nature has to offer.*



## Sustainability Report

### Strategy and Analysis

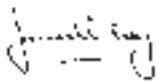
#### Managing Director's Message

Our business objectives have been about consistency in profitability, with the long term in mind and hence built on a foundation of strength and stability. I believe it is another way of saying that it is about the sustainability of our profitability.

Sustainability of our business as self-evident can only be possible when it is hand in hand with the progress of the communities in which we operate, and is environmentally responsible. The world witnessed much calamity and devastation caused by many ecological and natural disasters during the year. Still many nations struggle to extricate themselves from the repercussions of these catastrophes. As a responsible corporate entity, we recognise the importance of conducting our operations in a responsible manner and we are fully committed to this task. Towards strengthening our commitment on sustainability we have appointed a Corporate Social Responsibility (CSR) Committee in the year under review.

The company has demonstrated its strong commitment to society and environment in which it operates. We have dedicated ourselves to invest all our efforts and practices to achieve a sustainable growth and create a greater value to all our stakeholders. We have maintained our respect to our stakeholders through conducting numerous community investment programmes, increasing shareholder wealth, delighting our customers, conducting business in a transparent manner and developing and motivating our staff.

Our business strategies are hence linked to how we can be socially and environmentally responsible. How we can uplift communities and how we can reduce our carbon footprint and try to leave the earth a little closer to how we would like to find it and will continue to seek more ways to operate as responsible corporate citizen in the coming years.



Sumith Adhihetty  
Managing Director

#### Introducing the Report

This sustainability report covers the 12 months period ending 31st March 2012 and the previous report was presented for the year ended 31st March 2011 together with the company's annual report. The reporting period is from 1st April 2011 to 31st March 2012.

The company commenced publishing this report for the first year based on Global Reporting Initiative (GRI) guidelines which covers economic, environmental and social indicators of the triple bottom line. The company has self-assessed the report and declares a 'C' level reporting and presented in compliance with version G3 of GRI hence this has not been subject to independent assurance by a third party. As this is our first year of reporting on the sustainability using the GRI methodology the report may not cover some of the indicators. The information in this report refers to the company's operations which take place locally and the company does not have any subsidiaries for the purpose of reporting.

For further clarification on any material contained in this report can be contacted to;

Mr. Palitha Abeysekera  
Assistant General Manager – Treasury and Planning  
L B Finance PLC  
Corporate Office  
20, Dharmapala Mawatha  
Colombo 3.



## Key Impacts, Risks and Opportunities

Risks / Challenges, Opportunities	Response / Action
Possible changes in the legislation, which could have a wide impact on the operations of the company	Impact of the changes are identified at each line of operations and the feedback is communicated to the management for necessary actions
Intense industry competition could cause a migration of key employees	Open door policy, open communication culture, employee recognition, addressing training needs while providing other perks and benefits such as welfare, improved compensation and benefits
Competition from banks by offering same features of products	Differentiate our products with the competencies in terms of speed of delivery, industry know-how, simple documentation process and service excellence
The depreciating exchange rate, rising interest rates, ceiling on the licensed commercial banks' credit disbursement, increased vehicle import duties will result in a significant change in the dynamics in the economic and business environment	Several measures has necessitated that we re-examine some of our strategies including product diversification, realignment of our portfolio, more focus will be given on our key funding sources
Increased consumptions of energy and material such as use of paper which has resulted in an increase of environmental dreadful conditions	Promote a paperless office and discourage the use of unnecessary printing of documents and emails, energy saving measures and continuously search for ways to reduce consumption

## Organisational Profile

### Company Profile

L B Finance PLC (LBF) was incorporated as a private company on 30th May 1971 under the Companies Ordinance No. 51 of 1938 and was subsequently converted to a public company on 29th September 1982. The Company was listed on the Colombo Stock Exchange in January 1998 and was registered as a finance company as defined in the Finance Companies Act of No. 78 of 1988.

The company's product portfolio includes leasing, hire purchase, gold loans, vehicle loans, term loans, trade finance, factoring, quick loans, money transfer, margin trading, power draft, Islamic financing, fixed deposits and savings accounts.

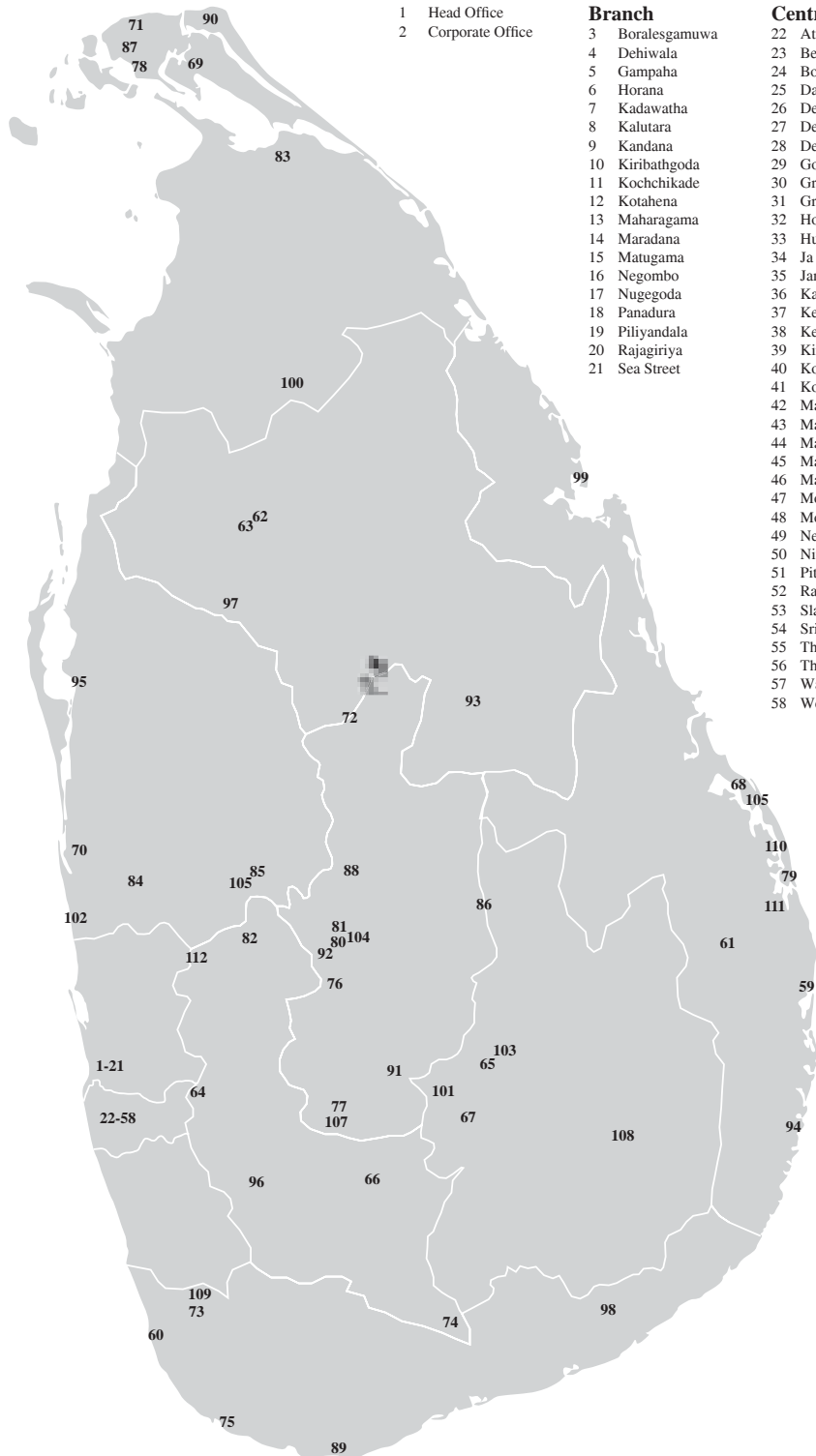
### Scale of Operations

The head office of the company located at 275/75, Prof. Stanely Wijesudera Mawatha, Colombo 07. The expansion of our distribution channels across the island totaling to 112, meets diverse financial needs of the customers, where operations are only carried out locally. Our profits after tax during the year exceeded the previous year's by 59.26% to reach Rs. 1.62 Bn. The total assets of the company as at the end of the financial year amounted to Rs. 42.77 Bn. recording a YoY growth of 51.35%. During the year new business executions were Rs.21.81 Bn. which consists of lease, hire purchase and loans. The total human capital increased to 1,679 in 2012, from 1,264 in 2011.

More information is provided in the financial statements, the ten year summary and elsewhere in the Annual Report.

## Sustainability Report Contd.

### Our Distribution Channels



- 1 Head Office
- 2 Corporate Office

#### Branch

- 3 Boralessgamuwa
- 4 Dehiwala
- 5 Gampaha
- 6 Horana
- 7 Kadawatha
- 8 Kalutara
- 9 Kandana
- 10 Kiribathgoda
- 11 Kochchikade
- 12 Kotahena
- 13 Maharagama
- 14 Maradana
- 15 Matugama
- 16 Negombo
- 17 Nugegoda
- 18 Panadura
- 19 Piliyandala
- 20 Rajagiriya
- 21 Sea Street

#### Centre

- 22 Attidiya
- 23 Beruwala
- 24 Borella
- 25 Dam Street
- 26 Deans Road
- 27 Dehiwala II
- 28 Dematagoda
- 29 Golumadama
- 30 Grandpass-Stadium
- 31 Grandpass-Sulaiman
- 32 Homagama
- 33 Hultsdrop
- 34 Ja Ela
- 35 Jampattah
- 36 Kaduwela
- 37 Kelaniya
- 38 Keselwatte
- 39 Kirulapana
- 40 Kolonnawa
- 41 Kosgashandiya
- 42 Madampitiya
- 43 Makola
- 44 Malabe
- 45 Maligawatta
- 46 Mattakkuliya
- 47 Modera
- 48 Moratumulla
- 49 Negombo II
- 50 Nittambuwa
- 51 Pitakotte
- 52 Ragama
- 53 Slave Island
- 54 Sri Sangaraja Mw
- 55 Thihariya
- 56 Thotalanga
- 57 Wattala
- 58 Wellawatha

#### Branch

- 59 Akraipattu
- 60 Ambalangoda
- 61 Ampara
- 62 Anuradhapura
- 63 Anuradhapura II
- 64 Avissawella
- 65 Badulla
- 66 Balangoda
- 67 Bandarawela
- 68 Batticaloa
- 69 Chavakachcheri
- 70 Chilaw
- 71 Chunnakam
- 72 Dambulla
- 73 Elpitiya
- 74 Embilipitiya
- 75 Galle
- 76 Gampola
- 77 Hatton
- 78 Jaffna
- 79 Kalmunai
- 80 Kandy
- 81 Katugasthota
- 82 Kegalle
- 83 Killinochchi
- 84 Kuliyapitiya
- 85 Kurunegala
- 86 Mahiyanganaya
- 87 Manipal
- 88 Matale
- 89 Matara
- 90 Nelliadi
- 91 Nuwara Eliya
- 92 Pilimathalawa
- 93 Polonnaruwa
- 94 Pottuill
- 95 Putlam
- 96 Rathnapura
- 97 Thambuttegama
- 98 Tissamaharama
- 99 Trincomalee
- 100 Vauniya
- 101 Welimada
- 102 Wennappuwa

#### Centre

- 103 Badulla II
- 104 Kandy II
- 105 Kattankudy
- 106 Kurunegala II
- 107 Maskeliya
- 108 Monaragala
- 109 Pitigala
- 110 Sainthamaru
- 111 Samanthurai
- 112 Warakapola



### Operational Structure

Our core business activities include credit, deposits, factoring and working capital management and these are supported by various functions as such information technology, human resources, marketing and recoveries. However non key functions such as security services, cash transportation, and building maintenance and courier services are outsourced.

Further details are elaborated in the section in management discussion and analysis

### Significant Changes during the Year

No significant changes taken place other than the changes in the major share holdings and Board of Director positions in the company. Royal Ceramic Lanka PLC holds 25.85% during the year under review whereas this was amounted to be 5.51% during 2010/11 and Vallibel One PLC still remains the major holding of 51%. Mr. L N de S Wijeyeratne and Mr. K D D Perera were appointed as the Acting Chairman and the Executive Deputy Chairman of the company respectively with effect from October 20, 2012.

### Awards and Accolades

The company won several accolades during the year and these are valuable endorsements of our efforts to reach excellence in all we do.

### Rating Upgrade

Significant achievement during the year was the upgrade of the rating awarded to the company, to A-/P2 received from Ram Ratings (Lanka) Limited.

### ISO Certification

The company obtained ISO certification (9001:2008), the internationally

recognised certification awarded to companies that have implemented quality Management Systems.

### Annual Report Awards

Bronze medal was awarded in the Finance Companies category at the Annual Report Competition organised by the Institute of Chartered Accountants of Sri Lanka.



Further details are elaborated in the section in management discussion and analysis.

## Governance, Commitment and Engagement

### Mechanisms for shareholders and employees to provide recommendations or direction

The shareholders of the company have numerous ways of engaging with the board which includes,

- Annual General Meeting (AGM) and Extra Ordinary General Meeting (EGM) are forums to deliberate on matters.
- Access to the Board and the company Secretary.
- The company's website which is accessible by shareholders and general public.
- Managing Director and two Executive Directors bridge the communication gap between the rest of the employees and the Board.
- The monthly managers meeting which is attended by all Head of Branches and above, provides an ideal forum for employees to discuss matters of concern before the board and corporate management.

### Linking Compensation to Performance and Board Evaluation

The company has a performance-driven culture which is linked to the corporate plan. Members of the highest governance body, key management personnel and all executive officers are remunerated based on their performance.

### Conflict of Interest

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their duty to the company and their personal interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board.

## Sustainability Report Contd.

### Commitments to External Initiatives

The company maintains an active membership in several key associations to deal with matters that arise from the ordinary course of business;

- The Finance House Association of Sri Lanka
- Leasing Association of Sri Lanka
- The Ceylon Chamber of Commerce
- Credit Information Bureau of Sri Lanka
- Colombo Stock Exchange
- In addition we maintain regular contact with regulators, rating agencies, analysts, professional bodies such as the Institute of Chartered Accounts of Sri Lanka.

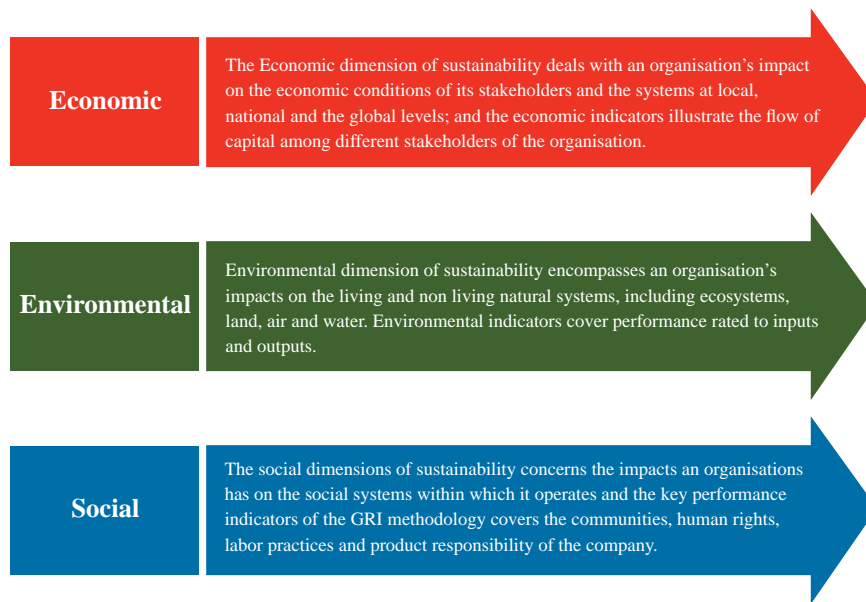
### Stakeholder Engagement

Stakeholders are individuals or group who demonstrate an interest over the activities of the company. Based on regular and ad-hoc engagement with key stakeholder groups, company has facilitated an environment to discuss and forward their recommendations and suggestions. The stakeholders, their expectations and our approach are being tabulated below;

Stakeholder	Expectations	Our approach
Investors	Better management performance and higher returns Sustainable development and ethical business practices	Sustainable growth and higher returns Sound governance and transparency
Customers	Satisfaction through service excellence Innovative products Convenience Value addition	Convenient and flexible working hours Introduce new products and services to meet customer requirements Customized service delivery to ensure customer satisfaction
Employees	Career development Better remuneration packages Recognition Staff welfare	Comprehensive performance management scheme Follow all relevant human resource standards and regulations Rewards and benefits
Community	Improving the health, education, and financial services of the economy Community development through CSR activities Contribution to economic growth	Engagements with the community encompass health care, education, religious and cultural activities Creating employment opportunities
Governing bodies	Compliance with laws and regulations	Commitment to comply with laws and regulations Regulatory compliance on reporting
Suppliers	Long term partnerships Transparent procurement policies and procedures	Competitive selection of suppliers based on quality and price Preference to locally based suppliers Transparent procurement policies and procedures

## Overview and Performance Indicators

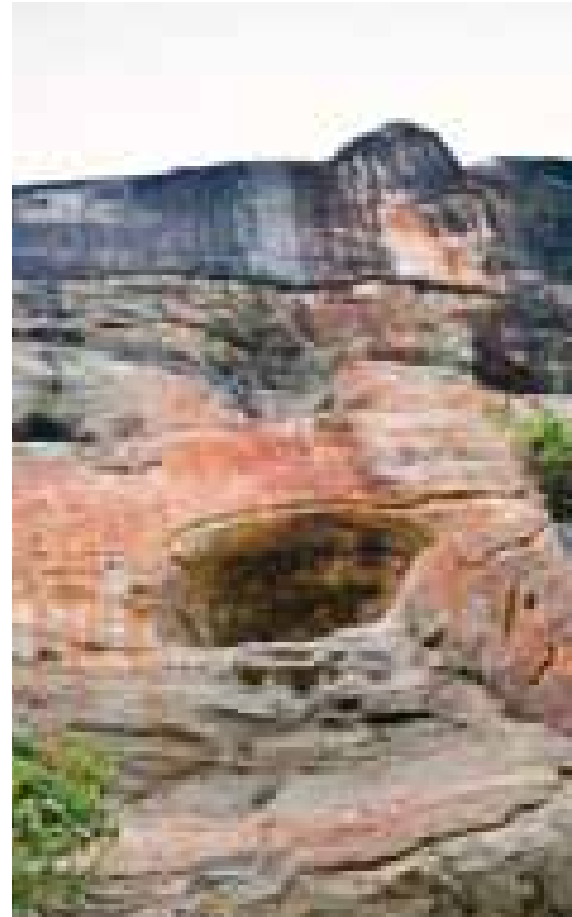
Presented within this report is a comprehensive account of the L B Finance business using the prescribed Triple Bottom Line format, and hence information and data provided encompasses the Economic, Environmental and Social Perspectives. The reporting adopts the principles and methodology of GRI (Global Reporting Initiative) G3 Guidelines and is compiled using data and performance indicators for the period 1st April 2011 to 31st March 2012. The technical protocols have been followed when reporting various indicators. We will strive to more fully encompass the provisions specified in the ensuing years by initiating measures to address any gaps in information. This section of our sustainability report includes the performance indicators of the triple bottom line reporting on the economic, environment, and social.



### Economic Impact Management Approach

As a leading financial institution which is often the benchmarks in the industry, we stay mindful of our responsibility towards our stakeholders. Consideration to stakeholder interest starts from the stage of strategy formulation reflecting our principle that the sustainability of our performance must go hand in hand with the progress and sustainability of the communities and environment of which it is a part.

A comprehensive annual corporate plan and budget set out directions and targets for all our strategic business units (SBU's) and are communicated to the relevant employees. The SBU's of the company are deposits, credit, factoring and working capital management and the units which provide the many support services. How we might impact, how we can and how we want to impact the community at large and the environment are integrated into the strategies we set forth for the year at the Board and senior management levels. During the year under review a committee, headed by a Senior Manager



*Ensuring security and peace of mind were the guard rooms, built in such a manner that it could be occupied by one individual who is given only standing room. This was for the purpose of keeping him alert since sleep or relaxation would result in a dangerous fall. The rooms also provided a wide view which would provide a watchful eye over approaching enemies.*

## Sustainability Report Contd.

in Marketing was appointed and a policy document on the CSR activities of the company was prepared.

### Economic Performance Indicators

We have identified the following economic indicators as being most relevant for the company in the context of sustainability report.

### Economic Value Added (EVA)

A measure of profitability that takes into consideration the cost of total invested equity and provides an accurate indication of true economic value generated by LBF.

### Economic Value Added Statement

As at 31st March	2012	2011
Equity		
Shareholder's funds	4,006,458,103	2,613,718,067
Add: Cumulative loan loss provision	610,458,312	561,621,541
<b>Total</b>	<b>4,616,916,415</b>	<b>3,175,339,608</b>
Earnings		
Profit attributable to shareholders	1,625,080,104	1,020,368,379
Add - Loan Losses and Provisions	78,430,618	137,232,868
Less - Loan Losses Written Offs	(1,088,240)	(10,736,238)
	1,702,422,482	1,146,865,009
Cost of Equity (avg. annual treasury bill rate+2% risk premium)	10.19%	10.10%
Cost of Average Equity	397,015,444	271,500,131
<b>Economic Value Added</b>	<b>1,305,407,038</b>	<b>875,364,878</b>

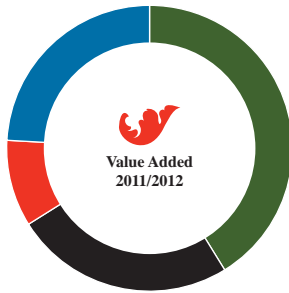
### Value Added

Value Added Statement portrays the principal sources of income, and the manner in which the income is distributed among the stakeholders of the company.

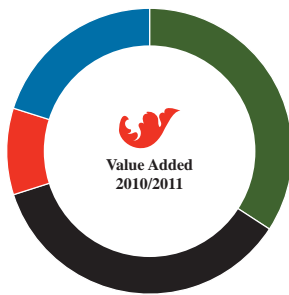
### Value Added Statement

As at 31st March	2012	2011
Value Added		
Income from Interest Related Activities	7,238,799	5,138,718
Income from Real Estate	67,353	12,142
Income from Fee based Activities	496,792	242,547
Income from Other Activities	47,460	108,478
	7,850,404	5,501,885
Depositors and Lenders	(3,551,986)	(2,418,480)
Cost of Sales and Services	(675,782)	(468,226)
Provision for Bad & Doubtful Debts	(78,431)	(137,591)
<b>Value Added Statement</b>	<b>3,544,204</b>	<b>2,477,588</b>
Distribution of Value Added		
To Employees:		
Salaries and Other Benefits	854,614	494,721
To providers of Capital:		
Dividends proposed	346,286	242,400
To Government: Taxes	884,389	882,492
To Expansion and Growth:		
Depreciation	180,181	80,006
Retained Profits	1,278,794	777,968
	<b>3,544,204</b>	<b>2,477,588</b>

  
**“Sustainability of our business as self-evident can only be possible when it is hand in hand with the progress of the communities in which we operate, and is environmentally responsible.”**



To Expansion Growth	41%
To Government Taxes	25%
To Providers of Capital	10%
To Employees	24%



To Expansion Growth	34%
To Government Taxes	36%
To Providers of Capital	10%
To Employees	20%

### Impact due to Climate Change

We are not directly exposed to adverse results arising from climate change. However the company provides financial assistance to customers engaged in sectors such as agriculture and fisheries which are exposed to changes in the climate. This could impact on the company's operations and profits indirectly.

### Defined Benefits and Contribution Plans

LBF offers Defined Benefits and Contribution plans for employees and retiring employees and these include

- A retirement gratuity scheme as required by statute
- A medical benefit scheme enjoyed by all employees

- Contribution to the Employees' Provident Fund (EPF)
- Contribution to the Employees' Trust Fund (ETF)

### Financial Assistance Received from the Government

No financial assistance was received from the Government during the last financial year.

### Wage by Gender Compared to Local Minimum Wage

Although the Shop and Office Employees' Act does not stipulate a minimum wage, LBF ensures that its wages are above par or on par with prevailing rates in the mercantile sector. LBF does not discriminate based on gender in its wage rates. Our annual event calendar includes special gatherings, such as sports tournaments, children's parties, staff conferences and other social and religious events that nature labor management relations.

### Proportion of Spending on Locally Based Suppliers

Stationary and other raw material are purchased from local suppliers, and also non key functions such as security services, cash transportation, and building maintenance and courier services are outsourced locally. As an appreciation towards the vehicle suppliers we organise supplier get together annually covering different regions of the country.



### Procedure for Senior Management Hiring From the Local Community

All our recruitments for senior management positions are hired for locally whilst our distribution channels gives this more meaning as we have a policy of hiring from the localities whenever the criteria is met. We also consider the commuting distance and the preferred locations of an employee when placements arise for many locations of our operations.

The business we do is bound to have indirect benefits; leasing of machinery to the SME sector helps to generate employment especially in agriculture and manufacturing sectors of the economy.

### Environmental Impact Management Approach

Company is committed to conduct business operations sustainably; we identify the impact of a business by directly engaging our stakeholders. Accordingly we have identified that commitment on environmental initiatives as one of our key priorities.

Our green initiatives directly come under the general purview of Senior Manager Marketing. Heads of branch through branch coordination and heads of SBU plan and implement their eco-friendly initiatives in collaboration with the marketing department. We make staff awareness on sustainability with creating corporate brand value through strategic CSR. To protect the environment for future generation we engaged in several eco-friendly initiatives.

## Sustainability Report Contd.

### Environmental Performance Indicators

#### Material

##### Materials used by Weight or Volume

This data was not available during the year under review and we will begin the monitoring the materials used in the coming years.

##### Materials Recycled

A paper management system ensured that used paper is recycled and reused wherever possible. We promote a paperless office and discourage the use of unnecessary printing of documents and emails.

##### Disposal of IT Waste

We also have introduced a practice of returning all our used IT equipment to our suppliers who follow environmental friendly guidelines in the disposal of them, in accordance with the international standards set forth by their principles.

#### Energy

##### Reduction in Indirect Energy Consumption

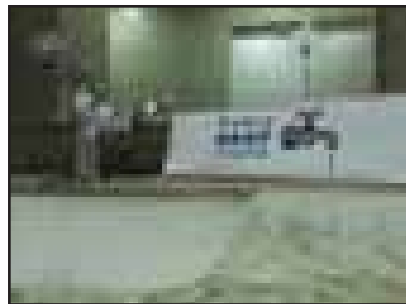
Across all our locations, the company has used energy saving measures and continuously searches for ways to reduce consumption. CFL lamps are used instead of the higher energy requiring alternatives, and variable air volume control units are used to control temperature with special energy saving features, whilst the use of the air conditioning at our head office building is limited to the normal office hours. During the year we merged 17 servers into 01 through server virtualisation, thereby conserving floor space as well as energy consumption.

#### Water

##### Water Management

Given the nature of company business, being a financial institution sans manufacturing operations, the direct

reliance on water is limited to the consumption needs of its employees. However, we realise the importance and scarcity of this resource and the need to make our contribution to its sustainability. The company has placed tags, notices and labels wherever possible to 'save water' and initiatives have been taken to manage and save water.



#### Biodiversity

Focusing on biodiversity day on 22nd May 2011 the company partnership with the Base Hospital, Mulleriyawa and took many initiatives as a part of its CSR.



#### Compliance

##### Fines and Sanctions

The company always comply with the environmental standards therefore no fines or sanctions have been levied upon during the year under review.

#### Social Impact

##### Labor Practices and Decent Work - Management Approach

The commitment, strength and dynamism of our people have been a vital contributor to the success we have achieved over the years. We have focused on recruiting the best and on providing an environment and resources that enable every employee to advance on merit as far as their skills and talent will take them.

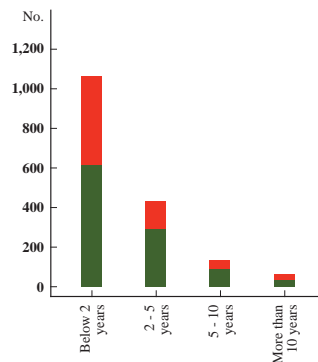
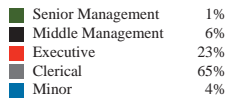
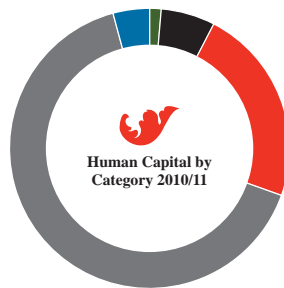
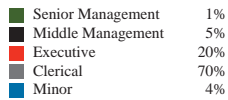
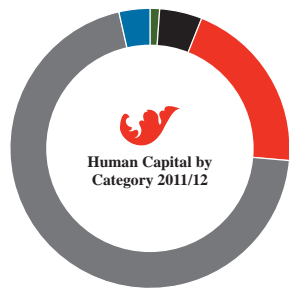
The company's investments in welfare and the training and development of our human capital has increased over the years reflecting the enhanced focus on building a very dynamic operating model and an excellent team. The investment on training and development more than doubled last year to over Rs. 6 Mn. whilst the company's investments in welfare of human capital increased by more than 49% over the previous year.

**Employment**

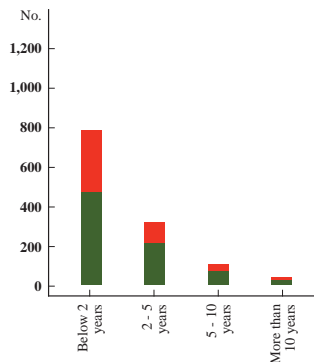
**Total Work Force by Employment Type, Employment Contract and Region**

Provincial - Wise Breakdown of Human Capital as at March 31,

Province	2012				2011			
	Distribution Channels	No of Employees			Distribution Channels	No of Employees		
		Male	Female	Total		Male	Female	Total
Central	10	101	54	155	9	85	47	132
Eastern	9	62	28	90	7	32	25	57
Northern	7	36	35	71	3	21	13	34
North - Central	6	41	30	71	4	34	17	51
North - Western	6	52	25	77	5	49	26	75
Sabaragamuwa	5	33	24	57	4	47	27	74
Southern	7	26	23	49	6	56	23	79
Uva	4	38	21	59	4	25	16	41
Western	58	639	411	1050	50	459	262	721
<b>Total</b>	<b>112</b>	<b>1028</b>	<b>651</b>	<b>1679</b>	<b>92</b>	<b>808</b>	<b>456</b>	<b>1264</b>



**Service Analysis of Human Capital 2011/12**  
 Female (Red), Male (Dark Green)



**Service Analysis Human Capital 2010/11**  
 Female (Red), Male (Dark Green)

## Sustainability Report Contd.

Attrition of Human Capital as at March 31,

Year	2009	2010	2011	2012
Total	125	181	240	390

The company recruited individuals during the year and the total number of employees as at end 2011/12 increased to 1,679 from 1,264 in 2010/11. Females have accounted for over 35% of our total cadre, and reflect that at LBF gender is not a factor in recruitment or in advancement which is purely based on merit. Females in our senior management team represents 23% which further supports this fact.

A geographical analysis of our employment indicates 37% to be employed outside the Western Province. A reflection of our efforts to contribute to wealth creation outside the western province, and thereby contribute our share to the nation's economic objectives, by helping to bridge the geographic divide in income distribution in the country. We foresee an increase in our employee strength in the year ahead on account of our branch expansion, the development of new products and the growth of existing products.

### Employee Perks and Benefits

#### Rewarding Excellence

Our comprehensive performance management scheme entails a review and an evaluation of individual

performance, the results of which are shared with the employee annually. Employee remuneration consists of a fixed pay as well as a variable component which is depended on the achievement of the key results and performance indicators by the individual employee. Performance Indicators and key result Areas are cascaded from the company's vision and strategies to the level of individual employees and employees goal achievement is measured against set targets and we reward outstanding achievements.

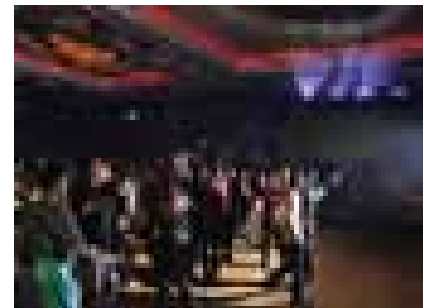
#### Employee Benefits

In addition to a competitive employee remuneration package that is on par with the industry rates, other employee benefits offered by the company include fuel allowances, performance based incentives and bonuses, a comprehensive medical insurance scheme, staff loans at concessionary rates, funeral donations and an Employee Provident Fund and Employee Trust Fund.

#### Work Life Balance

Creating a healthy work life balance is an integral component of improving productivity of the staff members. This is facilitated through numerous welfare

initiatives and encouraging our staff to engage in extracurricular activities such as sports, religious and cultural events organised by the Company. We also implement health and safety measures, a clear process for grievance handling, health insurance schemes and encourage interaction of our staff and family members through regular annual events.



*Annual get together of staff members held at Waters Edge in November 2011*



*Celebrating fun and happiness with the kids for Christmas in December 2011*



The company promotes work-life balance through encouraging for a harmonious balance between employees and their work. As a policy to this; Friday has been announced as a dress down day and company t-shirts are provided free of charge to all levels of employees.

### Achievements in Sports

We encourage our staff to actively participate in sports and other recreational facilities. The achievements of our staff members are detailed below.



*Won the runners-up in the mercantile basketball tournament 'D division' in December 2011 organised by Mercantile Basketball Association.*



*Won the championship in Football league tournament for the first time in 'E division' organised by Mercantile Football Association*



*Participated in Mercantile Rugby 7s in November 2011*

### Labour/Management Relations

The company has not entered into any collective agreements in the year under review.

### Occupational Health and Safety

We provide the staff with comprehensive training as to how to act in an emergency such as fire, burglary, air rapid, explosion, etc.

### Training and Education

Our training and development initiatives include continuous training as well as need based training. Continuous training involves providing training programmes regularly to motivate individuals, create the appropriate culture, build leadership skills and enhance knowledge.



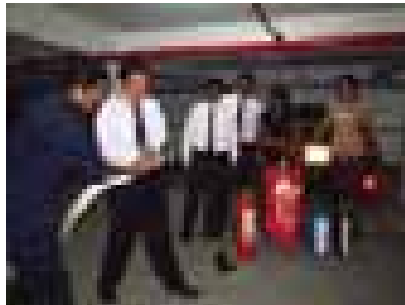
*These drains, which are found in and around the water garden, create an eco-friendly cooling system which works in an ingenious manner. The water flows through these drains and is soaked up by the brick walls adjoining them, thereby cooling down the surrounding atmosphere.*



## Sustainability Report Contd.

Needs based training is most often specialized or technical training to raise skills in specific functions or operations.

Technical training on the financial operations we offer as well as customer service are naturally priority areas given the nature of our business as a financial services provider. We provide on the job training as well as specialised training programmes. Additionally, all new recruits undergo a comprehensive orientation programme which provides an opportunity to understand the business, the products and LBF's organisational structure, and to align themselves with the company's vision, values and culture. Our training is conducted by in house trainers as well as external expertise. The state of the art auditorium at our new corporate office is to serve as the main venue for our in house training programmes in the future.



### Training Hours of Human Capital

Category	2011/12 Hours			2010/11 Hours		
	Male	Female	Total	Male	Female	Total
Senior Management	4	1	5	4	1	5
Middle Management	70	13	83	60	10	70
Executive	200	141	341	160	129	289
Clerical	500	676	1176	427	407	834
Minor	75	—	75	53	—	53
<b>Total</b>	<b>849</b>	<b>831</b>	<b>1680</b>	<b>704</b>	<b>547</b>	<b>1251</b>

### Training Programmes Conducted During the Year

Programme Name	2011/12	
	No of Programmes	No of Participants
Induction	8	425
Customer Care/Marketing	12	50
IT	15	60
Safety	2	75
<b>Total</b>	<b>37</b>	<b>610</b>

### Investment on Training and Welfare

Investment	2011/12	2010/11	2009/10	2008/09
Training (Rs.)	6,457,256	1,789,205	1,146,057	671,445
Welfare (Rs.)	33,472,674	22,375,581	16,168,234	11,527,650

### Performance and Career Development Review

All employees of the company irrespective of their gender received formal performance and career development reviews during the year

### Diversity and Equal Opportunity

#### Gender wise Analysis

Gender	2011/12	2010/11	2009/10	2008/09
Male	1,028	808	573	407
Female	651	456	317	222
<b>Total</b>	<b>1,679</b>	<b>1,264</b>	<b>890</b>	<b>629</b>

#### Basic Salary of Men and Women

The company is an equal opportunity employer where no different salary scales are offered for men and women. We provide a competitive remuneration package aligned with the industry standards to all our staff members. Our recruitment, remuneration, special rewards and career advancement are based solely on performance. Remuneration across the board is determined based on an employee's level of experience and contribution to the company. The Remuneration Committee determines the salary structure of the key management personnel.

#### Human Rights

##### Management Approach

We always ensure that we follow all relevant human resource standards and regulations very stringently. We do not condone child or underage labour nor have any bias within our organisation.

Non-discrimination is vital to our vision; wherein gender, race, religion, caste or any other discriminatory criteria such as sexual harassments and compulsory labor are not in our mandate.

#### Society

##### Management Approach

We strongly believe that corporates have a responsibility towards the people of this country, and at LBF the work we do are not ad-hoc measures of charity but integrated into our business and the way we do business. With an overall aim of adding value to lives, lifestyles and economic well-being our engagements with the community encompass health care, education, religious and cultural activities.

## Sustainability Report Contd.

### Society Performance Indicators

#### Local Communities

##### Initiatives to Improve the Health of our Nation

###### Donation of a Cross Linking Machine

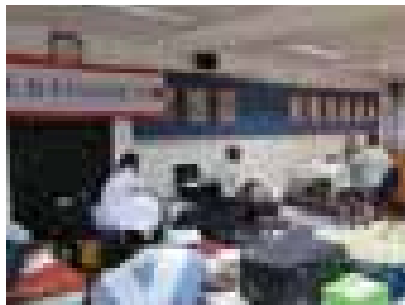
The company donated a Cross Linking machine to the National Eye Hospital to benefit patients suffering from Keratoconus, a degenerative disorder of the eye in which structural changes in the Cornea cause distortion of vision multiple vision and sensitive to light; a condition mostly diagnosed amongst adolescents which reaches the most severe state between the ages of 20-40 years. This machine which costs Rs. 2.6 Mn. is said to be the most advanced machine of its kind in the country and requires only 5 minutes for an operation of a patient.



Managing director donating a cataract lenses to a needy patient

###### Donating blood to “SAVE A LIFE”

The employees organised a blood donation for the 40th anniversary of the company and was held on 1st June 2011 at the head office complex.



###### Supporting Education and Road Safety

The company’s corporate commitment strategically focuses on two areas, which are safety and education. Our involvement in a road safety campaign

and programmes to benefit university students are perfect examples of a win-win combination of making a social impact.



The company conducted a program to facilitate leadership and personality building amongst under graduates of University of Moratuwa. Thus, the company sees this type of programmes which will help build personal skills and soft skills as having an important role to play for these would be graduates as well as the country as a whole.

###### Outdoor Hoardings

A classic example of a community initiative integrated into our marketing strategy is the road safety awareness campaign for the public sponsored by the company. The company sponsored 6 outdoor hoardings in chilaw area.



###### Donation of 200 Cataract Lenses for the Second Time

For the second year in succession the company donated 200 cataract lenses for needy patients. The donation amounting Rs. 2 Mn. was made via the Director of the Eye Hospital in Colombo.



**Lightning up lives at “Vesak”**

The LBF’s annual Vesak festival is a result of employee fellowship and community participation. This year too we celebrated it at our many branches and included Dansala for kadala, coffee, noodles etc.



*Vesak day celebrations at Kandy Branch*



*Coffee Dansala 17th May 2011*



*Dansala in Nugegoda May 2011*

**Brightening up their faces**

Reflecting our belief that the sustainability of the success of a business is only possible with a win-win approach to

interactions with the community and the environment, the company marks the opening of a new branch or an anniversary of a branch opening with a CSR initiative that involves the community.



*One of the projects included the distribution of school bags and stationery to students at Earlalai MahaVidyalaya in Chunnakkam in the Jaffna district.*



*Jaffna Branch adjoining with the 1st year Anniversary on 21st October 2011-donated Bicycles and Educational equipment to people who were affected by the ethnic war.*



*The first anniversary of the opening of the Vavuniya which fell on 19th August 2012 was celebrated by distributing clothes to school children in an orphanage in Vavuniya.*



*Sports equipment was donated to 5 selected schools in Puttalam area at the opening of Puttalam branch.*

**Ecological and Environment Initiatives**

The planting of a tree is a simple act that costs very little, but like what most seemingly simple things often are, have a profound impact on the conservation of our environment, and when multiplied in effort a valuable contribution to the future sustenance of the earth. The company conducted many tree planting campaigns during the year and also ensured better protection for trees already planted. Some of these are depicted below.

**Greening for the Future**



*Tree Plantation Project at President’s College in Embilipitiya on 2nd June 2011*



## Sustainability Report Contd.



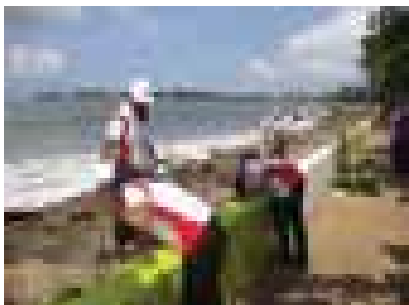
*Tree Plantation Project at Panadura on 10th June 2011*



*Tree Plantation Project at Mahanama College in Kandy 30th May 2011*



*Fencing the trees planted as a CSR initiative.*



*Cleaning the environment in Marine Drive Galle as another initiative*

### **Anti-Corruption Policies and Procedures**

Specific training on anti-corruption policies and procedures was not given during the year under review but the company always educates the staff on compliance and prevention of frauds.

Compliance

The company comply with the rules and regulations therefore no fines or sanctions have been levied upon during the year under review.

### **Product Responsibility Management Approach**

Company's products are financial services of that range from deposits, to lending products. The nature of our business of financial services, we understand necessitate clarity of product attributes and detailed and clear explanations of the products and we thus ensure that our customer service representatives and marketing personnel are specially equipped to do so. They are equipped with the required product knowledge, technical skills as well as the soft skills required to ensure customer awareness and service that exceeds customer expectations.

We also ensure that the marketing, distribution and sale of our products adhere to not only the legal requirements but also to social and ethical norms, and is carried out in a manner that is legal, decent and honest.

### **Product Responsibility Performance Indicators**

#### **Customer Health and Safety**

We do not offer lending products to people who are less than 18 years of age as a policy. Also we discourage customers from leasing vehicles with poor performance and have negative environmental impact.

### **Product and Service Labeling**

Helping the customer to make an informed choice when purchasing our goods and services is a matter we consider important in the sustainability of the organisation and is addressed in all our marketing plans.

In the design of our products as well as labels, logos and other marketing communication such as advertisements we do not infringe on copy rights or mis-lead customers via information or by withholding information. All terms and conditions regarding our products are disclosed in full as per the legal requirements.

### **Marketing Communications**

The company is well aware of the power of marketing to influence opinions and purchasing decisions. We value adherence to not merely the legal requirements but ethical advertising and communication practice. This is in addition to our policy of strictly following the guidelines laid down by the Central Bank and other authorities' regards content of advertisements on our products. There have been no instances of non-compliance with regulations and voluntary codes concerning marketing communications and related activity reported from any of our strategic business units.

### **Customer Privacy**

There have been no complaints of breach of customer privacy and data loss. We have had no fines levied against us for non-compliance with laws and regulations concerning the provision and use of products and services.

Our ICT infrastructure is also geared to ensure confidentiality of customer information and privacy and optimum protection is provided against possibilities of hacking.

### Compliance

There were no incidents of noncompliance with regulations or codes concerning the health and safety, product and service labeling and marketing communications.



*The drainage system in Sigiriya has been established in a manner that even the smallest amount of water is not allowed to go to waste. Throughout the site, drains similar to the one pictured above have been carved into the rock in order to transport water down to the water gardens.*

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EN20	NO, SO, and other significant air emissions by type and weight	Not applicable for 'C' level reporting	
EN21	Total water discharge by quality and destination	Not applicable for 'C' level reporting	
EN22	Total weight of waste by type and disposal method	Not applicable for 'C' level reporting	
EN23	Total Number of and Volume of significant spills	Not applicable for 'C' level reporting	
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LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities	Not reported during the year	
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<b>Investment and procurement practices</b>			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening	Not reported during the year	
HR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken	Not reported during the year	

No.	Description	Disclosure	Page no
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Not applicable for 'C' level reporting	
<b>Non – discrimination</b>			
HR4	Total number of incidents of discrimination and actions taken	Not reported during the year	
<b>Freedom of association and collective bargaining core</b>			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	Not reported during the year	
<b>Child labour</b>			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	Not reported during the year	
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HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	Not reported during the year	
<b>Security practices</b>			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	Not applicable for 'C' level reporting	
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HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Not applicable for 'C' level reporting	
<b>Assessment</b>			
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	Not reported during the year	
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SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Not reported during the year	
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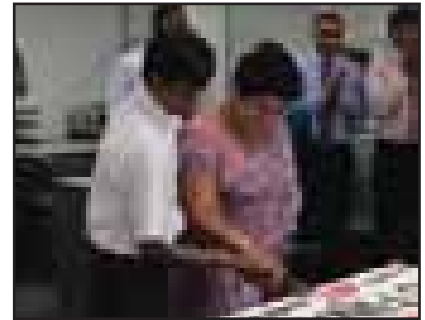
No.	Description	Disclosure	Page no
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		2002 In Accordance	C	C+	B	B+
Mandatory	Self Declared		✓			
	Third Party Checked			Report Externally Assured		Report Externally Assured
	GRI Checked			Report Externally Assured		Report Externally Assured
Optional						

## Events During the Year



Launch of margin trading as another financial solution in May 2011



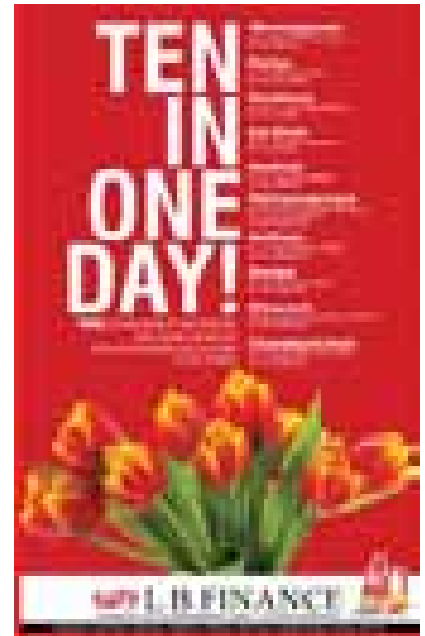
Celebrating 40 years of service excellence together with the senior employees in May 2011



Recognised with the issuance of the coveted ISO 9001:2008 Certification in June 2011



Opening of 39th channel at Manipay in August 2011



Ten new channels were opened within a single day across several districts in August 2011



Opening of 51st channel at Kadawatha In October 2011



Won the bronze award in the finance companies sector at the annual report competition organised by the ICASL in 2011



Rating upgrade to A-/P2 by RAM Ratings (Lanka) Limited in November 2011



Partnering with Sampath Bank to share ATM network in February 2012



Opening of seven storied landmark in the Colpetty skyline – corporate office in January 2012



Brand new addition to the portfolio, 'LB Savings' in January 2012



*In order to prevent water from seeping into the cave, drip ledges have been cut into the rock, thereby protecting the interior. The cut away section has been decorated with art and has been created in a manner that protects even the artwork from the elements.*

## **Financial Reports**

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## Paintings

*The only proof of Sigiriya being decorated with different paintings was discovered with these creative marvels. Using traditional motifs and brilliant shades, the following were a stark difference to the frescoes and yet displayed the artistic creativity of the unknown painters. Using well-known accents such as the 'liyawa', these cave paintings adjacent to the water gardens display a different kind of imaginative decoration.*

## Annual Report of the Board of Directors on the Affairs of the Company

The Directors of L B Finance PLC have pleasure in presenting their Annual Report together with the Audited financial statements of the company for the year ended 31st March 2012.

### General

L B Finance PLC is a public limited liability company which was incorporated under the Companies Ordinance No.51 of 1938 as a private limited liability company on 30th May 1971, converted to a public limited liability company on 29th September 1982, listed on the Colombo Stock Exchange in January 1998 and re-registered as per the Companies Act, No.7 of 2007 on 6th June 2008 with PQ 156 as the new number assigned to the company.

L B Finance PLC is a finance company registered under the Finance Companies Act No.78 of 1988 and is a registered finance leasing establishment in terms of the Finance Leasing Act No.56 of 2000.

### Principal activities of the company and review of performance during the year

The company's principal activities during the year were acceptance of deposits, maintenance of savings accounts, granting lease and hire purchase facilities, micro finance facilities, gold loans, mortgage loans, factoring, margin trading, Islamic finance facilities and other credit facilities.

The company has an interest in the leisure sector through its investment in The Fortress Resorts PLC.

A review of the business of the company and its performance during the year with comments on financial results, future strategies and prospects are contained in the Managing Director's Report on pages 14 and 19, which form an integral part of this report.

This report together with the financial statements, reflect the state of affairs of the company.

### Financial Statements

The complete Financial Statements of the Company duly signed by two Directors on behalf of the Board and the Auditors are given on pages 120 to 151.

### Auditors' Report

The Report of the Auditors on the Financial Statements of the Company is given on page 119.

### Accounting Policies

The accounting policies adopted by the company in the preparation of financial statements are given on pages 124 to 130 and are consistent with those of the previous period.

### Directors

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 22 to 25.

#### Executive Directors

Mr. J A S S Adhietty	-	Managing Director
Mr. Niroshan Udage	-	Executive Director
Mr. B D St A Perera	-	Executive Director

#### Non Executive Directors

Mr. L N De S Wijeyeratne	-	Acting Chairman
Mr. K D D Perera	-	Executive Deputy Chairman
Mr. Nimal Perera	-	Director
Mr. A M Weerasinghe	-	Director
Mr. K D A Perera	-	Director
*Mrs. Kimarli Fernando	-	Director
*Mrs. Shirani Jayasekara	-	Director

#### \*Independent Non Executive Directors

Mrs. Kimarli Fernando retires by rotation at the conclusion of the Annual General Meeting in terms of Articles 85 and 86 of the Articles of Association and being eligible is recommended by the Directors for re-election.

During the year under review,  
Mr L N de S Wijeyeratne was appointed as the Acting Chairman effective from 20th October 2011.

Mr K D D Perera was appointed the Executive Deputy Chairman from 20th October 2011 and Mr M D S Goonatileke resigned as a Director with effect from 20th May 2011.

Mr K D D Perera and Mr K D A Perera are siblings.

### Interests Register

The company maintains an Interests Register in terms of the Companies Act, No. 7 of 2007, which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the company during the accounting period are recorded in the Interests Register in due compliance with the applicable rules and regulations of the relevant Regulatory Authorities.

The relevant interests of Directors in the shares of the company as at 31st March 2012 as recorded in the Interests Register are given in this report under Directors' shareholding.

#### Directors' Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in Note 34.1.1 to the financial statements on page 150.

#### Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation of financial statements of the company to reflect a true and fair view of the state of its affairs. A further statement in this regard is included on page 118.

#### Auditors

Messrs Ernst & Young, Chartered Accountants served as the Auditors during the year under review and also provided non audit/ consultancy services. They do not have any interest in the company other than that of Auditor and provider of tax related services.

A total amount of Rs. 2,100,000/- is payable by the company to the Auditors for the year under review comprising Rs. 2,100,000/- as audit fees and Rs. 150,000/- for non audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 18th May 2012 recommended that they be re-appointed as Auditors. A resolution to re-appoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

#### Stated Capital

The stated capital of the company is Rs.838,282,159/- .

The number of shares issued by the company stood at 69,257,142 fully paid ordinary shares as at 31st March 2012.

#### Directors' Shareholding

The relevant interests of Directors in the shares of the company as at 31st March 2012 and 31st March 2011 are as follows.

	Shareholding as at 31/3/2012	Shareholding as at 131/03.2011
Mr. L N De S Wijeyeratne	-	-
Mr. K D D Perera	-	14,078,762
Mr. J A S S Adhihetty	53,060	53,060
Mr. Nimal Perera	330,898	1,118,598
Mr. A M Weerasinghe	148,850	148,850
Mr. K D A Perera	-	-
Mr. Niroshan Udage	4,200	4,200
Mr. B D St A Perera	-	-
Mrs. Kimarli Fernando	1,600	1,600
Mrs. Shirani Jayasekara	-	-

Mr K D D Perera is the major shareholder of Vallibel One PLC, which holds 35,321,200 shares constituting 51% of the shares representing the Stated Capital of the company.

Vallibel One PLC is also the holding company of Royal Ceramics Lanka PLC which holds 17,903,277 shares of L B Finance PLC constituting 25.85% of the shares representing the Stated Capital of the company

#### Directors' Transactions with the Company / Related Party Disclosures

Fixed deposits accepted by the company from Directors and their relatives (as defined in the Finance Companies Act No.78 of 1988) during the year under review were

Mr. J A S S Adhihetty	Rs. 1,331,480.38
Mrs. A R P Adhihetty (spouse of Mr J A S S Adhihetty)	Rs. 4,620,258.98
Mr. N Udage	Rs. 1,680,238.78
Mrs. C Udage (spouse of Mr N Udage)	Rs. 4,260,802.41
Mrs. M C P Perera (spouse of Mr. B D St A Perera)	Rs.17,597,053.42
Mrs. Shirani Jayasekara	Rs. 3,100,000.00
Mr. K D A Perera	Rs. 5,000,000.00

These deposits were accepted in compliance with the Finance Companies (Deposits) direction No. 01 of 2005 and Finance Companies (Interest) direction No. 02 of 2005 and on terms and conditions that were for the time being applicable to the other depositors of the company, and to payment of interest on similar deposits.

## Annual Report of the Board of Directors on the Affairs of the Company Contd.

Transactions with entities that are controlled, jointly controlled or significantly influenced by key managerial personnel or their close members of family or shareholders who have either control, significant influence or joint control over entity are set out in Note 34.1.3 of the financial statements.

### Shareholders

There were 1,768 shareholders registered as at 31st March 2012 (1,849 shareholders as at 31st March 2011). The details of distribution are given on page 156 of this report.

### Major Shareholders, Distribution Schedule and other information

Information on the distribution of shareholding, analysis of shareholders, market values per share, twenty largest shareholders of the company, percentage of shares held by the public as per the listing rules of the Colombo Stock Exchange are given on page 156 to 157 under Share Information.

### Employment Policy

The company's employment policy is totally non-discriminatory which respects individuals and provides career opportunities irrespective of the gender, race or religion.

As at 31st March 2012, 1,679 persons were in employment (1,264 persons as at 31st March 2011).

### Reserves

The reserves of the company with the movements during the year are given in Note 21 to the financial statements on page 143.

### Land Holdings

The company's land holdings referred to in Note 13 of the accounts comprise a land of an extent of 7.06 perches with a building situated in Kandy, which is carried at its book value of Rs.11.5 Mn. and a land in extent 50 perches situated in Balagolla which was acquired during the year 2009/10 for Rs.7.5 Mn.

### Property, Plant & Equipment

Details and movements of Property, Plant and Equipment are given under Notes 12 and 13 to the financial statements on page 137.

### Investments

Details of the company's quoted and unquoted investments as at 31st March 2012 are given in Notes 11 and 11.1 to the financial statements on pages 135 to 136.

### Donations

The company made donations amounting to Rs. 25,000/- in total, during the year under review.

### Dividend

The Directors have recommended a first and final dividend of Rs. 5/- per share for the year under review subject to obtaining a certificate of solvency from the Auditors. As required by section 56 of the Companies Act, the Directors have certified that they are satisfied that the Company will, immediately after the said distribution is made, satisfy the solvency test in accordance with the Companies Act.

The said dividend will, subject to approval by the shareholders, be payable on the 5th market day from the date of the Annual General Meeting.

### Compliance

The company has established a permanent and effective compliance function. A Compliance Officer appointed by the Board independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Board and the Integrated Risk Management Committee. Monthly and quarterly compliance reports are submitted confirming compliance with laws and regulations as applicable to the company.

The Compliance Officer also ensures that compliance reports are submitted to the Central Bank of Sri Lanka confirming company's compliance with the directions,

rules, determinations, notices and guidelines issued under the Finance Companies Act No. 78 of 1988.

### Internal Controls

The Board of Directors have taken steps to ensure the implementation of an effective and comprehensive system of internal controls covering financial, operational and compliance controls. The Internal Auditors are responsible to review and report on the efficacy of the internal control system and other regulations and the company's accounting and operational policies, which are subject to further review by the Audit Committee as elaborated in the report of the Audit Committee on page 117.

### Risk Management

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the company. The Directors review this process through the Audit Committee and the Integrated Risk Management Committee.

Specific steps taken by the company in managing the risks are detailed in the section on Risk Management on pages 71 to 77.

### Statutory Payments

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the company, all contributions, levies and taxes payable on behalf of, and in respect of employees of the company and all other known statutory dues as were due and payable by the company as at the Balance Sheet date have been paid or, where relevant provided for, except for certain assessments where appeals have been lodged.

### Contingent Liabilities

Except as disclosed in Note 30 to the financial statements on page 148, there were no material Contingent Liabilities as at the Balance Sheet date.

**Events occurring after the Balance Sheet date**

Except for the matters disclosed in Note 33 to the financial statements on page 150 there are no material events as at which require adjustment to, or disclosure in the financial statements.

**Corporate Governance**

The Board of Directors are responsible for the governance of the company. The Board has placed considerable emphasis on developing rules structures and processes to ensure integrity and transparency in all the dealings of the company and its best effort in achieving performance and quality profits, adopting good governance in managing the affairs of the company. The Board in the discharge of its responsibilities aforesaid had been guided by the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Listing Rules of the Colombo Stock Exchange and Finance Companies (Corporate Governance) Direction No. 03 of 2008.

The Board of Directors confirm that the company is compliant with section 7.10 of the Listing Rules of the CSE and the said Direction No. 03 of 2008.

An Audit Committee, Remuneration Committee, an Integrated Risk Management Committee, Management Committee and a Nominations Committee function as Board sub committees, with Directors who possess the requisite qualifications and experience. The composition of the said committees is as follows.

**Audit Committee**

Mr. L N De S Wijeyeratne (Chairman)  
 Mrs. Shirani Jayasekara  
 Mr. A M Weerasinghe

**Remuneration Committee**

Mr. Nimal Perera (Chairman)  
 Mr. L N de S Wijeyeratne  
 Mrs. Kimarli Fernnado

**Integrated Risk Management Committee**

Mrs. Shirani Jayasekara (Chairperson)  
 Mrs. Kimarli Fernando  
 Managing Director  
 Executive Director – Assets Finance  
 Executive Director – Assets Management  
 Head of Treasury  
 Head of Finance

**Management Committee**

Mr. K D D Perera (Chairman)  
 Mr. A M Weerasinghe

**Nominations Committee**

Mr K D D Perera (Chairman)  
 Mr. L N De S Wijeyeratne  
 Mrs. Kimarli Fernando

The corporate governance of the company is reflected in its strong belief in protecting and enhancing stakeholder value in a sustainable manner, supported by a sound system of policies and practices. Prudent internal controls ensure professionalism, integrity and commitment of the Board of Directors, management and employees.

The Corporate Governance Statement on pages 51 to 70 explains the measures adopted by the company during the year.

**Corporate Social Responsibility**

The company as hitherto continued the Corporate Social Responsibility Programme, details of which are set out on pages 80 to 105 of this Report.

**Special Business to be transacted at the Annual General Meeting**

With the continuous increase in the business activities of the Company, the requirement for working capital continues to increase, in order to match its growth. Since such growth cannot be sustained with its Stated Capital and the retained earnings only, in order to be in line with the capital adequacy requirements stipulated by the Central Bank of Sri Lanka for the Registered Finance Companies, the Board is of the view that

the Company may require from time to time to raise funds by the issue of Debentures subject to necessary approvals of the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

A Special Resolution is placed before the Shareholders to obtain the Shareholders approval to exceed the borrowing limitations placed by Article 105 of the Articles of Association of the Company (if necessary), to meet such working Capital requirement, to match the growth of the Company where Directors deem necessary, including the issue of Debentures, [which debentures are treated as Tier two (02) Capital] either by way of private placements or by way of Public Issues, as the Board of Directors deem necessary from time to time on such terms and conditions, to meet such capital requirements.

**Annual General Meeting**

The Notice of the Thirty Ninth (39th) Annual General Meeting appears on page 160.

This Annual Report is signed for and on behalf of the Board of Directors by

  
**L N de S Wijeyeratne**  
 Acting Chairman

  
**Sumith Adhietty**  
 Managing Director

  
**P W Corporate Secretarial (Pvt) Ltd**  
 Secretaries

6th June 2012

## Directors Statement on Internal Control Over Financial Reporting

### Responsibility

In line with Section 10(2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008, the Board of Directors presents this report on Internal Control over Financial Reporting.

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board. The Board has assessed the internal control system taking into account principles for the assessment of internal control system.

The Board is of the view that the system of internal controls in place is fair and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes and is largely in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board’s policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

### Key Features of the Process Adopted in Applying in Reviewing The Design and Effectiveness of the Internal Control System

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

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Company’s daily operations and that the Company’s operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Auditors of the Company (KPMG and BDO) check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audits are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee of the Company review internal control issues identified by the respective Internal Auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the internal control system over financial reporting. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report on page 117.
- In assessing the internal control system, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company. These in turn were observed and checked by the internal auditors for suitability of design and effectiveness on an ongoing basis. Due to time constraints, areas with respect to the processes that provided disclosures to the financial statements such as related party transactions, Maturity Analysis, Segmental Reporting, Contingencies and commitments and Branch Current Accounts and Bank Reconciliations were not fully completed.
- Comments made by the external auditors in connection with internal control system will be dealt with in the future.

### 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 has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

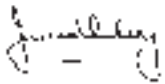
### Review of the Statement by External Auditors

The external auditors have reviewed the above Directors Statement on Internal Control included in the annual report of the Company for the year ended 31st March 2012 and reported to the Board.

By order of the Board

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**LN de S Wijeyeratne**  
*Acting Chairman*



**Sumith Adhietty**  
*Managing Director*

6th June 2012



## Remuneration Committee Report

### The Composition

The Remuneration Committee comprises of three non - Executive Directors, two of whom are independent. The Directors who serve on the Committee are:

Mr. Nimal Perera  
Director

Mr. L N de S Wijeyeratne  
Acting Chairman

Mrs. Kimarli Fernando  
Independent Non-Executive

### Meetings

The committee meets as often as necessary and makes recommendations on compensation structures bonuses increments and incentives to ensure that staff at all levels is adequately rewarded for their performance and commitment. The Managing Director and the Executive Directors who are responsible for the overall management of the company provides information to the committee and participate in its deliberations by invitation, except when the Executive Directors' own remuneration packages and other matters relating to them are discussed.

### Functions

The functions of the committee include determination of the compensation and benefits of the Managing Director, Executive Directors, while ensuring that no Director is involved in setting his or her own remuneration. The committee determines the compensation and benefits of the key management personnel to establish performance parameters in setting their individual goals, targets and to review information related to

executive pay to ensure same is par with the industry rate as per the strategy of the company.

A primary objective of the remuneration policy of the company is to attract and retain a highly qualified and experienced workforce and reward their performance commensurate with each employee's level of experience and contribution, bearing in mind the business performance and long term shareholder return.

The total of Directors' remuneration paid during the year under review is set out in Note

**Nimal Perera**

*Chairman, Remuneration Committee*

6th June 2012

## Audit Committee Report

### Composition

The Audit Committee comprises of three Non-Executive Directors and the composition of the committee during the year was as follows.

Mr. L N de S Wijeyeratne - Chairman – Independent/ Non-Executive Director  
 Mrs. Shirani Jayasekara - Independent/ Non-Executive Director  
 Mr. M D S Goonatilleke - Independent/ Non-Executive Director  
 (Resigned as an Audit Committee member on 20th May 2011)  
 Mr. A M Weerasinghe- Non-Executive Director (appointed with effect from 23rd May 2011)

The Chairman, Mr. L N de S Wijeyeratne, is a Fellow of the Institute of Chartered Accountants of Sri Lanka, with more than 25 years of post-qualification experience in finance. Mrs. Shirani Jayasekara has over 31 years experience combining Finance and IT, Audit and Risk Management and she is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants UK. Mr. Weerasinghe, the other member of the committee has extensive experience in finance and other related fields.

### Meetings

The Committee met on twelve (12) occasions during the year under review and the attendance of the members at such meetings was

Name of Director	Executive/Non Executive Independent/ Non-Independent	Attendance
Mr. L N De S Wijeyeratne	Independent/ Non-Executive Director	10/11
Mrs. Shirani Jayasekara	Independent Non Executive	10/11
Mr A M Weerasinghe	Non- Executive Director	03/11
Mr. M D S Goonatilleke	Non- Executive Director	01/11

The Managing Director, the Executive Directors and the Chief Financial Officer (CFO) attended the meetings by invitation. The members of the management team, the internal audit consultants and the external auditors were invited to participate at the meetings as and when required. P W Corporate Secretarial (Pvt) Ltd acted as Secretaries to the Audit Committee. The proceedings of the Audit Committee were reported to the Board of Directors on a regular basis.

### Functions

The functions of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process and audit of the financial statements by monitoring the; integrity and reliability of the financial statements. The committee oversees the effectiveness of the system of internal controls and risk management, independence and performance of the external auditors while checking on the compliance with relevant laws, and regulations with a view to safeguarding the interests of all stakeholders of the company.

### Financial Reporting System

The Committee reviewed the financial reporting system adopted by the Company with particular reference to the following

- The preparation, presentation and adequacy of the disclosures in the company's annual and interim financial statements in accordance with Sri Lanka Accounting Standards
- The rationale and basis for the significant estimates and judgments underlying the financial statements
- The systems and procedures in place to ensure that that all transactions are accurately recorded in books of accounts

- The effectiveness in the financial reporting systems including the management accounts to ensure the reliability of information provided to the Board and other stakeholders of the company

### Internal Audit

The Internal Audit function is outsourced to Messrs KPMG Ford Rhodes Thornton & Company and BDO Partners. The internal auditors are responsible to review and report on the efficacy of the internal control system and compliance with statutory and other regulations and the Company's accounting and operational policies. Control weaknesses highlighted in the internal audit reports are critically examined by the Committee and follow up action taken by the management on the audit recommendations are also reviewed. Internal Audit representatives are present at Audit Committee meetings during the discussion of their respective reports.

### External Audit

During the year the Committee met with the Messrs Ernst & Young, External Auditors to discuss the Auditors' management letter pertaining to the previous year's audit and the Management's response thereto. Follow up action was taken to ensure that the recommendations contained in the management letter were implemented by the management. Discussions were also held in regard to the nature, scope and approach of the audit for 2010/12 prior to commencement of the audit.

The Committee reviewed the non-audit services provided by the auditors to ensure that the provision of these services does not impair 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 2013, subject to the approval of the shareholders at the Annual General Meeting.



## Statement of Directors Responsibilities

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 as 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 Companies Act, No. 78 of 1988 and the Directions issued thereunder.

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 2012/2013, including cash flows and borrowing facilities, consider that the company has adequate resources to continue in operation.

By Order of the Board  
L B Finance PLC

**P W Corporate Secretarial (Pvt) Ltd**  
*Secretaries*

6th June 2012



## Balance Sheet

As at 31st March	Note	2012 Rs.	2011 Rs.
<b>ASSETS</b>			
Cash and amounts due from banks		669,506,362	347,445,557
Treasury Bills & other bills eligible for re-discounting with Central Bank	3	1,266,964,280	1,622,157,957
Placements with other banks	4	963,593,487	302,583,827
Loans and Advances	5	4,401,175,201	1,876,253,903
Gold Loans	6	8,490,950,281	5,666,977,116
Lease rentals receivable & Stock out on hire	7	23,834,736,577	16,332,007,003
Real Estate Stock	9	143,212,184	237,520,182
Advance for Vehicle Stock		127,212,567	519,705,851
Other Debtors, Deposits and Prepayments	10	831,463,632	675,235,225
Investment Portfolio	11	3,479,504	28,593,629
Trading Portfolio	11.1	119,077,011	211,818,144
Intangible assets	12	19,339,794	9,681,837
Property, Plant & Equipment	13	1,868,286,218	432,358,758
Deferred Taxation	27	34,964,262	-
<b>Total Assets</b>		<b>42,773,961,361</b>	<b>28,262,338,991</b>
<b>LIABILITIES</b>			
Deposits from non-bank customers	14	26,257,699,346	19,619,680,724
Borrowings	15	8,975,715,853	3,526,373,819
Accrued charges	17	2,152,830,261	1,529,034,565
Debentures	18	995,000,000	450,000,000
Retirement Benefit Liability	19	44,231,036	33,869,659
Tax Liability		342,026,762	396,412,761
Deferred Taxation	27	-	93,249,397
<b>Total Liabilities</b>		<b>38,767,503,258</b>	<b>25,648,620,925</b>
<b>SHAREHOLDERS' FUNDS</b>			
Stated Capital	20	838,282,159	838,282,159
Reserves	21	3,168,175,944	1,775,435,908
<b>Total Equity</b>		<b>4,006,458,103</b>	<b>2,613,718,067</b>
<b>Commitments and Contingencies</b>	30	<b>628,600,077</b>	<b>1,267,202,862</b>

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

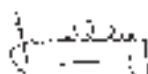


**Chief Financial Officer**

The Board of Directors is responsible for the preparation and presentation of the Financial Statements signed for and on behalf of the board by;



**Acting Chairman**



**Managing Director**

The Accounting Policies and notes on pages 124 through 152 form an integral part of the Financial Statements.

6th June 2012  
 Colombo

## Income Statement

Year ended 31st March	Note	2012 Rs.	2011 Rs.
Income	22	7,850,403,776	5,501,885,318
Interest Income	23	7,238,798,694	5,138,718,469
Interest Expense	24	3,551,986,422	2,418,479,631
Net Interest Income		3,686,812,272	2,720,238,838
Other Operating Income	25	574,383,169	353,646,967
<b>Less: Operating Expenses</b>			
Staff Costs		843,353,091	487,960,402
Provision for Staff Retirement Benefits		11,260,778	6,760,729
General & Administration Expenses		818,681,640	538,712,905
Provision for fall in value of Investments, Bad and Doubtful Loans and Write Offs		78,430,618	137,591,289
<b>Profit from Operations</b>	26	2,509,469,314	1,902,860,480
Value Added Tax on Financial Services		156,861,925	235,040,462
<b>Profit before Taxation</b>		2,352,607,389	1,667,820,018
Provision for Income Taxation	27	727,527,285	647,451,640
<b>Profit for the year</b>		1,625,080,104	1,020,368,379
Earnings Per Share	28	23.46	14.73

The Accounting Policies and notes on pages 124 through 152 form an integral part of the Financial Statements.

## Statement of Changes in Equity

Year ended 31st March 2012	Note	Stated Capital Rs.	Reserve Fund Rs.	Investment Fund Reserve Rs.	Accumulated Profit/ (Loss) Rs.	Total Rs.
<b>Balance as at 1st April 2010</b>		491,996,449	323,428,716	-	941,007,444	1,756,432,609
Bonus Share Issue		346,285,710	-	-	(346,285,710)	-
Net Profit for the year		-	-	-	1,020,368,379	1,020,368,379
Appropriation of Bad Debts		-	-	-	10,059,934	10,059,934
Transferred to/from during the year	21	-	204,073,676	30,854,696	(234,928,372)	-
Final Dividend for 2009/2010	21	-	-	-	(173,142,855)	(173,142,855)
<b>Balance as at 31st March 2011</b>		838,282,159	527,502,392	30,854,696	1,217,078,819	2,613,718,067
Net Profit for the year		-	-	-	1,625,080,104	1,625,080,104
Appropriation of Bad Debts		-	-	-	10,059,929	10,059,929
Final Dividend for 2010/2011	21	-	-	-	(242,399,997)	(242,399,997)
Transferred to/from during the year	21	-	325,016,021	170,940,690	(495,956,711)	-
<b>Balance as at 31st March 2012</b>		838,282,159	852,518,413	201,795,386	2,113,862,145	4,006,458,103

The Accounting Policies and notes on pages 124 through 152 form an integral part of the Financial Statements.

## Cash Flow Statement

Year ended 31st March	Note	2012 Rs.	2011 Rs.
<b>Cash Flows From / (Used in) Operating Activities</b>			
<b>Profit before Tax</b>		2,352,607,389	1,667,820,018
Adjustments for			
Depreciation	13	174,845,040	76,293,634
Amortisation of computer software	12	5,276,217	3,712,725
Provision for doubtful debts	8.1	78,430,618	137,591,289
Interest cost on Finance Lease	24	5,132,479	1,992,374
Loss from Sale of Investments	25	(4,660,232)	(25,976,970)
Loss from Mark to Market Valuation		92,741,134	(63,565,218)
Loss/(Profit) from Sale of Property , Plant & Equipment	25	(10,278,657)	(42,381)
Provision/(reversal) for Defined Benefit Plans	19	11,260,778	6,760,729
Dividend Received	25	(2,250,075)	(487,723)
Notional Tax Credit on Interest on Treasury Bills	23.1	(11,270,585)	(9,632,738)
Withholding Tax attributed to Fixed Deposit & professional fees		(6,766,394)	(13,538,249)
		2,685,067,712	1,780,927,490
Profit from operation before Working Capital Changes			
(Increase)/ Decrease in Real Estate Stock		94,307,999	9,407,670
(Increase)/ Decrease in Lease Rentals Receivable and Stock out on hire		(7,548,297,278)	(6,001,211,786)
(Increase)/ Decrease in Government of Sri Lanka Treasury Bills		350,967,991	348,300,340
(Increase)/ Decrease in Loans and Advances		(2,547,724,282)	(828,194,620)
(Increase)/ Decrease in Gold Loans		(2,823,973,165)	(2,539,578,070)
(Increase) /Decrease in Other Debtors, Deposits, Prepayments		86,141,177	(405,944,713)
(Increase) /Decrease in Advance for Vehicle Stock		392,493,285	(363,204,050)
(Increase)/ Decrease in Placements with Banks		(661,009,660)	62,334,000
Increase/ (Decrease) in Deposits from Non Bank Customers		6,638,018,622	7,129,891,827
Increase/ (Decrease) in Borrowings		4,683,908,964	1,976,780,291
Increase/ (Decrease) in Accrued Charges		366,710,041	440,097,466
Cash Generated from Operations		1,716,611,405	1,609,605,843
Retirement Benefit Liabilities Paid	19	(899,402)	(152,951)
Net Cash From/(Used in) Operating Activities before Income Tax Payments		1,715,712,003	1,609,452,892
Taxes Paid		(882,506,371)	(623,775,390)
Net Cash used in Operating Activities		833,205,632	985,677,502
<b>Cash Flows from / (Used in) Investing Activities</b>			
Acquisition of Property, Plant & Equipment	13.1	(1,595,904,644)	(242,198,433)
Acquisition of Intangible Assets	12.1	(14,934,174)	(6,061,715)
Acquisition of Investments		(14,897)	(368,782,663)
Proceeds from Sales of Other investments		29,789,252	224,265,508
Proceeds from Sales of Property , Plant & Equipment		10,278,656	78,167
Dividend Received	25	2,250,075	487,723
Net Cash Flows from/(Used in) Investing Activities		(1,568,535,731)	(392,211,413)
<b>Cash Flows from / (Used in) Financing Activities</b>			
Payment under Finance Lease Liabilities	15.3	(10,823,000)	(4,088,916)
Cash Flow from Debenture Issue		545,000,000	-
Dividends Paid		(242,399,997)	(173,142,855)
Net Cash Flows from/(Used in) Financing Activities		291,777,003	(177,231,771)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		(443,553,095)	416,234,318
<b>Cash and Cash Equivalents at the beginning of the year</b>		895,837,456	479,603,138
<b>Cash and Cash Equivalents at the end of the year</b>	16	452,284,362	895,837,456

The Accounting Policies and notes on pages 124 through 152 form an integral part of the Financial Statements.

## Notes to the Financial Statements

### 1. CORPORATE INFORMATION

#### 1.1 General

L B Finance PLC is a public limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 275/75 Prof. Stanley Wijesundera Mawatha, Colombo 7 and the principal place of business is situated at the same place.

#### 1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were Acceptance of Deposits, Granting Lease facilities, Hire Purchase, Mortgage Loans, Gold Loans and other credit facilities, Real Estate Development and related services Factoring.

#### 1.3 Parent Enterprise and Ultimate Parent Enterprise

The immediate and ultimate holding company is Vallibel One Limited, which is incorporated in Sri Lanka.

#### 1.4 Date of Authorisation for Issue

The Financial Statements of L B Finance PLC for the year ended 31st March 2012 was authorized for issue in accordance with a resolution of the board of directors on 6th June 2012.

#### 2.1. Basis of Preparation

These financial statements presented in Sri Lankan Rupees have been prepared on a historical cost basis and prepared in Sri Lanka Rupees except when otherwise stated.

The preparation and presentation of financial statements is in compliance with

the Companies Act No.7 of 2007 and Finance Business Act No.42 of 2011.

#### 2.1.1 Statement of Compliance

The Financial Statements of L B Finance PLC has been prepared in accordance with Sri Lanka Accounting Standards.

These Financial Statements are presented in accordance with Sri Lanka Accounting Standard No. 33 Revenue Recognition and Disclosures in Financial Statements of Finance Companies.

#### 2.1.2 Going Concern

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

#### 2.1.3 Comparative Information

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

### 2.2 Significant Accounting Estimates and Assumptions

In the process of applying the Company's Accounting Policies, management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognized in the Financial Statements. Further, the management is required to consider, key assumptions concerning the future and other key sources of estimation of uncertainty at the Balance Sheet date that may have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities. The respective carrying amounts of assets and liabilities are given in the related Notes to

the Financial Statements. The key items which involve these judgments, estimates and assumptions are discussed below:

#### *Impairment Losses on Leases Stock out on Hire and Loans and Advances*

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

#### *Review of Impairment Losses on Non-Financial Assets*

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date or more frequently if events or changes in circumstances require doing so. This requires the estimation of the 'value in use' of the cash generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash generating units and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

### ***Useful lives of Property, Plant & Equipment***

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

### ***Value of Unquoted Equity Investments***

The unquoted equity investments have been accounted at cost and were valued by Directors by considering the recoverability of the investment.

### ***Defined Benefit Plans***

The Defined Benefit Obligation and the related charge for the year is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increase, mortality rates etc. Due to the long term nature of such obligation these estimates are subject to significant uncertainty. Further details are given in Note 19 to these financial statements.

### ***Real Estate Stocks***

Real Estates Stocks have been accounted at cost as disclosed under accounting policy 2.3.8 the Directors have evaluated the recoverability considering the current market prices of respective stocks.

## **2.3 Summary of Significant Accounting Policies**

### **2.3.1 Taxation**

#### ***a) Current Taxes***

Income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General

of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.

#### ***b) Deferred Taxation***

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets 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 assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the

time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

### **2.3.2 Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **2.3.3 Intangible Assets**

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.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for

## Notes to the Financial Statements Contd.

an intangible asset with a finite useful life is 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 is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

### **Computer Software**

Computer software is amortised over 5 years from the month of acquisition.

### **2.3.4 Loans and Advances**

Loans and advances to customers are stated net of provision for bad and doubtful loans and interest not accrued to revenue.

### **2.3.5 Lease Rentals Receivable & Stock Out on Hire**

Assets leased to customers under agreements, which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease rentals receivable represents the total minimum lease payments due net of unearned income and allowance for doubtful recoveries.

Assets sold to customers under fixed rate hire agreements, which transfer all the risks and rewards as well as the legal title at the end of such contractual period are classified as stock out on hire. Such assets are accounted for in a similar manner as finance leases.

### **2.3.6 Operating Lease**

Assets leased to customers under agreements by which all the risk and rewards incident to ownership of an asset remains with lessor, are classified as operating leases. Lease rentals receivable are recognised on a straight line basis over the term of the lease.

### **2.3.7 Provisions for Bad and Doubtful Debts**

Amounts are set a side with regard to possible losses on loans, advances hire purchase, finance leases and operating leases in line with Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006 issued by the Central Bank of Sri Lanka.

### **2.3.8 Real Estate Stock**

Real estate stock comprises all costs of purchase, cost of conversion and other costs incurred in bringing the real estate to its saleable condition.

Purchase Cost	-
Land cost with legal charges.	
Cost of conversion	-
Actual Development costs	

### **2.3.9 Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

### **2.3.10 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. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the useful life of the assets as follows.

Furniture & Fittings	15% p.a.
Equipment	20% p.a.
Motor Vehicles	25% p.a.
Computer Hardware	20% p.a.
Air Conditioning	20% p.a.
Telephone System	20% p.a.
Fire Protection Equipment	20% p.a.
Fixtures & Fittings	33.33% p.a.
Building	6.66% p.a.

### **2.3.11 Leases**

#### ***a) Finance Leases – where the Company is the Lessee***

Property, plant and equipment on finance leases, which effectively transfer, to the Company substantially all of the risk and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if

there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in 2.3.10.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

### 2.3.12 Investments

#### *a) Current Investments – Government Securities*

Current investments include Government of Sri Lanka Treasury Bills which are stated at cost plus a portion of discount or premium.

The cost of an investment is the cost of acquisition inclusive of brokerages, fees, duties and bank fees.

#### *b) Current Investments – Trading Securities*

Current investments are carried at market value unrealised gains and losses on current investments carried at market value are recognised as income or expense.

#### *c) Long Term Investments – Investment Securities*

Long term investments are stated at cost. The cost of the investment is the cost of acquisition inclusive of brokerage fees, duties and bank fees.

The carrying amount of long-term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

#### *Disposal of Investment*

On disposal of an investment, the difference between net disposals and proceeds and the carrying amounts is recognised as income or expense.

### 2.3.13 Retirement Benefit Obligations

#### *a) Defined Benefit Plan – Gratuity*

The Company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit credit Method (PUC) as required by Sri Lanka Accounting Standards No.16, Employee Benefit (Revised 2006). The item stated under Retirement Benefit Liability in the Balance Sheet.

#### *Recognition of Actuarial Gains and Losses*

Actuarial gains & losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains & losses at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at the date.

The gains/losses are recognised over the expected average remaining working lives of the employees participating in the plan.

#### *Recognition of Past Service Cost (Applicable only when a plan has been changed)*

Past Service Cost are recognised as an expense on a straight line basis over the

average period until the benefits become vested. If the benefits have already been vested, immediately following the instruction of, or changes to the plan, past service costs are recognised immediately.

#### *Funding Arrangement*

The Gratuity liability is not externally funded.

#### *b) Defined Contribution Plans – Employees’ Provident Fund & Employees’ Trust Fund*

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with respective Statutes and Regulations. The Company contributes 15% and 3% of gross emoluments of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

### 2.3.15 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, where 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

## Notes to the Financial Statements Contd.

### 2.3.16 Revenue Recognition

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

#### *a) Income from leasing activities and hire purchase agreements*

Income from Finance leases is recognised on the basis of the financing method. The excess of aggregate rental receivable over the cost of the leased assets constitute the total unearned income at the commencement of the contract. The earned income is taken into revenue over the term of the lease, commencing from the month in which the lease is executed, in proportion to the declining receivable balance of the lease.

Income from operating leases is recognised on a straight line basis over the term of the lease.

Income arising from the residual interest in hire purchase agreements is credited to the profit and loss account as it accrues in proportion to the declining receivable balance of the agreement.

However, accrual of income both from leases and hire purchase agreements ceases when the account is overdue for more than six months in compliance with Direction No. 15 of 1991 (Accrued Interest) and thereafter recognised on a cash basis.

#### *b) Interest Income from Loans and Advances*

Interest income from loans and advances is recognised on an accrual basis. However, income from loans and advances ceases when the account is overdue for more than six months in compliance with Direction No. 15 of 1991 (Accrued Interest) and thereafter recognised on a cash basis.

#### *c) Interest income from other sources*

Interest income from Government of Sri Lanka Treasury Bills is recognised on a time proportion basis, and discounts on purchase are amortised to income on a straight line basis over periods to maturity.

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

#### *d) Dividend Income*

Dividend income is recognised on a cash received basis.

#### *e) Insurance agency fees*

Agency Fees received in respect of insurance is recognised on accrued basis.

#### *f) Overdue Interests*

Overdue interest income from leasing and other loans have been accounted for on a cash received basis.

#### *g) Real Estate Sales*

Revenue is recognised when properties are sold and the buyer has taken possession of such properties. However, when there is insufficient assurance as to the receipt of the total consideration, income is accounted for on a cash received basis.

#### *h) Fees and Commission Income*

The Company recognise Fees and Commission Income from a diverse range of services it provides on its customers on accrual basis. This includes fees and commission income arising on financial services provided by the Company including Leasing, Margin Trading, Factoring and Gold Loans etc.

#### *i) Others*

Other income is recognised on an accrual basis net gains and losses of a revenue nature on the disposal of property, plant & equipment and other non current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

### 2.3.17 Expenditure Recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

### 2.4 Sri Lanka Accounting Standards effective from 01 January 2012

The Company will be adopting the new Sri Lanka Accounting Standards (new SLAS) comprising LKAS and SLFRS applicable for financial periods commencing from 1st January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka. The Company has commenced reviewing its accounting

policies and financial reporting in readiness for the transition. As the Company has a 31st December year end, priority has been given to considering the preparation of an opening balance sheet in accordance with the new SLASs as at 1st April 2011. This will form the basis of accounting for the new SLASs in the future, and is required when the Company prepares its first new SLAS compliant financial statements for the year ending 31st December 2012. Set out below are the key areas where accounting policies will change and may have an impact on the financial statements of the Company. The Company is in the process of quantifying the impact on the financial statements arising from such changes in accounting policies.

- (a) SLFRS 1 – First Time Adoption of Sri Lanka Accounting Standards requires the Company to prepare and present opening new SLFRS financial statements at the date of transition to new SLAS. The Company shall use the same accounting policies in its opening new SLAS financial statements and throughout all comparable periods presented in its first new SLAS financial statements.
- (b) LKAS 1 – Presentation of Financial Statements requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not

permitted to be presented in the statement of changes in equity. This standard also requires the Company to disclose information that enables users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

- (c) LKAS 16 – Property Plant and Equipment requires a company to initially measure an item of property plant and equipment at cost, using the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period, unless such interest is capitalised in accordance with LKAS 23 Borrowing Costs.

All site restoration costs including other environmental restoration and similar costs must be estimated and capitalised at initial recognition, in order that such costs can be depreciated over the useful life of the asset.

This standard requires depreciation of assets over their useful lives, where the residual value of assets is deducted to arrive at the depreciable value. It also requires that significant components of an asset be evaluated separately for depreciation.

- (d) LKAS 32 – Financial Instruments: Presentation, LKAS 39 – Financial Instruments: Recognition and Measurement and SLFRS 7 – Disclosures will result in changes to

the current method of recognising financial assets, financial liabilities and equity instruments. These standards will require measurement of financial assets and financial liabilities at fair value at initial measurement. The subsequent measurement of financial assets classified as fair value through profit and loss and available for sale will be at fair value, with the gains and losses routed through the statements of comprehensive income and other comprehensive income respectively.

Financial assets classified as held to maturity and loans and receivables will be measured subsequently at amortised cost. These assets will need to be assessed for any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) coupled with a reliable estimate of the loss event (or events) impact on the estimated future cash flows of the financial asset or group of financial assets. As such the current method of assessing for impairment will have to be changed to meet the requirements of these new standards.

Financial liabilities will be either classified as fair value through profit or loss or at amortised cost. At present, the company does not identify, categorise and measure financial assets and liabilities as per the requirements of the standard and also does not recognise certain derivative instruments on the balance sheet.

## Notes to the Financial Statements Contd.

(e) SLFRS 2 – Share Based Payments, will require the Company to reflect in its profit or loss and financial position the effects of share based payment transactions, including expenses associated with share options granted to employees. An entity is required to recognise share based payment transactions when goods are received or services obtained based on the fair value of goods or services or the fair value of equity instruments granted. Hence the Company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the statement of financial performance. This standard is not limited to options and extends to all forms of equity based remuneration and payments.

(f) SLFRS 3 – Business combinations will require the Company to apply this standard to transactions and other events that meet the new definition of a business i.e. an integrated set of assets (inputs) and activities (processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition. Under the new acquisition method of accounting, in addition to recognising and measuring in its financial statements the identifiable assets acquired and liabilities assumed the standard also requires recognition and measurement of any non-controlling interest in the acquire and re-measuring to fair value any previously held interests

which could have an impact on the recognition of goodwill. Subsequent to the acquisition of control any acquisitions or disposals of non-controlling interest without loss of control will be accounted for as equity transactions and cannot be recognised as profit/loss on disposal of investments in the statement of financial performance.

- (g) LKAS 23 – Borrowing Cost, the company must capitalise borrowing costs in relation to a qualifying asset. [if applicable] Since the current policy is to expense all borrowing costs, this will result in a change in accounting policy.
- (h) LKAS 12 – Income Tax requires deferred tax to be provided in respect of temporary differences which will arise as a result of adjustments made to comply with the new SLAS.
- (i) LKAS 18 – Revenue requires the company to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the company needs to apply such recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.

The Institute of Chartered Accountants of Sri Lanka has resolved an amendment to Sri Lanka Accounting Standard 10, whereby the provision contained in paragraphs 30 and 31 of SLAS 10 – Accounting Policies, Changes in

Accounting Estimates and Errors would not be applicable for financial statements prepared in respect of financial periods commencing before 1st January 2012 and hence the impact of this transition is not required to be disclosed in these financial statements.

Year ended 31st March	2012 Rs.	2011 Rs.
<b>3. TREASURY BILLS &amp; OTHER BILLS ELIGIBLE FOR RE-DISCOUNTING WITH CENTRAL BANK</b>		
Government of Sri Lanka Treasury Bills - Face Value	-	152,842,298
Less : Income allocated for future periods	-	(1,874,306)
Re-Purchase Agreements	1,266,964,280	1,471,189,965
	<b>1,266,964,280</b>	<b>1,622,157,957</b>
<b>4. PLACEMENTS WITH OTHER BANKS</b>		
Fixed Deposits	963,593,487	302,583,827
	<b>963,593,487</b>	<b>302,583,827</b>
<b>5. LOANS AND ADVANCES</b>		
Real Estate Loans	5,118,971	6,345,247
Term Loans	912,399,617	739,199,381
Trade Finance	175,039,059	28,780,422
Quick Loan	3,702,314	525,000
Margin Trading	128,284,232	-
Factoring Receivable	1,107,924,663	115,217,728
Power Drafts	181,779,650	27,544,834
Vehicle Loans	1,921,320,217	1,006,569,945
	<b>4,435,568,723</b>	<b>1,924,182,557</b>
Less : Provision for Bad debts		
- Charged against Profit & Loss Account	13,249,372	15,270,060
- Appropriations	-	8,228,088
	<b>13,249,372</b>	<b>23,498,148</b>
Finance charges in suspense	21,144,150	24,430,506
	<b>4,401,175,201</b>	<b>1,876,253,903</b>
<b>5.1 Term Loans include loans granted to Company Officers, the movement of which is as follows :</b>		
As at the beginning of the year	2,923,791	3,019,248
Add : Loans granted during the year	7,931,400	6,557,242
Less : Repayments during the year	(6,965,657)	(6,652,698)
As at the end of the year	<b>3,889,534</b>	<b>2,923,791</b>
<b>6. GOLD LOANS</b>		
Gold Loan Capital	8,197,495,377	5,413,773,876
Gold Loan Interest Receivable	347,650,113	302,910,972
Less:	8,545,145,490	5,716,684,848
Provision for Bad Debts	20,208,175	8,579,606
Finance Charges in suspense	33,987,034	41,128,126
	<b>8,490,950,281</b>	<b>5,666,977,116</b>

## Notes to the Financial Statements Contd.

Year ended 31st March 2012	Within one year		1 - 5 years		Over 5 years		Total	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
<b>7. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE</b>								
Gross Investment								
- Lease Rentals	9,618,629,368	5,688,308,999	14,254,260,431	7,810,265,744	5,580,157	5,097,136	23,878,469,956	13,503,671,879
- Amounts receivable from hirers	3,761,274,357	3,958,112,478	4,662,818,830	4,879,467,974	23,547,349	24,947,099	8,447,640,536	8,862,527,551
	13,379,903,725	9,646,421,477	18,917,079,261	12,689,733,718	29,127,506	30,044,235	32,326,110,492	22,366,199,430
Less: Unearned Income	4,251,670,641	2,984,680,849	3,501,563,470	2,372,195,307	1,896,410	2,238,480	7,755,130,521	5,359,114,636
Net Investment	9,128,233,084	6,661,740,628	15,415,515,791	10,317,538,411	27,231,096	27,805,755	24,570,979,971	17,007,084,794
Less: Provision for bad & doubtful debts								
- Charged against Profit & Loss Account							577,000,765	527,712,403
- Appropriations							-	1,831,384
							577,000,765	529,543,787
Rentals received in advance							22,154,743	20,986,896
Finance charges in suspense							137,087,886	124,547,108
							23,834,736,577	16,332,007,003

### 7.1 Lease Rental Receivable

Gross Investment								
- Lease Rentals	9,618,629,368	5,688,308,999	14,254,260,431	7,810,265,744	5,580,157	5,097,136	23,878,469,956	13,503,671,879
	9,618,629,368	5,688,308,999	14,254,260,431	7,810,265,744	5,580,157	5,097,136	23,878,469,956	13,503,671,879
Less: Unearned Income	3,208,146,493	1,812,834,805	2,705,998,735	1,490,861,291	363,035	416,928	5,914,508,262	3,304,113,024
Net Investment	6,410,482,875	3,875,474,194	11,548,261,696	6,319,404,453	5,217,122	4,680,208	17,963,961,693	10,199,558,855
Less: Provision for bad and doubtful debts								
- Charged against Profit & Loss Account							324,732,178	274,840,450
- Appropriations							-	1,831,384
							324,732,178	276,671,834
Rentals received in advance							22,154,743	20,986,896
Finance charges in suspense							69,904,692	63,587,833
							17,547,170,080	9,838,312,292

Year ended 31st March	Within one year		1 - 5 years		Over 5 years		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.

## 7.2 Stock out on Hire Receivable

Gross Investment								
- Hire Purchase	3,761,274,358	3,958,112,478	4,662,818,830	4,879,467,974	23,547,347	24,947,095	8,447,640,535	8,862,527,547
	3,761,274,358	3,958,112,478	4,662,818,830	4,879,467,974	23,547,347	24,947,095	8,447,640,535	8,862,527,547
Less: Unearned Income	1,043,524,148	1,171,846,044	795,564,735	881,334,016	1,533,373	1,821,548	1,840,622,256	2,055,001,609
Net Investment	2,717,750,210	2,786,266,434	3,867,254,095	3,998,133,958	22,013,974	23,125,547	6,607,018,279	6,807,525,938
Less : Provision for bad & doubtful debts								
- Charged against Profit & Loss Account							252,268,589	252,871,953
- Appropriations							-	-
							252,268,589	252,871,953
Rentals received in advance							-	-
Finance charges in suspense							67,183,193	60,959,275
							6,287,566,497	6,493,694,712

## 7.3 Lease & Hire Purchase receivable granted to Company Officers, the movement of which is as follows:

As at the beginning of the year		106,748,612	73,588,454
Add : Granted during the year		72,436,907	74,644,523
Less : Repayments during the year		(76,369,153)	(41,484,365)
As at the end of the year		102,816,366	106,748,612

## 7.4 Non-Performing Advances included in the above Lease Rentals Receivable, Stock Out on Hire and Loans & Advances are as follows.

	Lease & Hire Purchase		Loans & Advances		Gold Loan		Total	
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
	2012	2011	2012	2011	2012	2011	2012	2011
Amount Receivable	816,967,378	860,595,279	88,048,332	116,607,708	152,030,688	178,315,140	1,057,046,398	1,155,518,127
Less: Finance Charges Suspended	137,087,886	124,547,108	24,283,896	26,019,983	27,051,249	41,128,126	188,423,031	191,695,217
Provision for Bad Debts	577,000,765	529,543,787	13,249,373	23,498,148	20,208,175	8,579,606	610,458,313	561,621,541
Net non-performing advances	102,878,727	206,504,384	50,515,063	67,089,577	104,771,264	128,607,408	258,165,054	402,201,369

## Notes to the Financial Statements Contd.

	<b>2012</b>	<b>2011</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>7.5 Segmental Analysis of Loans and Advances, Leases, Hire Purchase by Industry</b>		
Agriculture	2,038,866,528	818,204,683
Manufacturing & Distribution	2,256,356,231	2,002,288,270
Hotels & Tourism	449,240,550	301,688,727
Services	23,887,065,669	16,580,884,391
Trading	12,461,708,692	8,169,632,809
Transport	1,915,371,253	1,093,202,752
Construction	1,657,781,873	378,715,835
Others	640,433,910	662,449,367
Distribution of Total Advances	45,306,824,705	30,007,066,834
Lease & Hire Purchase Receivables	32,326,110,492	22,366,199,429
Loans & Advances	12,980,714,213	7,640,867,405
Total Advances	45,306,824,705	30,007,066,834
<b>8. PROVISION FOR LOSSES</b>		
<b>8.1 Movement in provision for Bad and Doubtful Debts</b>		
Balance at the beginning of the year	562,507,791	445,712,667
Charge/Appropriation during the year	149,340,538	191,718,898
Reversals during the year	(99,415,527)	(64,187,536)
Written Off during the year	(1,088,240)	(10,736,238)
	611,344,562	562,507,791
<b>8.2 Provision for Bad and Doubtful Debts consist of provisioning against;</b>		
Leases & Hire Purchase	577,000,765	529,543,787
Gold Loans	20,208,175	8,579,606
Loans & Advances	13,249,372	23,498,148
	610,458,312	561,621,541
Investment Securities	886,250	886,250
	611,344,562	562,507,791
<b>9. REAL ESTATE STOCKS</b>		
Real Estate Stocks	143,212,184	210,336,921
Lands Transferred from Mortgaged Loans	-	27,183,261
	143,212,184	237,520,182
<b>10. OTHER DEBTORS, DEPOSITS &amp; PREPAYMENTS</b>		
Sundry Debtors	273,326,503	406,414,226
Deposits & Prepayments	157,468,119	103,801,574
Receivable From Inland Revenue Department	400,669,010	165,019,424
	831,463,632	675,235,225

Year ended 31st March 2012

2012  
Rs. 2011  
Rs.

**11. INVESTMENT SECURITIES**

Quoted Shares 11 (a)	3,174,804	3,159,909
Unquoted Shares 11 (b)	304,700	25,433,720
	<b>3,479,504</b>	<b>28,593,629</b>

**11 (a) Investment in Shares**

**INVESTMENT PORTFOLIO**

	Number of Shares 2012	Cost as at 2012 Rs.	Market Value as at 2012 Rs.	Number of Shares 2011	Cost as at 2011 Rs.	Market Value as at 2011 Rs.
<b>Bank Finance and Insurance</b>						
Commercial Bank of Ceylon PLC	122	14,901	1,488	40	5	10,632
Merchant Bank PLC	61	6,027	109	61	6,027	2,818
Seylan Bank PLC	2,500	155,396	418,125	2,500	155,396	188,000
Union Bank of Colombo PLC	7,900	280,880	1,092,175	7,900	280,880	282,820
		<b>457,204</b>	<b>1,511,897</b>		<b>442,308</b>	<b>484,270</b>
<b>Beverages, Food and Tobacco</b>						
Keells Food Products PLC	500	21,420	25,000	500	21,420	75,000
Lanka Milk Foods PLC	5,500	249,732	2,958,450	5,500	249,732	642,950
Soy Foods (F&W) LTD	22	880	85	22	880	8,914
		<b>272,032</b>	<b>2,983,535</b>		<b>272,032</b>	<b>726,864</b>
<b>Hotels and Travels</b>						
Aitken Spence Hotel Holdings PLC	308	5,672	6,640	308	5,672	30,184
Hotel Sigiriya PLC	700	30,333	35,084	700	30,333	53,270
Riverina Hotels PLC	72	3,467	482	72	3,467	9,266
		<b>39,472</b>	<b>42,206</b>		<b>39,472</b>	<b>92,720</b>
<b>Manufacturing</b>						
Blue Diamond Jewellery PLC	74	848	33.40	74	848	222
Central Industries PLC	4,092	149,805	1,172,112	4,092	149,805	393,241
Ceylon Grain Elevators PLC	44	5,214	118	44	5,214	7,396
Dankotuwa Porcelain PLC	14,450	867,938	3,403,481	14,450	867,938	865,555
Royal Ceramics PLC	31,320	843,225	112,808,376	31,320	843,225	4,917,240
Samson International PLC	5,363	929,800	2,588,559	5,363	929,800	536,300
		<b>2,796,830</b>	<b>119,972,680</b>		<b>2,796,830</b>	<b>6,719,955</b>
<b>Stores and Supplies</b>						
Hunter Ltd	10	2,767	35	10	2,767	14,900
		<b>2,767</b>	<b>35</b>		<b>2,767</b>	<b>14,900</b>
Provisions for reduction in share value other than temporary		(393,501)	-		(393,501)	-
		<b>3,174,804</b>	<b>124,510,353</b>		<b>3,159,909</b>	<b>8,038,709</b>

## Notes to the Financial Statements Contd.

	Number of Shares 2012	Cost as at 2012 Rs.	Directors Valuation as at 2012 Rs.	Number of Shares 2011	Cost as at 2011 Rs.	Directors Valuation as at 2011 Rs.
<b>11 (b) Investments in Unquoted Shares</b>						
Samual Sons & Company Ltd	16,000	492,750	-	16,000	492,750	-
Credit Information Bureau	1,047	104,700	104,700	1,047	104,700	104,700
Finance House Association	20,000	200,000	200,000	20,000	200,000	200,000
Free Lanka Capital Holdings (Pvt) Ltd		-	-	5,320,000	25,129,020	25,129,020
		797,450	304,700		25,926,470	25,433,720
Less: Fall in Value of Investment		(492,750)	-		(492,750)	-
Net Investment in Unquoted shares		304,700	304,700		25,433,720	25,433,720

	Number of Shares 2012	Cost as at 2012 Rs.	Market Value as at 2012 Rs.	Number of Shares 2011	Cost as at 2011 Rs.	Market Value as at 2011 Rs.
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### 11.1 Trading Portfolio

#### Bank Finance and Insurance

Seylan Bank (Non Voting)	90,700	1,685,000	2,630,300	90,700	1,685,000	3,564,510
		1,685,000	2,630,300		1,685,000	3,564,510

#### Beverages, Food and Tobacco

Bairaha Farms PLC	17,600	424,979	2,288,000	17,600	424,979	7,057,600
		424,979	2,288,000		424,979	7,057,600

#### Hotels and Travels

Fortress Resorts	4,051,100	81,989,955	69,678,920	4,051,100	81,989,955	101,682,609
		81,989,955	69,678,920		81,989,955	101,682,609

#### Manufacturing

Lanka Walltiles PLC	19,740	789,882	1,381,800	19,740	789,882	2,796,500
		789,882	1,381,800		789,882	2,796,500

#### Trading

Softlogic Finance PLC	1,540,000	63,155,870	42,658,000	1,540,000	63,155,870	96,249,999
Hayleys PLC	1,222	207,240	439,991	1,222	207,240	466,926
		63,363,110	43,097,991		63,363,110	96,716,925
<b>Net Investment Securities in quoted shares</b>		<b>148,252,925</b>	<b>119,077,011</b>		<b>148,252,925</b>	<b>211,818,144</b>

Year ended 31st March	Computer Software	
	2012 Rs.	2011 Rs.
<b>12. INTANGIBLE ASSETS</b>		
<b>12.1 Summary</b>		
<b>Cost</b>		
As at the Beginning of the year	42,839,538	36,777,823
Acquired during the year	14,934,174	6,061,715
As at the end of the year	57,773,712	42,839,538
<b>Amortisation</b>		
As at the Beginning of the year	33,157,701	29,444,976
Charge for the year	5,276,217	3,712,725
As at the end of the year	38,433,918	33,157,701
<b>Net book value</b>	<b>19,339,794</b>	<b>9,681,837</b>

12.2 Intangible Assets include computer software of the company.

### 13. PROPERTY, PLANT & EQUIPMENT

Cost	Balance as at				Balance as at
	01.04.2011 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	
<b>Freehold Assets</b>					
Land	16,169,993	388,551,953	-	-	404,721,946
Building	2,884,761	604,907,820	-	-	607,792,581
Furniture & Fittings	48,414,018	77,632,829	-	-	126,046,847
Equipment	100,193,997	83,246,220	-	-	183,440,217
Motor Vehicles & Accessories	93,678,138	200,582,737	-	8,977,648	285,283,228
Computer Hardware	115,227,678	42,520,597	-	-	157,748,276
Air Conditioning	27,990,528	55,683,522	-	-	83,674,051
Telephone System	26,173,768	41,598,413	-	-	67,772,181
Fire Protection Equipment	870,609	12,029,136	-	-	12,899,745
Leasehold Improvements	177,834,919	109,347,015	-	-	287,181,935
Fixtures and Fittings	7,954,866	9,460,845	-	-	17,415,710
	617,393,277	1,625,561,088	-	8,977,648	2,233,976,717
<b>Assets on Finance Lease</b>					
Motor Vehicle	36,056,284	14,867,857	-	-	50,924,141
<b>Total Value of Depreciable Assets</b>	<b>653,449,560</b>	<b>1,640,428,945</b>	<b>-</b>	<b>8,977,648</b>	<b>2,284,900,858</b>

## Notes to the Financial Statements Contd.

	Balance As At 01.04.2011 Rs.	Incurred During the Year Rs.	Reclassified/ Transferred Rs.	Disposal/ Written off Rs.	Balance As At 31.03.2012 Rs.
<b>13.2 Capital work in progress</b>					
Capital work in progress	72,286,884	1,319,723,420	(1,349,379,864)	-	42,630,440
	Balance as at 01.04.2011 Rs.	Charge for the Period Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31.03.2012 Rs.
<b>13.3 Depreciation</b>					
<b>Freehold Assets</b>					
Land & Building	-	12,551,970	-	-	12,551,970
Furniture & Fittings	20,429,408	10,052,711	-	-	30,482,119
Equipment	47,498,813	23,180,468	-	-	70,679,280
Motor Vehicles & Accessories	55,655,860	48,857,833	-	8,977,648	95,536,045
Computer Hardware	64,433,421	20,909,029	-	-	85,342,450
Air Conditioning	14,975,190	6,860,625	-	-	21,835,814
Telephone System	13,445,391	5,774,070	-	-	19,219,461
Fire Protection Equipment	616,800	555,852	-	-	1,172,652
Leasehold Improvements	63,894,486	32,220,108	-	-	96,114,595
Fixtures and Fittings	5,954,855	2,080,580	-	-	8,035,435
	286,904,223	163,043,246	-	8,977,648	440,969,822
<b>Assets on Finance Lease</b>					
Motor Vehicle	6,473,463	11,801,794	-	-	18,275,257
	293,377,686	174,845,041	-	8,977,648	459,245,079
<b>Net Book Value</b>					
At Cost	330,489,053	-	-	-	1,793,006,895
On Finance Leases	29,582,820	-	-	-	32,648,883
Capital work in progress	72,286,884	-	-	-	42,630,440
	432,358,758	-	-	-	1,868,286,218

**13.4** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.1,610,772,501 (2011 - Rs.271,074,717). Cash payments amounting to Rs.1,595,904,644 (2011 - Rs.242,198,433) was paid during the year for purchases of Property, Plant & Equipment.

**13.5** There aren't any temporarily idling assets as at 31st March 2012.

**13.6** Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs.170,362,504/- (2011- Rs.143,788,433/-)

	2012 Rs.	2011 Rs.
<b>14. DEPOSITS FROM NON BANK CUSTOMERS</b>		
Fixed Deposits	25,751,329,200	19,286,476,186
Certificates of Deposit (14.1)	448,287,954	333,204,538
Savings Deposit	58,082,193	-
	<b>26,257,699,346</b>	<b>19,619,680,724</b>

#### 14.1 Certificates of Deposit

Certificates of Deposit - Face Value	471,900,000	353,200,000
Less : Interest allocated for future periods	(23,612,046)	(19,995,462)
	<b>448,287,954</b>	<b>333,204,538</b>

#### 15. BORROWINGS

Securitized Borrowings, Syndicated Loans and Bank Facilities (15.1)	6,958,400,426	2,772,869,189
Bank Overdrafts	1,484,186,279	722,798,066
Commercial Paper	498,377,727	-
Finance Lease (15.3)	34,751,420	30,706,564
	<b>8,975,715,853</b>	<b>3,526,373,819</b>

	As at 01.04.2011 Rs.	Loans Obtained Rs.	Repayments Rs.	As at 31.03.2012 Rs.	Period	Security
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#### 15.1 Securitized Borrowings, Syndicated Loans and Bank Facilities

##### Securitized Borrowings

Trust 5	5,554,569	-	5,554,569	-	36 months	Mortgage over Lease, Hire Purchase receivables
Trust 6	12,000,000	-	12,000,000	-	37 months	Mortgage over Lease, Hire Purchase receivables
Trust 7	13,200,000	-	13,200,000	-	48 months	Mortgage over Lease, Hire Purchase receivables
Trust 8	110,500,000	-	78,200,000	32,300,000	48 months	Mortgage over Lease, Hire Purchase receivables
Trust 9	262,700,000	-	119,100,000	143,600,000	48 months	Mortgage over Lease, Hire Purchase receivables
Trust 10	101,720,716	-	94,433,548	7,287,168	9 months	Mortgage over Lease, Hire Purchase receivables
Trust 11	261,582,191	-	152,958,322	108,623,869	6 months	Mortgage over Lease, Hire Purchase receivables
Trust 12	327,000,000	-	142,500,000	184,500,000	48 months	Mortgage over Lease, Hire Purchase receivables
Trust 13	605,577,626	-	313,253,384	292,324,246	46 months	Mortgage over Lease, Hire Purchase receivables
Trust 14	847,400,000	-	310,500,000	536,900,000	48 months	Mortgage over Lease, Hire Purchase receivables
Trust 16	-	1,253,000,000	207,500,000	1,045,500,000	48 months	Mortgage over Lease, Hire Purchase receivables
Trust 17	-	525,000,000	156,930,570	368,069,430	36 months	Mortgage over Lease, Hire Purchase receivables
Trust 19	-	1,214,800,000	-	1,214,800,000	48 months	Mortgage over Lease, Hire Purchase receivables
	<b>2,547,235,102</b>	<b>2,992,800,000</b>	<b>1,606,130,394</b>	<b>3,933,904,712</b>		

## Notes to the Financial Statements Contd.

	As at 01.04.2011 Rs.	Loans Obtained Rs.	Repayments Rs.	As at 31.03.2012 Rs.	Period	Security
<b>15.1 Securitised Borrowings, Syndicated Loans and Bank Facilities Contd.</b>						
<b>Syndicated Loans</b>						
Syndication 1		1,000,000,000	266,181,802	733,818,198	42 months	Mortgage over Lease, Hire Purchase receivables
Syndication 2		562,500,000	11,718,750	550,781,250	96 months	Mortgage over Land and Building
		1,562,500,000	277,900,552	1,284,599,448		
<b>Direct Bank Borrowings (Loans)</b>						
<b>Term Loans</b>						
Bank of Ceylon 1	-	130,000,000	2,709,000	127,291,000	48 months	Mortgage over Lease receivables
Bank of Ceylon 2	-	220,000,000	6,112,000	213,888,000	36 months	Mortgage over Lease receivables
Bank of Ceylon 3	-	330,000,000	-	330,000,000	48 months	Mortgage over Hire Purchase receivables
Bank of Ceylon 4	-	20,000,000	-	20,000,000	36 months	Mortgage over Hire Purchase receivables
Public Bank Berhad	-	75,000,000	-	75,000,000	60 months	Mortgage over Lease receivables
Seylan Bank PLC	3,134,086	-	1,916,821	1,217,265	48 months	Vehicle
	3,134,086	775,000,000	10,737,821	767,396,265		
<b>Money Market Loans</b>						
Union Bank of Colombo PLC	-	900,000,000	750,000,000	150,000,000	01 month	Mortgage over Lease, Hire Purchase receivables
Commercial Bank of Ceylon PLC	-	60,000,000	60,000,000	-	01 month	Mortgage over Lease, Hire Purchase receivables
Nations Trust Bank PLC	-	800,000,000	600,000,000	200,000,000	03 months	-
NDB Bank PLC	200,000,000	1,550,000,000	1,150,000,000	600,000,000	01 month	Mortgage over Lease, Hire Purchase receivables
Seylan Bank PLC	-	400,000,000	400,000,000	-	01 month	-
	200,000,000	3,710,000,000	2,960,000,000	950,000,000		
<b>Other</b>						
Ceylon Income Fund	22,500,000	-	-	22,500,000	48 months	Promissory Note
	2,772,869,189	9,040,300,000	4,854,768,767	6,958,400,426		

**15.2** The Company has unutilised borrowing facilities of Rs. 1,326 Mn. as at 31st March 2012. (2011 Rs. 673 Mn.).

	As at 01.04.2011 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.03.2012 Rs.
<b>15.3 Finance Leases</b>				
Finance Leases	30,706,564	14,867,857	10,823,000	34,751,420
	30,706,564	14,867,857	10,823,000	34,751,420
Gross Liability	37,558,902			40,759,583
Finance Charges allocated for future periods	(6,701,845)			(5,857,670)
Down payment	(150,493)			(150,493)
Net Liability	30,706,564			34,751,420



	2012 Rs.	2011 Rs.
<b>16. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT</b>		
Cash & Bank Balances	669,506,362	347,445,557
Re-Purchase Agreements (less than 3 months)	1,266,964,280	1,271,189,966
Bank Overdrafts	(1,484,186,280)	(722,798,066)
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statements	452,284,362	895,837,456

**17. ACCRUED CHARGES**

Accrued Interest	1,392,318,842	941,879,276
Accrued Expenses	738,102,743	571,778,456
Less : Advances received against Real Estate Stocks	22,408,676	15,376,833
	2,152,830,261	1,529,034,565

	2012 Rs.	2011 Rs.
<b>18. DEBENTURES</b>		
Unsecured Debentures	995,000,000	450,000,000

The Rs.995,000,000 Unsecured Redeemable Subordinated listed Debentures were issued at following rates and will mature on 20th September 2013, 4th December 2016 & 1st March 2017.

Category	Interest payable	Amount (Rs. )	Interest rate
Type 'A'	Monthly	149,480,000	21% p.a
Type 'B'	Annually	296,570,000	24% p.a
Type 'C'	Variable quarterly	2,500,000	Simple Average of the weighted average three months gross Treasury Bill rate published by the Central Bank of Sri Lanka at the primary auctions during the month immediately preceding the end of the Quarter plus 3.5% p.a
Type 'D'	Variable annually	1,450,000	Simple Average of the weighted average one year gross Treasury Bill rate published by the Central Bank of Sri Lanka at the primary auctions during the month immediately preceding the end of the Quarter plus 3.5% p.a
RUSRD II	Annually	215,000,000	12.68% p.a
RUSRD I	Bi Annually	100,000,000	12.30% p a
RUSRD I	Bi Annually	230,000,000	12.30% p a

## Notes to the Financial Statements Contd.

	<b>2012</b>	<b>2011</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>19. RETIREMENT BENEFIT LIABILITY</b>		
<b>Retirement Benefit Obligations - Gratuity</b>		
Balance at the beginning of the year	33,869,659	27,261,881
Amount Charged/(Reversed) for the year (19.1)	11,260,778	6,760,729
Payments made during the year	(899,401)	(152,951)
Balance at the end of the year	44,231,036	33,869,659

An actuarial valuation of the gratuity was carried out as at 31st March 2012 by Piyal S Goonetilleke and Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by SLAS No.16.

	<b>2012</b>	<b>2011</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>19.1 Expenses on Defined Benefit Plan</b>		
Current Service Cost for the year	7,355,726	3,577,269
Interest cost for the year	3,905,052	3,183,460
	<b>11,260,778</b>	<b>6,760,729</b>

	<b>2012</b>	<b>2011</b>
<b>19.2 Actuarial assumptions</b>		
Discount Rate	11%	11%
Salary scale	10%	10%
Staff Turnover		
20 years		
25 years		
30 years	25%	25%
35 years		
40 years		
45 years	1%	1%
50 years	1%	1%
Mortality	- GA 1983 Mortality Table	
Retirement age	- Normal retirement Age , or age on valuation date , if greater .	

	2012		2011	
	Number	Rs.	Number	Rs.
<b>20. STATED CAPITAL</b>				
<b>20.1 Fully paid ordinary shares</b>	69,257,142	838,282,159	69,257,142	838,282,159

### 20.2 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

All shares rank equally with regard to the Company's residual assets.

	Reserve Fund Rs.	Investment Fund Reserve Rs.	Retained Profits Rs.	Total Rs.
<b>21. RESERVES</b>				
At the beginning of the year	527,502,392	30,854,696	1,217,078,820	1,775,435,908
Profit for the year	-	-	1,625,080,104	1,625,080,104
	527,502,392	30,854,696	2,842,158,924	3,400,516,012
Appropriation of Bad debts	-	-	10,059,929	10,059,929
Final Dividend (2010/11)	-	-	(242,399,997)	(242,399,997)
Transfers to/(from) during the year	325,016,021	170,940,690	(495,956,711)	-
At the end of the year	852,518,413	201,795,386	2,113,862,145	3,168,175,944

Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No. 1 of 2003.

The Investment Fund Reserve is credited in accordance with the Central Bank guidelines issued to create an Investment Fund Reserve 8% of the profit liable for VAT on Financial Services is transferred to this reserve monthly when the payment of VAT on Financial Services for such month becomes due.

In accordance with the guidelines issued, the Company maintains government securities equivalent to the value of the reserve. These government securities are included in the Treasury Bills value presented on balance sheet.

## Notes to the Financial Statements Contd.

	<b>2012</b>	<b>2011</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>22. INCOME</b>		
<b>22.1 Summary</b>		
Gross Income (22.2)	7,850,403,776	5,501,885,318
	<b>7,850,403,776</b>	<b>5,501,885,318</b>
<b>22.2 Segmental Analysis of Gross Income</b>		
Interest	7,238,798,694	5,138,718,469
Real Estate	67,352,807	12,141,594
Fee Based Income	496,792,291	242,547,052
Others	47,459,984	108,478,203
	<b>7,850,403,776</b>	<b>5,501,885,318</b>
<b>23. INCOME FROM INTEREST BEARING ACTIVITIES</b>		
Interest on Leases	3,059,800,594	1,736,103,355
Interest on Loans	427,462,521	129,911,675
Interest on Hire Purchase	1,582,096,179	1,547,112,741
Interest on Trade Finance	23,624,698	170,427,368
Overdue Interest	381,262,875	271,578,098
Interest on Powerdraft & Factoring Income	116,035,559	2,295,793
Interest on Gold Loans	1,463,322,372	1,062,240,377
Interest on Bank Deposits	71,586,628	80,639,627
Interest on Treasury Bills	113,607,268	138,409,434
	<b>7,238,798,694</b>	<b>5,138,718,469</b>

### Notional Tax Credit for withholding Tax on Government Securities on Secondary market Transactions

The Inland Revenue Act No.10 of 2007, provided that a company which derives interest income from the secondary market transactions in Government Securities (on or after 1st April 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statement & the resulting notional Tax credit amounts to Rs. 11,270,585/- (2011 - Rs. 9,632,738/-)

	<b>2012</b>	<b>2011</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>24. INTEREST EXPENSES</b>		
Interest on Fixed Deposits	2,652,918,083	1,922,933,264
Interest on Certificates of Deposit	45,134,654	34,547,032
Interest on Saving Deposits	309,922	-
Interest on Commercial Papers	27,266,476	-
Interest on Loans	659,934,500	351,356,426
Interest on Bank Overdrafts	45,087,639	4,613,278
Interest on Finance Leases	5,132,479	1,992,374
Interest on Debentures	116,202,669	103,037,257
	<b>3,551,986,422</b>	<b>2,418,479,631</b>
<b>25. OTHER OPERATING INCOME</b>		
Income from Investments - quoted	2,250,075	487,723
Profit/(Loss) on Disposal of Investments	4,660,232	25,976,970
Appreciation/ (Depreciation) in Market Value of Quoted Shares	(92,741,134)	63,565,218
Profit/(Loss) on Sale of Fixed Assets	10,278,656	42,381
Real Estate Income (net of cost)	30,130,894	2,621,712
Profit from Fee based activities	496,792,291	242,547,052
Commission on sale of vehicles	44,794,878	2,149,266
Other Income on Factoring	20,660,291	1,827,309
Hiring Income	42,563,613	4,403,849
Recoveries of Bad Debts on write offs	14,438,450	9,646,789
Sundry Income	554,923	378,696
	<b>574,383,169</b>	<b>353,646,967</b>
<b>26. PROFIT FROM OPERATION STATED AFTER CHARGING THE FOLLOWING EXPENSES</b>		
Transport Costs	16,328,262	14,558,720
Advertising Costs	60,885,194	42,594,574
Auditors' Remuneration (Fees and Expenses)	2,100,000	1,710,000
Depreciation	163,043,246	72,931,005
Amortisation of Intangible Assets - Software	5,276,217	3,712,725
Staff Cost includes Defined Contribution Plan Costs - EPF & ETF	70,052,371	46,410,094

## Notes to the Financial Statements Contd.

### 27. PROVISION FOR INCOME TAX

The major components of income tax expense for the years ended 31st March are as follows :

Income Statement	2012 Rs.	2011 Rs.
<b>Current Income Tax</b>		
Current Income Tax charge	855,740,944	695,929,882
<b>Deferred Income Tax</b>		
Deferred Taxation Charge (27.2)	(128,213,659)	(48,478,242)
<b>Income tax expense reported in the Income Statement</b>	<b>727,527,285</b>	<b>647,451,640</b>

The above Tax is a provisional computation.

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

	2012 Rs.	2011 Rs.
<b>Accounting Profit before Income Tax</b>	2,352,607,389	1,667,820,018
Income Tax Expense at the statutory income tax rate of 28% (2011 - 35%)	658,730,069	583,737,006
Tax Effect of Other Allowable Credits	(4,119,885)	(957,959)
Non deductible expenses	72,917,101	54,387,915
Social Security Levy at 0% of Tax (2011 - 1.5%)	-	10,284,678
<b>Income Tax Expense at the effective income tax rate of 31% (2011- 39%)</b>	<b>727,527,285</b>	<b>647,451,640</b>

The Company's operations were taxed at the rate of 28% during the year

	Balance sheet		Income Statement	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.

### 27.2 Deferred Tax Assets, Liabilities and Income Tax relates to the followings

<b>Deferred Tax Liability</b>				
Capital allowances for tax purposes	(22,579,572)	102,732,902	(125,312,474)	(78,790,255)
Effect of rate change	-	-	-	30,253,859
	<b>(22,579,572)</b>	<b>102,732,902</b>	<b>(125,312,474)</b>	<b>(48,536,396)</b>
<b>Deferred Tax Assets</b>				
Defined Benefit Plans	(12,384,690)	(9,483,505)	(2,901,186)	1,966,486
Effect of rate change	-	-	-	(1,908,332)
	<b>(12,384,690)</b>	<b>(9,483,505)</b>	<b>(2,901,186)</b>	<b>58,154</b>
Deferred tax Expense			(128,213,659)	(48,478,242)
<b>Net Deferred Tax Liability/ (Asset)</b>	<b>(34,964,262)</b>	<b>93,249,397</b>		

## 28. EARNINGS PER SHARE

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

**28.2** The following reflects the Income & Share data used in the Basic Earnings Per Share computation.

	2012 Rs.	2011 Rs.
<b>Amounts Used as the Numerators:</b>		
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	1,625,080,104	1,020,368,379
<b>Number of Ordinary Shares Used as Denominators for Basic Earnings per share</b>		
Weighted Average number of Ordinary Shares in issue	<b>Number</b>	<b>Number</b>
Applicable to Basic Earnings Per Share	69,257,142	69,257,142

## 29. MATURITY OF ASSETS AND LIABILITIES

An analysis of the total assets employed and total liabilities at the year end , based on the remaining at the balance sheet date to the respective contractual maturity dates are given below.

	Less than 3 months Rs.	3-12 months Rs.	1-3 years Rs.	Over 3 years Rs.	Total Rs.
<b>Assets</b>					
Cash and Bank	669,506,362	-	-	-	669,506,362
Treasury Bills & other bills eligible for re-discounting with Central Bank	1,266,964,280	-	-	-	1,266,964,280
Deposits with Banks	655,404,000	293,189,487	15,000,000	-	963,593,487
Loans and Advances	1,673,606,253	1,208,946,768	1,048,139,388	470,482,793	4,401,175,201
Lease Rental Receivable and Stock out on Hire	1,959,225,233	5,888,298,707	12,708,665,082	3,278,547,556	23,834,736,577
Gold Loans	8,135,409,061	355,541,220	-	-	8,490,950,281
Real Estate Stock	35,803,046	107,409,138	-	-	143,212,184
Advance for Vehicle Stock	127,212,567	-	-	-	127,212,567
Other Debtors, Deposits and Prepayments	267,074,219	50,220,053	66,163,364	448,005,996	831,463,632
Investment Portfolio	-	-	-	3,479,504	3,479,504
Trading Portfolio	119,077,011	-	-	-	119,077,011
Intangible assets	-	-	-	19,339,794	19,339,794
Property, Plant & Equipment	-	-	-	1,868,286,218	1,868,286,218
Deferred Taxation	-	-	-	34,964,262	34,964,262
<b>As at 31.03.2012</b>	14,909,282,031	7,903,605,374	13,837,967,833	6,088,141,862	42,773,961,361
<b>As at 31.03.2011</b>	10,747,391,514	5,691,917,798	9,078,655,604	2,744,374,075	28,262,338,991

## Notes to the Financial Statements Contd.

	Less than 3 months Rs.	3-12 months Rs.	1-3 years Rs.	Over 3 years Rs.	Total Rs.
<b>29. MATURITY OF ASSETS AND LIABILITIES CONTD.</b>					
<b>Liabilities</b>					
Deposits from Non-Bank Customers	12,122,799,011	10,054,576,634	3,570,107,784	510,215,917	26,257,699,346
Borrowings	3,379,792,499	2,113,791,328	2,813,933,089	668,198,937	8,975,715,853
Accrued Charges	1,299,744,489	569,259,822	262,248,365	21,577,585	2,152,830,261
Debentures	-	-	450,000,000	545,000,000	995,000,000
Retirement Benefit Liability	-	-	-	44,231,036	44,231,036
Tax Liability	9,802,406	332,224,356	-	-	342,026,762
<b>As at 31.03.2012</b>	<b>16,812,138,404</b>	<b>13,069,852,140</b>	<b>7,096,289,238</b>	<b>1,789,223,475</b>	<b>38,767,503,258</b>
<b>As at 31.03.2011</b>	<b>9,084,094,578</b>	<b>11,834,404,289</b>	<b>3,628,970,023</b>	<b>1,101,152,035</b>	<b>25,648,620,925</b>
				<b>2012 Rs.</b>	<b>2011 Rs.</b>

## 30. COMMITMENTS AND CONTINGENCIES

### 30.1 Contingent Liabilities

Guarantees issued to Banks and other Institutions	5,150,000	6,200,000
Cases pending against the Company	9,270,925	9,053,210
Import LC & Ordinary Guarantees	30,650,363	181,581,795
	<b>45,071,288</b>	<b>196,835,005</b>

The Company has purchase commitments for acquisition of Property, Plant & Equipment & Vehicle Stocks incidental to the ordinary course of business are,

Contracted but not provided for	-	899,664,152
Unutilised Facilities	583,528,789	170,703,705
	<b>628,600,077</b>	<b>1,267,202,862</b>

## 31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2012 Rs.	2011 Rs.	
Lease Receivables	Loans & Overdrafts	8,404,583,094	5,014,164,870	Lease Rentals Receivables & Stock out on hire
Real Estate	Overdraft	65,000,000	65,000,000	Real Estate Stock
Freehold Land	Overdraft	8,000,000	8,000,000	Property, Plant & Equipment
Vehicles	Loan	1,217,262	3,134,083	Property, Plant & Equipment
		<b>8,478,800,356</b>	<b>5,090,298,953</b>	



	Lease & Stock out on Hire		Term Loans		Real Estate		Gold Loans		Others		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>32. FINANCIAL REPORTING BY SEGMENT</b>												
Interest	5,023,159,648	3,554,794,195	565,685,444	301,094,218	1,437,334	1,540,619	1,463,322,372	1,062,240,377	185,193,896	219,049,061	7,238,798,694	5,138,718,469
Real Estate	-	-	-	-	67,352,807	12,141,594	-	-	-	-	67,352,807	12,141,594
Fee Based Income & others	100,707,338	69,309,506	22,785,842	-	-	-	268,242,722	172,672,258	152,516,374	109,043,491	544,252,275	351,025,255
Total Revenue	5,123,866,986	3,624,103,700	588,471,286	301,094,218	68,790,141	13,682,212	1,731,565,094	1,234,912,635	337,710,270	328,092,552	7,850,403,776	5,501,885,318
Segmental Result	2,221,342,192	1,534,553,304	101,046,335	71,275,322	13,124,329	(22,288,975)	660,339,151	619,660,866	(49,140,734)	(108,237,809)	2,946,711,273	2,094,962,708
Unallocated Expenses											594,103,884	427,142,690
Profits from operations											2,352,607,389	1,667,820,018
Income tax expenses											(727,527,285)	(647,451,640)
Net profit for the period											1,625,080,104	1,020,368,379
Segment Asset	24,701,128,497	17,049,758,982	4,528,715,389	1,924,202,919	151,330,530	215,984,865	8,748,630,431	5,755,888,564	2,388,078,545	2,163,969,788	40,517,883,392	27,109,805,118
Unallocated Assets											2,256,077,969	1,152,533,872
Total Assets											42,773,961,361	28,262,338,991
Segment Liabilities	3,846,260,691	1,920,354,338	703,573,432	213,598,529	43,249,283	20,533,736	1,428,710,962	638,939,541	995,000,000	450,000,000	7,016,794,368	3,243,426,144
Unallocated Liabilities											31,750,708,890	22,405,194,780
Total Liabilities											38,767,503,258	25,648,620,925

## Notes to the Financial Statements Contd.

### 33. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

The Board of Directors has declared an interim dividends of Rs. 5/- per share totalling to Rs. 346,285,710/-.

### 34. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

#### 34.1 Transactions With Key Managerial Persons .

Key Management Personnel (KMPs) are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company. Such KMPs include the Board of Directors of the Company; Board of Directors of the Parent Company.

	2012 Rs. 000'	2011 Rs. 000'
<b>34.1.1 Key Management Personnel Compensation</b>		
Short Term Employment Benefits Paid	100,133	61,836
<b>34.1.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members</b>		
Fixed Deposits Accepted during the year	29,990	30,289
Fixed Deposits held at the end of the year	37,590	16,326
Interest payable on Fixed Deposits	1,501	152
Interest paid on Fixed Deposits	2,377	979
Dividend Paid on Share Holdings	50,324	230,206

**34.1.3** Transaction, arrangements and agreements involving with Entities which are controlled, jointly significantly influenced by the KMP's and their CFMs or shareholders who have either control, jointly control or significant influence over the entity.

	2012 Rs. 000'	2011 Rs. 000'
<b>Nature of Transaction</b>		
Fixed Deposits Accepted during the year	55,000	25,000
Fixed Deposits held at the end of the year	55,000	55,414
Interest payable on Fixed Deposits	810	702
Interest paid on Fixed Deposits	6,465	2,289
Bank Balance	(191,609)	5,588
Letter of Credits opened during the year	199,081	39,792
Fixed Deposit & REPO Opened During the Year	626,610	8,306,000
Borrowing Facilities	1,000,000	-

**34.1.4 Transactions with Parent, Fellow Subsidiaries and Associate companies of the parent.**

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

	<b>2012</b>	<b>2011</b>
	<b>Rs. 000'</b>	<b>Rs. 000'</b>
<b>34.1.4.1 Transactions with Parent Company</b>		
Fixed Deposits Accepted during the year	1,785,000	3,000,000
Interest payable on Fixed Deposits	53,948	60,493
Interest paid on Fixed Deposits	272,508	-
Fixed Deposits held at the end of the year	1,785,000	3,000,000
<b>34.1.4.2 Transactions with Fellow Subsidiaries</b>		
Purchases	5,415	3,151
Leasing Interest Income	838	1,438
Lease granted during the year	11,696	-

**34.1.5 Transactions with Major Shareholders of the Company**

Followings are the major transactions entered in to by the Company with its Major Share Holders other than the Parent company.

Land & Building aquired	750,000	-
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**35. DIVIDEND PROPOSED**

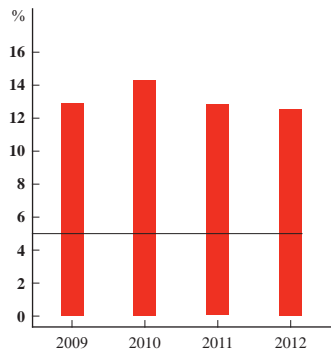
	<b>2012</b>	<b>2011</b>
	<b>Rs.</b>	<b>Rs.</b>
Dividend proposed after the balance sheet date	346,285,710	242,399,997

## Capital Adequacy

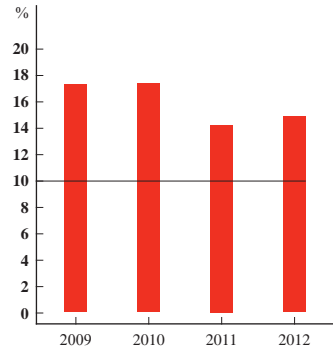
### Constituents of Capital

Amount (In Rupees Thousand)	2012	2011	2010	2009
<b>Tier 1: Core Capital</b>				
20. Issued and paid-up ordinary shares/ Common stock	692,572	692,571	346,286	346,286
21. Non-cumulative, Non-redeemable preference shares				
22. Share premium	145,711	145,710	145,710	145,710
23. Statutory reserve fund	1,054,313	558,357	223,396	223,396
24. General and other free reserves				
25. Published retained profits/ (Accumulated losses)	2,113,862	1,217,079	1,041,041	634,704
26. Surplus/ loss after tax arising from the sale of fixed and long term investments				
27. Unpublished current year's profits/ losses				
28. Sub total	4,006,458	2,613,718	1,756,433	1,350,097
29. Deductions				
<b>Goodwill</b>				
30. Total Tier 1 Capital	4,006,458	2,613,718	1,756,433	1,350,097
<b>Tier 2: Supplementary Capital</b>				
31. Eligible revaluation reserves				
32. General provisions				
33. Approved hybrid (debt/ equity) capital instruments				
34. Approved unsecured subordinated term debt (Actual amount is Rs. 450,000,000 eligible amount is Rs. 180,000,000)	725,000	270,000	360,000	450,000
35. Total Tier 2 Capital	995,000	450,000	450,000	450,000
36. Eligible Tier 2 capital	725,000	270,000	360,000	450,000
37. Total Capital	4,731,458	2,883,718	2,116,433	1,800,097
<b>38. Deductions</b>				
38.1 Equity investments in unconsolidated financial and banking subsidiaries				
38.2 Investments in capital of other financial/ banks				
39. Capital Base	4,731,458	2,883,718	2,116,433	1,800,097
40. Total Tier 1 (core capital)	4,006,458	2,613,718	1,756,433	1,350,097
41. Total Risk Weighted Assets	31,846,958	20,259,175	12,208,331	10,426,416

	2012	2011	2010	2009
<b>Core Capital Ratio (Minimum requirement 5%)</b>				
Core Capital / Risk- Weighted Assets	12.58%	12.90%	14.39%	12.95%
<b>Total Risk Weighted Capital Ratio (Minimum Ratio 10%)</b>				
Capital Base / Risk- Weighted Assets	14.86%	14.23%	17.34%	17.26%



**Core Capital Ratio (Tier I)**



**Total Risk Weighted Capital Ratio (Tier I & II)**

## Ten Year Summary

	12 Months 31.12.02	12 Months 31.12.03	15 Months 31.03.05	12 Months 31.03.06	12 Months 31.03.07	12 Months 31.03.08	12 Months 31.03.09	12 Months 31.03.10	12 Months 31.03.11	12 Months 31.03.12
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
<b>Balance Sheet</b>										
Cash and amounts due from banks	22,909	40,062	24,242	57,232	90,555	152,581	217,642	277,083	347,446	669,506
Placements with other banks	110,386	95,101	140,940	171,786	247,918	415,918	550,496	364,918	302,584	963,593
Treasury Bills & other bills eligible for re-discounting with Central Bank	147,860	185,702	234,323	297,939	361,369	476,877	799,698	1,165,157	1,622,158	1,266,964
Amounts due from Department of Inland Revenue	-	-	-	-	14,099	8,377	-	-	-	-
Real Estate Stock	107,319	184,457	161,755	170,963	238,641	218,198	211,241	246,928	237,520	143,212
Loans and Advances	671,042	861,373	997,211	977,435	1,100,386	1,805,471	2,834,414	4,193,815	7,543,231	12,892,125
Lease Rentals Receivable & Stock out on Hire	999,803	995,656	1,726,591	2,830,052	4,641,290	7,256,655	9,006,955	10,440,329	16,332,007	23,834,737
Investment Securities	15,744	18,328	12,945	9,021	9,032	9,032	6,226	5,994	28,594	3,480
Trading portfolio	211,818	119,077								
Other Debtors, Deposits and Prepayments	100,923	75,399	43,874	32,768	129,921	142,570	141,619	104,271	675,235	831,464
Deferred Taxation	-	-	-	35,650	-	-	-	-	-	34,964
Vehicle Stock	-	-	-	15,620	58,242	118,686	41,939	156,502	519,706	127,213
Intangible Assets	-	-	-	4,760	11,289	9,959	9,311	7,333	9,682	19,340
Property, Plant & Equipment	54,007	47,242	58,957	63,117	87,773	129,775	189,920	237,613	432,359	1,868,286
<b>Total Assets</b>	<b>2,229,993</b>	<b>2,503,321</b>	<b>3,400,838</b>	<b>4,666,343</b>	<b>6,990,516</b>	<b>10,744,099</b>	<b>14,009,461</b>	<b>17,199,943</b>	<b>28,262,340</b>	<b>42,773,961</b>
Deposits from Non-Bank Customers	1,824,406	2,006,061	2,606,792	3,344,671	4,561,445	7,309,101	9,558,370	12,489,789	19,619,681	26,257,699
Borrowings	113,233	86,585	314,197	561,612	1,401,839	1,658,593	1,527,997	1,065,377	3,526,374	8,975,716
Debentures	-	100,000	100,000	100,000	100,000	100,000	450,000	450,000	450,000	995,000
Trade Payables & Accrued Charges	139,264	139,166	147,566	230,727	303,445	559,993	846,978	916,729	1,529,035	2,152,830
Tax Payable	-	-	11,375	48,972	-	-	67,751	352,626	396,413	342,027
Deferred Taxation	-	-	-	-	16,993	114,615	186,703	141,728	93,249	-
Dividends Payable	-	-	-	13,500	-	-	-	-	-	-
Provision and other Liabilities	6,236	7,987	8,978	12,207	19,367	26,778	21,565	27,262	33,870	44,231
<b>Total Liabilities</b>	<b>2,083,139</b>	<b>2,339,799</b>	<b>3,188,908</b>	<b>4,311,689</b>	<b>6,403,090</b>	<b>9,769,080</b>	<b>12,659,364</b>	<b>15,443,510</b>	<b>25,648,622</b>	<b>38,767,503</b>
Share Capital	135,000	135,000	135,000	135,000	202,000	418,411	491,996	491,996	838,282	838,282
Reserves	21,766	28,522	76,930	219,654	385,426	556,608	858,101	1,264,436	1,775,436	3,168,176
Total Shareholders' Funds	156,766	163,522	211,930	354,654	587,426	975,019	1,350,097	1,756,433	2,613,718	4,006,458
Total Liabilities & Funds Employed	2,239,905	2,503,321	3,400,838	4,666,343	6,990,516	10,744,099	14,009,461	17,199,943	28,262,340	42,773,961
<b>Income Statement</b>										
Gross Income	501,671	541,873	779,175	914,463	1,310,792	2,778,862	3,580,173	4,130,993	5,501,885	7,850,404
Interest Income	375,197	425,837	677,403	849,978	1,229,406	2,082,418	3,431,950	3,953,032	5,138,718	7,238,799
Interest Expenditure	268,896	297,083	383,401	432,856	655,624	1,318,058	2,238,847	2,249,805	2,418,480	3,551,986
Net Interest Income	106,301	128,754	294,002	417,122	573,782	764,361	1,193,103	1,703,227	2,720,239	3,686,812
Other Operating Income	42,765	33,000	42,784	29,917	65,247	165,682	122,326	174,285	353,647	574,383
Operating Expenditure	137,840	158,545	251,929	243,391	309,632	509,225	647,561	839,479	1,171,025	1,751,727
Profits before taxation	11,226	3,209	73,344	173,108	282,401	355,214	555,315	878,290	1,667,820	2,352,607
Provision for Taxation	-	-	24,936	96,051	103,625	149,381	195,707	378,129	647,452	727,527
Dividends	-	-	-	13,500	-	68,175	103,886	173,143	242,400	346,286
<b>Net profits</b>	<b>11,226</b>	<b>3,209</b>	<b>48,408</b>	<b>77,056</b>	<b>178,776</b>	<b>205,833</b>	<b>359,608</b>	<b>500,161</b>	<b>1,020,368</b>	<b>1,625,080</b>

	12 Months 31.12.02	12 Months 31.12.03	15 Months 31.03.05	12 Months 31.03.06	12 Months 31.03.07	12 Months 31.03.08	12 Months 31.03.09	12 Months 31.03.10	12 Months 31.03.11	12 Months 31.03.12
<b>Ratios</b>										
Earning per Share (Rs.)	0.83	0.24	3.59	5.71	8.85	6.79	10.38	7.22	14.73	23.46
Net Assets per Share (Rs.)	11.61	12.11	15.70	26.27	29.08	32.18	38.99	25.36	37.74	57.85
Return on Average Shareholders' Funds (%)	7.34	2.00	25.79	27.20	37.95	26.35	30.93	32.20	46.70	49.09
Return on Average Assets (%)	0.57	0.14	1.64	1.91	3.07	2.32	2.91	3.21	4.49	4.58
Total Assets to Shareholders' Funds (Times)	14.22	15.31	16.05	13.16	11.90	11.02	10.38	9.79	10.81	10.68
Interest Spread (%)	6.58	6.56	11.16	10.73	10.11	8.12	7.92	9.32	11.63	10.48
Net Interest Margin (%)	6.40	6.33	11.23	11.31	10.80	9.38	10.31	11.60	12.96	11.39
Efficiency Ratio (%)	92.47	98.02	74.80	54.45	48.45	54.75	49.23	44.71	38.10	41.11
Growth in Gross Income (%)	38.24	8.01	43.79	17.36	43.34	112.00	28.84	15.39	33.19	42.69
Growth in Interest Income (%)	24.79	13.50	59.08	25.48	44.64	69.38	64.81	15.18	29.99	40.87
Growth in Interest Expense (%)	29.18	10.48	29.06	12.90	51.46	101.04	69.86	0.49	7.50	46.87
Growth in Net Interest Income (%)	14.91	21.12	128.34	41.88	37.56	33.21	56.09	42.76	59.71	35.53
Growth in Profit Before Taxes (%)	115.02	(71.41)	2,185.58	136.02	63.14	25.78	56.33	58.16	89.89	41.06
Growth in Net Profit (%)	115.02	(71.41)	1,408.51	59.18	132.01	15.13	74.71	39.09	104.01	59.26
Growth in Total Assets (%)	31.78	12.26	35.85	37.21	49.86	53.64	30.39	22.77	64.32	51.35
Growth in Total Advances (%)	41.99	11.14	46.68	39.79	50.80	57.83	30.67	23.58	63.15	53.83
Growth in Deposits (%)	35.61	9.96	29.95	28.31	36.38	60.24	30.77	30.67	57.09	33.83
Growth in Shareholders' Funds (%)	5.15	4.31	29.60	67.34	65.63	65.98	38.47	30.10	48.81	53.29
No. of Branches	5	5	5	7	9	15	21	27	34	65
No. of Gold Loan Centres	7	9	17	19	23	25	36	48	58	47
Total No of Distribution channels	12	14	22	26	32	40	57	75	92	112

## Share Information

### 20 Major Shareholders

	As at 31st March 2012			As at 31st March 2011	
	No of Shares	%	Cum.%	No of Shares	%
1. Vallibel One PLC	35,321,200	51.00	51.000	35,321,200	51.00
2. Royal Ceramics Lanka PLC	15,555,277	}	76.850	3,818,694	5.51
Commercial Bank of Ceylon PLC/Royal Ceramics Lanka PLC	2,348,000				
3. Esna Holdings (Pvt) Ltd	7,000,200	10.11	86.958	7,000,200	10.11
4. Sri Lanka Insurance Corporation Ltd-Life Fund	1,842,900	2.66	89.619		
5. Mercantile Investments and Finance PLC	953,600	1.38	90.996		
6. Seylan Bank PLC/ Mr. Nimal Perera	304,978	}	91.474	1,148,598	1.66
Mr. Nimal Perera	25,920				
7. Mr. H A M P Algama	200,000	0.29	91.763	200,000	0.29
8. Environmental Resources Investment PLC	188,300	0.27	92.035	251,000	0.36
9. Mr. E Bianchi	154,400	0.22	92.258	32,800	0.05
10. Mr. L W A De Soysa	150,976	0.22	92.476		
11. Mr. A M Weerasinghe	148,850	0.22	92.691	148,850	0.22
12. Waldock Mackenzie Ltd / Mrs G Soysa	111,252	0.16	92.852	111,252	0.16
13. Mrs. P C Cooray	97,004	0.14	92.992	147,304	0.21
14. Commercial Bank of Ceylon PLC/ D S L Investments (Pvt) Ltd	90,000	0.13	93.122	4,200	0.01
15. Mr. P S R Casie Chitty	84,400	0.12	93.244		
16. Mr. P A J Kumara	80,000	0.12	93.360	80,000	0.12
17. Mr. T Jeremiah	77,582	0.11	93.472	77,582	0.11
18. Mr. K Karunanayake and Miss. P N Karunanayake	74,162	0.11	93.579	74,162	0.11
19. Mr. P Somadasa	70,072	0.10	93.680	76,972	0.11
20. Mr. J P Mudannayake	56,000	0.08	93.761		
	64,935,073	93.761			
Balance	4,322,069	6.239			
Total	69,257,142	100.000			

### Distribution of Shareholdings as at 31st March 2011

From	To	No. of Holders	No. of Shares	%
1	1,000	1,162	360,351	0.52
1,001	10,000	489	1,694,498	2.45
10,001	100,000	103	2,922,360	4.22
100,001	1,000,000	9	2,212,356	3.19
Over	1,000,000	5	62,067,577	89.62
		1,768	69,257,142	100.00

### Analysis of Shareholders as at 31st March 2012

Category	No. of Shareholders	No. of Shares	%
Local Individuals	1,638	4,442,838	6.41
Local Institutions	102	64,442,154	93.05
Foreign Individuals	27	353,650	0.51
Foreign Institutions	1	18,500	0.03
Total	1,768	69,257,142	100.00

### Directors' Shareholding as at 31st March 2012

Names of Directors	No. of shares	Percentage (%)
Mr. K D D Perera	-	-
Mr. L N De Silva Wijeyeratne	-	-
Mr. J A SS Adhihetty	53,060	0.077
Mr. Nimal Perera	330,898	0.478
Seylan Bank PLC/Mr. Nimal Perera		
Mr. A M Weerasinghe	148,850	0.215
Mr. K D A Perera	-	-
Mr. N Udage	4,200	0.006
Mr. B D St. Auburn Perera	-	-
Mrs. K Fernando	1,600	-

### Share Prices for the Year

	31.03.2012 Rs.	Date	31.03.2011 Rs.
Market Price per Share			
Highest during the period	200.00	31.05.2011	340.00
Lowest during the period	109.00	15.02.2012	61.00
As at end of the period	134.90		175.10
		<b>31.03.2012</b>	<b>31.03.2011</b>
No. of transactions		5,510	19,588
No. of Shares traded		23,092,042	40,378,100

### Public Holding

The percentage of shares held by the public as at 31st March 2012 is 12.24%

1. Major Shareholders as at 31st March 2012 - Annex I
2. Distribution of Shareholdings as at 31st March 2012 - Annex - II
3. Distribution of Shareholding Local and foreign - Annex - II
4. Directors Shareholding as at 31st March 2012 - Annex - III
5. Share Prices for the year - Annex - III

## Glossary of Financial Terms

### A

**Accrual Basis** - The system of accounting wherein revenue is recognised at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

**Amortisation** - The systematic allocation of the depreciable amount of an intangible asset over its useful life.

### C

**Cash Equivalents** - Short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Compounded Annual Growth Rate (CAGR)** - The rate at which it would have grown if it grew at an even rate compounded annually.

**Contingencies** - A condition or situation existing at balance sheet date where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or nonoccurrence of one or more uncertain future events.

### D

**Deferred Taxation** - Sum set aside for income tax in the financial statements that may become payable/ receivable in a financial year other than the current financial year.

**Dividend Cover** - Profit attributable to ordinary shareholders as a percentage of gross dividends to ordinary shares; indicates number of times dividend is covered by current year's distributable profits.

**Dividend Per Share (DPS)** - Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

**Dividend Yield** - Dividend expressed as a percentage of market value of a share.

### E

**Earnings Per Share (EPS)** - Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's earnings attributable to an ordinary share in issue.

**Efficiency Ratio** - Non-interest expenses divided by the sum of net interest income and non-interest income.

### F

**Fair Value** - The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Finance Lease** - A lease transaction that transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee, title may or may not eventually be transferred.

### G

**Gross Dividend** - The proportion of profit distributed to shareholders including the tax withheld.

### H

**Hire Purchase** - A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

### I

**Interest Cover** - Earnings before interest and taxes divided by interest cost.

**Interest Spread** - Represents the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

### L

**Lending Portfolio** - Lending products net of an earned income (if applicable), provision and interest in suspense.

**Liquid Assets** - Assets that are held in cash or in a form that can be converted to cash readily.

**Liquid Assets Ratio** - Liquid assets as a percentage of public deposits.

### M

**Market Capitalisation** - Number of ordinary shares in issue multiplied by the market value of a share as at a date.

### N

**Net Assets Value Per Ordinary Share** - Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

**Net Interest Income** - The difference between income earned from interest earning assets and cost incurred on interest bearing liabilities.

**Net Interest Margin** - Net interest income expressed as a percentage of average interest earning assets.

**Non-Performing Loan Portfolio** - The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.



**NPL Ratio** - Total non-performing advances net of interest in suspense as a percentage of the total advances portfolio net of interest in suspense.

**NPL Ratio Net** - Total non-performing advances net of interest in suspense and provision as a percentage of the total advances portfolio net of interest in suspense and provision.

**P**

**Price Earnings Ratio (P/E Ratio)** - Market price of a share divided by earnings per share, reflects number of years that would be taken to recoup shareholders' capital outlay in the form of earnings.

**R**

**Return on Average Assets (ROA)** - Net profit for the year expressed as a percentage of average total assets.

**Return on Average Equity (ROE)** - Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

**Risk Weighted Assets** - On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

**T**

**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 debt instruments such as subordinated term debts and other hybrid capital instruments which combine certain characteristics of equity and debt.

**V**

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

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirty Ninth (39th) Annual General Meeting of L B Finance PLC will be held at No. 20, Dharmapala Mawatha, Colombo 3 on Friday, the 29th day of June 2012 at 2.00 p.m. for the following purposes:

### 1. Routine Business

- 1.1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st March 2012 and the Report of the Auditors thereon.
- 1.2 To declare a Dividend as recommended by the Directors.
- 1.3 To re-elect Mrs. Kimarli Fernando who retires by rotation in terms of Articles 86 and 87 of the Articles of Association, as a Director of the Company
- 1.4 To re-appoint Messrs Ernst & Young, Chartered Accountants, the retiring Auditors and to authorise the Directors to determine their remuneration.
- 1.5 To authorise the Directors to determine donations for the year ending 31st March 2013 and up to the date of the next Annual General Meeting.

### 2. Special Business

To consider and if thought fit the following resolution as a Special Resolution, pertaining to future issues of Debentures:

IT IS HEREBY RESOLVED that the Directors may from time to time raise such funds as they deem necessary, beyond the limitations

placed by Article 105 of the Articles of Association of the Company, (if required) for the purpose of meeting the increasing requirements of working capital and/or to finance the investments of the company, by the issue of Debentures either by way of private placements or through Public Issues, on such terms and conditions as they think proper, including terms of repayment, rate of interest and such other features, subject to the provisions to the Company's Articles of Association, Companies Act and relevant approvals of the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka, and approvals of such other applicable Regulatory Authorities

By Order of the Board  
**L B Finance PLC**



**P W Corporate Secretarial (Pvt) Ltd**  
*Director / Secretaries*  
At Colombo

6th June 2012

### Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.
2. A proxy need not be a shareholder of the company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Corporate Office of the Company, 20, Dharmapala Mawatha, Colombo 3 by 2.00 p.m. 27th June 2012.





## Form of Proxy



I/We\* .....  
 of .....  
 shareholder/s of L B FINANCE PLC hereby appoint .....  
 ..... (holder of NIC No.....) of .....  
 ..... or failing him\*

Mr. Kulapurachchige Don Dhammika Perera	of Colombo or failing him*
Mr. Lalith Nihal de Silva Wijeyeratne	of Colombo or failing him*
Mr. John Anthony Sunil Sumith Adhihetty	of Colombo or failing him*
Mr. Wannakuwattewaduge Don Nimal Hemasiri Perera	of Colombo or failing him*
Mr. Amarakoon Mudiyansele Weerasinghe	of Colombo or failing him*
Mr. Kulapurachchige Don Anurada Perera	of Colombo or failing him*
Mr. Niroschan Udage	of Colombo or failing him*
Mr. Biyawalage Dudley St. Auburn Perera	of Colombo or failing him*
Mrs. Kimarli Fernando	of Colombo or failing her *
Mrs. Shirani Jayasekara	of Colombo

as my/our\* proxy to represent me/us\* and to vote as indicated hereunder for me/us\* and on my/our\* behalf at the Thirty Ninth (39th) Annual General Meeting of the Company to be held on 29th June 2012 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	<b>FOR</b>	<b>AGAINST</b>
<b>1. Routine Business</b>		
1.1 To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2012 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
1.2 To declare a Dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
1.3 To re-elect Mrs. Kimarli Fernando who retires by rotation in terms of Articles 86 and 87 of the Articles of Association, as a Director of the company.	<input type="checkbox"/>	<input type="checkbox"/>
1.4 To re-appoint Messrs Ernst & Young, Chartered Accountants the retiring Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
1.5 To authorise the Directors to determine donations for the year ending 31st March 2013 up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>
<b>2. Special Business</b>		
To pass the Special Resolution as set out in the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our\* hand(s) this ..... day of ..... Two Thousand and Twelve.

.....  
 Signature of Shareholder

\* Please delete what is inapplicable.

### INSTRUCTIONS FOR COMPLETION

1. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his/her Attorney duly authorised in writing or if such appointer is a company/corporation, either under its Common Seal, or under the hand of an Officer/s or Attorney duly authorised in terms of the Articles of Association /Statute.
2. In the case of a proxy signed by an Attorney, the original Power of Attorney must be deposited at the Secretaries' Office (i.e. P W Corporate Secretarial (Pvt) Ltd, No. 3/17, Kynsey Road, Colombo 08. Telephone: 011-4640360/3) for registration.
3. In perfecting the Form of Proxy please ensure that all details are legible.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy please insert the relevant details in the space provided.
5. Please indicate with an X in the space provided how your proxy is to vote on the resolution. If no indication is given, the proxy in the discretion will vote as he thinks fit.
6. To be valid, this Form of Proxy must be deposited at the Corporate Office No. 20, Dharmapala Mawatha, Colombo 3, by 2.00 p.m. on 27th June 2012.

## Corporate Information

### **Name of Company**

L B Finance PLC

### **Legal Form**

A public limited liability company which was incorporated under the Companies Ordinance No.51 of 1938 as a private limited liability company on 30th May 1971, converted to a public limited liability company on 29th September 1982, listed on the Colombo Stock Exchange in January 1998 and re-registered as per the Companies Act, No.7 of 2007 on 6th June 2008 with PQ 156 as the new number assigned to the Company.

A finance company registered under the Finance Companies Act No.78 of 1988 and is a registered finance leasing establishment in terms of the Finance Leasing Act No.56 of 2000.

### **Date of Incorporation**

30th May, 1971

### **Company Registration Number**

PQ 156

### **Registered Office / Head Office**

No. 275/75 OPA Building,  
Prof. Stanely Wijesundara Mawatha,  
Colombo 07.  
Telephone-011- 4521000  
Facsimile-011-5345327

### **Corporate Office**

No.20,DharmapalaMawatha  
Colombo 03  
Telephone-011-2155000  
Facsimile-011-2575098

### **Financial Year End**

31st March

### **Credit Rating**

A-/P2 (Stable) RAM Ratings (Lanka)  
Limited

### **VAT Registration No.**

104033431 7000

### **Website**

[www.lbfinance.com](http://www.lbfinance.com)

### **Secretaries**

P W Corporate Secretarial (Pvt) Limited  
No. 3/17, Kynsey Road,  
Colombo 08  
Telephone: 011-4640360-3  
Fax: 011-4740588  
Email: [pwcs@pwcs.lk](mailto:pwcs@pwcs.lk)

### **External Auditors**

Ernst & Young

### **Internal Auditors**

BDO Partners  
KPMG Ford Rhodes Thornton &  
Company

### **Lawyers**

Nithya Partners  
Messrs. Paul Ratnayake Associates

### **Bankers**

Bank of Ceylon  
Commercial Bank of Ceylon PLC  
Hatton National Bank PLC  
Nations Trust Bank PLC  
NDB Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank  
Public Bank Berhad  
Sampath Bank PLC  
Seylan Bank PLC  
Union Bank of Colombo PLC



# STRENGTH REDEFINED

Annual Report 2011/12



 **LB FINANCE**

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