

## 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 (a growth of 50%) while our deposit base increased by 30% to surpass the Rs.2,607 Mn mark.*

## 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 & 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. Pawning & Micro financing segments were our key concerns during the year and plans enforced resulted in a mammoth 89% growth in Pawning 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 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 & deposit operations with 6 new branches across the country, of which 3 were located in the former war-torn areas of Batticaloa, Trincomalee & Ampara. Rising to the challenge of a tight economic climate, we set up 18 new pawning centers, including a centre in Sahindamarthu.*

## A Commitment to responsibility

This year in our Annual Report, we would like to share with you an extract of the information provided to the Board of Directors, to ascertain the level of compliance with regulations issued by the Central Bank of Sri Lanka (CBSL). The information - submitted monthly helps the Board ensure that your Company remains stable throughout the year. Its one of the many steps we take to uphold the best practices demanded of a responsible and transparent financial sector institution.

DIRECTION	SUMMARY	REMARKS
No. (3) of 2006- Provision for Bad & Doubtful Debts	If the arrears is 6-12 months & more than 12 months, 50% & 100% of the net outstanding to be provided as bad debts. For re-possessed vehicles 80% of the valuation & for lands if the arrears is 6-36 months, 36-60 months & 60-120 months ,100% , 80% , 50% respectively can be considered as co-lateral.	Complied
No. (3) of 1991- Writing off of Loans & Advances	A finance co. shall not write off any loan granted to the under noted person Without the prior approval of the Monitory Board. Any Director, any of it's Subsidiary, any person who is a manager, officer or employee of a company.	Complied
No. (4) of 1991- Transfer of Assets	No finance company transfer any of it's assets value more than Rs.50,000/= at the price less than the prevailing market value without the prior permission of CBSL.	Complied
No. (2) of 2007- Business Transactions with Relatives	A finance co. shall not without the approval of a director, conduct any business transaction with a director where the value of transaction exceeds 500,000/= per year.	Complied
No. (1) of 2005- Deposits	A finance co. Shall furnish to every depositor a certificate in respect of each deposit. In the case of renewal of time deposit, a renewal notice shall be issued to the depositor. Every such certificate or renewal shall be signed by two officers. Every finance co. shall maintain a record of deposits holders. Every finance co. submit to the Director a statement within three months after the end of every financial year.	Complied
No. (1) of 2009- Liquid Assets - Liquid Assets - Treasury Bills Requirement	A finance co. shall maintain a minimum holding of liquid assets,10% of the outstanding value of the time deposits, and the face value of certificate of deposits. shall maintain T-Bills equivalent to 7.5% of average month end deposits liabilities.	Complied
No. (1) of 2007- Lending	No finance company shall grant any accommodation- to a director or relative of a director, to it's holding Co. on the security of it's own shares, to purchase of it's own shares, on the guarantee or indemnity of a director of the finance company. A finance co. may grant accommodation to its subsidiary co. or associate co. subject to the limits specified in the direction no 4. of 2006. No finance co shall recover on any accommodation ,other than interest in excess of 5% of the principle amount granted.	Complied
No. (1) of 2003- Capital Funds	A finance co. shall maintain capital funds which shall not at any time be less than 10% of it's total deposits liabilities. Every finance co. shall maintain a reserve fund, and transfer to such reserve fund out of the net profits of each year.	Complied

DIRECTION	SUMMARY	REMARKS
No. (10) of 1991- Register of Written Off Loans	A finance co. shall maintain a register showing details of written off loans or advances.	Complied
No. (10) of 1991- Register of Written Off Loans	A finance co. shall maintain a register showing details of written off loans or advances.	Complied
No. (11) of 1991- Fixed Assets	No finance co. shall purchase immovable property, exceeding in the aggregate at any time the amount outstanding on the loans obtained for the specific purpose of purchasing or 50% of the capital funds of the co. without the prior approval of the director.	Complied
No. (7) of 2006- Investments	Investment in the issued ordinary share capital shall not exceed 5% of the capital funds, 40% of issued share capital,25% of the capital funds of the finance co. A finance co. that has core capital over Rs.200Mn as shown in the last audited B/S may, with approval of the monetary board ,form a subsidiary co. or acquire shares in a co. exceeding 50% issued share capital of such company.	Complied
No. (4) of 2009- Interest	The deposits interest rates shall not exceed 3.5% points for yield applicable to 364-day T-bills maturity less than 1 year and 5.5% points for maturity more than one year. The maximum annual rate of int which may be paid by a finance co. on any savings deposits, during any quarter shall not exceed the weighted average yield applicable to 90-day Treasury Bills issued during the immediate preceding quarter.	Complied
No. (4) of 2005- Closure of Business	No finance co. Shall close its office for business on any day of the week without prior approval in writing of a director.	Complied
No. (5) of 2005- Structural Changes	Without the approval of the Central Bank no financo co. can establish a subsidiary, commence a new business, enhance or reduce its issued capital, sell its business, acquire, merge, restructure or change the memorandum of articles.	Complied
No. (1) of 2006- Minimum Core Capital	Every Finance Co shall maintain a minimum core capital of Rs.200 Mn .	Complied
No. (15) of 1991- Accrued Interest	No finance co shall take in to account as income which interest and or capital repayment are in arrears for six months or more. Every finance co. shall segregate a loan, credit facility, or any type of financial loans under separate control accounts in the general ledger.	Complied
No. (16) of 1991- Audited Accounts	A finance co. shall appoint an Auditor to audit the balance sheet as at last working day of each financial year and profit & loss account in respect of such year.	Complied

<b>DIRECTION</b>	<b>SUMMARY</b>	<b>REMARKS</b>
No. (4) of 2006- Single Borrower Limit - Single Institution  - Group Borrowings	An individual borrower shall not exceed 15% of the capital funds, and for group borrowers or from subsidiary co. or associate co. shall not exceed 20% of capital funds as shown in the audited balance sheet.	Complied
No. (5) of 2001- Deposits-Incentive Schemes	A finance co. Shall not introduce any incensive schemes for soliciting deposits without obtaining the prior approval of the director in writing.	Complied
No. (2) of 2006- Risk Weighted Capital Adequacy Ratio - Core Capital Ratio - Total Risk Weighted Capital Ratio	A finance co. shall maintain it's capital at a level not less than 10% of it's risk weighted assets with the core capital constituting not less than 5% of it's risk weighted assets, computed as per instruction issued by the director. Every finance co. shall furnish to the director a return in respect of each quarter, on the format given within 30 days from the end of each quarter. A return based on the audited B/S as at the end of each financial year, on the same format given for the quarterly return, within six months from the end of each financial year.	Complied  Complied
No. (3) of 2008- Corporate Governance	The responsibilities/Meetings/Composition/fitness & propriety of Directors & the role of Chairman/CEO & functions of the Committees were stated	Complied
No. (5) of 2009- Reporting Requirement	The Direction states the reports to be submitted Weekly/Monthly/Annually	Complied



**Mr. B. M. Amarasekera**

*Chairman*



**Mr. Sumith Adhihetty**

*Managing Director*

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## **Timely Strategies**

The global economic downturn brought about many challenges with it. Yet, one factor enabled us to make it through the difficult times. Some call it luck. We call it timely strategies.

At L B Finance we have been consistently conceptualizing and implementing important procedures for the past five years. However, this requires a myriad of diverse yet complimenting elements. These not only include our shareholders, but also the right approaches in terms of volume, sustainability, portfolio quality, expansion, administrative control and new growth areas coupled with a very solid foundation.

We are now reaping the benefits of these timely strategies and are empowered to continue building and expanding ourselves.

# 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

# Goal

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

# L B Finance in a Nutshell

Embracing responsibility. Building value.

In a globalised world acting responsibly is not mere jargon for advertisements, it makes good business sense. Our compliance with the Directions issued by the Central Bank of Sri Lanka (CBSL) for Registered Finance Companies (RFCs) and our timely and visionary strategies over the last few years; are not the only indications of how we have embraced responsibility. It's also reflected in the strength of our financial position.

For the year ended 31st March	2010 Rs.'000s	2009 Rs.'000s	% Change
<b>Results Of Operations</b>			
Gross Income	4,130,993	3,580,173	15.39
Interest Income	3,953,032	3,431,950	15.18
Interest Expense	2,249,805	2,238,847	0.49
Net Interest Income	1,703,227	1,193,103	42.76
Net Profit Before Income Tax	878,290	555,315	58.16
Income Tax On Profits	378,129	195,707	93.21
Net Profit After Income Tax	500,161	359,608	39.09
Gross Dividends	173,143	103,886	66.67
Net Profit After Income Tax and Dividends	327,018	255,722	27.88
<b>Financial Position</b>			
Total Assets	17,185,263	14,009,461	22.67
Advances	14,634,143	11,841,369	23.58
Deposits From Public	12,489,789	9,558,370	30.67
Borrowings	1,065,377	1,527,997	(30.28)
Total shareholders' Equity	1,756,433	1,350,097	30.10
Market Capitalization	2,146,971	865,714	148.00
<b>Information Per Ordinary Share</b>			
Earnings - Basic (Rs.)	14.44	10.96	31.78
Dividends (Rs.)	5.00	3.00	66.67
Net Assets Value (Rs.)	50.72	38.99	30.10
Market Value at the end of the period (Rs.)	62.00	25.00	148.00
Price Earnings (times)	4.29	2.28	88.19
<b>Ratios</b>			
Return On Average Assets (%)	3.21	2.91	10.37
Return On Average Shareholders' Funds (%)	32.20	30.93	4.10
Efficiency Ratio (%)	44.71	49.23	(9.17)
Interest Spread (%)	9.79	8.60	13.77
Net Interest Margin (%)	11.81	10.55	11.96
Interest Cover (times)	1.39	1.25	11.41
Dividend cover (times)	2.89	3.46	(16.55)
Dividend Payout Ratio (%)	34.62	27.37	26.47
Equity to Assets (%)	10.22	9.64	6.06
<b>Compliance Ratios</b>			
Core Capital to Risk Weighted Asset Ratio (%)	14.39	12.95	57.63
Total Capital to Risk Weighted Assets Ratio (%)	17.34	17.26	30.17
Liquid Assets to Total Assets (%)	10.52	11.19	(6.04)
Liquid Assets to Deposits (%)	14.47	16.40	(11.79)
Non Performing Loans (net) (%)	1.05	1.70	(38.34)

# Performance against Key Financial Soundness Indicators for Registered Finance Companies (RFCs) – issued by the CBSL

As evidenced below, your Company has exceeded the requirements stipulated by the CBSL to ensure the financial soundness of RFCs in Sri Lanka.

Indicator (in %)	2008(a)	2009(b)	Actual achieved by L B Finance as at 31.03.2010
Regulatory Capital to Risk Weighted Assets	14	9.8	17.34
Tier 1 Capital to Risk Weighted Assets	12.3	8.6	14.39
Non Performing Loans Net of Provision to Capital Funds	15.9	32.3	16.30
Non Performing Loans to Gross Loans	6.7	10.2	4.80
Return on Assets (Before Tax)	1.8	-0.8	6.66
Return on Equity (After Tax)	8.4	-13.6	32.20
Net Interest Income to Total Assets	2.4	3.3	10.92
Net interest Income to Gross Income	20.6	17.4	41.23
Non-Interest Expenses to Gross Income	28	29.9	20.32

a) Revised

b) Provisional

Source: Central Bank of Sri Lanka

# Operational Highlights

## Delivery Channels

Our expanded reach across the island, will no doubt help us penetrate key market segments better, in the years ahead.

	2010	2009	Increase
Number of Branches	27	21	6
Number of Pawning Centers (Including Branches)	75	57	18

## Key segmental highlights

Solid growth across all our business segments is a clear indication of the public confidence placed in our Company.

	Total Accommodation * in 2009/10 Rs.'000s	% growth over the previous year
Leasing	3,298,329	47.86%
Hire Purchase	2,800,012	16.48%
Pawning	11,817,365	71.06%
Micro Finance	2,593,737	72.60%
Mortgage Loans, Term Loans & Trade Finance	573,809	42.13%
Deposits Accepted	10,445,537	12.15%

\* This includes the total accommodation granted and deposits accepted during the year.

## The Sri Lankan economy in 2009



The review of the Sri Lankan economy in 2009 including highlights of the money-market sets out the context under which L B Finance demonstrated its foresight and its incredible resilience.

The steady momentum chartered through 2009/10 in the context of the macro environment is discussed in detail in the Managing Director's Review.

Noteworthy measures instigated by CBSL to regulate the financial services sector – especially Registered Finance Companies (RFCs), and how your Company fared in comparison to sector-trends, are discussed by our Chairman in his statement.

### Economic Overview

The post-conflict growth momentum achieved from the 2nd quarter of the year and the changes in government policy to exploit the incredible opportunities presented by peace, reflected in the key financial indicators measuring the Sri Lankan economy in 2009.

### Output

	2008	2009
GDP at current market prices (Rs. billion)	4,411	4,825
Per capita GDP at market prices (US\$)	2,014	2,053
<b>REAL OUTPUT (percentage change)</b>		
GNP	4.6	4.8
GDP	6	3.5

Source: Central Bank of Sri Lanka

- Resilient economic growth in the face of domestic & external challenges
- GDP Growth for 2009 was slow at 3.5%, compared to 6% last year
- Steady economic recovery since the 2nd quarter resulted in a 6.2% growth in the final quarter
- The budget deficit however rose to 9.8% of GDP compared to a revised target of 7%, mainly due to a shortfall in revenue as economic activities slowed down in comparison to last year. The deficit was further exacerbated by increased government expenditure on the decisive phase of the conflict, urgent Resettlement, Rehabilitation & Reconstruction (RRR) activities in the second half of the year, increased salaries and wages, interest payments and expenditure on continuing public investment projects

## Inflation

Prices And Wages (percentage change)	2008	2009
Colombo Consumers' Price Index (2002 = 100) - Annual Average	22.6	3.4

Source: Central Bank of Sri Lanka

- Dramatic reduction in inflation from 28.2% in June 2008, to 4.8% in end 2009
- The year witnessed the lowest overall average rate since 1985 of 3.4%

## Interest Rates (% per annum at year end)

	2008	2009
Repurchase rate (overnight)	10.5	7.5
Reverse Repurchase rate (overnight)	12	9.75
<b>Treasury bill yield rate</b>		
91 days	17.33	7.73
364 days	19.12	9.33
<b>Deposit rates</b>		
Commercial banks' Average Weighted Deposit Rate (AWDR)	11.63	8.01
Commercial banks' 12 month fixed deposit (max.)	20.25	19
NSB savings	5	5
NSB 12 month fixed deposit	15	9.5
<b>Lending rates</b>		
Commercial banks' Average Weighted Prime Lending Rate (AWPR)	18.5	10.91
Bills purchased & discounted	6.00-26.50	4.58-24.00

Source: Central Bank of Sri Lanka

- Enhanced investor confidence in the economy, after the end of the conflict resulted in an unprecedented surplus in the balance of payments (BOP), while foreign exchange reserves improved from US\$ 1.1 billion in March 2009 to US\$ 5.1 billion by end 2009



## The Sri Lankan economy in 2009 *Contd.*

- Changes in government policy on interest rates and improved market liquidity caused interest rates across the term-structure, as well as other rates to shift downwards
- Lending rates of commercial banks declined at a slower pace
- Yield-rates declined on government securities – across all maturity periods, in response to government policy and an improved investment climate
- Yield-curve for government securities in the secondary market too, shifted downwards

### Sectoral Growth

#### Sectoral classification of GDP (%)

	2008	2009
Agriculture	7.5	3.2
Industry	5.9	4.2
Services	5.6	3.3

Source: Central Bank of Sri Lanka

- The Services sector contributed 55% to the overall economic growth in 2009
- The growth of 3.2% in the Agriculture sector was low compared to 7.5% recorded in the previous year
- The Industry sector too registered a slow growth

### Unemployment

	2008	2009
Demography		
Mid-year population ('000 persons)	20,217	20,450
Growth of population (per cent)	1	1.1
Labour force ('000 persons)	8,082	8,074
Unemployment rate (per cent of labour force)	5.4	5.8

Source: Central Bank of Sri Lanka

- The slowdown in domestic economic activity compared to 2008, resulted in a marginal increase in the unemployment rate (excluding the Northern Province), to 5.8 per cent, from 5.4 per cent in 2008

### Demand & Savings

#### Aggregate Demand And Savings (per cent of GDP)

	2008	2009
Consumption	86.1	82
Investment	27.6	24.5
Net exports of goods & services	-13.7	-6.5
National savings	17.8	23.9

Source: Central Bank of Sri Lanka

- Private investment declined significantly to 17.9% of GDP, while public investment increased marginally to 6.6%
- The overall decline in investments coupled with the significant increase in national savings narrowed the savings-investment gap to 0.7 per cent of GDP in 2009 from 9.8 per cent in 2008

**Stock Market**

	31st Dec 2008	31st Dec 2009	YoY Change
ASPI (1985 - 100)	1,503.02	3,385.55	1,882.53
MPI (1998 Dec – 1000)	1,631.34	3,849.38	2,218.04
Growth % in ASPI			125%
Growth % in MPI			136%

Source: Central Bank of Sri Lanka

- Recognized by Bloomberg as the second best performing stock market in the world, the CSE broke records in 2009, with the broad All Share Price Index gaining an all-time high of 125% and the more liquid Milanka Price Index following suit with a jump of 136%
- A surge in positive investor sentiment caused by the end of the prolonged war was the main stimulant
- Sectors which recorded significant year on year gains included Construction and Engineering (356%), Investment Trusts (323%), Oil Palms (254%), Trading(240%) and Diversified sectors(212%)
- The total market capitalization of the CSE surpassed the One Trillion Rupee mark in 2009

## Chairman's Statement



“

I'm proud of the manner in which we overcame the financial crisis. We withstood the litmus test and came out unscathed

”

On behalf of the Board of Directors, it is my pleasure to welcome you to the 37th Annual General Meeting of L B Finance PLC and present to you the Annual Report and audited Financial Statements of your Company for the year ended 31 March 2010.

### L B Finance in 2009/10

In order to relate to the Annual Report and Audited Accounts for the last financial year ended 31 March 2009, I place before you a snapshot of your Company's performance to capture the growth pattern of your Company.

For the F/Y	2005	2006	2007	2008	2009	2010
Profit After Tax Rs. Mn	48	77	179	206	360	500

### Introduction

As you will see from the Managing Director's Review, the year under review has been one of the most challenging for your Company. While the incredibly strong performance recorded by your Company in 2009/10, will be presented to you in our Managing Directors Review, I wish to place before you some of the most pertinent matters which you as a shareholder would need to be apprised.

As stated in the Managing Director's Review, having faced the storm we need to concern ourselves how the events which unfolded during the year under review impacted on the finance sector institutions.

It is commendable that we have overcome the financial crisis triggered by the global crisis which impacted on us during the mid quarter of 2009. Your Managing Director has in his Review dealt with this issue, in detail-how it impacted on the local financial sector and the manner in which your Company overcame the crisis, unscathed.

Around this time, domestic demand declined – as evidenced by the GDP growth of a mere 3.5% compared to 6% last year, as the world's economy contracted in the face of continued global financial turmoil. Foreign investors continued to move out of Government Securities, creating a liquidity crisis in local money markets, during mid 2009.

However the trend was reversed when the government contained the LTTE terrorist onslaught in the North & East in May 2009, which had plague the country for near 3 decades - a feat accomplished by the government, which many other regimes over years regarded as "mission impossible" and had been content to live with as a more or less *fait accompli* situation.

Due to this turn of events, and also the prudent measures taken by the Central Bank of Sri Lanka (CBSL) - the end of the year witnessed a more liquid money market and a healthier equity market. On the whole a stoic resilience was shown by the financial sector in the latter period of 2009/10.

Swift action taken by CBSL to counter the liquidity constraints faced by certain financial institutions restored investor confidence in the local finance and leasing sector.

Measures adopted by CBSL to stabilize the overall financial system are commendable, included among others, a special stimulus package to improve liquidity levels of distressed Registered Finance Companies (RFCs) and a Credit Guarantee Scheme for bank loans granted to RFCs and Specialized Leasing Companies (SLCs).

Initiatives to strengthen the regulatory and supervisory framework of the financial sector – such as monitoring compliance with the Finance Companies (Corporate Governance) Directions issued by the Monetary Board, were most welcome by Companies such as ours, as it improved the resilience of the financial system in general.

### Overview

On a reading of the Managing Director's Review the manner in which your Company withstood the pressure with the run on Fixed Deposits may be regarded as the litmus test and a strong reflection on the visionary leadership of our Managing Director, Mr. Sumith Adihetty and the resolve of our Management Team to challenge the norm.

Around this time, a decline in demand for credit was witnessed thus affecting the bottom line growth as well

## Chairman's Review *contd.*

as a drop in capital adequacy within the sector. Many RFCs scaled down their operations.

In contrast, your Company set up 6 new branches and 18 new pawning centres across the Island, while our bottom-line profits - after tax grew by a healthy 39.09%. Further, Tier I and Tier II Capital requirements were more than comfortably met.

A conservative approach to lending was adopted by most RFCs faced with rising non-performing loans, while your Company recorded a decline in its NPLs from 1.70% in 2008/09 to 1.05% during the year under review.

Total assets of RFCs grew by only 5% this year compared to 23% last year. In the light of this industry trend - the 22.67% growth in Total Assets recorded by your Company is immensely creditable.

Increased liquidity risks were also faced by RFCs that had invested significantly in real estate, due to their inability to dispose of the assets expeditiously, unlike L B Finance which had invested funds in liquid and stable investments.

However, the subsequent CBSL intervention and an economic revival of sorts towards the latter part of the year helped to improve the financial indicators.

### What the Future Holds

Peace and stability have brought with it - an improved macroeconomic environment, increased investor confidence both local and foreign investors, and a firm resolve among policy makers to expedite infrastructure development and reconstruction especially in the liberated areas.

The Sri Lankan economy is expected to grow faster than in 2009 at an estimated 7-8%. Global economic recovery will be an added impetus. The downward trend

in interest rates and a sense of optimism never before seen in the economy is spurring a growth momentum, especially in construction and tourism. We will gear ourselves to finance these sectors.

However, as we have done in the past, we will continue to assist the micro entrepreneur - those who build their livelihoods through three-wheelers, tractors etc., to become a vital cog in national development. We will continue to extend facilities to an array of industries, and spread our risks. Measures taken by us to contribute to the economy and help society are detailed in the CSR review, in this Report.

The public consensus is that the Government has to commit itself to the democratic processes and create an investor friendly environment to sustain the euphoria for local and foreign investment. The Government also has to safeguard the fundamental rights and liberties enshrined in our Constitution, set up structures as necessary, in a credible manner, so that it would be evident that the structures at grass root level are manned by personnel from a variety of relevant disciplines and sectors in an open and transparent manner. It is also the expectation that the Government will move towards a National Consensus to engage all sections of society including its adversaries in promoting the development process.

I need to focus on certain operational issues which concern the Industry.

Your Company will endeavor to create an Awareness Campaign to improve the culture among credit customers and borrowers to instill in them, how lending institutions can expand the capacities of credit customers and borrowers on their part, adhere to the obligations undertaken to discharge their indebtedness to the RFC's.

Your Company will also work with the industry to create a conscientious community and also influence the acceleration of judicial processes to enable lenders to obtain swift relief in courts of justice. In this direction your Company and the industry may have to engage in, and promote seminars to enlighten the public, as also the legal fraternity and our Judiciary, to accelerate the legal process - which would provide swift relief to lending organizations and in turn make the lending process contribute towards a stable economic environment.

As is the policy of your Company, we are always conscious of the confidence placed in us by our shareholders and in that light it is our endeavor to maximise our rewards to shareholders. We have declared and paid out an interim dividend of Rs.5.00 per share which represents 35% of earnings per share. We kindly invite our shareholder to confirm the interim as a final dividend for the financial year ended 31 March 2010.

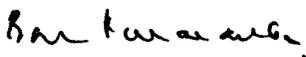
### Appreciation

We have grown in strength against all odds and we owe this to the unwavering loyalty of all our stakeholders. On behalf of the Board, I thank them all, as also our depositors and credit customers-who took time to understand the strength of our fundamentals and placed their trust in us and the policy makers and the CBSL for the decisive role played to bring stability to the finance sector.

Our employees, who believed that their Company could deliver appreciable results and worked tirelessly to beat the odds, the Management Team, whose energy and enthusiasm to innovate ensured that the Company bucked the industry trend and maintained its growth momentum, our external and professional advisors and consultants, our well wishers and all of you who have supported us and been a source of strength to the Company.

Mr. Sumith Adhihetty has inspired us to embark on a journey that would make L B Finance a benchmark institution in the financial services sector – in terms of better quality, wider distribution channels, unmatched customer service and volumes. The transition to a higher plateau has already begun by evolving a new image. The entire Board appreciates the incredibly dynamic role he has played in these efforts.

Finally I would like to express my appreciation to my colleagues on the Board including our Deputy Chairman Mr.Dammika Perera, for supporting and contributing to the visionary and timely strategies, which have positioned the Company to sustain its growth momentum.



**Bertram Manson Amarasekera**

*Chairman*

26th May 2010

## Managing Director's Review



“

Over 95% of our assets are interest earning - An intentional strategy, which cushioned us from the instability faced by many other RFCs. Now, we are excellently poised to deliver.

”

**“Dear Shareholders,**

**Let me briefly take you back to what I said would be the ‘future outlook’ in our Annual Report last year.**

**I reflected that we would increase shareholder wealth, more than ever before. That we would seek new products and expand our delivery channels – especially in the North and East. Invest in developing our human resources and technology. Micro finance was to be a key growth area and overall volume growth was expected.**

**In 2009/10, we achieved it all, and then delivered more than what was expected.”**

#### **The Crisis in the Industry**

The Crisis in the industry compelled us to think differently.

The lack of tools to measure the stability of an RFC resulted in an alarming drop in investor-confidence blanketing all institutions in the sector – irrespective of their individual stability. Panic-withdrawals marked the start of 2009 placing most institutions on a precarious liquidity position.

In the face of this crisis, your Company made a bold decision to go against the general thinking that prevailed among RFC s. We agreed to honour all obligations to all our depositors. Our depositors soon realized how incredibly healthy our cash flows were, and within days, L B Finance was viewed as one of the stable RFCs in Sri Lanka. We came through the crisis unscathed.

This bold decision was the key to our strong financial performance this year.

#### **Deposits Were the Mainstay of Our Funding Base**

Our strategies of the past enabled us to maintain over 95% of our assets as income generating, liquid investments such as leases, hire purchases and pawning advances. Buoyed by the stability of our cash flows and the bold decision taken during the critical period, investor confidence in our Company soared despite the liquidity crisis faced by the rest of the industry.

A healthy growth in deposits – especially during our customary ‘Avurudu Ganu Denu’ in April made up for the slow growth experienced during the first quarter of this financial year.

This growth in deposits, made up for the 30.28% drop in bank borrowings experienced by us, as Banks were somewhat hesitant to lend to the sector. Bank borrowings accounted for only 7% of total liabilities as at end 2009/10, compared to 12% the previous year.

**15.39%** ↑  
Revenue Growth

**39.09%** ↑  
Net Profit growth

**72.6%** ↑  
Growth in Micro  
Finance

**212**  
new recruits from  
the locality of our  
branches

**6 & 18**  
Branches Pawning Centres  
opened this year

Highest  
**EPS** ↑  
in the last 5 Years

new  
**Web  
Based**  
platform for  
Fixed Deposits

## Managing Director's Review *contd.*

Growth in our deposit base was also stimulated by the policy shift which influenced Banks to significantly reduce their rates for public deposits.

Thus, deposits became the mainstay of our funding base, with deposit liabilities accounting for 73% of total funding needs compared to 68% in the previous year.

With the significant increase in deposits mainly due to reassured investor-confidence, your Company maintained one of the healthiest cash flows of the sector.

### Post Conflict Optimism

Post-conflict optimism in the market subsequent to the decisive end to the war on 18th May 2009 caused a surge in accommodations granted. This momentum helped make up for the lackluster demand in the first quarter.

Our strategy was volume driven with a larger numbers of small leases. This helped us to spread our risks, expand our customer base and contribute to economic development across diverse industries;

QUARTER	Accommodation Granted Rs.000	Average Size of a contract Rs.000	No of Contracts
1st QTR	767,235	352.43	2177
2nd QTR	1,577,757	469.43	3361
3rd QTR	2,064,572	476.37	4334
4th QTR	2,262,585	451.34	5013

### Expansion

Expansion into the newly liberated areas in the North and East occurred within weeks after the end of the conflict. The Eastern province was covered by branches in Ampara, Trincomalee and Batticaloa while our Anuradhapura branch serviced the Vavuniya area in the North. Our presence will no doubt contribute to activating livelihood initiatives and bringing these war-torn regions into the development mainstream.

We also set up 3 new branches in the Western province – in Kiribathgoda, and Dehiwela and in the North Western Province in Chilaw. Our expanded delivery network helped us respond to the mammoth growth in our lending portfolio, as well as volume led growth in the micro financing segment of pawning.

Rs. Mn	TOTAL 2009/10	TOTAL 2008/09	GROWTH
HEAD OFFICE	1,855.04	1,489.38	24.55%
BRANCHES	4,291.15	3,145.83	36.41%
NEW BRANCHES	343.54	294.80	16.53%

### Interest Spread

Our Interest Spread improved due to the significant mismatch between the market rates for lending and deposits. Our lending was mainly long term – and already locked in at higher rates for longer periods, when deposit rates were influenced by the policy shift made by the Government during the year to reduce interest rates. Deposits were then made at low rates and were short term in nature due to the volatility of the industry. This mismatch worked to our advantage.

Market dynamics however, kicked in towards the end of the year with deposits too being placed for longer periods.

This year we witnessed;  
15.18% increase in interest income in 2009/10  
0.49% increase in interest expenses in 2009/10

### Stringent Credit Administration

Stringent credit administration strategies implemented since last year, further strengthened our recovery process. With streamlined systems and strategic plans driven by a highly trained dynamic young team who are skilled in identifying signs of potential and willful defaulters we succeeded in improving our own NPL ratio to 1.05% from 1.70% in 2008/09.

### Our Customer Centric Focus

Our customer centric focus makes L B Finance one of the most accessible and approachable institutions in the RFC sector. In addition to expanding our reach and constantly searching to innovate according to consumer demand, we take customer care a step further. This year, we assisted our customers who operate in industries affected by the economic downturn – especially in tea, tourism, agriculture and the industrial sectors; by providing greater flexibility in our financing facilities.

### Loyalty and Commitment

Loyalty and commitment are always rewarded at L B Finance. As an extremely target-driven entity, hierarchy plays no part in our pay-for-performance culture where each

employee, across the board, is rewarded for taking responsibility and proving their worth.

We have recruited 212 employees in this year alone and our staff strength now stands at 890. The value of training and development provided to our staff - especially in areas of risk management and control, reflect well in the strength of our financial performance this year. We also provide an environment for our employees to grow with the Company. All advertising strategies – including our logo have been devised internally by our staff, as we feel they are well placed to judge the requirements of our business.

Companywide initiatives to make our employees a part of our success are detailed in the CSR report towards the latter part of this year's Annual Report.

### **Cutting-Edge Technology**

Cutting-edge technology will be a key to the success of our expansion and growth plans, in the years ahead. We have invested to upgrade our entire web based platform for all business segments and as part of this process, we implemented the new fixed deposit module this year, while the balance will be implemented by the first quarter of 2010/11

### **Growth Strategies**

The Sri Lankan economy is indicating signs of sustaining a growth momentum. The 3.5% growth in 2009 is expected to reach at least 7% - 8% in the medium term, with investments of around 30% of GDP expected from both domestic savings and significant Foreign Direct Investments. Market liquidity is expected to be healthy and inflation maintained within single digits, at least in the medium term.

Your Company will continue to focus on the strategies which have served us well in the past. Sales growth, maintaining asset quality, expansion, control and an eye on emerging opportunities will underpin our decisions for 2010/11 and in the years to come. Each strategy will be constantly reviewed to ensure that our plans comply with regulations stipulated for RFCs and a prudent risk management framework – as detailed in the Corporate Governance and Risk Management sections set out in this Annual Report

Entry into new products and markets are on the cards. Islamic Finance – which is underserved by the financial services sector at only 20%, will be launched. We will also move into flexible rental products and equipment finance for the agriculture sector which have already been test-marketed in Ampara, Anuradhapura and Polonnaruwa.

Plans are underway to expand our reach to customers from the entire Northern Province within the first two quarters. As in the past, management of human resources will always stay at the core of growth plans.

Sustainability initiatives will continue to be an area of focus in the years ahead. While a more detailed discussion is available in the CSR segment of this Annual Report, I would

like to share with you some of the highlights which we are proud of.

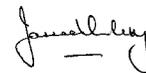
Our significant investments to empower our staff, and a firm resolve to recruit from the locality of our branches are just a few initiatives that we made this year and will continue to employ in the years ahead, to sustain national development. We will stay focused on improving our customer care – especially in lending to those who cannot provide sufficient collateral. This will spur the growth of micro enterprises and provide a source of livelihood to low-income families. More social causes will be espoused to reach out to those in need through our community involvement initiatives.

Our vision to mould L B Finance into a fully integrated finance Company, with our entire network of delivery channels on a single web-based technology platform will allow us greater speed, accuracy, and security in meeting our customer needs. Our IT systems will be a conduit to take the Company to another dimension.

### **Acknowledgements**

The encouragement given by our Chairman and my colleagues on the Board has been invaluable, in what has been a year of tremendous achievement against odds and I am grateful for their support. Every Company needs a team to carry out its strategies. I would like to commend our Management and staff, who have shown immense resolve and unbounded energy, to forge ahead with our plans, despite adversities.

I am deeply grateful to all the shareholders, depositors and investors who placed their faith in us. I assure you that we will work in the year ahead, towards a performance that yet again, would be above industry norms.



**Sumith Adihetty**  
Managing Director

26th May 2010



480% ↑



## “ Leasing

Leasing without traditional collateral? At L B Finance, its possible. Leasing for the year increased significantly by 48% to Rs. 3.298 Bn

”



160% ↑



## “ Hire Purchase

Taking customer care to a new dimension, we now offer you the convenience of our products right at your door step. Hire Purchasing at L B Finance has grown at healthy 16% this year.

”



72.6%



## “ Micro-finance

Micro Financing at L B Finance is about creating livelihoods, one family at a time. With an average annual growth rate of 72.60%, we are proud of our efforts to help thousands of families break through the poverty line.

”



310%



## “ Deposits

At a time when investor-confidence was at its lowest ebb, our depositors placed their trust in us. We rewarded them with some of the best rates in the industry and an unparalleled service. Our deposit base grew by a significant 31% this year.

”





## “ Pawning

Pawning, is an easy access to credit to many Sri Lankans - especially in formerly war torn areas as well as across the island. We opened 18 new pawning centers, this year alone and our pawning advances grew up by 71%. L B Finance is now more accessible than ever.

”

## Operational Review

### Our Business Model



Our business model hinges on a four -pronged approach to devising our strategies and monitoring our performance.

Business Consolidation is about creating a solid foundation for our operations by consolidating our asset position, geographical location and brand loyalty.

Value Creation spurs our efforts to create greater value to each of our customers by constantly improving the products, service delivery and distribution.

Strategic Direction guides our focus on achieving medium and long term growth through increasing volumes, expanding the branch network, investing in human resources and information technology.

Risk Management & Control provides a framework for adopting strict policies to manage risks & minimize adverse effects that may impede our business survival.

### Setting the Context for the Operational Review of 2009/10

- The economy was stretched since the beginning of the previous year due to the escalated conflict.
- Economic activities contracted during the 1st quarter and the country's financial system was unhealthy moving into 2009/10.
- Public investment in RFCs was at an all-time low due to the collapse of a few financial institutions in 2008.
- Moving into the 2nd quarter of the year, peace after 3 decades, injected fresh life into the economy.
- Development initiatives gained ground towards the end of the year.

The solid performance of our Company in 2009/10 is a reflection of the relevance and effectiveness of our business model – especially in times of economic volatility such as these, which compelled us to go back to the drawing boards in our approach to spur business interest.

### Our Approach to Business in 2009/10

#### **Our Focus Was on Volume - More Contracts at Smaller Values and Shorter Maturities.**

This helped us attract more customers and contribute to economic activities across a wider range of economic sectors. By spreading our risks we also cushioned the impact of low economic activity in sectors more sensitive to the domestic and global climate.

#### **Opportunities in the North and the East Were Exploited**

Our quick reaction-time to position the name of L B Finance in the minds of new customers in these two provinces helped us exploit these hitherto untouched lending markets. We opened 3 new branches and 4 Pawning Centers in the Eastern Province and expanded the outreach of our Anuradhpura Branch to cater to the lending needs of customers in the North Central & Northern provinces.

#### **Internal Efficiencies Improved the Effectiveness of the Credit Process**

Our efforts at streamlining credit processing increased the efficiency of our customer service and improved productivity. Regular discussions with the credit staff helped monitor targets and clear bottlenecks, while better utilization of human resources improved efficiencies across the organization.

### We Expanded Our Reach

A key strategy to increase business volumes was the expansion of our branch network. With 6 Branches and 18 Pawning centers opened in 2009/10, we attempted to penetrate all geographical areas considered vital to our growth.

### We Maximized Benefits Gained Through the Policy Shift to Reduce Interest Rates

With our lending already locked in at longer maturities at rates higher than the market rates for deposits, we increased our interest margins.

### We Improved the Efficiency of the Recovery Process

Collection targets in the 1st quarter did not meet expectations especially due to the downturn in economic activities. However, with the subsequent economic resurgence and strict recovery strategies implemented to safeguard and guarantee the targeted cash inflows, we improved our collection ratio for the year.

### How We Performed in 2009/10

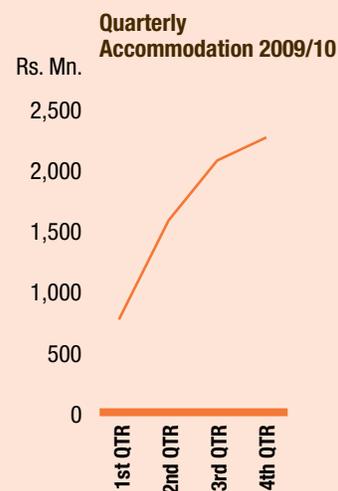
#### Q1

- Both lending and deposits were low.
- The general public was reluctant to invest money in all RFCs due to the scandals that destabilized a few financial institutions.
- As detailed in our Chairman's Review, measures taken by us succeeded in restoring investor confidence, within days.

#### Q2 to Q4

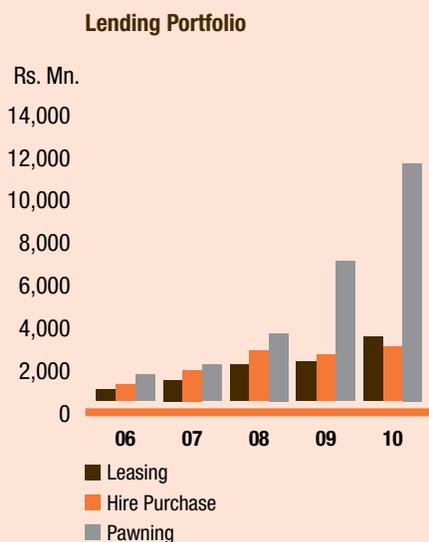
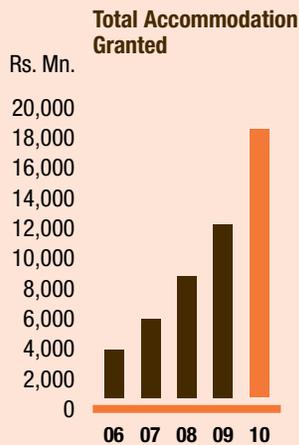
- We adapted ourselves to the economic revival brought on by peace after May 2009, through aggressive strategies that helped us wipe-out deficits of the first quarter as well as achieve our annual targets, within a space of 9 months.
- Lending picked up after Q1 and increased gradually during the rest of the 9 months.
- Our traditional campaign during the 'Avurudu' season in April 2009, spurred an even greater growth momentum in deposits, which continued throughout the year.
- Total value of lending for 2009/10 was a record 5-year high.

Month	Monthly Accommodation Rs.000	No of Contracts	Average Size of a contract Rs.000
Apr-09	255,020	778	327.79
May-09	192,811	596	323.51
Jun-09	319,404	803	397.76
Jul-09	482,383	1055	457.24
Aug-09	519,070	1058	490.61
Sep-09	576,304	1248	461.78
Oct-09	702,757	1458	482.00
Nov-09	671,926	1439	466.94
Dec-09	689,889	1437	480.09
Jan-10	553,951	1225	452.20
Feb-10	781,073	1726	452.53
Mar-10	927,561	2062	449.84



## Operational Review *Contd.*

For F/Y	2006	2007	2008	2009	2010
Total Accommodation Granted (Rs.Mn)	3,344	5,553	8,411	11,947	18,490
Growth		94%	95%	76%	73%



### Operational Review of Business Segments

#### Accommodation Granted to the Key Lending-Segments

Leasing, Hire Purchase and Pawning continued to be the key lending-segments across the industry and for our Company.

Our accommodation to the Leasing sector increased significantly by 48% to Rs. 3,298 Bn and advances given as Hire Purchase increased by 16% to Rs. 2,800 Bn.

However, the most significant contribution to total accommodation during the year was from pawning which recorded a growth of 71% to Rs.11,817 Bn.

#### Five Year Comparison of Total Accommodation to Key Lending Segments

For the F/Y	2006	2007	2008	2009	2010
Lease (Rs.Mn)	899	1,702	2,062	2,231	3,298
Growth		89%	21%	8%	48%
Hire Purchase (Rs.Mn)	1,146	1,654	2,647	2,404	2,800
Growth		44%	60%	-9%	16%
Pawning (Rs.Mn)	1,194	1,945	3,376	6,908	11,817
Growth		63%	74%	105%	71%

Each of our key lending-segments recorded a healthy growth during the year.

#### Accommodation Granted to All Lending-Segments

In addition to the key lending-segments of Leasing, Hire Purchase and Pawning, we also provide Mortgage Loans, Term Loans and Trade Finance; which together accounted for only 3% of our total accommodation granted both this year and the last.

#### Pawning

With 75 Pawning Centers set up across the island, Pawning has become our main lending component.

What commenced as our first Micro Finance product has, over the years, expanded to become a key product, accounting for an annual lending value of Rs.11,817 Bn. in 2009/10.

With opportunities emerging to capture an even larger market share in the future, we opened 18 new centers in 2009/10 in all parts of the country including the Northern & Eastern provinces, where Pawning has become a primary financial instrument to spur economic activities with the end of the conflict.

Credit risks associated with pawning advances are managed judiciously through tight monitoring policies and risk management activities. With shorter maturity periods and backed by extremely liquid collateral - pawning advances have become a safe and attractive lending instrument in our product portfolio.

For the F/Y	2006	2007	2008	2009	2010
Lending-Pawning Advances (Rs.Mn)	1,194	1,945	3,376	6,908	11,817
Growth		63%	74%	105%	71%

### Our Strengths in the Pawning Segment

Excellence in our service is matched with extremely competitive interest rates on pawning advances, which is low compared to the average that prevails in the industry.

While paying the highest advance in the industry for 24 carat sovereigns, we also offer the facility to redeem pawned items within one day and grant an extra 60 day grace period to redeem pawned articles after the maturity of a contract.

### Micro Financing

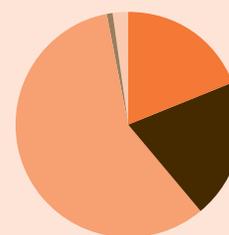
Micro Financing – a sub segment of Leasing; provides leasing facilities to small scale borrowers. During the year, greater attention was paid to attract new customers in this segment who borrow mainly to finance the purchase of three-wheelers, agro vehicles and equipment.

Recording a year on year growth of 73%, the Micro Finance segment is making an impact on the total lending portfolio. Over the last five years, Micro Finance lending increased from Rs. 225 Mn to Rs. 2.593 Bn - an average annual growth rate of 79%.

For the F/Y	2006	2007	2008	2009	2010
Lending-Micro Finance (Rs.Mn)	225	437	854	1,503	2,594
Growth		94%	95%	76%	73%

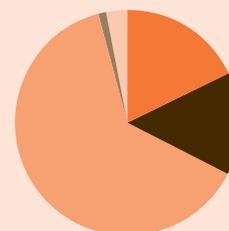
### Composition of Executions in 2008/09

Leases	19%
Hire Purchase	20%
Pawning	58%
Mortgage Loans	1%
Term Loans & trade Finance	2%

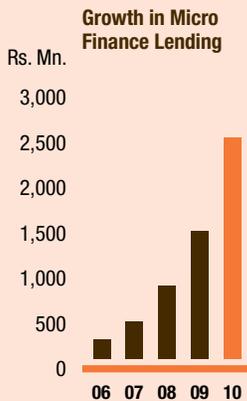


### Composition of Executions in 2009/10

Leases	18%
Hire Purchase	15%
Pawning	64%
Mortgage Loans	1%
Term Loans & trade Finance	2%



## Operational Review *Contd.*



### Lending Mix 2008/09



### Lending Mix 2009/10



### Lending Mix

The mix of sectors which the Company has granted accommodation to, has slightly changed since last year.

We have moved to capture more of the Services sector by increasing the proportionate lending to 44% from 38% in 2008/09. Advances given to Trading has reduced to 41% (compared to 48% last year), and Manufacturing & Distribution has declined to 2% (compared to 3% last year).

### Increasing our Delivery Channels

#### Branch Expansion

To sustain our competitive edge by expanding our customer base, we have initiated a branch expansion plan. This year, we set up 6 new branches in Dehiwala, Trincomalee, Bataloa, Chilaw, Kiribathgoda and Ampara and our total branch network now stands at 27. Each branch has its own pawning centre as well.

The performance of the branches are closely monitored through regular meetings, appraisals and internal control measures to achieve a balanced growth and ensure targeted performance indicators are met.

### Performance of our Branches

The largest percentage of business is sourced through our wide network of branches across the island.

Out of total accommodation granted during 2009/10, the head office has contributed 29% to the Lease and Hire Purchase portfolio while branches were responsible for 66% of the business. The balance 5% represents the lending provided by new branches established during the year.

	Total 2008/09 (Rs. Bn.)	Total 2009/10 (Rs. Bn.)	Growth
HEAD OFFICE	1.489	1.855	24.6%
BRANCHES	3.146	4.291	36.4%
NEW BRANCHES	0.295	0.344	16.5%

### Contribution Made by Branches to the Micro Finance Segment

Out of the total Micro Finance accommodation granted in 2009/10, over half (59%) of the business was generated by the Head Office in Colombo, while Ratnapura (8%), Badulla (7%) and Kandy (7%) too performed well.

### Deposits

The main source of financing for the Company, Deposits grew rapidly during 2009/10 despite the declining trend in interest rates due to a policy shift made by the Government. The deposit base witnessed a growth by a significant 31% year on year, to record Rs.12.490 Bn this year.

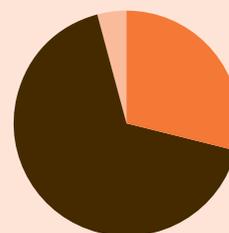
The decision taken to demonstrate our financial stability to the public in the wake of the crisis that affected all RFCs during the early part of the year, contributed largely to this growth. Investor confidence was reflected by the number of depositors who continued to place their faith in our Company. Special measures taken by the Company to retain our depositors are set out in our CSR segment in this Annual Report.

Strategies adopted by the Company to attract new customers, such as offering higher rates than the industry average - especially for senior citizens, also paid rich dividends in terms of increasing our deposit base, while the annual Avurudhu campaign during the festive period in April, was an outstanding success, and helped us surpass our targets.

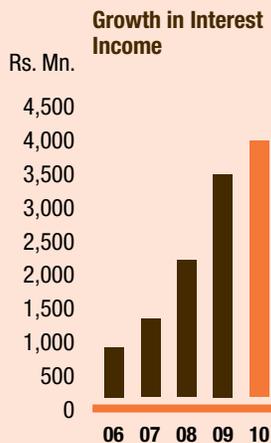
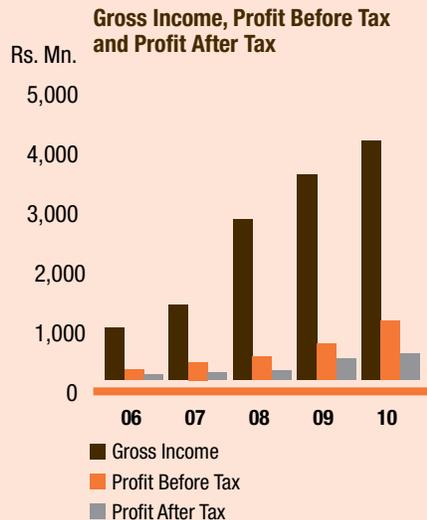
For the F/Y	2006	2007	2008	2009	2010
DEPOSITS (Rs.Mn)	3,345	4,561	7,309	9,558	12,490
Growth		36%	60%	31%	31%

### Distribution Accommodation Given by Head Office & Branches

Head Office	29%
Branches	67%
New Branches	4%

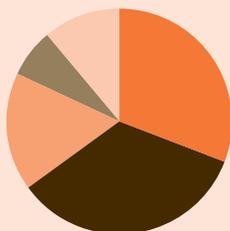


## Financial Performance Review



**Analysis of Interest Income 2009/10**

Leases	31%
Hire Purchase	34%
Pawn Broking	17%
Treasury Bills & Bank Deposits	7%
Others	11%



### Profitability

#### Year of Record High Performance

The Company's profitability indicators witnessed a record high performance during the year under review. The growth in profit before tax amounted to a massive 55% to register a value of Rs.1.038 Bn while the profit after a significant proportion of taxes to the Government, of Rs. 538 Mn, equaled to Rs.500 Mn - a considerable growth of 39%.

The earnings per share (EPS) available to shareholders too surged to Rs.14.44, from Rs.10.96 in the previous year.

Broadening the Company's revenue base played a major role in boosting profitability. For the year under review, the Company's total revenue moved up to Rs.4.131 Bn, an increase of 15% over the previous year's Rs.3.580 Bn. The timely strategies adopted and commitment put forward by the staff helped the Company to record these figures.

#### Interest Income

Our core income stream, contributed a substantial 96% to the total income, while non interest income added only 4%.

Interest income surpassed Rs.3.953 Bn - a 15% increase against the previous year's Rs. 3.432 Bn. In analyzing the components, Hire Purchase has chipped in the bulk of interest income with a proportion of 34% while leases accounted for 31%. During the year, the Hire purchase segment earned Rs. 1.338 Bn as interest income against last year's Rs. 1.342 Bn, while the Leasing segment experienced a lucrative growth of 20% to arrive at Rs. 1.239 Bn. However, the Pawning segment, which represents 17% of the interest income was most impressive in 2009/10 with a growth of 38% year on year basis to Rs. 671 Mn.

#### Interest Expenses

The decline in the market interest rates during 2009/10 helped the Company to restrict the interest cost burden. The interest expense for the year reached Rs.2.249 Bn with a marginal increase of 0.49%. The reduction of interest expenses on loans and bank overdrafts of 48% and 86% respectively, contributed significantly to curtail the growth in interest expenses.

Public deposits represented 89% of interest expenses while loans and overdrafts made up 6% of interest expenses. Interest on public deposits during the year under review amounted to Rs.2.013 Bn compared to previous year's total of Rs.1.874 Bn. During the average cost of deposits declined to 18.26% from 22.22% last year due to a large

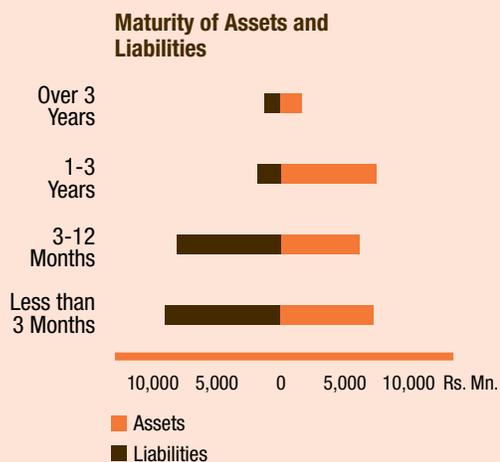
increase in the average deposit base against the slight growth in interest expense on fixed deposits. As at the year-end, the Company's average deposit base stood at Rs.11.024 Bn compared to Rs.8.434 Bn in 2009. Net Interest Income for the year equaled to Rs.1.703 Bn - a 43% growth compared to last year's Rs.1.193 Bn.

### Analysis of the Interest Margin and Interest Spread

Net Interest Margin and Interest Spread for 2009/10 calculated to 11.81% and 9.79% where as in 2008/09 the corresponding figures stood at 10.55% and 8.60% respectively. The increase in the interest income stimulated improvements in both ratios. A decline in the market interest rates benefited L B Finance due to the maturity gap between interest earning assets and interest bearing liabilities.

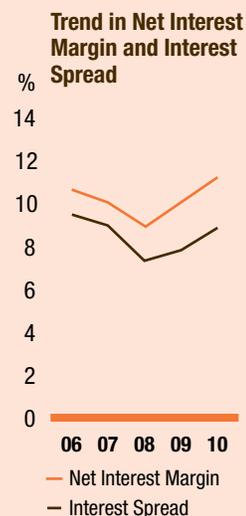
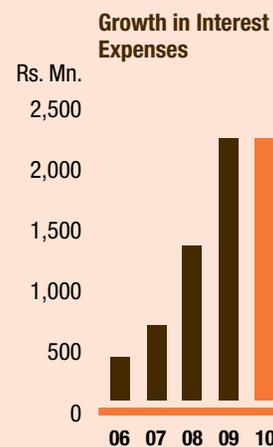
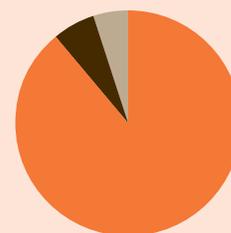
Our assets which mainly consist of credit facilities given under Leasing and Hire Purchase were on longer maturities compared to the liabilities mainly represented by public deposits which had shorter maturities. Thus with the decline in interest rates our assets continued to earn income at higher rates while we utilized funds from new deposits at lower interest rates. Further, the interest cost to income ratio for 2009/10 too came down considerably to 56.65% from 65.24% in 2008/09.

For the F/Y	2008	2009	2010
Interest Cost/ Income Ratio	63.29%	65.24%	56.65%
Net Interest Margin	9.12%	10.55%	11.81%
Interest Spread	7.42%	8.60%	9.79%

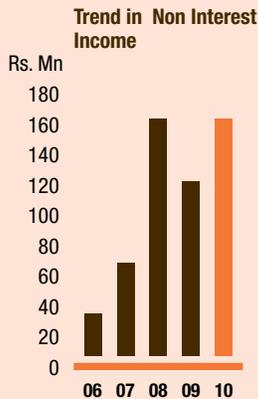


### Analysis of Interest Expenses 2009/10

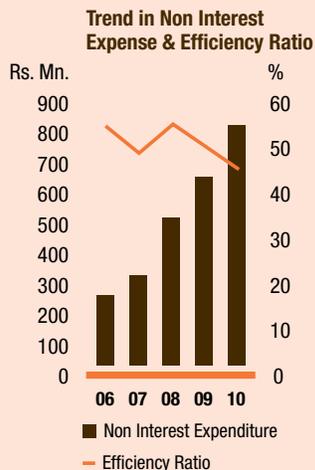
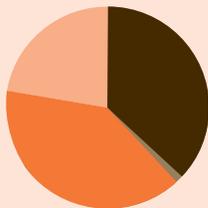
Public Deposits	89%
Loans and Over Drafts	6%
Debentures	5%



## Financial Performance Review *contd.*



**Composition of Non Interest Expense**



### Analysis of Non-Interest Income

The non interest income improved 42% to Rs.174 Mn in 2009/10 compared to Rs.122 Mn in 2008/09. Except for the growth in Fee based income of 116%, all other elements in non interest income witnessed declines in 2009/10. In analyzing the composition of non interest income, Fee based income represented 92% with a value of Rs.160 Mn, while all other income streams contributed only Rs.14 Mn accounting for only 8% of total non interest income.

### Analysis of Non-Interest Expenses

The total non interest expenses for the year amounted to Rs. 839 Mn, a 30% increase over the Non Interest expenses during the previous year. The general & administrative expenses and staff cost have been the two key components of our overhead costs accounting for 39% and 37% respectively. During the year under review, the general and administrative expenses grew by 10% to Rs.331 Mn, mainly due to the Company's expansion in operations during 2009/10. The staff costs too increased by 15% to Rs.308 Mn due to new recruitments and improvements to employment benefits. The efficiency ratio, which calculates the ratio of overheads to total income stood at 45% during the year against 49% in the previous year.

### Taxation and Net Profit

In the year under review, the Company's total taxation equaled to Rs.538 Mn compared to Rs. 308 Mn in the previous year. Total taxation includes VAT on financial services and provision for income taxation which amounted to Rs.159 Mn and Rs.378 Mn respectively, compared to corresponding figures of Rs.113 Mn and Rs.196 Mn in the previous year.

### Profitability Ratios

The Return on Asset ratio which measures the Company's profitability against the asset base stood at 3.21% in 2009/10 against 2.91% last year. Profitability per rupee of shareholders equity too experienced a growth at 32.20% compared to 30.93% the previous year. The improvement in profitability ratios was mainly attributable to the significant increase in profits compared to the slower growth in assets and equity values in the balance sheet.

For the F/Y	2008	2009	2010
Return on Assets	2.32%	2.91%	3.21%
Return on Equity	26.35%	30.93%	32.20%

## Dividends

The Company proposed Rs.173 Mn as Dividends to the shareholders in 2009/10 against Rs.104 Mn in 2008/09. This was an increase of 66% on a year on year basis. Dividend per share for the year under review stood at Rs.5 compared to Rs.3 last year. Further, the Company had paid out 35% of earnings as dividends in 2009/10 against 27% in 2008/09.

## Total Assets

When analyzing the total asset position in the balance sheet, it is evident that the Company is in a strong position witnessing a growth of 23% to Rs. 17.185 Bn when compared to Rs.14.009 Bn recorded in 2008/09 – which was mainly due to the improvement in business volumes during the year. Importantly, interest earning assets surged to Rs.16.396 Bn at a growth rate of 32%.

## Lending Assets

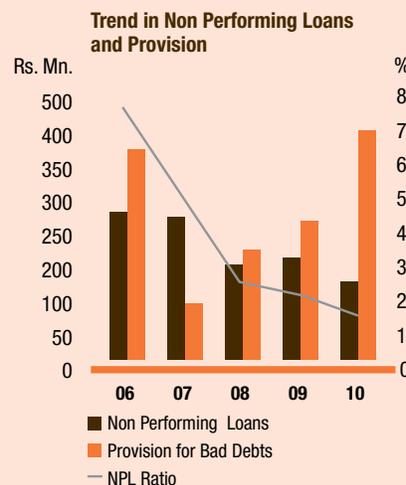
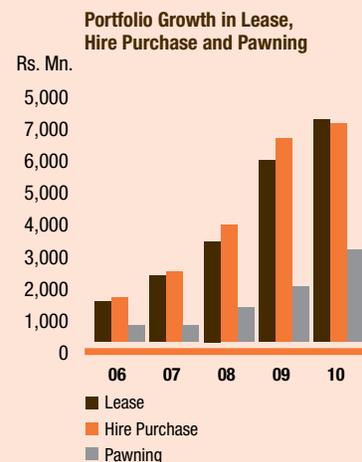
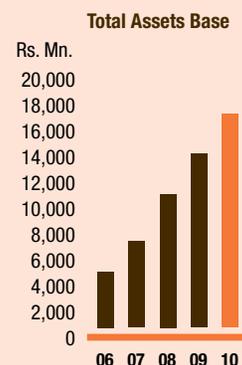
During the year the Company's lending portfolio soared by 24% to Rs.14.634 Bn, compared to Rs.11.841 Bn in 2008/09. At the year end, gross investments in leasing assets equaled to Rs. 7.383 Bn compared to Rs.6.052 Bn in the previous year while Rs.7.277 Bn was assigned as Gross Hire Purchase assets against Rs.6.766 Bn in 2008/09. However, the growth in the pawning assets was most impressive, recording a growth rate of 66% year on year. Pawning assets balance increased to Rs.3.138 Bn against Rs.1.886 Bn in the previous year.

## Asset Quality and Provision for Loan Losses

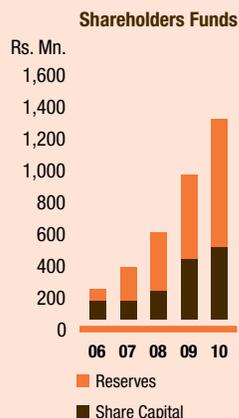
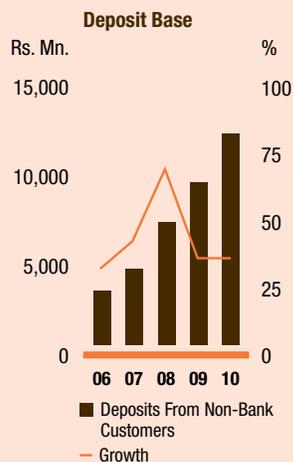
According to the Company's strategy of maintaining a high quality portfolio, we managed to reduce the non performing loan ratio (net) to 1.05% from 1.70% last year. As at 31 March 2010 the non performing advances (net) equaled to Rs.154 Mn from a hefty Rs.202 Mn at 31 March 2009.

This was a clear sign of a coherent recovery policy paying off. However the buffer against bad debts, the provision for bad debts lifted to Rs.444 Mn from Rs.270 Mn due to the increase in the size of portfolio.

For the F/Y	2008	2009	2010
Lending Portfolio (Rs. Mn)	9,062	11,841	14,634
Non-Performing Advances (net) (Rs. Mn)	187	202	154
NPL Ratio	2.06%	1.70%	1.05%
Provision for Bad Debts (Rs. Mn)	215	270	444



## Financial Performance Review *contd.*



### Total Liabilities

At the end of 2009/10, the Company's total liabilities amounted to Rs.15.429 Bn, up 22% over Rs.12.659 Bn in 2008/09. Deposits from non bank customers has been the major component of liabilities accounting for 81%, compared to 76% last year. Borrowings and other liabilities represented 7% and 12% compared to 12% each in previous year.

### Deposit Base

L B's Deposit base comprises Fixed Deposits and Certificate of Deposits (CDs), which totaled to Rs.12.490 Bn in 2009/10 up 31% over Rs.9.558 Bn in 2008/09. Out of the total deposit base, Fixed deposits accounted for 98% while CDs contributed a modest 2%. On general terms, the attractiveness of deposits in RFCs decreased during the year amidst lost investor-confidence due to the collapse of a few finance institutions towards the end of 2008. Further the decline of deposit interest rates too contributed to the adverse situation in 2009/10. However, we managed to thrive smoothly in the challenging business environment to broaden the deposit base during the year on the back of high public confidence largely due to our history of stability and immediate measures taken to reassure investors.

### Fixed Deposits

At the end of 2009/10, the Company's fixed deposit value consisted of Rs.12.255 Bn, a 31% increase over the Rs.9.352 Bn recorded in the previous year. When analyzing the maturities of the fixed deposit base, it is observed that 98% contained shorter maturities of less than one year and 1% each in maturities between one and three years and over three years.

### Certificate of Deposits (CDs)

The value of CDs as at the end of 31 March 2010 amounted to Rs.235 Mn, a 9% increase over Rs.206 Mn recorded in 31 March 2009. However during the recent past, the growth in deposits in CD's has been on a downward slope due to unfriendly regulations and restrictions enforced on CDs.

### Shareholders Funds

Shareholders funds equaled to Rs.1.756 Bn this year, a 30 % growth over the Rs.1.350 Bn recorded in 2008/09. With stated capital remaining at last year's level of Rs. 492 Mn, the increase in reserves from Rs.858 Mn to Rs.1.264 Bn has been the main reason for the surge in the shareholder funds. In analyzing the composition of reserves, it is observed that the annual net profit represented the bulk of reserves with a value of Rs.500 Mn in the year under review. However, it should be noted that the Company has distributed Rs.104 Mn as dividends which is deducted in arriving at the reserve balance in 2009/10.

### Liquidity Position

During the year L B's liquidity assets position improved to Rs.1.807 Bn, 15% over the value recorded the previous year of Rs.1.568 Bn. The value of Trading securities constituted a main part of liquid assets accounting for 64% while balances with other banks, cash and amounts due from banks represented 20% and 16%. The Company's Liquid assets to total assets ratio stood at 10.52% while liquid assets to deposits calculated at 14.47% as at 31 March 2010.

### Capital Adequacy

In terms of capital adequacy, the Company's Core Capital ratio & Total Risk Weighted Capital ratio stood over the Central Banks benchmark ratios of 5% and 10% respectively. In the year under review the Company's Core Capital ratio calculated to 14.39% (compared to 12.95% last year) & Total Risk Weighted Capital ratio amounted to 17.34% (against 17.26% last year).

Analysis of Liquid Assets



## Board of Directors

### Mr. B. M. Amarasekera

#### *Chairman*

Attorney-at-Law by profession and counts over 50 years in the practice of Law. Joined the law firm of Julius & Creasy in 1952 and retired as Precedent Partner of the firm in 1999. As a Member of the Bar Council, served as Chairman of the Law and Finance Committee and several other Committees of the Council. Also served on the Council of the University of Sri Jayawardenapura and as a Member of the Council on several Selection Boards and functioned as Chairman of the Disciplinary Committee of the University. Mr. Amarasekera serves on many Boards of public listed and unlisted companies and several private companies.

### Mr. K. D. D. Perera

#### *Deputy Chairman*

Mr. Perera is a well-known prominent entrepreneur and investor whose business interests include Hydropower Generation, Manufacturing, Hospitality, Entertainment, Banking and Finance.

He serves as the Chairman of The Fortress Resorts PLC, Vallibel Power Erathna PLC, Vallibel Finance Ltd, Vallibel Holdings (Pvt) Ltd and holds directorships in his other private sector companies. He is the Deputy Chairman of Royal Ceramics Lanka PLC, & Amaya Leisure PLC. Director Sampath Bank PLC, Hayleys PLC, Haycarb PLC, Hayleys-MGT Knitting Mills PLC and Hotel Reefcomber PLC. He is also a member of the board of directors of Strategic Enterprise Management Agency (SEMA)

### Mr. Sumith Adhiketty

#### *Managing Director*

A veteran Marketer who started his career as a trainee at KPMG Ford Rhodes Thornton & Company and later joined Mercantile Investments Limited, where he served for a period of 26 years. He was formerly the Deputy Managing Director of Mercantile Investments Limited and served as a Director of Nuwara Eliya Hotels Limited, Grand Hotel (Pvt) Limited, Royal Palm Beach



Hotels Limited, Tangerine Beach Hotels Limited, Nilaveli Beach Hotels Limited, Mercantile Fortunes (Pvt) Limited, Tangerine Tours Limited and Security Ceylon (Pvt) Limited. He also serves Director of Pan Asia Banking Corporation Limited since 15th June 2005.

### Mr. Nimal Perera

#### *Director*

Mr. Perera who joined the Board of L B Finance PLC on 2nd September 2003, is a member of the Sri Lanka Institute of Marketing and counts over 28 years of experience in fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. He serves as a Director in several public quoted companies. He is the Managing Director of Royal Ceramics Lanka PLC and Fortress Resorts PLC, Deputy Chairman of Pan Asian Banking Corporation PLC, Group Finance Director of Amaya Leisure PLC, Director Finance of Hotel Reefcomber PLC, Director - Asian Alliance Insurance PLC, Sathosa Motors PLC, Vallibel Power Erathna PLC and Vallibel Finance Ltd.

**Mr. A. M. Weerasinghe***Director*

A Gem Merchant by profession and he 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.

**K. D. A. Perera***Director*

Mr. Anuradha Perera is a Director of Vallibel Holdings (Pvt) Ltd, Vallibel Lanka (Pvt) Ltd and also of several other Vallibel Companies.

**Mr. Niroshan Udage***Executive Director*

Mr. Udage holds a Bachelor's Degree in Science from the University of Colombo. He possesses 20 years experience in the field of leasing and finance, including 10 years at Lanka Orix Leasing Co. PLC and 3 years at Mercantile Investments Limited prior to joining L B Finance PLC in 2004. Mr. Udage was appointed as a Director of L B Finance PLC on 1st January 2007.

**Mr. B. D. St. A. Perera***Executive Director*

Mr. Perera holds a BSc. (Business Administration) Special Degree from the University of Sri Jayewardenapura and is an Associate Member of the Chartered Institute of Management Accountants. Mr. Perera who was appointed a Director of L B Finance PLC on 1st January 2007, holds 13 years experience in the leasing industry that includes positions at Commercial Leasing Co. Limited, LankaOrix Leasing Co. PLC and a Merchant Bank in Bangladesh.



## Board of Directors *contd.*

### **Mr. M. D. S. Goonatilleke**

#### *Director*

Mr. Goonatilleke joined the Board of L B Finance PLC on 19th February 2008. He is a Finance professional with over 25 years of post qualification experience and has held senior managerial positions in Financial Management, Credit Management, Treasury, Export & Import Trade, General Management & Operations in leading private sector organizations in Sri Lanka.

He is a Group Director of Douglas & Sons Ltd., Group of Companies. In addition, he serves as a Director, Pan Asia Banking Corporation PLC, Vallibel Finance Ltd., Royal Ceramic Lanka PLC and Amaya Leisure PLC.

Mr. Goonatilleke possesses a Post Graduate Diploma in Business Administration, PIM, University of Sri Jayawardenapura and an Associate Member of Institute of Chartered Management Accountants (UK) and a passed finalist of Institute of the Chartered Accountants, Sri Lanka.

### **Mrs. Kimarli Fernando**

#### *Director*

Mrs. Kimarli Fernando who holds an LL B (Hons) from the London School of Economics and Political Science, London, U.K. (1986) is a Barrister-at-Law, Lincoln's Inn, U.K. (1987) and an Attorney-at-Law, Sri Lanka (1988).

She joined the Board of L B Finance PLC on 26th August 2008. She has more than 20 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" the definitive reference book for students and practitioners of Company Law in Sri Lanka, published in 1992 and was responsible for the publication of the Handbook, "Barrier Free Access" for Standard Chartered Bank, a guide for business to comply with the law and spirit of inclusion of those with disabilities in the workplace.



### **Mr. L. N. de S. Wijeyeratne**

#### *Director*

Mr. Lalit N de Silva Wijeyeratne who was appointed to the Board of L B Finance PLC on 1st November 2008 is a fellow of Institute of the Chartered Accountants in Sri Lanka and counts over 35 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.

## Senior Management



Mr. Ravi Yatawara  
*General Manager*

Mrs. Shyamalie Weerasooriya  
*Chief Financial Officer*

Mr. Amal Silva  
*Senior Manager - Recoveries*

Mrs. Sandhya Silva Hasthimuni  
*General Manager - Administration*

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

Mrs. Harshani Maapatuna  
*Senior Manager - Legal*

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

Mr. Roshan Jayewardena  
*Senior Manager - Marketing*

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

Mr. Marlon Perera  
*Assistant General Manager - Deposits*

Mrs. Nirosha Amanulla  
*Senior Manager - Kandy Branch*

## 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.

Over the years, your Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all dealings and to make the best efforts to meet performance targets and profits.

We have continuously refined our structure and systems and processes are being put in place to ensure governance on the lines defined by the following regulators and regulations, as well as industry best practices, aware at all times that we are accountable to our stakeholders and to the general public.

- Finance Companies Act No. 78 of 1988 and directions, rules, determinations, notices and guidelines issued there under.
- Companies Act No. 7 of 2007
- Inland Revenue Act No 10 of 2006
- Finance Companies (Corporate Governance) Direction, No. 03 of 2008, issued by the Monetary Board
- Prevention of Money Laundering Act No. 5 of 2006
- Financial Transactions Reporting Act No. 6 of 2006
- All subsequent amendments to the above acts
- Listing Rules of the Colombo Stock Exchange
- Other rules of compliance issued by the CBSL
- ICASL requirements

This statement describes the application of the Corporate Governance practiced 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;

- Setting strategic objectives of the Company and monitoring progress
- Defining the values of the Company
- Making an accurate assessment of the Company's position in terms of bottom line growth, liquidity position and capital expenditure
- Making strategic decisions and setting strategic targets
- Holding regular Board meetings and meetings of the Board sub committees
- Ensuring good governance
- Overseeing the risk management of the Company
- Succession planning

### Composition

The Board comprises eleven members, eight of whom including the 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 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 60 and 61.

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

At each Annual General Meeting one-third of the Directors for the time being, 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.

Mr. B M Amarasekera, the Chairman of the Board, the only member of the Board who is over 70 years of age was re-elected as a Director at the Annual General Meeting held on 30th June 2009 under the provisions of the Companies Act No. 7 of 2007 Mr. K D D Perera, a member has proposed the re-election of Mr. Amarasekera at the forthcoming Annual General Meeting in pursuance of the provisions of section 211 of the Companies Act, No. 7 of 2007.

### Appointments to the Board

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

### Board Meetings

The results of the Company are regularly considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with any other matters that require the attention of the Board. The Board meets once a month, and wherever necessary Special Meetings of the Board are held.

During the year ended 31st March 2010, 12 meetings of the Board were held and the attendance is set out below;

Name of Director	Executive/Non-Executive/ Independent Non-Executive	Attendance
Mr. B M Amarasekera- Chairman	Independent Non-Executive	12/12
Mr. K D D Perera	Non-Executive	8/12
Mr. J A S S Adihetty	Executive	12/12
Mr. Nimal Perera	Non-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
Mr. M D S Goonatilleke	Independent Non-Executive	12/12
Mrs. Kirmali Fernando	Non-Executive	10/12
Mr. L N de S Wijeyeratne	Independent Non-Executive	10/12

Following the best practices of good Corporate Governance the two positions of the Chairman and the Managing Director are held by separate persons thus enabling balance of power, better accountability and enhances the independence of the Board.

### The Chairman

The Chairman of the Company is Mr. B.M. Amarasekera. He is an Attorney-at-Law by profession, who retired as the precedent partner of the Law Firm of Julius & Creasy in 1999 and counts over 50 years in the practice of law. With his years of experience as an Attorney-at-Law and as a Director of many Companies both private and public, he guides the Board at Meetings and ensures that all Directors contribute to the performance of the Company in line with their capabilities.

### The Managing Director

Mr Sumith Adihetty 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 63.

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. The Company has also identified Committees in-house for recoveries, credit and asset and liability management, in order 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 64 and 65.

### 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.

## Corporate Governance *contd.*

### 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 disseminated in compliance with the Listing Rules of the Colombo Stock Exchange.

Messrs Ernst & Young act as external auditors of the Company. 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 to create 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 2010, 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 66.

### 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 Quarterly and Annual Financial Statements within the mandatory period to all shareholders and debenture holders.

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*

26th May 2010

# Risk Management

## Risks Faced by L B Finance

As a Registered Finance Company (RFC) operating in the country the risks we are exposed to can be simplified as the probability that the actual return of an investment will be lower than expected.

The risks we currently face can be sub categorised as follows;

**Capital risk:** Losses resulting from un-recovered loans will affect the Company's capital base. Control of this type of a risk is in the hands of the Company to a greater extent hence we ensure that necessary control mechanisms are in place to address this risk.

As a mitigation strategy, we as a Company can ensure that the value of the collateral taken for a loan is greater than the value of the loan granted by the Company thus ensuring that in case of a default of payment by the respective client the Company is still in a position to recover the loan amount granted.

**Country risk:** Economic and political changes in a foreign country will affect the repayment of the loan facility obtained by the Company. Unlike many other types of risks this is beyond the control of the Company. However, analysing the past and prevailing trends of the market conditions could help to mitigate this risk to a certain extent.

**Legal risk:** This is the potential for loss arising from the uncertainty of legal proceedings, such as bankruptcy and potential legal proceeding. As an RFC registered under the Companies Act No.78 of 2007 we are governed by the directions set by the Central Bank of Sri Lanka (CBSL). Amendments in statutes, regulations or policies would affect the Company in an adverse manner which is beyond the control of the Company. To address this risk we ensure that we comply with the regulatory requirements and that our documentation meets the standards set by the regulating bodies.

**Default risk:** The borrowers' inability to meet the obligations towards the Company on time would expose a Company to this risk.

The management of this risk is in the hands of the Company to a greater extent, hence there are several actions we take prior to lending facilities to clients.

Assessing the credit worthiness of the client is done by obtaining the details of the property held by the client, obtaining a report from CRIB, getting credit worthy guarantors, etc. Valuing the credit worthiness of the customer depends on the knowledge and experience of the credit officer in concern hence we make sure that the staff is given a comprehensive training in this regard. Further, we ensure that sufficient collateral is obtained before granting a facility to a client.



Risk can be defined as the probability or threat of damage, injury, loss or other negative occurrence caused by external or internal vulnerabilities and which may be neutralised through pre-mediated action.

In simpler terms it can be defined as the quantifiable likelihood of loss.

Risk management is a combination of policies, procedures and practices involved in identification, analysis, assessment, control and avoidance, minimisation or elimination of unexpected risks.

A firm may use risk assumption, risk avoidance, risk retention, risk transfer or any other strategy or a combination of strategies in proper management of future events. Risk management enables the decision making process as well as avoids or minimize losses and to identify opportunities thus making the best use of the available resources.

## Risk Management *Contd.*

% Variation of Liquidity Ratio



**Economic risk:** A debtors' capability to meet the obligations as well as a potential borrowers' ability to borrow would get adversely affected due to changes in the state of the economy. This too is to a greater extent beyond the control of the Company. However, in order to mitigate the risk we can improve the accuracy of the predictions made based on the analysis of past trends and prevailing market conditions.

**Interest rate risk:** A fall in net interest income or a rise in net interest payment caused by the movements of the interest rates. Due to the greater level of exposure to this risk, we are compelled to carry out different and effective mitigation strategies to address this risk. By analysing the past and present trends in the interest rates, T-bill rates, Bond rates etc we predict future rates on the assumption that "history repeats". Furthermore, we negotiate terms of facilities with investors in order to match the cash flows thus eliminating the asset and liability mismatch.

**Liquidity risk:** This is the risk we face due to the shortage of cash or cash equivalent to meet the obligations of the Company on time. Management of this risk is mainly a responsibility of the Treasury Department. It is their responsibility to ensure that the Company is in a healthy position in terms of liquid cash to meet the obligations and that there is sufficient liquid assets to meet the working capital requirement thus ensuring a smooth run in daily operations. One of the main risks we face in this context is the asset-liability mismatch and to address this, we negotiate on the term of the facilities we obtain from our lenders thus ensuring that our cash inflow is in line with our cash out flow.

As an RFC we are obliged to maintain 10% of the Company's Deposit base in liquid assets. However, we maintain a healthy level of our total asset base in liquid assets in order to ensure that we are in a position to meet maturing liabilities and working capital requirements - even in the most adverse circumstances such as what the sector faced during the start of the year.

**Operational risk:** This is the risk caused by the failure in the routine operational functions of the Company. This could arise as a result of a failure in the systems, procedures, processes, failure of the employees to comply with the set rules and regulations or through human error.

As a mitigation strategy, we place special emphasis on training given to employees thus ensuring that they have comprehensive knowledge and skills required to perform the particular job assigned to them. Further, all the employees are given a well defined job profile which clearly communicates the roles and responsibilities of each. Authority levels are assigned to employees considering the role he/she plays in the corporate hierarchy and it is clearly communicated to the staff thus ensuring that every employee follows the

process. This facilitates better monitoring and cross checking to identify discrepancies. A review of the internal controls which are in place is carried out on a regular basis to identify any failures in the process and if any faults are detected they are addressed within the shortest time possible.

Fluctuations in the market price of Gold affect the Company as a result of the pawning advances we grant. As a Company with 75 pawning centres across the country and a pawning stock worth more than Rs.3.5 Bn the exposure to this risk is significant and therefore, we monitor the market value of the Gold sovereign on a daily basis. Prior to granting advances an informal interview with the customer is carried out by the pawning officer to ensure that the article is not subject to any fraudulent activity.

**Reinvestment risk:** This is the risk the Company would have to face due to the inability to reinvest excess funds at the prevailing market rates.

As a finance Company registered under the Finance Companies Act No.78 of 2007, we are required to maintain 10% of our assets in liquid assets. Further, we are also required to ensure that 10% of the deposit base of the Company is maintained in the form of liquid assets. It should be noted that the individual yet professional relationship we maintain with our lenders has positioned us well to obtain better terms when negotiating for funds.

### **Managing Risks**

In order to mitigate the risks we are exposed to, we have several committees in place - consisting of members of the Board, Senior Management and industry experts who bring in a wide range of knowledge in the best practices of risk management.

### **Integrated Risk Management Committee**

This was established in 2009 in order to assess the risk profile of the Company and to ensure that effective mitigation strategies are in practice. The Committee reports to the Board on the effectiveness of these strategies and comprises both executive and non executive Directors of the Board.

### **Audit Committee**

A formally constituted subcommittee of the main board - the Audit Committee consists of individuals who are independent of the Company. The appointment of the members to the committee is done by the Board. The primary function of the committee is to assist the Board to fulfill its stewardship responsibilities by reviewing the internal control and risk management systems. However, the responsibility of managing the risk still lies with the Board.

### **Asset and Liability Management Committee (ALCO)**

ALCO is headed by the Managing Director of the Company and comprises selected members of the Senior Management and Executives representing Finance, Treasury, Credit and Marketing as well as external Consultants with the required expertise. The Committee is responsible for the management of Balance Sheet items including Assets and Liability Management, Capital Structure Management, Fund Management and Liquidity Management. This is supported by Cash flow Forecasts, Gap reports, Variance Analysis and Sensitivity Analysis submitted by the Company. The committee meets on a regular basis to develop long term strategies to maintain the Balance Sheet structure in an optimal manner and to ensure that controls which are currently in place address the risks we are exposed to, in an effective manner.

### **Credit and Market Risk Committee**

The committee consists of the Executive Director (Asset Finance) and the Executive Director (Asset Management) and is headed by the Managing Director. The main responsibility of the committee is to improve credit risk management. In addition it also has the responsibility of reviewing individual credit granted which involve a large sum of money as well as major policy issues concerning credit and/or markets.

## Corporate Social Responsibility

What does it all mean?

- Making our employees a part of our success
- Increasing our shareholders' wealth
- Keeping customer care in focus 24x7
- Responsible business practices
- Contributing to economic growth in diverse sectors
- Giving back to the community
- Conserving scarce resources

To us, at L B Finance being a responsible corporate citizen means all this and more.

Our team of people, who have consistently delivered over the years, are considered our most valued asset and we do our utmost to be an employer of choice.

Each of our branches are empowered to identify causes which they feel would make a difference to someone's life. Each suggestion is evaluated and taken on board through a team that drives our sustainability efforts forward.

Over the years, our corporate priorities have been defined while being conscious of the impact they make, not just on our profits but also on the economy, the society and scarce resources in our environment.

We will continue to find many more ways to be a responsible corporate citizen, in the years to come.



**Sumith Adihetty**  
Managing Director

### Making our Employees a Part of Our Success

#### Employment Policy

As an equal opportunity employer that does not believe in discrimination by race, religion, gender or other social beliefs – our recruitment, remuneration, special rewards and career progression are based solely on performance.

#### Our Employees Drive Our Success.

Our growth over the year has been sustained by an aggressive recruitment drive where we employed 212 people during the year. A total of 890 persons made up our team, at our head office and branches by the end of 2009/10.

The profit before tax per employee has grown by 19% from Rs. 985 Mn in 2008/09 to Rs. 1.166 Bn this year.

For the F/Y	2006	2007	2008	2009	2010
Human ROI (Rs.)	3,018,031	3,352,409	5,364,599	5,280,490	4,641,566
PBT Per Employee (Rs.)	672,103	842,447	812,390	985,055	1,166,330

#### Recruitment

We search for the best that can deliver our strategies. Potential employees are selected based on the balance between skills, qualifications, values and attitude that would best fit the Company. Existing employees are encouraged to introduce new employees who would fit into the culture of the Company, while career progression and promotions are a first option in filling vacancies.

In an industry, where service levels could be the key between penetrating a market or losing an entire business segment, we have attempted to focus on the dynamism provided by youth which is tempered with the wisdom and knowledge that comes with experience. We believe, we have the right mix of people to take L B Finance a step higher.

#### We Encourage Diversity.

#### Retaining Our Human Resources

The commitment, the winning attitude and endless courage shown by our team, has helped us get over adversities with more ease than we thought was possible. We believe that developing and retaining our human capital is a vital element in our future growth. Remuneration across the board is determined according to an employee's level of

experience and contribution to the Company, the Remuneration Committee determines the salary structure of the key management personnel.

**Staff Development**

Once recruited, we invest in our employees. On the job training is provided in-house by Management as well as through external consultants. Skills required to meet our targets are developed through knowledge management and hands-on experience. Knowledge sharing meetings, in-bound and out-bound training and a host of other initiatives help our employees give their best to the Company while fulfilling their own goals and ambitions. Wherever possible, we also support our employees to obtain academic and professional qualifications. We strongly believe that employees who fulfill their own aspirations, will deliver better.

Special attention is given to make our employees aware of our values. Staff induction given to new recruits focuses on the ethics followed by the Company. Issues and best practices – especially in risk management and compliance requirements, are constantly shared across the organization to make all business practices transparent and fundamentally sound.

**Evaluating Performance**

An open-door policy and continuous dialogue helps supervisors and employees create a healthy work culture where issues are discussed on time and staff development needs are assessed regularly. An employee is assessed based on targets achieved as well as value created. More weightage is added to team-led performance, although individual performance is also recognized.

**Recognizing Performance**

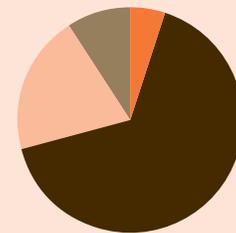
The Company’s incentive scheme is attached to its performance evaluation process. Increments, bonuses and other rewards are based entirely on performance and high achievers are given due rewards and recognition. This has enabled a culture where employees feel that that they are an integral part of the success of the organization and become even more goal oriented.

**Statutory Payments and Defined Benefit Plan**

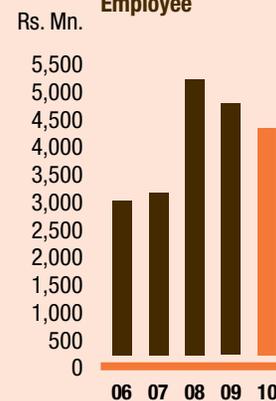
The Company has continuously fulfilled all statutory obligations on behalf of its employees, while the Defined Benefit Obligation and related provision for the year is based on an actuarial valuation using the ‘Projected Unit Credit Method’ recommended by the Sri Lanka Accounting Standards No. 16.

**Job Category**

Minor Staff	5%
Clerical Staff	66%
Executive Staff	20%
Management Staff	9%



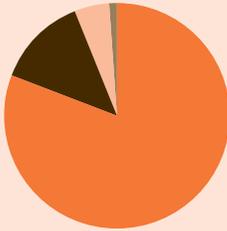
**Revenue per Employee**



## Corporate Social Responsibility *Contd.*

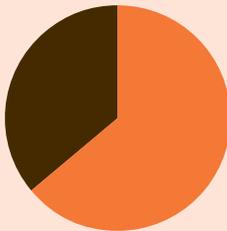
### Age Analysis

Less than 30	80%
31 - 40	13%
41 - 50	6%
Over 50	1%



### Gender Analysis

Male	64%
Female	36%



### Managing the Work Environment

We work continuously to build an environment that will create a healthy balance between work and personnel life and an atmosphere where individuals are treated with respect and their voices are heard.

In addition to implementing health and safety measures, a clear process for grievance handling, life and health insurance schemes regardless of the job-category or length of service, we also encourage family members of our employees to interact with co-workers and their families through regular and annual events.

### Teamwork Beyond the Workplace

We support our staff to actively participate in sports and other recreational facilities. Our Cricket team is a source of pride to our Company

### Keeping customer care in focus 24x7

Without the confidence placed in us by our customers, we would never have achieved the growth that we did, this year. Individual attention is paid to all customers and a personalized relationship is maintained throughout the life of the contract.

We have also adopted several measures to give back a level of service which is a notch higher than that offered in the industry.

- We are now more accessible than ever with our ever widening network – 6 new branches and 18 pawning centers opened in 2009/10 and many more planned for the coming year.
- A host of other special products and services makes us one of the most customer friendly RFCs in the industry.

### Leasing & Hire Purchasing

- A mobile Leasing Facility – where we go to the customer to initiate a transaction at the customer's door step.
- Lesser importance placed on the collateral/security and greater emphasis on lending to customers who are neglected by the general credit system of Banks.
- Lower down payment for leasing transactions.
- We offer leasing facilities to vehicles which are over 10 years old.
- Special lending facilities to self-employed entrepreneurs – with less emphasis on collateral for leasing Bajaj three-wheelers and Tata Batta Lorries.
- Documentation is kept to a minimum to reduce delays and usage of paper
- Speedy processing of all facilities.

**Pawning:**

- A widely distributed network of 75 pawning centers.
- An efficient and speedy service without the hassle of staying in queues.
- All articles are covered by a full insurance.
- An additional grace period of 60 days to redeem pawned articles after the expiry of the contract and before the auction.

**Depositors:**

- Money is reinvested in secure and more liquid investments such as leases, hire purchases and pawning advances rather than in illiquid assets.
- Rates which are deemed as highly competitive in the industry.
- Special interest rates and a door-to-door service offered to senior citizens.
- A dedicated customer service to retain existing customers.

**Responsible business practices while increasing shareholder-wealth**

We do our utmost to be one of the most responsible RFCs in the industry.

- Maintaining ethics
- Adhering to Directions given by the Central Bank.
- A consistent and a timely tax payer
- Being a responsible and fair competitor
- Following sound business fundamentals to innovate ways at increasing our shareholders' wealth - Gross Income increased by 15% in 2009/10 to Rs. 4.131 Bn
- Safeguarding investor confidence
- Searching for more effective ways to utilise the Company's assets – a surge of 23% was witnessed in Total Assets this year which recorded Rs. 17.185 Bn.
- Converting higher earning to dividends - an EPS of Rs. 14.44 and a DPS of Rs 5/- amounted to a DPR of 35%
- Searching identifying and facilitating new avenues of business – we exploited the expanded potential for pawning with the end of the conflict by opening 18 new pawning centres. This business segment grew by 71% to record Rs. 11.817 Bn in 2009/10.

**We Contribute to Economic Development Through Many Ways.**

Our lending to customers from key economic sectors such as agriculture, manufacturing and construction – and to those from low income groups and borrowers with seasonal income - who would otherwise be unable to borrow from the main banking system, have all helped spur economic growth.



*Mercantile Cricket "C" Division Champions, L B Finance Team*



*Mercantile Cricket "E" Division - runners up, Team Lead by Sucharitha Fernando*



*Mercantile Cricket "C" division Champions, Our cricketer Roshen Silva became man of the finals and man of the tournament*

## Corporate Social Responsibility *Contd.*



*A training session held at Company premises*

A key contribution made by the Company to the economy this year, was to offer financing facilities for new business and reviving economic activity in previously war torn areas with our new branches.

We have provided employment to 212 persons across the island while, investment in our staff welfare has increased by 40.6% to record Rs. 16.17 Mn in 2009/10.

We also increased our contribution to the Government coffers by 75% this year through taxation amounting to Rs. 540 Mn.

### **Giving Back to the Community**

Using our wide network of branches we attempt to make a change in the lives of communities that we work in.

Any anniversary celebrated by a branch is marked by a key CSR initiative within the community surrounding the branch. This year too, we initiated several projects across the island with a focus on providing access to water, education and other philanthropic activities, some of which are highlighted overleaf.



*Donation of waste collectors - Rathnapura Branch*



*Blood donation campaign organised by Company Staff*

Branch	Event	Anniversary	Month	Cost (Rs.)	Participation(People)
Balangoda	Donated six water tanks for six poor schools around Balangoda	1st	Nov-09	75,000	125
Nuwara Eliya	Blood Donation campaign in Nuwara Eliya, Collected 90 blood pints.	1st	Dec-09	35,000	90
Awissawella	Blood Donation campaign in Awissawella, Collected 56 blood pints.	1st	Mar-10	25,000	70
Ratnapura	Donated 10 waste collectors to Saman Devalaya Ratnapura	3rd	Dec-09	15,000	20
Anuradhapura	Donations to a children's home in Anuradhapura	2nd	Sep-09	15,000	35
Polonnaruwa	Donations to a children's home in Plonnaruwa	1st	Mar-10	15,000	25

### Conserving Scarce Resources

Throughout our Company, across all branches and the head office, we attempt to minimize the use of paper and conserve electricity and water. Usage is monitored monthly to assess reasons for any increase and measures are taken to eliminate waste.

This year, we also commenced scanning all Certificates of Registration related to our financing facilities, in order to reduce the use of paper, thus contributing in our own way to preserving the environment.

# Financial Reports

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**Net Profit for the Year**

1

# 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 2010.

## 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, which remained unchanged during the year, are acceptance of deposits, granting lease facilities, hire purchase, mortgage loans and other credit facilities, real estate development and related services and pawnbroking.

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 page 17, 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 67 to 95.

## Auditors' Report

The Report of the Auditors on the Financial Statements of the Company is given on page 67

## Accounting Policies

The accounting policies adopted by the Company in the preparation of financial statements are given on pages 72 to 76 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 42 to 44.

## Executive Directors

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

## Non Executive Directors

*Mr. B M Amarsekera	-	Chairman
Mr. K D D Perera	-	Deputy Chairman
Mr. Nimal Perera	-	Director
Mr. A M Weerasinghe	-	Director
Mr. K D A Perera	-	Director
*Mr. M D S Goonatilleke	-	Director
Mrs. Kimarli Fernando	-	Director
* Mr. L N de S Wijeyeratne	-	Director

## \*Independent Non Executive Directors

The independence of directors has been determined based on the criteria set out in the Finance Companies (Corporate Governance) direction No. 3 of 2008 and listing rules of Colombo Stock Exchange.

At the conclusion of the forthcoming Annual General Meeting, Mr. B M Amarasekera, the Chairman who is 81 years of age will vacate office in pursuance of Section 210 of the Companies Act, No.7 of 2007. Notice of an ordinary resolution has been given to the Company by Mr. K D D Perera a member proposing that the age limit referred to in section 210 of the Companies Act shall not apply to Mr. B M Amarasekera and he be re-elected as a Director of the Company.

Messrs Nimal Hemasiri Perera and Kulapuarachchige Don Anurada Perera retire 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 are recommended by the Directors for re-election.

Messrs K. D. D. Perera and 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 2010 as recorded in the Interests Register are given in this Report under Directors' share holding.

### Directors' Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in Note 34 to the Financial Statements on page 95.

### 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 66.

### 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. 1,526,000/- is payable by the Company to the Auditors for the year under review comprising Rs. 951,000/- as audit fees and Rs. 575,000/- for other services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 24th May 2010 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.491,996,449/- [Rs.491,996,449/- as at 31st March 2009].

The number of shares issued by the Company stood at 34,628,571 fully paid ordinary shares as at 31st March 2010 (34,628,571 fully paid ordinary shares as at 31st March 2009).

### Directors' Share Holding

The relevant interests of Directors in the shares of the Company as at 31st March 2010 and 31st March 2009 are as follows.

	Shareholding as at 31/3/2010	Shareholding as at 31/03.2009
Mr. B M Amarasekera	100	100
Mr. K D D Perera	24,699,981	24,699,981
Mr. J A S S Adhihetty	26,530	26,530
Mr. Nimal Perera	408,949	300,378
Mr. A M Weerasinghe	74,425	74,425
Mr. K D A Perera	-	-
Mr. Niroshan Udage	2,100	2,100
Mr. B D St A Perera	-	-
Mr. M D S Goonatilleke	45	45
Mrs. Kimarli Fernando	800	13,800
Mr. L N de S Wijeyeratne	-	-

Messrs B M Amarasekera, K D D Perera, Nimal Perera and A M Weerasinghe are Directors of Royal Ceramics Lanka PLC, which held 3,363,497 shares as at 31st March 2010.

Directors' transactions with the Company

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.3,141,495.00

Mr N Udage

Rs.6,983,141.00

Mr B D St A Perera

Rs.7,241,510.00

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.

### Shareholders

There were 1,552 shareholders registered as at 31st March 2010 (1,501 shareholders as at 31st March 2009). The details of distribution are given on page 101 of this Report.

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

## Major Shareholders, Distribution Schedule and other information

Information on the distribution of share holding, analysis of shareholders, market values per share, earnings, dividends, net assets 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 101 to 102 under Share Information.

## Employment Policy

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

As at 31st March 2010, 890 persons were in employment (678 persons as at 31st March 2009).

## Reserves

The reserves of the Company with the movements during the year are given in Note 21 to the Financial Statements on page 89.

## Land holdings

The Company's land holdings referred to in Note 13 of the accounts comprise a land in extent of 7.06 perches with a building situated in Kandy, which is carried at its book value of Rs.11.5 Mn (The current market value is Rs.30 Mn) and a land in extent 50 perches situated in Balagolla which was acquired during the year under review 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 pages 82 and 83.

## Investments

Details of the Company's quoted and unquoted investments as at 31st March 2010 are given in Note 11 to the Financial Statements on pages 80 to 82.

## Donations

The Company made donations amounting to Rs. 205,000 in total, during the year under review.

## Dividend

The Directors declared an interim dividend of Rs. 5/- per share for the year under review which was paid on 18th May 2010.

## Compliance

The Company has established a permanent and an effective compliance function. A dedicated 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.

## Systems of 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 by the Internal Auditors and are subject to further review by the Audit Committee as elaborated in the Report of the Audit Committee on page 65.

## Risk Management

An ongoing process is in place to identify and manage the risks that are faced by 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 49 to 51.

## 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 93, 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 95 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 the Finance Companies (Corporate Governance) direction No. 3 of 2008.

The Board of Directors confirm that the Company is compliant with section 7.10 of the Listing Rules of CSE and the said directions No. 3 of 2008.

An Audit Committee, Remuneration Committee, an Integrated Risk Management Committee and a Nomination 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)  
Mr. Nimal Perera  
Mr. M D S Goonatilleke

#### Remuneration Committee

Mr. B M Amarasekera (Chairman)  
Mr. K D D Perera  
Mr. M D S Goonatilleke

#### Integrated Risk Management Committee

Mr. M D S Goonatilleke (Chairman)  
Mr. L N de S Wijeyeratne  
Managing Director  
Executive Director- Asset Finance  
Executive Director- Asset Management  
Head of Treasury  
Head of Finance

#### Management Committee

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

#### Nomination Committee

Mr. B M Amarasekera (Chairman)  
Mr. K D D Perera  
Mr. Nimal Perera

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 46 to 48 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 52 to 57 of this Report.

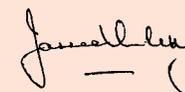
### Annual General Meeting

The Notice of the Thirty Seventh (37th) Annual General Meeting appears on page 108.

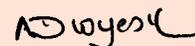
This Annual Report is signed for and on behalf of the Board of Directors by



**B M Amarasekera**  
Chairman



**Sumith Adihetty**  
Managing Director



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

26th May 2010

## Report of the Remuneration Committee

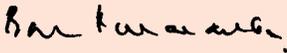
The Remuneration Committee consists of three non-Executive Directors, two of whom are Independent. The Managing Director and the Executive Directors as well as the Senior Management (wherever necessary) attend meetings of the Committee by invitation and provide relevant information and their views to the Committee for its deliberations, except when the Executive Directors' own remuneration packages and other matters relating to them are discussed.

The functions of the Committee include making recommendations to the Board on the compensation and benefits of the Managing Director, Executive Directors and key Management personnel.

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 Committee meets as often as necessary and make recommendations on compensation structures and bonuses, increments, and also on matters pertaining to recruitment of key Management personnel to ensure that the management and staff at all levels are adequately rewarded for their performance and commitment to the Company's goals on a competitive basis.

The total of Directors' remuneration paid during the year under review is set out in Note 34.1 to the Financial Statements.



**Bertram Manson Amarasekera**

*Chairman, Remuneration Committee*

26th May 2010

## Report of the Audit Committee

### Composition

The Audit Committee appointed by and responsible to the Board of Directors comprise the following members

Mr. L N de S Wijeyeratne – Chairman -- Independent /Non Executive Director  
Mr. Nimal Perera - Non Executive Director  
Mr. M D S Goonetilleke - Independent /Non Executive Director

The Chairman Mr L N de S Wijeyeratne is a fellow member of the Institute Of Chartered Accountants of Sri Lanka with over 25 years of post qualification experience in finance .

### Meetings

The Committee met Fourteen times during the year under review. The Managing Director, the Executive Directors and the Chief Financial Officer attended the meetings by invitation. Members of the management team, the internal audit consultants and the external auditors were invited to participate at the meetings as and when required. PWCS 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.

### Role of the Committee

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

### 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 SJMS Associates, and BDO Partners. The internal auditors are responsible to review and report on the accuracy and integrity

of the financial statements, efficacy of the internal control system and compliance with statutory and other regulations and the banks accounting and operational policies. Internal audit reports are regularly tabled at Audit committee meetings. Control weaknesses highlighted in the internal audit reports are critically examined by the committee and follow up action taken by 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 Management's response thereto. Discussions were also held in regard to the nature, scope and approach of the audit for 2009/10 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 do 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 2011 subject to the approval of the shareholders at the Annual General Meeting.

### Conclusion

Finally I would like to thank all the members who served on the audit committee during the year for their valuable contribution to the deliberations of the committee .



**L N de S Wijeyeratne**  
Chairman AUDIT COMMITTEE

## 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.

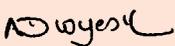
The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of financial statements and any other requirements which apply to the Company's financial statements under any other law.

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 judgements 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 2009/2010, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

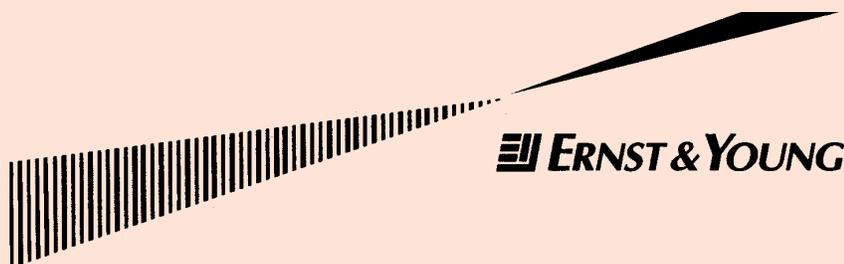
By Order of the Board  
L B Finance PLC



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

26th May 2010

## Auditor's Reports



### Chartered Accountants

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P.O. Box 101  
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Sri Lanka

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Tax : (0) 11 5578180  
eysl@lk.ey.com

HMAJ/DSP

### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF LB FINANCE PLC

#### Report on the Financial Statements

We have audited the accompanying financial statements of LB Finance Plc ("Company"), which comprise the balance sheet as at 31 March 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

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

#### Scope of Audit and Basis of Opinion

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

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

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

#### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31 March 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Report on Other Legal and Regulatory Requirements

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

26th May 2010  
Colombo.

## Balance Sheet

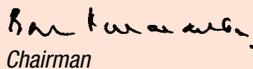
As at 31st March 2010	Note	2010 Rs.	2009 Rs.
<b>ASSETS</b>			
Cash and amounts due from banks		277,083,322	217,641,590
Treasury Bills & other bills eligible for re-discounting with Central Bank	3	1,165,157,110	799,698,171
Placements with other banks	4	364,917,827	550,496,423
Loans and Advances	5	1,057,836,149	948,322,229
Pawning Advances	6	3,135,978,651	1,886,091,499
Lease rentals receivable & Stock out on hire	7	10,440,328,525	9,006,955,253
Real Estate Stock	9	232,247,914	211,241,060
Advance for Vehicle stock		156,501,801	41,938,970
Other Debtors, Deposits and Prepayments	10	104,271,087	141,619,165
Investment Securities	11	5,994,009	6,225,923
Intangible assets	12	7,332,847	9,311,297
Property, Plant & Equipment	13	237,613,462	189,919,651
<b>Total Assets</b>		<b>17,185,262,704</b>	<b>14,009,461,231</b>
<b>LIABILITIES</b>			
Deposits from non-bank customers	14	12,489,788,897	9,558,370,070
Borrowings	15	1,065,377,056	1,527,997,060
Accrued charges	17	902,048,674	846,978,195
Debentures	18	450,000,000	450,000,000
Retirement Benefit Liability	19	27,261,881	21,565,015
Tax Liability		352,625,948	67,750,543
Deferred Taxation	27	141,727,639	186,703,079
<b>Total Liabilities</b>		<b>15,428,830,095</b>	<b>12,659,363,962</b>
<b>SHAREHOLDERS' FUNDS</b>			
Stated Capital	20	491,996,449	491,996,449
Reserves	21	1,264,436,160	858,100,820
<b>Total Equity</b>		<b>1,756,432,609</b>	<b>1,350,097,269</b>
		<b>17,185,262,704</b>	<b>14,009,461,231</b>
<b>Commitments and Contingencies</b>	30	<b>28,133,457</b>	<b>45,760,998</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;



Chairman



Managing Director

The Accounting Policies and notes on pages 72 through 95 form an integral part of the Financial Statements.

# Income Statement

For the year ended 31st March 2010	Note	2010 Rs.	2009 Rs.
Income	22	4,130,993,392	3,580,172,533
Interest Income	23	3,953,032,428	3,431,949,583
Interest Expense	24	2,249,805,216	2,238,846,861
Net Interest Income		1,703,227,212	1,193,102,722
Other Operating Income	25	174,285,171	122,326,021
<b>Less: Operating Expenses</b>			
Staff Costs		308,400,606	268,883,716
Provision for Staff Retirement Benefits		5,969,466	(1,662,552)
General & Administration Expenses		330,687,449	300,591,485
Provision for fall in value of Investments, Bad and Doubtful Loans and Write Offs		194,421,207	79,748,657
<b>Profit from Operations</b>	26	1,038,033,655	667,867,437
Value Added Tax on Financial Services		159,743,547	112,552,242
<b>Profit before Taxation</b>		878,290,108	555,315,195
Provision for Income Taxation	27	378,128,984	195,707,284
<b>Profit for the year</b>		500,161,124	359,607,911
Earnings Per Share	28	14.44	10.96

The Accounting Policies and notes on pages 72 through 95 form an integral part of the Financial Statements.

Colombo,  
25th May 2010

## Statement of Changes in Equity

For the year ended 31st March 2010		Stated Capital	Reserve Fund	Accumulated Profit/ (Loss)	Total
	Note	Rs.	Rs.	Rs.	Rs.
<b>Balance as at 1 April 2008</b>		418,410,742	151,474,909	405,133,072	975,018,723
Ordinary shares issued - For cash		73,585,707	-	-	73,585,707
Net Profit for the year		-	-	359,607,911	359,607,911
Appropriation of Bad Debts		-	-	10,059,928	10,059,928
Transferred to/from during the year	21	-	71,921,582	(71,921,582)	-
Final Dividend for 2007/2008	21	-	-	(68,175,000)	(68,175,000)
<b>Balance as at 31 March 2009</b>		491,996,449	223,396,491	634,704,329	1,350,097,269
Net Profit for the year		-	-	500,161,124	500,161,124
Appropriation of Bad Debts		-	-	10,059,929	10,059,929
Final Dividend for 2008/2009	21	-	-	(103,885,713)	(103,885,713)
Transferred to/from during the year	21	-	100,032,225	(100,032,225)	-
<b>Balance as at 31 March 2010</b>		491,996,449	323,428,716	941,007,444	1,756,432,609

The Accounting Policies and notes on pages 72 through 95 form an integral part of the Financial Statements.

Colombo,  
25th May 2010

# Cash Flow Statement

For the year ended 31st March 2010	Note	2010 Rs.	2009 Rs.
<b>Cash Flows From / (Used in) Operating Activities</b>			
<b>Profit before Tax</b>		878,290,108	555,315,195
Adjustments for			
Depreciation	13	53,451,586	40,869,056
Amortization of computer software	12	3,189,361	2,942,299
Provision for doubtful debts	8.1	194,421,207	79,748,657
Interest cost on Finance Lease	24	1,463,286	1,468,872
Loss from Sale of Investments	25	192,162	135,009
Loss/(Profit) from Sale of Property, Plant & Equipment	25	(8,036)	8,679
Provision/(reversal) for Defined Benefit Plans	19	5,969,466	(1,662,552)
Dividend Received	25	(249,816)	(298,544)
Notional Tax Credit on Interest on Treasury Bills	23.1	(13,107,912)	(14,853,210)
Withholding Tax attributed to Fixed Deposit & professional fees		(13,692,701)	(8,898,499)
		<u>1,109,918,712</u>	<u>654,774,962</u>
Profit from operation before Working Capital Changes			
(Increase)/ Decrease in Real Estate Stock		(21,006,854)	6,956,922
(Increase)/ Decrease in Lease Rentals Receivable and Stock out on hire		(1,615,160,702)	(1,842,807,025)
(Increase) /Decrease in Government of Sri Lanka Treasury Bills		(117,308,884)	(164,346,199)
(Increase)/ Decrease in Loans and Advances		(1,360,951,468)	(1,005,083,115)
(Increase) /Decrease in Other Debtors, Deposits, Prepayments		37,348,078	950,790
(Increase) /Decrease in Advance for Vehicle Stock		(114,562,831)	76,747,261
(Increase)/ Decrease in Placements with Banks		185,578,596	(134,578,596)
Increase/ (Decrease) in Deposits from Non Bank Customers		2,931,418,828	2,249,269,308
Increase/ (Decrease) in Borrowings		(122,564,373)	(162,425,551)
Increase/ (Decrease) in Accrued Charges		69,654,163	301,869,652
Cash Generated from Operations		<u>982,363,264</u>	<u>(18,671,591)</u>
Retirement Benefit Liabilities Paid	19	(272,600)	(3,550,204)
Net Cash From/(Used in) Operating Activities before Income Tax Payments		<u>982,090,664</u>	<u>(22,221,795)</u>
Taxes Paid		(129,321,866)	(38,624,462)
Net Cash used in Operating Activities		<u>852,768,798</u>	<u>(60,846,257)</u>
<b>Cash Flows from / (Used in) Investing Activities</b>			
Acquisition of Property, Plant & Equipment	13.1	(101,145,402)	(93,850,498)
Acquisition of Intangible Assets	12.1	(1,210,911)	(2,294,556)
Proceeds from Sales of Other investments		862,801	1,629,487
Proceeds from Sales of Property, Plant & Equipment		8,036	7,848
Dividend Received	25	249,816	298,544
Net Cash Flows from/(Used in) Investing Activities		<u>(101,235,660)</u>	<u>(94,209,175)</u>
<b>Cash Flows from / (Used in) Financing Activities</b>			
Principal Payment under Finance Lease Liabilities	15.3	(3,041,281)	(4,397,032)
Proceeds From Issuance of Ordinary Shares		-	73,585,708
Proceeds From Issuance of Debentures (Net)		-	350,000,000
Dividends Paid		(103,885,713)	(68,175,000)
Net Cash Flows from/(Used in) Financing Activities		<u>(106,926,994)</u>	<u>351,013,676</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<u>644,606,144</u>	<u>195,958,244</u>
<b>Cash and Cash Equivalents at the beginning of the year</b>		<u>(165,003,006)</u>	<u>(360,961,250)</u>
<b>Cash and Cash Equivalents at the end of the year</b>	16	<u>479,603,138</u>	<u>(165,003,006)</u>

The Accounting Policies and notes on pages 72 through 95 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## Year Ended 31st March 2010

### 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 and other credit facilities, Real Estate Development and related services and Pawn Broking.

#### 1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company does not have an identifiable parent of its own.

#### 1.4 Date of Authorization for Issue

The Financial Statements of L B Finance PLC for the year ended 31 March 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 25th May 2010.

### 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 Lankan 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 Companies Act No.78 of 1988.

#### 2.1.1 Statement of compliance

The Financial Statements of L B Finance PLC have 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 JUDGMENTS, ESTIMATES AND ASSUMPTIONS

#### Judgements

In the process of applying the Company's Accounting Policies, the management is required to make judgments, apart from those involving estimations, which may have a significant effect on the amounts recognised in the Financial Statements.

#### *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 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 portfolio at each reporting date to assess whether an allowance for impairment should be recorded in the financial statements. Judgment 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 allowance.

#### *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 unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

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

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

#### *Estimates and Assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Value of Unquoted Equity Investments*

The unquoted equity investments have been accounted at cost & 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 involve 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 Estate Stocks have been accounted at cost as disclosed under Accounting Policy 2.3.9. The Directors have evaluated the recoverability considering the current market prices of respective stocks.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.3.1 Foreign Currency Translation**

Company's functional and presentation currency is Sri Lankan Rupees. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the period end date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**2.3.2 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.

**2.3.3 Borrowing Costs**

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

**2.3.4 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 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 amortized over 5 years from the month of acquisition.

**2.3.5 Loans and Advances**

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

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

#### **2.3.6 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.

#### **2.3.7 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 recognized on a straight line basis over the term of the lease.

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

Amounts are set a side with regard to possible losses on loans, advances, hire purchase, finance leases & 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.

#### **2.3.9 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

#### **2.3.10 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.

#### **2.3.11 Property, Plant and Equipment**

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.

#### **2.3.12 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 capitalized 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 charged are 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 assets that are owned as described in 2.4.11.

The cost of improvements to or on leasehold property is capitalized, 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.

#### **2.3.13 Investments**

##### **a) Current Investments**

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) 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.

**2.3.14 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 is stated under Retirement Benefit Liability in the Balance Sheet.

**Recognition of Actuarial Gains and Losses**

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

The gains/losses are recognized 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 recognized 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 recognized 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 recognized 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 recognized as an interest expense.

**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.

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

#### **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 recognized on accrual 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) 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.

#### **2.3.18 Effect of Sri Lanka Accounting Standards issued but not yet effective:**

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below.

#### **a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44) and Sri Lanka Accounting Standard 45 Financial Instruments; Recognition & Measurement (SLAS 45)**

SLAS 44 and 45 become effective for financial years beginning on after 1 January 2011. Accordingly, the financial statements for the year ending 31st March 2012 will adopt SLAS 44 and 45, for the first time.

These two standards together provide comprehensive guidance on identification, classification, measurement and presentation of financial instruments (including Derivatives) into financial assets, financial liabilities and equity instruments.

In order to comply with the requirements of these standards, the Company is in the process of assessing the effect of adoption of the aforesaid two standards. Due to the complex nature of the effect of these standards the impact of adoption is not estimable as at the date of publication of these financial statements.

#### **b) Sri Lanka Accounting Standard 39- Share Based Payments (SLAS 39)-**

SLAS 39- Share based payments, effective for periods beginning on or after 1st January 2010 will be first adopted in the year ending 31 March 2011. This standard require an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares (equity –settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash – settled transactions). For equity-settled share-based payment transactions, the Company is required to apply SLAS 39 to grants of shares, share options or other equity instruments that were granted after 1st April 2010.

The Company is in the process of evaluating to impact of this standard, and the impact of the same is not currently estimable as at the date of the publication of these financial statements.

As at 31st March 2010	2010 Rs.	2009 Rs.
<b>3. TREASURY BILLS &amp; OTHER BILLS ELIGIBLE FOR RE-DISCOUNTING WITH CENTRAL BANK</b>		
Government of Sri Lanka Treasury Bills - Face Value	390,796,998	47,417,067
Less : Income allocated for future periods	(13,316,344)	(2,026,090)
Re-Purchase Agreements	787,676,456	754,307,194
	<u>1,165,157,110</u>	<u>799,698,171</u>
<b>4. PLACEMENTS WITH OTHER BANKS</b>		
Fixed Deposits	364,917,827	550,496,423
	<u>364,917,827</u>	<u>550,496,423</u>
<b>5 LOANS AND ADVANCES</b>		
Real Estate Loans	10,014,681	13,854,399
Term Loans	698,315,008	760,075,522
Trade Finance	9,716,503	11,986,442
Vehicle Loans	395,222,026	219,093,883
	<u>1,113,268,218</u>	<u>1,005,010,246</u>
Less : Provision for Bad debts		
- Charged against Profit & Loss Account	4,062,357	3,398,257
- Appropriations	18,288,022	28,347,952
	<u>22,350,379</u>	<u>31,746,209</u>
Finance charges in suspense	33,081,690	24,941,808
	<u>1,057,836,149</u>	<u>948,322,229</u>
<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	4,304,894	4,005,646
Add : Loans granted during the year	5,129,795	5,388,250
Less : Repayments during the year	(6,415,441)	(5,089,002)
As at the end of the year	<u>3,019,248</u>	<u>4,304,894</u>
<b>6 Pawning Advances</b>		
Pawning Capital	2,982,317,321	1,742,418,164
Pawning Interest Receivables	155,565,064	145,577,069
	<u>3,137,882,385</u>	<u>1,887,995,233</u>
Finance Charges in Suspense	1,903,734	1,903,734
	<u>3,135,978,651</u>	<u>1,886,091,499</u>

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

	Within one year		1 - 5 years		Over 5 years		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>7. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE</b>								
Gross Investment								
- Lease Rentals	3,420,335,883	2,612,385,232	3,962,633,219	3,438,167,100	182,567	1,574,806	7,383,151,669	6,052,127,138
- Amounts receivable								
from hirers	3,390,936,626	3,012,459,552	3,870,265,681	3,739,169,890	16,089,413	13,892,669	7,277,291,720	6,765,522,111
	6,811,272,509	5,624,844,784	7,832,898,900	7,177,336,990	16,271,980	15,467,475	14,660,443,389	12,817,649,249
Less : Unearned Income	2,148,044,191	1,960,121,180	1,529,900,783	1,518,928,289	1,051,010	951,551	3,678,995,984	3,480,001,020
Net Investment	4,663,228,318	3,664,723,604	6,302,998,117	5,658,408,701	15,220,970	14,515,924	10,981,447,405	9,337,648,229
Less: Provision for bad & doubtful debts								
- Charged against Profit & Loss Account							420,285,783	236,651,886
- Appropriations							1,831,835	1,831,835
							422,117,618	238,483,721
Rentals received in advance							21,246,706	25,759,224
Finance charges in suspense							97,754,556	66,450,031
							10,440,328,525	9,006,955,253

#### 7.1 Lease & Hire Purchase receivable granted to Company Officers, the movement of which is as follows:

As at the beginning of the year	76,685,327	67,343,443
Add : Granted during the year	36,162,407	53,291,703
Less : Repayments during the year	(39,259,280)	(43,949,820)
As at the end of the year	73,588,454	76,685,326

## 7. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE (Contd..)

7.2 Non-Performing Advances included in the above Lease Rentals Receivable, Stock Out on Hire and Loans & Advances are as follows.

	Lease & Hire Purchase (Rs.)		Term Loans (Rs.)		Trade Finance Loans (Rs.)		Pawning (Rs.)		Total (Rs.)
	2010	2009	2010	2009	2010	2009	2010	2009	2010
Amount Receivable	574,951,932	396,761,846	132,358,173	130,454,023	14,701,851	26,996,892	8,797,190	8,797,190	730,809,146
Less: Finance Charges Suspended	97,754,556	66,450,031	33,058,302	23,014,686	23,387	23,387	1,903,734	1,903,734	132,739,979
Provision for Bad Debts	422,117,618	238,483,721	8,520,712	12,955,424	13,829,666	18,790,785	-	-	444,467,996
Net non-performing advances	55,079,758	91,828,094	90,779,159	94,483,913	848,798	8,182,720	6,893,456	6,893,456	153,601,171
									201,388,183

## 7.3 Segmental Analysis of Loans and Advances, Leases, Hire Purchase by Industry

	2010	2009
Agriculture	594,719,297	411,867,289
Manufacturing & Distribution	433,567,238	521,657,706
Hotels & Tourism	230,010,510	124,429,685
Services	8,295,241,749	5,936,562,582
Trading	7,824,650,930	7,548,842,145
Transport	660,127,765	637,166,497
Construction	205,072,652	236,424,770
Others	714,520,019	291,800,320
Distribution of Total Advances	18,957,910,160	15,708,750,994
Lease & Hire Purchase Receivables	14,680,112,389	12,817,649,249
Loans & Advances	4,277,797,771	2,891,101,745
Total Advances	18,957,910,160	15,708,750,994

## 8. PROVISION FOR LOSSES

### 8.1 Movement in provision for Bad and Doubtful Debts

Balance at the beginning of the year	272,297,651	215,346,571
Charge/Appropriation during the year	227,613,347	140,937,746
Reversals during the year	(43,252,069)	(71,249,015)
Written Off during the year	(10,946,262)	(12,737,651)
	445,712,667	272,297,651

### 8.2 Provision for Bad and Doubtful Debts consist of provisioning against ;

Leases	212,780,329	136,391,935
Hire Purchase	209,337,288	102,091,786
Loans & Advances	22,350,379	31,746,209
Investment Securities	444,467,996	270,229,930
	1,244,671	2,067,721
	445,712,667	272,297,651

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

As at 31st March 2010	2010 Rs.	2009 Rs.				
<b>9. REAL ESTATE STOCKS</b>						
Real Estate Stocks	218,376,950	220,556,976				
Lands transferred from Mortgaged Loans	28,550,902	-				
Less : Advances received against Real Estate Stocks	(14,679,938)	(9,315,916)				
	<b>232,247,914</b>	<b>211,241,060</b>				
<b>10. OTHER DEBTORS, DEPOSITS &amp; PREPAYMENTS</b>						
Sundry Debtors	30,313,445	72,062,978				
Deposits & Prepayments	73,957,642	69,556,187				
	<b>104,271,087</b>	<b>141,619,165</b>				
<b>11. INVESTMENT SECURITIES</b>						
Quoted Shares 11 (a)	5,689,309	5,921,223				
Unquoted Shares 11 (b)	304,700	304,700				
	<b>5,994,009</b>	<b>6,225,923</b>				
<b>11 (a) INVESTMENT SECURITIES IN QUOTED SHARES</b>						
	<b>Number of Shares 2010</b>	<b>Cost as at 2010 Rs.</b>	<b>Market Value as at 2010 Rs.</b>	<b>Number of Shares 2009</b>	<b>Cost as at 2009 Rs.</b>	<b>Market Value as at 2009 Rs.</b>
<b>Bank Finance and Insurance</b>						
Commercial Bank Of Cey. PLC	27	5	5,447	1,327	263	105,165
Ceylinco Insurance PLC	-	-	-	56	2,342	7,840
Merchant Bank PLC	61	6,027	1,144	61	6,027	549
Seylan Bank PLC	2,500	155,396	117,500	2,500	155,396	90,000
Seylan Bank (Non Voting)	90,700	1,685,000	2,358,200	90,700	1,685,000	498,850
		<b>1,846,428</b>	<b>2,482,291</b>		<b>1,849,028</b>	<b>702,404</b>
<b>Beverages, Food and Tobacco</b>						
Bairaha Farms PLC	17,600	424,979	598,400	17,600	424,979	154,000
Keells Food Products PLC	549	21,420	34,500	549	23,518	27,725
Lanka Milk Foods PLC	5,500	249,732	452,375	5,500	249,732	209,000
Convenience Foods PLC	22	880	3,179	22	880	1,562
		<b>697,011</b>	<b>1,088,454</b>		<b>699,109</b>	<b>392,287</b>
<b>Construction and Engineering</b>						
Colombo Dockyard PLC	-	-	-	3,858	155,461	220,871
	-	-	-		<b>155,461</b>	<b>220,871</b>

**11 (a) INVESTMENT SECURITIES IN QUOTED SHARES Contd.**

	Number of Shares 2010	Cost as at 2010 Rs.	Market Value as at 2010 Rs.	Number of Shares 2009	Cost as at 2009 Rs.	Market Value as at 2009 Rs.
<b>Hotels and Travels</b>						
Aitken Spence Hotel Holdings PLC	44	5,672	16,940	44	5,672	3,960
Hotel Sigiriya PLC	700	30,333	36,575	700	30,333	17,150
Riverina Hotels PLC	72	3,467	6,264	72	3,467	1,980
Fortress Resorts	2,500	26,048	48,125	2,500	26,048	13,750
		65,520	107,904		65,520	36,840
<b>Land and Property</b>						
Colombo Land & Development PLC	-	-	-	50	186	195
		-	-		186	195
<b>Manufacturing</b>						
Blue Diamond Jewellery PLC	74	848	59	27,474	314,973	41,211
Central Industries PLC	1,364	149,805	300,080	1,364	149,805	102,300
Ceylon Grain Elevators PLC	344	40,766	5,848	4,344	514,790	34,752
Dankotuwa Porcelain PLC	14,450	867,938	151,725	14,450	867,938	72,250
Lanka Walltiles PLC	16,450	789,882	1,233,750	16,450	789,882	649,775
Royal Ceramics PLC	15,660	843,225	1,769,580	15,660	843,225	430,650
Samson International PLC	5,363	929,800	465,240	5,363	929,800	269,491
		3,622,264	3,926,282		4,410,413	1,600,429
<b>Stores and Supplies</b>						
Hunter Ltd	10	2,767	6,000	10	2,767	2,700
		2,767	6,000		2,767	2,700
<b>Trading</b>						
Hayleys PLC	1,222	207,240	274,950	1,222	207,240	109,980
		207,240	274,950		207,240	109,980
<b>Telecommunication</b>						
Sri Lanka Telecom PLC	-	-	-	4,000	106,470	134,000
		-	-		106,470	134,000
Provisions for reduction in share value other than temporary		(751,921)	-		(1,574,971)	-
<b>Net Investment Securities in quoted shares</b>		<b>5,689,309</b>	<b>7,885,881</b>		<b>5,921,223</b>	<b>3,199,706</b>

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

#### 11 (b) INVESTMENTS IN UNQUOTED SHARES

	Number of Shares 2010	Cost as at 2010 Rs.	Directors Valuation as at 2010 Rs.	Number of Shares 2009	Cost as at 2009 Rs.	Directors Valuation as at 2009 Rs.
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
		797,450	304,700		797,450	304,700
Less: Fall in Value of Investment		(492,750)	-		(492,750)	-
<b>Net Investment in Unquoted shares</b>		<b>304,700</b>	<b>304,700</b>		<b>304,700</b>	<b>304,700</b>

As at 31st March 2010	Computer Software	
	2010 Rs.	2009 Rs.

#### 12. INTANGIBLE ASSETS

##### 12.1 Summary

##### Cost

As at the Beginning of the year	35,566,912	33,272,356
Acquired during the year	1,210,911	2,294,556
As at the end of the year	<b>36,777,823</b>	<b>35,566,912</b>

##### Amortisation

As at the Beginning of the year	26,255,615	23,313,316
Charge for the year	3,189,361	2,942,299
As at the end of the year	<b>29,444,976</b>	<b>26,255,615</b>

<b>Net book value</b>	<b>7,332,847</b>	<b>9,311,297</b>
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12.2 Intangible Assets include computer software of the company.

	Balance as at 01.04.2009 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31.03.2010 Rs.
<b>13. PROPERTY, PLANT &amp; EQUIPMENT</b>					
<b>13.1 Gross Carrying Amounts</b>					
<b>Cost</b>					
<b>Freehold Assets</b>					
Land	11,554,754	7,500,000	-	-	19,054,754
Furniture & Fittings	28,516,299	6,875,302	-	-	35,391,601
Equipment	49,436,233	22,252,289	-	-	71,688,522
Motor Vehicles & Accessories	51,465,897	-	7,666,750	-	59,132,647
Computer Hardware	71,460,772	13,739,295	-	-	85,200,067
Air Conditioning	16,042,461	4,582,768	-	93,000	20,532,229
Telephone System	14,376,311	7,817,431	-	-	22,193,742
Fire Protection Equipment	571,684	149,525	-	-	721,209
Leasehold Improvements	89,897,045	36,902,558	-	-	126,799,603
Fixtures and Fittings	5,342,818	995,481	-	-	6,338,299
	338,664,274	100,814,649	7,666,750	93,000	447,052,673
<b>Assets on Finance Lease</b>					
Motor Vehicle	14,846,750	-	(7,666,750)	-	7,180,000
<b>Total Value of Depreciable Assets</b>	<b>353,511,024</b>	<b>100,814,649</b>	<b>-</b>	<b>93,000</b>	<b>454,232,673</b>

	Balance As At 01.04.2009 Rs.	Incurred During the Year Rs.	Reclassified/ Transferred Rs.	Disposal/ Written off Rs.	Balance As At 31.03.2010 Rs.
<b>13.2 Capital work in progress</b>					
Capital work in progress	1,835,802	45,263,588	(44,932,836)	-	2,166,554

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

	Balance as at 01.04.2009 Rs.	Charge for the Period Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31.03.2010 Rs.
<b>13.3 Depreciation</b>					
<b>Freehold Assets</b>					
Furniture & Fittings	11,174,165	3,947,785	-	-	15,121,950
Equipment	25,798,140	8,620,704	-	-	34,418,844
Motor Vehicles & Accessories	30,692,296	6,605,891	7,666,750	-	44,964,937
Computer Hardware	38,805,912	11,201,161	-	-	50,007,073
Air Conditioning	10,341,643	2,064,890	-	93,000	12,313,533
Telephone System	4,205,811	3,600,148	-	-	7,805,959
Fire Protection Equipment	380,712	56,384	-	-	437,096
Leasehold Improvements	32,023,731	13,576,745	-	-	45,600,476
Fixtures and Fittings	3,985,900	1,019,163	-	-	5,005,063
	<u>157,408,310</u>	<u>50,692,871</u>	<u>7,666,750</u>	<u>93,000</u>	<u>215,674,931</u>
<b>Assets on Finance Lease</b>					
Motor Vehicle	8,018,865	2,758,719	(7,666,750)	-	3,110,834
	<u>165,427,175</u>	<u>53,451,590</u>	<u>-</u>	<u>93,000</u>	<u>218,785,765</u>
<b>Net Book Value</b>					
At Cost	181,255,964				231,377,742
On Finance Leases	6,827,885				4,069,166
Capital work in progress	1,835,802				2,166,554
	<u>189,919,651</u>				<u>237,613,462</u>

13.4 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 101,145,400 ( 2009 - Rs.101,030,498).  
Cash payments amounting to Rs. 101,145,400 ( 2009 - Rs.93,850,498) was paid during the year for purchases of Property, Plant & Equipment .

13.5 There aren't any temporarily idling assets as at 31st March 2010.

13.6 Property, Plant & Equipment includes fully depreciated assets having a gross carrying amount of Rs.126,668,932. (2009 - Rs.104,080,866)

13.7 Assets that were purchased under finance leases which transferred the ownership to the company during the year were transferred to Motor Vehicle at cost. Cost of such assets amounted to Rs.7,666,750 and accumulated depreciation of such assets were Rs.7,666,750.

	2010 Rs.	2009 Rs.
<b>14. DEPOSITS FROM NON BANK CUSTOMERS</b>		
Fixed Deposits	12,254,915,013	9,351,700,384
Certificates of Deposit (14.1)	234,873,884	206,669,686
	<u>12,489,788,897</u>	<u>9,558,370,070</u>

**14.1 Certificates of Deposit**

Certificates of Deposit - Face Value	247,900,000	226,600,000
Less : Interest allocated for future periods	(13,026,116)	(19,930,314)
	<u>234,873,884</u>	<u>206,669,686</u>

	2010 Rs.	2009 Rs.
<b>15. BORROWINGS</b>		
Bank Loans (15.1)	796,931,004	919,495,375
Bank Overdrafts	263,368,962	600,383,314
Finance Lease (15.3)	5,077,090	8,118,371
	<u>1,065,377,056</u>	<u>1,527,997,060</u>

	As at 01.04.2009 Rs.	Loans Obtained Rs.	Repayments Rs.	As at 31.03.2010 Rs.	Terms of the Loan	Security Offered
<b>15.1 Bank Loans</b>						
Seylan Bank	9,368,720	-	9,368,720	-	24 months	Book Debts
Seylan Bank	6,486,650	-	1,380,055	5,106,595	48 months	Vehicle
Central Bank Loan	132,600	-	88,400	44,200	63 months	-
Hatton National Bank	25,000,000	25,000,000	50,000,000	-	01 month	Book Debts
Commercial Bank	30,000,000	30,000,000	60,000,000	-	3 months	Book Debts
Bank of Ceylon 100M	43,750,000	-	25,000,000	18,750,000	48 months	Book Debts/shares
Bank of Ceylon 100M	33,333,334	-	33,333,334	-	36 months	Book Debts/shares
Bank of Ceylon 100M	50,000,000	-	25,000,000	25,000,000	48 months	Book Debts/shares
Bank of Ceylon 200M	41,666,667	-	41,666,667	-	24 months	Book Debts/shares
Bank of Ceylon 150M	91,666,667	-	50,000,000	41,666,667	36 months	Book Debts/shares
Sampath Bank Securitization Loan	25,000,000	-	25,000,000	-	49 months	Book Debts
Deutsche Bank Securitization 201.5 M	26,800,000	-	23,200,000	3,600,000	48 months	Book Debts
Deutsche Bank Securitization 100 M	13,943,849	-	13,943,849	-	36 months	Book Debts
Deutsche Bank Securitization 150 M	43,100,000	-	39,300,000	3,800,000	47 months	Book Debts

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

	As at 01.04.2009 Rs.	Loans Obtained Rs.	Repayments Rs.	As at 31.03.2010 Rs.	Terms of the Loan	Security Offered
<b>15.1 Bank Loans</b>						
Deutsche Bank Securitization 158 M	108,500,000	-	52,600,000	55,900,000	48 months	Book Debts
Deutsche Bank Securitization 50 M	38,000,000	-	38,000,000	-	19 months	Book Debts
Deutsche Bank Securitization 50 M	45,000,000	-	13,000,000	32,000,000	37 months	Book Debts
Deutsche Bank Securitization 49.99 M	38,887,905	-	16,666,668	22,221,237	36 months	Book Debts
Deutsche Bank Securitization 3.758 M	3,758,983	-	3,758,983	-	13 months	Book Debts
Deutsche Bank Securitization 216 M	216,000,000	-	30,800,000	185,200,000	48 months	Book Debts
Deutsche Bank Securitization 19 M	19,000,000	-	19,000,000	-	9 months	Book Debts
Deutsche Bank Securitization 10.1 M	10,100,000	-	10,100,000	-	6 months	Book Debts
Deutsche Bank Securitization 400 M	-	400,000,000	7,600,000	392,400,000	48 months	Book Debts
Public Bank - 10M	-	10,000,000	1,733,599	8,266,401	48 months	Vehicle
Public Bank - 3.6M	-	3,600,000	624,096	2,975,904	48 months	Vehicle
PABC Short Term Loan	-	50,000,000	50,000,000	-		
	<u>919,495,375</u>	<u>518,600,000</u>	<u>641,164,371</u>	<u>796,931,004</u>		

15.2 The Company has unutilized borrowing facilities of Rs.55,890,812 as at 31st March 2010.

	As at 01.04.2009 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.03.2010 Rs.
<b>15.3 Finance Leases</b>				
Seylan Bank PLC	8,118,371	-	3,041,281	5,077,090
	<u>8,118,371</u>	<u>-</u>	<u>3,041,281</u>	<u>5,077,090</u>
Gross Liability	11,066,607			6,729,396
Finance Charges allocated for future periods	(2,797,743)			(1,501,813)
Down payment	(150,493)			(150,493)
Net Liability	<u>8,118,371</u>			<u>5,077,090</u>

	2010 Rs.	2009 Rs.
<b>16. CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT</b>		
Cash & Bank Balances	277,083,322	217,641,590
Re-Purchase Agreements ( less than 3 months)	465,888,778	217,738,723
Bank Overdrafts	(263,368,962)	(600,383,319)
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statements	<u>479,603,138</u>	<u>(165,003,006)</u>

	2010 Rs.	2009 Rs.
<b>17. ACCRUED CHARGES</b>		
Accrued Interest	607,352,880	590,674,765
Accrued Expenses	294,695,794	256,303,430
	<b>902,048,674</b>	<b>846,978,195</b>

**18. DEBENTURES**

Unsecured Debentures	450,000,000	450,000,000
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The Rs.450,000,000 Unsecured Redeemable Subordinated listed Debentures were issued at following rates and will mature on 20th September 2013 .

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

	2010 Rs.	2009 Rs.
<b>19. RETIREMENT BENEFIT LIABILITY</b>		
Retirement Benefit Obligations - Gratuity		
Balance at the beginning of the year	21,565,015	26,777,771
Amount Charged/(Reversed) for the year (19.1)	5,969,466	(1,662,552)
Payments made during the year	(272,600)	(3,550,204)
Balance at the end of the year	<b>27,261,881</b>	<b>21,565,015</b>

An actuarial valuation of the gratuity was carried out as at 31st March 2010 by Piyal S Goonetilleke and Associates, a firm of professional actuaries. The valuation method used by the actuaries to value the Fund is the "Projected Unit Credit Method", recommended by SLAS No.16.

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

	2010 Rs.	2009 Rs.
<b>19.1 Expenses on Defined Benefit Plan</b>		
Current Service Cost for the year	3,222,765	2,856,721
Interest cost for the year	2,746,701	2,690,916
Recognition of Transition Liability (19.2)	-	(7,210,189)
	<u>5,969,466</u>	<u>(1,662,552)</u>

	2010 Rs.	2009 Rs.
<b>19.2 Recognition of transitional asset/liability</b>		
Transitional Asset recognised	-	7,210,189
Amortisation for the year	-	(7,210,189)
Unamortised transitional liability as at the end of the year	-	-

<b>19.3 Actuarial assumptions</b>	<b>2010</b>	<b>2009</b>
Discount Rate	11%	12%
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.

	2010		2009	
	Number	Rs.	Number	Rs.
<b>20. STATED CAPITAL</b>				
<b>20.1 Fully paid ordinary shares</b>	<u>34,628,571</u>	<u>491,996,449</u>	<u>34,628,571</u>	<u>491,996,449</u>

**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.

	<b>Reserve Fund Rs.</b>	<b>Retained Profits Rs.</b>	<b>Total Rs.</b>
<b>21 RESERVES</b>			
At the beginning of the year	223,396,491	634,704,329	858,100,820
Profit for the year	-	500,161,124	500,161,124
	223,396,491	1,134,865,453	1,358,261,944
Appropriation of Bad debts	-	10,059,929	10,059,929
Final Dividend (2008/2009)	-	(103,885,713)	(103,885,713)
Transfers to/(from) during the year	100,032,225	(100,032,225)	
At the end of the year	323,428,716	941,007,444	1,264,436,160

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.

	<b>2010 Rs.</b>	<b>2009 Rs.</b>
<b>22. INCOME</b>		
<b>22.1 Summary</b>		
Gross Income (22.2)	4,130,993,392	3,580,172,533
	4,130,993,392	3,580,172,533
<b>22.2 Segmental Analysis of Gross Income</b>		
Interest	3,953,032,428	3,431,949,583
Real Estate	4,796,857	39,350,153
Fee Based Income	159,970,872	74,091,916
Others	13,193,235	34,780,881
	4,130,993,392	3,580,172,533

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

	2010 Rs.	2009 Rs.
<b>23. INCOME FROM INTEREST BEARING ACTIVITIES</b>		
Interest on Leases	1,239,273,590	1,028,862,224
Interest on Loans	148,059,317	130,714,892
Interest on Hire Purchase	1,337,696,851	1,342,489,876
Interest on Trade Finance	88,398,805	63,495,967
Overdue Interest	211,718,401	149,171,639
Interest on Pawn Broking	670,797,396	486,486,261
Interest on Bank Deposits	126,008,950	82,196,621
Interest on Treasury Bills	131,079,118	148,532,103
	<u>3,953,032,428</u>	<u>3,431,949,583</u>

#### 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 April 1, 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. 13,107,912 (2009 - Rs. 14,853,210).

	2010 Rs.	2009 Rs.
<b>24. INTEREST EXPENSES</b>		
Interest on Fixed Deposits	1,973,838,702	1,832,939,230
Interest on Certificates of Deposit	39,341,266	41,256,450
Interest on Loans	122,778,857	236,945,215
Interest on Bank Overdrafts	8,932,083	65,575,791
Interest on Finance Leases	1,463,286	1,468,872
Interest on Debentures	103,451,022	60,661,303
	<u>2,249,805,216</u>	<u>2,238,846,861</u>

#### 25. OTHER OPERATING INCOME

Income from Investments - quoted	249,816	298,544
Profit/(Loss) on Disposal of Investments	(192,162)	(135,009)
Profit/(Loss) on Sale of Fixed Assets	8,036	(8,679)
Real Estate Income ( net of cost )	1,121,064	13,453,224
Profit from Fee based activities	159,970,872	74,091,916
Profits on sale of vehicles	2,250,873	8,559,489
Income from Operating Lease	1,977,200	3,054,630
Recoveries of Bad Debts on write offs	8,543,972	22,639,532
Sundry Income	355,500	372,374
	<u>174,285,171</u>	<u>122,326,021</u>

	2010 Rs.	2009 Rs.
<b>26. PROFIT FROM OPERATION STATED AFTER CHARGING THE FOLLOWING EXPENSES</b>		
Transport Costs	11,558,329	12,646,688
Advertising Costs	32,740,583	15,421,720
Auditors' Remuneration (Fees and Expenses)	1,056,100	921,150
Depreciation	53,451,590	40,869,056
Amortisation of Intangible Assets- Software	3,189,361	2,942,299
Staff Cost includes Defined Contribution Plan Costs - EPF & ETF	30,911,819	26,767,451

**27. PROVISION FOR INCOME TAX**

The major components of income tax expense for the years ended 31st March are as follows:

**Income Statement****Current Income Tax**

Current Income Tax charge	423,104,424	123,618,991
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**Deferred Income Tax**

Deferred Taxation Charge (27.2)	(44,975,440)	72,088,293
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<b>Income tax expense reported in the Income Statement</b>	<b>378,128,984</b>	<b>195,707,284</b>
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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 :

<b>Accounting Profit before Income Tax</b>	<b>878,290,108</b>	<b>555,315,195</b>
<b>Income Tax Expense at the statutory income tax rate of 35%</b>	<b>307,401,538</b>	<b>194,360,318</b>
Tax Effect of Other Allowable Credits	(933,798)	(914,945)
Non deductible expenses	65,408,469	59,342,195
Tax effect on brought forward tax losses	-	(58,907,167)
Social Security Levy at 1.5% of Tax ( 2009 - 1.5% )	6,252,775	1,826,883
<b>Income Tax Expense at the effective income tax rate of 43% ( 2009- 35%)</b>	<b>378,128,984</b>	<b>195,707,284</b>

The Company's operations were taxed at the rate of 35% during the year

## Notes to the Financial Statements

### Year Ended 31st March 2010 *Contd.*

	Balance sheet		Income Statement	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
<b>27.2 Deferred Tax Assets, Liabilities and Income Tax relates to the followings</b>				
<b>Deferred Tax Liability</b>				
Capital allowances for tax purposes	151,269,297	194,250,834	(42,981,537)	70,263,828
	<u>151,269,297</u>	<u>194,250,834</u>	<u>(42,981,537)</u>	<u>70,263,828</u>
<b>Deferred Tax Assets</b>				
Defined Benefit Plans	(9,541,658)	(7,547,755)	(1,993,903)	1,824,465
	<u>(9,541,658)</u>	<u>(7,547,755)</u>	<u>(1,993,903)</u>	<u>1,824,465</u>
Deferred tax Expense			(44,975,440)	72,088,293
Net Deferred Tax Liability	<u>141,727,639</u>	<u>186,703,079</u>		

## 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 and share data used in the Basic Earnings Per Share computation.

	2010 Rs.	2009 Rs.
<b>Amounts Used as the Numerators:</b>		
Net Profit Attributable to Ordinary Shareholders for Basic Earnings Per Share	<u>500,161,124</u>	<u>359,607,911</u>
	<b>2010 Number</b>	<b>2009 Number</b>
<b>Number of Ordinary Shares Used as Denominators for Basic Earnings per share</b>		
Weighted Average number of Ordinary Shares in issue		
Applicable to Basic Earnings Per Share	<u>34,628,571</u>	<u>32,825,000</u>

## 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	277,083,322	-	-	-	277,083,322
Treasury Bills & other bills eligible for re-discounting with Central Bank	528,055,191	637,101,919	-	-	1,165,157,110
Deposits with Banks	2,500,000	347,417,827	-	15,000,000	364,917,827
Loans and Advances	424,572,035	285,593,645	258,351,840	89,318,629	1,057,836,149
Lease Rental Receivable and Stock out on Hire	1,358,081,504	2,823,787,071	5,362,998,185	895,461,765	10,440,328,525
Pawning Advances	2,742,722,736	393,255,915	-	-	3,135,978,651
Real Estate Stock	50,924,253	181,323,661	-	-	232,247,914
Advance for Vehicle Stock	156,501,801	-	-	-	156,501,801
Other Debtors, Deposits and Prepayments	28,258,967	20,192,978	24,650,511	31,168,631	104,271,087
Investment Securities	-	-	-	5,994,009	5,994,009
Intangible assets	-	-	-	7,332,847	7,332,847
Property, Plant & Equipment	-	-	-	237,613,462	237,613,462
<b>As at 31.03.2010</b>	<b>5,568,699,809</b>	<b>4,688,673,016</b>	<b>5,646,000,536</b>	<b>1,281,889,343</b>	<b>17,185,262,704</b>
<b>As at 31.03.2009</b>	<b>3,705,747,600</b>	<b>4,049,755,255</b>	<b>5,170,299,694</b>	<b>1,083,658,682</b>	<b>14,009,461,231</b>
<b>Liabilities</b>					
Deposits from Non-Bank Customers	5,940,430,048	5,332,885,861	946,223,950	270,249,038	12,489,788,897
Borrowings	363,164,392	283,310,334	383,302,330	35,600,000	1,065,377,056
Accrued Charges	538,033,654	222,633,539	96,031,162	45,350,319	902,048,674
Debentures	-	-	-	450,000,000	450,000,000
Retirement Benefit Liability	-	-	-	27,261,881	27,261,881
Tax Liability	36,740,628	315,885,320	-	-	352,625,948
Deferred Taxation	-	-	-	141,727,639	141,727,639
<b>As at 31.03.2010</b>	<b>6,878,368,722</b>	<b>6,154,715,054</b>	<b>1,425,557,442</b>	<b>970,188,877</b>	<b>15,428,830,095</b>
<b>As at 31.03.2009</b>	<b>6,511,871,143</b>	<b>3,817,980,334</b>	<b>1,184,219,017</b>	<b>1,145,293,468</b>	<b>12,659,363,962</b>

	2010 Rs.	2009 Rs.
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### 30 COMMITMENTS AND CONTINGENCIES

#### 30.1 Contingent Liabilities

Guarantees issued to Banks and other Institutions	6,060,000	3,510,000
Cases pending against the Company	22,073,457	42,250,998
	<b>28,133,457</b>	<b>45,760,998</b>

#### 30.2 Commitments

The Company has purchased commitments for acquisition of Property, Plant & Equipment & Vehicle Stocks incidental to the ordinary course of business are,

Contracted but not provided for	108,723,871	756,478
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# Notes to the Financial Statements

## Year Ended 31st March 2010 *Contd.*

### 31 ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2010 Rs.	2009 Rs.	
Lease Receivables	Loans & Overdrafts	1,590,113,086	1,367,876,125	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	16,348,897	6,486,650	Property, Plant & Equipment
		<u>1,679,461,983</u>	<u>1,447,362,775</u>	

### 32. FINANCIAL REPORTING BY SEGMENT

	Lease & Stock out on Hire		Term Loans		Real Estate		Pawning		Others		Total	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.		
Interest	2,788,688,843	2,520,574,589	153,179,833	124,636,652	3,099,598	3,825,231	670,797,396	486,451,426	337,266,759	296,461,685	3,431,949,583	
Real Estate	-	-	-	-	4,796,857	39,350,153	-	-	-	-	4,796,857	39,350,153
Fee Based Income & others	58,522,664	45,540,876	-	9,925,562	-	-	101,500,138	49,823,490	13,141,305	3,582,869	173,164,107	108,872,797
Total Revenue	<u>2,847,211,507</u>	<u>2,566,115,465</u>	<u>153,179,833</u>	<u>134,562,214</u>	<u>7,896,455</u>	<u>43,175,384</u>	<u>772,297,534</u>	<u>536,274,916</u>	<u>350,408,064</u>	<u>300,044,554</u>	<u>4,130,993,393</u>	<u>3,580,172,533</u>
Segmental Result	915,551,977	569,505,428	53,244,905	48,175,974	(30,183,230)	(23,553,357)	299,680,229	140,728,466	(113,845,742)	14,060,931	1,124,448,139	748,917,442
Unallocated Expenses											246,158,031	193,602,247
Profits from operations											878,290,108	555,315,195
Income tax expenses											(378,128,984)	(195,707,284)
Net profit for the period											500,161,124	359,607,911
Segment Asset	10,671,676,576	9,244,045,832	1,087,528,234	941,890,179	213,745,530	226,105,042	3,163,918,371	1,918,895,901	1,536,068,945	1,356,420,516	16,672,937,656	13,687,357,470
Unallocated Assets											512,325,048	322,103,761
Total Assets											<u>17,185,262,704</u>	<u>14,009,461,231</u>
Segment Liabilities	635,408,034	1,096,459,493	64,753,103	74,530,829	12,804,176	20,263,757	188,384,565	139,103,859	450,000,000	450,000,000	1,351,349,878	1,780,357,938
Unallocated Liabilities											14,077,480,217	10,879,006,024
Total Liabilities											<u>15,428,830,095</u>	<u>12,659,363,962</u>

**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 except for the followings.

The Board of Directors has declared an interim dividend of Rs. 5 per share totalling to Rs. 173,142,855 on 18th May 2010.

**34 RELATED PARTY DISCLOSURES****34.1 Transactions with Key Managerial Persons**

The Key Managerial Personnel of the Company are the members of its Board of Directors. Following transactions are entered between the company and its Key Management Personnel and their close family members.

	2010 Rs'000's	2009 Rs'000's
<b>34.1.1 Compensation to Key Managerial Personnel</b>		
Short Term Employment Benefits Paid	43,270	38,385
<b>34.1.2 Other transactions with Key Managerial Personnel</b>		
Personal Guarantees Received	85,416	261,000
Fixed Deposits Accepted during the year	4,227	18,769

**34.1.3 Transactions with entities that are controlled, jointly controlled or significantly influenced by Key Managerial Personnel or their close member of family, or shareholders who have either control, significant influences or joint control over entity.**

Nature of Transaction	2010 Rs'000's	2009 Rs'000's
Fixed Deposits accepted during the year	253,979	503,870
Fixed Deposits held at the end of the year	24,055	107,606
Interest payable on Fixed Deposits	1,568	3,067
Interest paid on Fixed Deposits	20,916	20,761
Dividend paid on share holdings	126,065	75,352
Lease Facilities Granted	2,790	8,500
Bank Balance	4,985	(93,149)
Letter of Credits opened during the year	6,087	4,542

	2010 Rs.	2009 Rs.
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**35 DIVIDEND PROPOSED**

Dividend proposed after the balance sheet date (Rs.3 per share)	-	103,885,713
Interim dividend paid on 18th May 2010 (For 2009/10 - Rs. 5 per share) (not recognized as a liability as at 31st March)	173,142,855	-

## Capital Adequacy Ratio

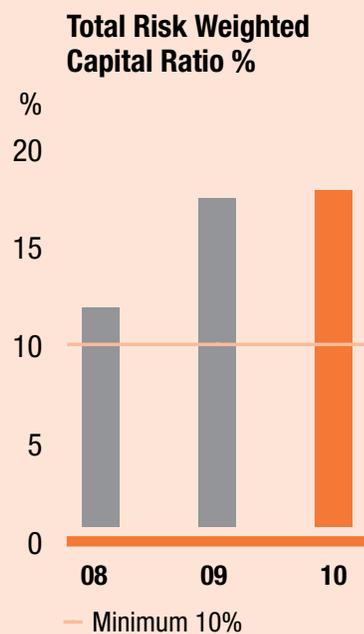
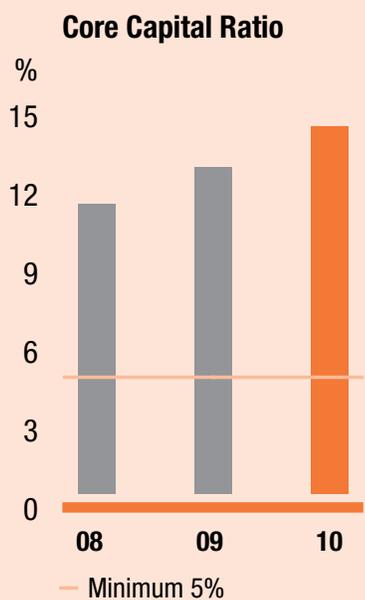
	2008	2009	2010
<b>Tier I: Core Capital</b>			
Issued & paid-up Ordinary Shares / Common Stock	303,000	346,286	346,286
Non-cumulative, Non-redeemable Preference Shares	-	-	-
Share Premium	115,410	145,710	145,710
Statutory Reserve Fund	151,475	223,396	223,396
General & Other free Reserves	-	-	-
Published Retained Profits/ (Accumulated Losses)	405,139	634,704	1,041,041
Surplus / Loss after tax arising from the sale of fixed & long-term investments	-	-	-
Unpublished Current year's Profits/ Losses	-	-	-
Sub Total	975,024	1,350,097	1,756,433
<b>Deductions</b>			
Goodwill	-	-	-
Total Tier I Capital	-	-	-
	975,024	1,350,097	1,756,433
<b>Tier II: supplementary Capital</b>			
Eligible Revaluation Reserves	-	-	-
General Provisions	-	-	-
Approved Hybrid (debt/equity) Capital instruments	-	-	-
Approved Unsecured Subordinated Team Debt (Actual amount is Rs.450,000,000) (Eligible amount is Rs. 360,000,000)	20,000	450,000	360,000
Total Tier II Capital	100,000	450,000	450,000
Eligible Tier II Capital	20,000	450,000	360,000
Total Capital	995,024	1,800,097	2,116,433
<b>Deductions</b>			
Equity Investments in unconsolidated financial & banking Subsidiaries	-	-	-
Investments in capital of other Financial Associates / banks	-	-	-
Capital Base	995,024	1,800,097	2,116,433
Total Tier I (Core Capital)	975,024	1,350,097	1,756,433
Capital Base	995,024	1,800,097	2,116,433
Total Risk Weighted Assets	8,472,466	10,426,416	12,208,331

**Core Capital Ratio (Minimum requirement 5%)**

$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}}$	11.51%	12.95%	14.39%
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**Total Risk Weighted Capital Ratio (Minimum Ratio 10%)**

$\frac{\text{Capital Base}}{\text{Risk Weighted Assets}}$	11.74%	17.26%	17.34%
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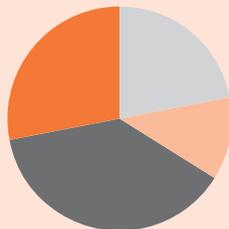


## Value Added Statement

	FY 2009/10 Rs. 000	FY 2008/09 Rs. 000
<b>Value Added</b>		
Income from Interest Related Activities	3,953,032	3,431,950
Income from Real Estate	4,797	39,350
Income from Fee Based Activities	159,971	74,092
Income from Other Activities	13,193	34,781
	<u>4,130,993</u>	<u>3,580,173</u>
Depositors and Lenders	(2,249,805)	(2,238,847)
Cost of Sales and Services	(277,722)	(282,677)
Provision for Bad & Doubtful Debts	(194,421)	(79,749)
Total Value Added	<u>1,409,045</u>	<u>978,900</u>
<b>Distribution of Value Added</b>		
To Employees:		
Salaries and Other Benefits	314,370	267,221
To Providers of Capital		
Dividends proposed	173,143	103,886
To Government: Taxes		
	537,873	308,260
To Expansion and Growth:		
Depreciation	56,641	43,811
Retained Profits	327,018	255,722
	<u>1,409,045</u>	<u>978,900</u>

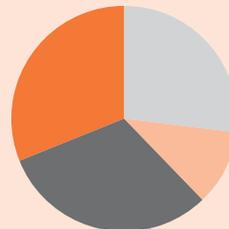
**Distribution of Value Added 2009/10**

■ To Expansion and Growth	28%
■ To Government Taxes	38%
■ To Providers of Capital	12%
■ To Employees	22%



**Distribution of Value Added 2009/10**

■ To Expansion and Growth	27%
■ To Government Taxes	11%
■ To Providers of Capital	31%
■ To Employees	31%



## Ten Year Summery

	12 Months 31.12.00 Rs '000	12 Months 31.12.01 Rs '000	12 Months 31.12.02 Rs '000	12 Months 31.12.03 Rs '000	15 Months 31.03.05 Rs '000	12 Months 31.03.06 Rs '000	12 Months 31.03.07 Rs '000	12 Months 31.03.08 Rs '000	12 Months 31.03.09 Rs '000	12 Months 31.03.10 Rs '000
<b>Balance Sheet</b>										
Cash and Amounts Due From Banks	17,326	40,873	22,909	40,062	24,242	57,232	90,555	152,581	217,642	277,083
Placements With Other Banks	57,500	99,630	110,386	95,101	140,940	171,786	247,918	415,918	550,496	364,918
Treasury Bills & other bills eligible for re-discounting with Central Bank	108,800	115,411	147,860	185,702	234,323	297,939	361,369	476,877	799,698	1,165,157
Amounts due from Department of Inland Revenue	-	-	-	-	-	-	14,099	8,377	-	-
Real Estate Stock	75,617	102,254	107,319	184,457	161,755	170,963	238,641	218,198	211,241	232,248
Loans And Advances	273,148	338,652	671,042	861,373	997,211	977,435	1,100,386	1,805,470	2,834,414	4,193,815
Lease Rentals Receivable & Stock Out										
On Hire	859,212	838,071	999,803	995,656	1,726,591	2,830,052	4,641,290	7,256,655	9,006,955	10,440,329
Investment Securities	16,070	16,024	15,744	18,328	12,945	9,021	9,032	9,032	6,226	5,994
Other Debtors, Deposits and Prepayments	80,771	109,279	100,923	75,399	47,169	32,768	129,921	142,570	141,619	98,425
Deferred Taxation	-	-	-	-	-	35,650	-	-	-	-
Advance for Vehicle Stock	-	-	-	-	-	15,620	58,242	118,686	41,939	156,502
Intangible Assets	-	-	-	-	-	4,760	11,289	9,959	9,311	7,333
Property, Plant & Equipment	33,402	31,989	54,007	47,242	58,957	63,117	87,773	129,775	189,920	237,613
<b>Total Assets</b>	<b>1,521,846</b>	<b>1,692,183</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>10,744,098</b>	<b>14,009,461</b>	<b>17,185,263</b>
Deposits From Non-Bank Customers	1,160,096	1,345,311	1,824,406	2,006,061	2,606,792	3,344,671	4,561,445	7,309,101	9,558,370	12,489,789
Borrowings	98,180	73,964	113,233	86,585	314,197	561,612	1,401,839	1,658,593	1,527,997	1,065,377
Debentures	-	-	-	100,000	100,000	100,000	100,000	100,000	450,000	450,000
Trade Payables & Accrued Charges	115,946	118,839	139,264	139,166	147,566	230,727	303,445	559,993	846,978	902,049
Tax Payable	-	-	-	-	11,375	48,972	-	-	67,750	352,626
Deferred Taxation	-	-	-	-	-	-	16,993	114,615	186,703	141,728
Dividends Payable	-	-	-	-	-	13,500	-	-	-	-
Provision and Other Liabilities	3,758	4,982	6,236	7,987	8,978	12,207	19,367	26,778	21,565	27,262
<b>Total Liabilities</b>	<b>1,377,980</b>	<b>1,543,096</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>15,428,830</b>
Share Capital	135,000	135,000	135,000	135,000	135,000	135,000	202,000	418,411	491,996	491,996
Reserves	8,866	14,087	21,766	28,522	76,930	219,654	385,426	556,608	858,101	1,264,436
Total Shareholders' Funds	143,866	149,087	156,766	163,522	211,930	354,654	587,426	975,019	1,350,097	1,756,432
Total Liabilities & Funds Employed	1,521,846	1,692,183	2,239,905	2,503,321	3,400,838	4,666,343	6,990,516	10,744,099	14,009,461	17,185,263
<b>Income Statement</b>										
Gross Income	419,474	362,909	501,671	541,873	779,175	914,463	1,310,792	2,778,862	3,580,173	4,130,993
Interest Income	301,270	300,659	375,197	425,837	677,403	849,978	1,229,406	2,082,418	3,431,950	3,953,032
Interest Expenditure	197,571	208,154	268,896	297,083	383,401	432,856	655,624	1,318,058	2,238,847	2,249,805
Net Interest Income	103,699	92,505	106,301	128,754	294,002	417,122	573,782	764,360	1,193,103	1,703,227

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L B Finance PLC

Annual Report 2009-2010

## Ten Year Summery *Contd.*

	12 Months 31.12.00	12 Months 31.12.01	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
	Rs '000									
Other Operating Income	18,386	11,007	42,765	33,000	42,784	29,917	65,247	165,682	122,326	174,285
Operating Expenditure	117,605	98,291	137,840	158,545	251,929	243,391	309,632	509,225	647,561	839,479
Profits Before taxation	4,480	5,221	11,226	3,209	73,344	173,108	282,401	355,214	555,315	878,290
Provision For Taxation	-	-	-	-	24,936	96,051	103,625	149,381	195,707	378,129
Dividends	-	-	-	-	-	13,500	-	68,175	103,886	173,143
Net profits	4,480	5,221	11,226	3,209	48,408	77,056	178,776	205,833	359,608	500,161

### Decade at a Glance

#### Ratios

Earnings Per Share (Rs.)	0.33	0.39	0.83	0.24	3.59	3.95	7.48	5.34	10.96	14.44
Net Assets Per Share (Rs)	10.66	11.04	11.61	12.11	15.70	26.27	24.56	37.86	41.13	50.72
Return On Average Shareholders' Funds (%)	3.16	3.56	7.34	2.00	25.79	27.20	37.95	26.35	30.93	32.20
Return On Average Assets (%)	0.29	0.32	0.57	0.14	1.64	1.91	3.07	2.32	2.91	3.21
Total Assets to Shareholders' Funds (Times)	10.58	11.35	14.22	15.31	16.05	13.16	11.90	11.02	10.37	9.78
Interest Spread (%)	5.84	5.18	5.05	5.00	9.42	9.67	9.22	9.11	10.11	9.79
Net Interest Margin (%)	7.36	6.38	5.97	5.86	10.47	10.79	10.38	9.11	10.11	11.81
Efficiency Ratio (%)	96.33	94.96	92.47	98.02	74.80	54.45	48.45	54.75	49.23	44.71
Growth In Gross Income (%)	1.94	(13.48)	38.24	8.01	43.79	17.36	43.34	112.00	28.84	15.39
Growth In Interest Income (%)	0.01	(0.20)	24.79	13.50	59.08	25.48	44.64	69.38	64.81	15.18
Growth In Interest Expense (%)	(5.20)	5.36	29.18	10.48	29.06	12.90	51.46	101.04	69.86	0.49
Growth In Net Interest Income (%)	11.72	(10.79)	14.91	21.12	128.34	41.88	37.56	33.21	56.09	42.76
Growth In Profit Before Taxes (%)	(79.73)	16.54	115.02	(71.41)	2,185.58	136.02	63.14	25.78	56.33	58.16
Growth In Net Profit (%)	(79.73)	16.54	115.02	(71.41)	1,408.51	59.18	132.01	15.13	74.71	39.09
Growth In Total Assets (%)	(2.40)	11.19	31.78	12.26	35.85	37.21	49.86	53.64	30.39	22.67
Growth In Total Advances (%)	(1.63)	3.92	41.99	11.14	46.68	39.79	50.80	57.83	41.02	30.78
Growth In Deposits (%)	2.44	15.97	35.61	9.96	29.95	28.31	36.38	60.24	30.77	30.67
Growth In Shareholders' Funds (%)	3.21	3.63	5.15	4.31	29.60	67.34	65.63	65.98	38.47	30.10
No. Of Branches	4	5	5	5	5	7	9	15	21	27
No. Of Pawning Centres	5	8	12	14	22	26	32	40	57	75

## Share Information

### List of Major Shareholders of the Company as at 31st March 2010

Name	as at 31/03/2010			as at 31/03/2009	
	No. of Shares	(%)	Cum.%	No. of Shares	(%)
1 Mr. K D D Perera	22,001,088	63.534	63.534	22,001,088	63.534
2 Commercial Bank of Ceylon PLC/Royal Ceramics Lanka PLC	3,194,000	9.224	72.758		
3 SBL/ Mr. K A D D Perera	2,698,893	7.794	80.552	2,698,893	7.794
4 Esna Holdings (Pvt) Ltd	2,582,400	7.457	88.009	2,581,200	7.454
5 Mr. Nimal Perera	408,949	1.181	89.190	300,378	0.868
6 Mr. D F G Dalpethado	195,582	0.565	89.755	70,902	0.205
7 Royal Ceramics Lanka PLC	169,497	0.489	90.244	3,363,497	9.713
8 J B Cocoshell (Pvt) Ltd	165,408	0.478	90.722	273,808	0.791
9 Mr. H A M P Algama	100,000	0.289	91.011		
10 Mr. A M Weerasinghe	74,425	0.215	91.226	74,425	0.215
11 Waldock Mackenzie Ltd / Mrs. G Soysa	63,626	0.184	91.410	83,626	0.241
12 Mr. P Somadasa	61,836	0.179	91.589	85,436	0.247
13 Mrs. P C Cooray	61,252	0.177	91.766		
14 Mr. R H Keerthipala	60,460	0.175	91.941		
15 Mr. S Prabagar	60,000	0.173	92.114		
16 Mr. W J D Benedict	50,000	0.144	92.258	50,000	0.144
17 Mr. M J D Peiris	49,000	0.142	92.400		
18 Mr. V T De Zoysa	40,000	0.116	92.516		
19 Mr. T Jeremiah	38,791	0.112	92.628	38,791	0.112
20 Mr. K Karunanayake & Miss. P N Karunanayake	37,581	0.109	92.737	38,581	0.111
	32,112,788	92.737			
<b>Others</b>	2,515,783	7.263			
	34,628,571	100.000			

### PUBLIC HOLDING

The percentage of shares held by the public as at 31st March 2010 is 27.17%

### DISTRIBUTION OF SHAREHOLDINGS AS AT 31ST MARCH 2010

From	To	No. of Holders	No. of Shares	%
1	1,000	1,108	317,905	0.92
1,001	10,000	368	1,239,952	3.58
10,001	100,000	67	1,654,897	4.78
100,001	1,000,000	5	939,436	2.71
Over	1,000,000	4	30,476,381	88.01
		1,552	34,628,571	100.00

### ANALYSIS OF SHAREHOLDERS AS AT 31ST MARCH 2010

Category	No. of Shareholders	No. of Shares	%
Local Individuals	1,490	25,363,303	73.24
Local Institutions	48	9,190,437	26.54
Foreign Individuals	14	74,831	0.22
Foreign Institutions	-	-	0.00
Total	1,552	34,628,571	100.00

## Share Information *Contd.*

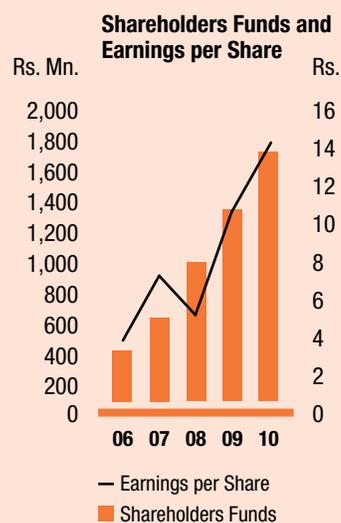
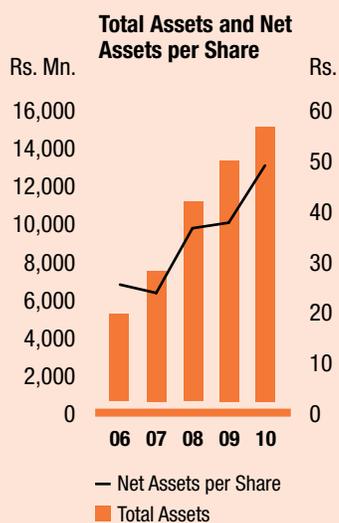
### DIRECTORS' SHAREHOLDING AS AT 31ST MARCH 2010

Names of Directors	No. of shares	Percentage (%)
Mr. B M Amarasekera & Mr. S H Amarasekera	100	
Mr. K D D Perera	24,699,981	71.33
SBL/Mr. K A D D Perera		
Mr. J A S S Adhihetty	26,530	0.08
Mr. Nimal Perera	408,949	1.18
Mr. A M Weerasinghe	74,425	0.21
Mr. K D A Perera	-	-
Mr. N Udage	2,100	0.01
Mr. B D St. Auburn Perera	-	-
Mr. M D S Goonatilleke	45	-
Mrs. K Fernando	800	-
Mr. L N De Silva Wijeyeratne	-	-

### SHARE PRICES FOR THE YEAR

	31.03.2010 Rs.	31.03.2009 Rs.
Market price per share	69.00	25.00
Highest during the period	17.75	15.00
Lowest during the period	62.00	19.00

As at end of the period	31.03.2010	31.03.2009
No. of transactions	7,932.00	3,142
No. of Shares traded	7,856,300	5,304,700



## Glossary of Financial Terms

### Earning Assets

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

### Interest Bearing Liabilities

Liabilities on which the Company is paying interest.

### Efficiency Ratio

Non interest expenses divided by the sum of net interest income and non interest income.

### Investment Securities

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

### Net Interest Margin

Ratio of net interest income to earning assets.

### Interest Spread

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

### NPL Ratio

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

### Equity Multiplier

The total assets divided by the shareholders funds.

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

### Provision for Bad Debts

Amounts set aside against possible losses on financial leases hire purchases advances and other credit facilities according to finance companies Direction 3 of 2006.

### Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.

### Materiality

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

### Net Assets Value per Ordinary Share

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

### Risk Weighted Assets

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

### Segmental Analysis

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

### Repurchase Agreement

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

### Return on Average Equity (ROE)

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

### Revenue Reserve

Reserves set aside for future distribution and investment.

### Shareholders' Funds

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

### Net Interest Income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

### Non-Performing Loans

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

### Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

## Glossary of Financial Terms *Contd.*

### **Prudence**

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

### **Related Parties**

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

### **Return on Average Assets (RoA)**

Profit after tax divided by the average assets.

### **Substance Over Form**

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

### **Tier I Capital**

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

### **Tier II Capital**

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

### **Value Added**

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

### **Debt to Equity Ratio**

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

### **Interest Cover**

Earnings before interest and taxes divided by interest cost.

### **Liquid Assets Ratio**

Liquid Assets divided by public Deposits.

## Branch Network



“Milton House” No. 115, Kotugodella Veediya, Kandy

26, “Anagarika Dharmapala Mw, Badulla

80, Greens Rd, Negombo

275/75, Prof. Stanley Wijesundara Mw, Colombo 07

150, Main Street Galle

21, Dambulu Rd, Kurunegala

508, Galle Rd, Panadura

92, Stanley Thilakarathne Mw, Nugegoda

205, Main Street, Rathnapura

334, Main Street, Kalutara South

02, Rathnapura Rd, Horana.

137, Main Street, Anuradhapura

1B, Bauddha Loka Mawatha, Gampaha

96/2, Galle Road, Ambalangoda

13, Station Road, Matara

12, Main Street, Kuliyaipitiya

No. 19, Rest House, Approach Road, Balangoda.

No. 315, Main Street, Kegalle.

“Rajarata Building”, Main Street, Kaduruwela

No. 25, Yatiyantota Road, Awissawella.

No. 71, City Lite Building, Queen Elisabeth Drive, Nuwara-Eliya.

84A, Galle Road, Dehiwala

275, Central Road, Trincomalee

175, Thirumalei Street, Waradana, Batticaloa

1/40A, Colombo Road, Chilaw

02, Kandy Road, Kiribathgoda

04, Opposite Clock Tower, Ampara

## Branch Information

Branch	Address	Telephone	Fax	E-mail	Contact Person
Kandy	"Milton House" No. 115 Kotugodella Veediya Kandy	081-2232226 081-2225765 081-2238931 081-2238932 081-4476235	081-2232226	nirosha@lbfinance.lk	Mrs. Nirosha Amanulla Senior Manager
Badulla	No. 26, Anagarika Dharmapla Mw., Badulla.	055-2231965 055-4499744 055-4499523	055-2231964	jayantha@lbfinance.lk	Mr. Jayantha Weerasinghe Head of Branch
Negombo	No. 80, Greens Road, Negombo	031-4872513 031-4872514 031-4874574	031-2231266	tephan@lbfinance.lk	Mr. Tephana Sosa Head of Branch
Galle	No. 150, Main Street, Galle.	091-4381644 091-4385065 091-4380451	091-4381644	jagath@lbfinance.lk	Mr. Jagath Hettiarchchi Head of Branch
Kurunegala	No. 21, Athula Cooray Building, Dambulla Road, Kurunegala.	037-4690464 037-4690138	037-4690138	rasika@lbfinance.lk	Mr. Rasika Tennakoon Head of Branch
Panadura	No. 508, Galle Road, Panadura.	038-4282500 038-4282111	038-4282111	mahesh@lbfinance.lk	Mr. Mahesh Gulawita Head of Branch
Nugegoda	No. 92, Stanley Thilakarathne Mw., Nugegoda.	011-4541333	011-4541735	alexander@lbfinance.lk	Mr. Chanaka Alexander Head of Branch
Ratnapura	No. 205, Main Street, Ratnapura.	045-4360708 045-4360697 045-4360696	045-4360698	wimal@lbfinance.lk	Mr. Wimal Ratnayake Head of Branch
Kalutara	No. 334, Main Street, Kalutara South.	034-4280952 034-4936065 034-4929520	034-4280952	dishan@lbfinance.lk	Mr. Dishan Fernando Head of Branch
Horana	No. 2, Ratnapura Road, Horana.	034-4286255 034-4286120	034-4286120	chanaka@lbfinance.lk	Mr. Chanaka Perera Head of Branch
Matara	No. 13, Station Road, Matara.	041-4390847 041-4390848	041-4390849	anoj@lbfinance.lk	Mr. Anoj Wedage Head of Branch
Gampaha	No. 1 B, Buddhaloka Mawatha, Gampaha.	033-4670464 033-4670650	033-4931886	sanjayag@lbfinance.lk	Mr. Sanjaya Galgamuwa Head of Branch
Ambalangoda	No. 96/2, Galle Road, Ambalangoda	091-4382588 091-4933948	091-4382590	chamila@lbfinance.lk	Mr. Chamila Wanniarachchi Head of Branch

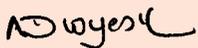
Branch	Address	Telephone	Fax	E-mail	Contact Person
Anuradhapura	No. 137, Main Street, Anuradhapura.	025-4926029 025-4926041	025-4580943	chanakan@lbfinance.lk	Mr. Chanaka Pemruwan Head of Branch
Kuliyapitiya	No. 12, Main Street, Kuliyapitiya.	037-4931664 037-4931076	037-4696319	lakmal@lbfinance.lk	Mr. Lakmal Kuranage Head of Branch
Balangoda	No. 19, Rest House Approach Road, Balangoda.	045-4932546 045-4932547	045-4640000	jagath@lbfinance.lk	Mr. Jagath Jayathilake Head of Branch
Kegalle	No. 315, Main Street, Kegalle.	035-4932339 035-4932340 035-4932341	035-4932339	prabath@lbfinance.lk	Mr. Prabath Neelawala Head of Branch
Polonnaruwa	“Rajarata Building”, Main Street, Kaduruwela	027-4926590 027-4926599	027-4599119	chintaka@lbfinance.lk	Mr. Hasitha Vithana Head of Branch
Awissawella	No. 25, Yatiyantota Road, Awissawella.	036-4929910 036-4929911	036-4270790	vipula@lbfinance.lk	Mr. Vipula Gunaratne Head of Branch
Nuwara-Eliya	No. 71, City Lite Building, Queen Elisabeth Drive, Nuwara-Eliya.	052-4924362 052-4924363	052-4490030	dissa@lbfinance.lk	Mr. D.M.P.C. Dissanayake Head of Branch
Dehiwala	No. 84A, Galle Road, Dehiwala	011-4361869 011-4361870	011-2722446	damantha@lbfinance.lk	Mr. Damintha Jayawardana Head of Branch
Trincomalee	No. 275, Central Road, Trincomalee	026-4924794 026-4924795	026-2226737	tuder@lbfinance.lk	Mr. Tuder Luvaston Head of Branch
Batticaloa	No. 175, Thirumalei Street, Waradana, Batticaloa	065-4923930 065-4923931 065-4923932	065-2224329	chintaka@lbfinance.lk	Mr. Chintaka Chandrasena Manager
Chilaw	No. 1/40 A, Colombo Road, Chilaw	032-4929638 032-4929639	032-4929640	surendra@lbfinance.lk	Mr. Prasad Surendra Head of Branch
Kiribathgoda	No. 02, Kandy Road, Kiribathgoda	011-4334550 011-4334551 011-4818192	011-4818192	asanka@lbfinance.lk	Mr. Asanka Abesinghe Head of Branch
Ampara	No. 04, Opposite Clock Tower, Ampara	063-4925110 063-4925111	063-2223504	asmadala@lbfinance.lk	Mr. Prabath Asmadala Head of Branch

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirty Seventh (37th) Annual General Meeting of L B Finance PLC will be held at No. 275/75, Prof. Stanley Wijesundera Mawatha, Colombo 7 on Tuesday, the 29th day of June 2010 at 10.00 a.m. for the following purposes:

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 2010 and the Report of the Auditors thereon.
2. To re-elect Mr. Bertram Manson Amarasekera as a Director.  
A Special Notice has been received by the Company from Mr. K D D Perera, a shareholder of the Company of his intention to move the following resolution as an Ordinary Resolution with regard to the re-election of Mr. Bertram Manson Amarasekera who is 81 years of age, in pursuance of the provisions of the Companies Act, No.7 of 2007:  
"That the age limit stipulated in section 210 of the Companies Act, No.7 of 2007 shall not apply to Mr. Bertram Manson Amarasekera who is 81 years of age and that he be re-elected a Director of the Company in terms of section 211 of the Companies Act, No.7 of 2007."
3. To re-elect Mr. Nimal Perera who retires by rotation in terms of Articles 85 and 86 of the Articles of Association, as a Director of the Company
4. To re-elect Mr. Kulapuarachchige Don Anurada Perera who retires by rotation in terms of Articles 85 and 86 of the Articles of Association, as a Director of the Company
5. To re-appoint Messrs Ernst & Young, Chartered Accountants, the retiring Auditors and to authorise the Directors to determine their remuneration.
6. To authorise the Directors to determine donations for the year ending 31st March 2011 and up to the date of the next Annual General Meeting.

By Order of the Board  
L B Finance PLC



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

At Colombo

26th May 2010

### Notes:

1. A member 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 member of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Registered Office of the Company, No. 275/75, Prof Stanley Wijesundera Mawatha, Colombo 7 by 10.00 a.m. on 27th June 2010.





# Form of Proxy

I/We\* .....  
of .....  
shareholder/s of L B FINANCE PLC hereby appoint .....  
..... (holder of NIC No. .... ) of .....  
..... or failing him\*

Mr Bertram Manson Amarasekera	of Colombo or failing him*
Mr John Anthony Sunil Sumith Adhihetty	of Colombo or failing him*
Mr Kulapurachchige Don Dhammika Perera	of Colombo or failing him*
Mr Nimal Perera	of Colombo or failing him*
Mr Amarakoon Mudiyansele Weerasinghe	of Colombo or failing him*
Mr Kulapuarachchige Don Anurada Perera	of Colombo or failing him*
Mr. Niroshan 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 *
Mr. M D S Goonatilleke	of Colombo or failing him*
Mr. Lalith Nihal de Silva Wijeyeratne	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 Seventh Annual General Meeting of the Company to be held on .....and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2010 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To pass the ordinary resolution set out under item 2 of the Notice of Meeting for the re-election of Mr. B M Amarasekera.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. Nimal Perera as a Director in terms of Articles 85 and 86 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. Kulapuarachchige Don Anurada Perera as a Director in terms of Articles 85 and 86 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
5. 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"/>
6. To authorise the Directors to determine donations for the year ending 31st March 2011 up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our\* hand this ..... day of ..... Two Thousand and Ten.

.....  
Signature

\*Please delete what is inapplicable.

**Note:** Instructions as to completion appear overleaf.

**INSTRUCTIONS FOR COMPLETION**

1. Kindly perfect the Form of Proxy by filling in legibly your full name address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 275/75, Prof Stanley Wijesundera Mawatha, Colombo 7 by 10.00 a.m. on 27th June 2010.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your Proxy, please insert the relevant details in the space provided (above the names of the Board of Directors) on the Proxy Form..
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. If the appointer is a company / Incorporated body this Form must be executed in accordance with the Articles of Association / Statute.

# Corporate Information

## **Name of Company**

L B Finance PLC

## **Legal Form**

Public Limited Liability Company incorporated in Sri Lanka under the provisions of the Companies' Ordinance No. 51 of 1938 (Cap 145) and Quoted in the Colombo Stock Exchange in January, 1998.

A Finance Company registered under the Finance Companies Act No. 78 of 1988.

A registered Finance Leasing Establishment in terms of 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.

VAT Registration No.

104033431 7000

## **Telephone**

011-4521000

## **Facsimile**

011-5345327

## **Website**

[www.lbfinance.com](http://www.lbfinance.com)

## **Secretaries**

P W Corporate Secretarial (Pvt) Ltd

No. 3/17, Kynsey Road

Colombo 08

Telephone: 4640360-3

Fax: 4740588

Email: [pwcs@pwcs.lk](mailto:pwcs@pwcs.lk)

## **Auditors**

Ernst & Young

Chartered Accountants,

No. 201, De Saram Place, Colombo 10.

## **Internal Auditors**

SJMS Associates

Chartered Accountants

No 02, Castle Lane Colombo 04.

## **Lawyers**

Nithya Partners

Messrs. Paul Ratnayake Associates

Mrs. Anoma Goonetilleke

Viswa Law Office

## **Bankers**

Seylan Bank PLC

Commercial Bank of Ceylon PLC

Hatton National Bank PLC

Sampath Bank PLC

NDB Bank PLC

Union Bank of Colombo Limited

Pan Asia Banking Corporation PLC

Bank of Ceylon

Peoples Bank

**LB Finance PLC**

275/75, OPA Building

Professor Stanley Wijesundere Mawatha

Colombo 7, Sri Lanka.