LB FINANCE

L B Finance PLC | Annual Report 2018/19

LB Finance continues to enhance the stakeholder experience by introducing ground-breaking corporate reporting initiatives;

For the first time in Sri Lanka;

Introducing a video summary of the annual report

Scan the QR code or visit
https://sustainability.lbfinance.com

Introducing the IR checklist for easy reference

Refer page 389 for more details

A dedicated website for annual report information since 2017

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Summarised information presented in the annual report, with detailed information available online

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WE'RE INVESTED

At L B Finance, we have always been deeply invested in creating dynamic, sustainable value for the many stakeholders we serve. This year, we're proud to report that your Company has seen a steady trajectory of growth, while continuing to strengthen our infrastructure, our capital positions and our pool of talent, in ways that will keep us dominant in our industry for years to come.

Our vision is always for the long term and you will be pleased to see that we have also detailed our strategic plans for the future in the pages that follow. As a finance company with strong fundamentals, a clear vision and a will to win, we believe that we're perfectly placed to realise our own potential for value creation; to 2020 and beyond.

Reading this annual report, you will see how we have put all our determination, energy and expertise into delivering increasing stakeholder value against every performance indicator that matters.

Because whatever we do, we're invested.

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SDG Practices at LB Finance PLC

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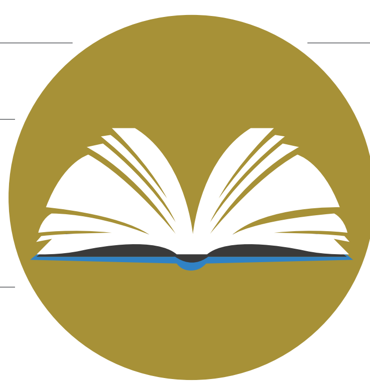
QUICK READERS TO UNDERSTAND OUR REPORT

If you need a quick snapshot or brief of our Annual Report, please go through the following pages:

SOCIAL | **ECONOMIC** | **ENVIRONMENTAL**



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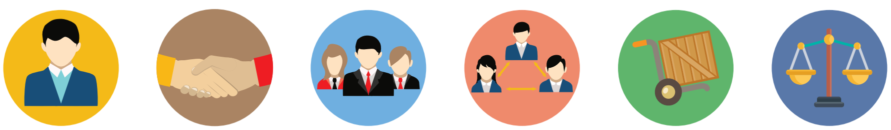
Introduction to our Integrated Report

OUR 7TH INTEGRATED REPORT

Since embarking on our integrated reporting journey in 2013, we have remained fully focused on the triple bottom line. Our strategies are now more purpose-driven and cascade into specific Key Performance Indicators (KPIs) that encourage our people to take ownership of their achievements. In this manner, we have made significant progress in integrating economic, environmental and social aspects into our business.

We look forward to sharing our journey with you through this report.

OUR STAKEHOLDERS



TARGET AUDIENCE

This report is intended to serve the information needs of all key stakeholders of the Company and as such provides a comprehensive view of our economic, environmental and social performance for the period under review.

BOUNDARY AND SCOPE OF REPORTING

Report	Financial year	Period
Current Report		
7th Integrated Annual Report	2018/19	1 April 2018 and 31 March 2019
Most Recent Report		
6th Integrated Annual Report	2017/18	1 April 2017 and 31 March 2018

OPERATING BUSINESS

The Report content covers all core business activities of the L B Finance PLC Group including our business clusters in Sri Lanka, key support areas and subsidiary in Myanmar. The Report has been structured to provide compressive coverage of the financial and non-financial performance according to the GRI standards (in accordance 'comprehensive') of L B Finance PLC for the reporting period. The consolidated Financial Statements of the Group shown on page 214 to 221 provides information on Financial Reporting boundary of the Group.

In addition, a special section on value creation shows our ongoing efforts to enhance the value created for our stakeholders. We believe value creation is how we leverage on the tangible and intangible resources available to our organisation in order to derive positive outcomes for our stakeholders. Our value creation story (page 42) is structured to show the relationship between the various elements involved in achieving our stakeholder goals.

However, we do accept that in this process, it is inevitable that we may need to make certain compromises or trade-offs. In deciding on the quantum of the trade-off, our overarching priority is to maintain long-term value over short-term benefit. Page 97 of this report shows a few such examples.

MATERIALITY AND MATERIAL MATTERS

The determination of materiality stems from multiple sources, our immediate operating context which includes the legal and regulatory compliance requirements, risk management, industry trends, globally accepted best practices and the stakeholder engagement process. On this basis, we have identified approximately six material issues that impact our ability to create value across financial, environmental and social dimensions. These material matters are described on pages 66 to 70. The matters deemed material for 2018/19 are more or less unchanged from those reported on in the previous financial year, except for one specific instance (explained below) where material changes were required to the business model as a result of a shift in materiality during the year.

MATERIAL CHANGES DURING THE YEAR

Segment	Material change	Value creation
Business expansion of L B Microfinance Myanmar Company Limited.	Added 03 new branches, total 04 branches.	Introduced a micro finance model, which is geared to support the growth and development of small-scale farmers in rural Myanmar through the provision of much-needed financial assistance and business development advice that would enable them to develop stable livelihoods, raise their living standards and improve overall quality of life.

<IR> INTERNATIONAL FRAMEWORK

This report is in compliance with the framework technical guidelines. These are the legends of our capitals:

SUSTAINABLE DEVELOPMENT GOALS (SDGs)

This report presents the main SDGs impacted by our business and the way they are related to our priority strategies. We present the SDGs legend:

ASSURANCE

We have used a combined assurance approach to verify the accuracy and completeness of the information contained in this Integrated Report. The content included herein has been first approved by the respective business heads with all financial information further reviewed by the Audit Committee prior to submission to the Board of Directors for approval. Moreover, Messers. Ernst and Young, Chartered Accountants have provided an independent assurance for the Consolidated Financial Statements (page 216) as well as the non-financial sustainability indicators as per the Global Reporting Initiative (GRI) Standards (page 375).

ONLINE AND WEB DISCLOSURES

The complete annual report is made available on the corporate website and can be downloaded using the link https://sustainability.lbfinance.com Other information is available on the dedicated sustainability website.

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements with respect to the group's future performance and prospects. While these statements reflect our future expectations, it is important to remain mindful that a number of risks, uncertainties and other important factors could cause actual results to differ materially from our expectations.

FEEDBACK AND FURTHER INFORMATION AND SUGGESTIONS

We have strived to respond to your comments and suggestions received during the previous financial year. We welcome your comments and suggestions on this Report. (Feedback form – enclosed) You may contact:

Chief Financial Officer
L B Finance PLC
Corporate Office
No. 20, Dharmapala Mawatha
Colombo 03
Tel: 011 2155 000 Fax: 011 2564 488

STATEMENT BY THE BOARD

The Board acknowledges its responsibility to ensure the integrity of this Integrated Report, which in the Board's opinion addresses all material issues and presents fairly the integrated performance of L B Finance PLC.

Shirani Jayasekara
Chairperson

Sumith Adhihetty
Managing Director

On behalf of the Board of Directors

OUR PREVIOUS INTEGRATED REPORTS

MANDATORY REPORTING FRAMEWORKS AND GUIDELINES

Financial reporting

- Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs)
- Sri Lanka Accounting Standards (LKASs) promulgated by The Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011

Corporate governance reporting

- Corporate Governance Direction No. 3 of 2008 (as amended) issued by the Central Bank of Sri Lanka
- Listing Rules of the Colombo Stock Exchange
- The Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)

Assurance

- Sri Lanka Auditing Standards (SLAuSs)
- Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka

VOLUNTARY REPORTING FRAMEWORKS AND GUIDELINES

Integrated reporting

- International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework
- A Preparer's Guide to Integrated Reporting by The Institute of Chartered Accountants of Sri Lanka

Sustainability reporting

- GRI Standards
- UNGC Principles and Sustainable Development Goals
- AccountAbility – AA1000SES

HOW TO READ THIS REPORT

Navigating through this report

The key objective of this report is to provide a comprehensive assessment of our Company and illustrate the strategies deployed to create value in the long run. It is centred around six capitals and our activities, held in place through the common thread of our focus on engaging with our stakeholders at a human level. Navigating through this report will require the reader to ask seven key questions:

Core questions to ask	Where to look	What you will find
WHO GOVERNS THE COMPANY AND HOW DO THEY APPROACH THE EVOLVING MARKET DYNAMICS ?	a.) Letter from the Chairperson b.) Performance Analysis by the Managing Director c.) Committees of the Board and Management d.) Statement of Corporate Governance **a. Page 28 | b. Page 38 | c. Page 168 | d. Page 140**	• Broad overview of the Company's current position and future direction. • LBF's key success factors and incisive analysis of the existing business verticals. • The experience and competence of LBF's leadership. • In-depth review of the Governance and Control Framework.
WHAT ARE THE BROAD RISKS FACING THE COMPANY AND HOW ARE THEY MANAGED?	a.) Statement of Risk Management **a. Page 176**	• Risk identification and measuring techniques. • Risk impacts and likelihoods, through heat maps. • Risk mitigating tools and techniques. • Breakdown of risk exposures in separate categories. • Stress testing.
WHAT ROLE DOES THE COMPANY HAVE IN THE BIGGER PICTURE AND HOW DOES LBF STRUCTURE ITS ACTIVITIES TO OPTIMISE VALUE CREATION?	a.) Value creation process b.) Business model c.) Operating structure d.) Organisational chart **a. Page 42 | b. Page 42 | c. Page 404 | d. Page 404**	• Bird's eye view of the Company's role in the big picture. • Key components of the business model that make it possible to transform resources. • The organisational structure designed to complement LBF's business model.
WHAT ARE THE VARIOUS CHALLENGES WITHIN THE OPERATING ENVIRONMENT AND COMPETITIVE LANDSCAPE AFFECTING LBF'S BUSINESS?	a.) Operating Environment and Strategic Response **a. Page 48**	• Macroeconomic aspects that shape the industry. • Market forces and the competitive landscape that shape our business. • LBF's key competencies and scope of improvement.

Core questions to ask	Where to look	What you will find
HOW ARE STRATEGIES FORMULATED AND RESOURCES ALLOCATED?	a.) Strategy and Resource Allocation **a. Page 62**	• Risks and opportunities identified through analysis of operating environment and stakeholder engagement. • Business model adaptability and change requirements. • Responses to issues raised through stakeholder engagement. • Resource allocation strategies to meet growth objectives. • Interdependencies, complexities and trade-offs between capitals. • Measuring the efficiency of objectives.
HOW ARE RESOURCES TRANSFORMED THROUGH THE VARIOUS CAPITALS – IN ORDER TO CREATE VALUE FOR STAKEHOLDERS?	a.) Financial Capital b.) Manufactured Capital c.) Human Capital d.) Intellectual Capital e.) Social and Relationship Capital f.) Natural Capital **a. Page 72 | b. Page 92 | c. Page 98 | d. Page 106 | e. Page 114 | f. Page 128 |**	• Financial resources. • Tangible inputs. • Knowledge-based intangibles. • People. • Key relationships and engagement with stakeholders. • Environmental resources.
HOW DID THE DIFFERENT SEGMENTS OF THE BUSINESS CONTRIBUTE TOWARDS THE OVERALL RESULTS OF THE COMPANY?	a.) Business Segment Review **a. Page 198**	• Performance reviews. • Influential trends affecting business segments and subsidiaries. • Risks and outlook.

VISIT OUR WEBSITE

We've introduced QR code links to information that is suitable to view on your smartphone. Take a picture of the barcode link and the relevant page will open in your browser window. https://sustainability.lbfinance.com/

Responsive version available for smart users

PDF version available on CD

Printed Annual Reports are available on request

Dedicated website for Annual Report information

ONLINE INFORMATION

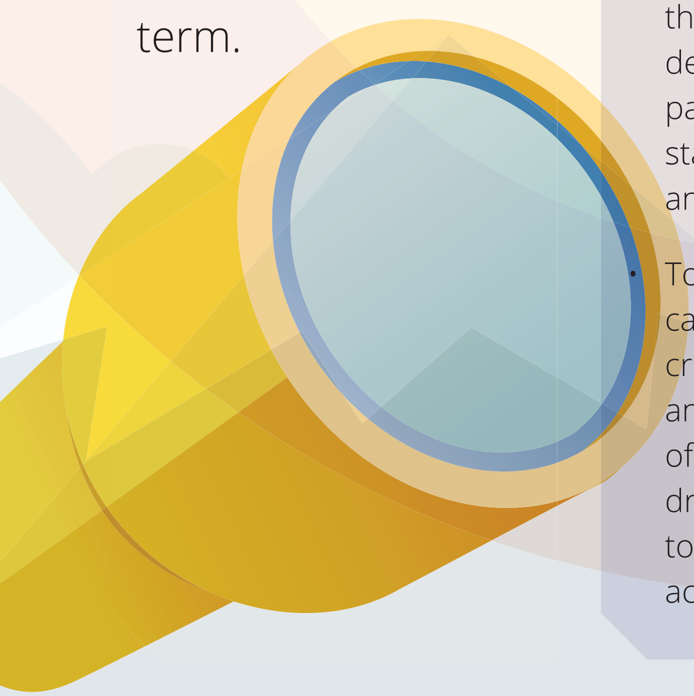
We included QR codes for electronic browsing of the additional content.

ICON GUIDE

This year we have introduced some user-friendly icons as a quick reference guide to our Annual Report and have also included a book mark to help you easily navigate through the pages.

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-term 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

About Us

L B Finance PLC is one of Sri Lanka's largest financial institutions. We are a diversified financial services provider offering a wide range of financial solutions for individuals and businesses all across Sri Lanka.

OUR PROFILE

Incorporated in May 1971 as a private limited liability company and later converted into a public limited liability company in 1982, L B Finance PLC (LBF) was listed on the Colombo Stock Exchange in 1997 and re-registered in June 2008 under the new Companies Act No. 7 of 2007.

Initially, the majority shareholding was held by Lewis Brown & Company Limited and subsequently, in 1994, Vanik Incorporation Limited acquired the controlling interest of the Company.

Mr. Dhammika Perera, a renowned Sri Lankan entrepreneur, took over the Company in 2003 and turned it around to be the vibrant and leading finance company that it is today. L B Finance PLC is now part of Vallibel One PLC, which operates in 7 key industries; life style, finance, alluminium, plantation, leisure, consumer and investments.

LBF IN CONTEXT

Backed by a strong financial tradition of over 48 years coupled with our local experience. LBF offers a portfolio of financial solutions trusted widely by corporates, SMEs and individuals alike.

These offerings are delivered to the market through a network of 127 branches and 36 gold loan centres.

LBF has strategically expanded its operations beyond the shores of Sri Lanka to Myanmar.

Company has setup four branches in Bago region aimed at bringing prosperity to the people of that country as well.

LBF OF TODAY – SUSTAINABLE BUSINESS PRACTICES

We want our brand to reflect our commitment to sustainability. Hence everything we do centres on making every aspect of our business more sustainable. Our strong focus on asset growth is underpinned by a solid business strategy that ensures our operations are managed safely, reliably and optimally. At the same time we are committed to improving the resilience of our business model to ensure a strong balance sheet position even amidst the volatile macro-economic environment. Meanwhile we strive to become a competitive market player through continuous and ongoing investment in systems, processes and governance mechanism to create a solid foundation to improve performance and the quality of service we provide to our customers. To achieve these aspirations we aim to build a pool value-driven, high-performing employees who are a true embodiment of LBF's 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".

LBF OF THE FUTURE - INNOVATIVE SOLUTIONS AND ENDLESS POSSIBILITIES

We will look to improve our competitive edge and reinforce our position as a leading integrated financial service provider by;

- Actively managing our balance sheet to address external volatilities in order to consistently increase the value shared among stakeholders
- Leveraging on digital solutions to drive cost competitiveness and deliver a superior customer experience
- Continuously assessing the efficiency and effectiveness of our operations against best in class benchmarks

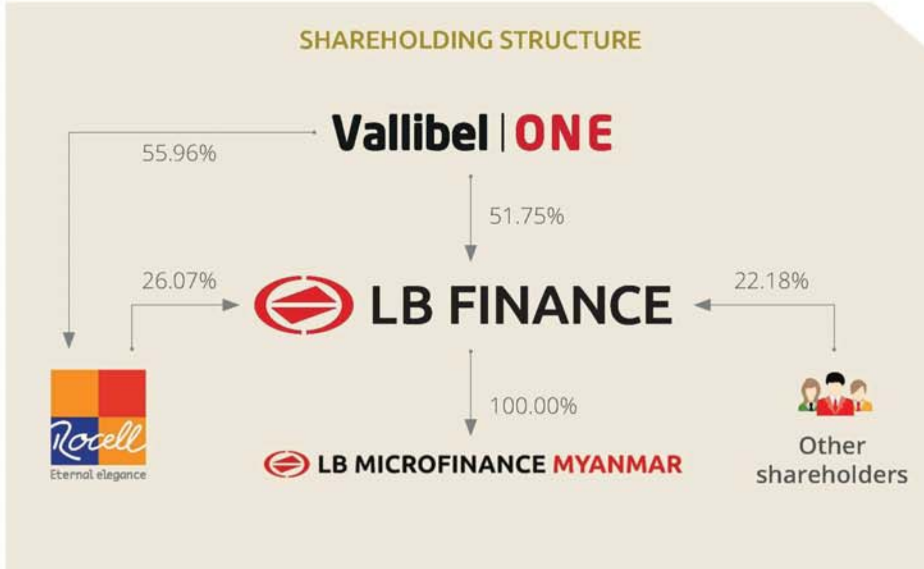
Equally importantly we will focus on delivering superior returns to shareholders and stakeholders by;

- Striving to increase our return on invested capital by continuously reviewing the effectiveness of our existing investments and seeking out new investment opportunities within LBF's risk tolerance limits
- Voluntarily adopting quality standards and industry benchmarks to maintain leadership in compliance
- Transforming our people as agents of change with the capacity to deliver economic value to our stakeholders

What makes LBF unique and differentiated?

- Unique corporate culture - that supports the creation of a highly-engaged and motivated workforce
- Experienced Management teams - that brings together the best minds in the industry
- Managed evolution and digital focus - to position LBF to be more digital, agile and competitive
- Prudent management of our expenses - to enable a reduction in our cost-to-income ratio over time
- Growth of customer base - strong captive market share representing an opportunity for revenue growth
- Best risk management practices - prudent and selective lending strategy that has resulted in the lowest NPL in the industry
- Longstanding reputation - that reflects the continuous and ongoing commitment to excellence in governance, transparency in corporate reporting and carbon neutral focus

Vallibel One PLC is an innovation driven diversified conglomerate which operates 46 subsidiaries across 7 industry sectors. Vallibel One PLC and Royal Ceramics Lanka PLC have shareholdings of 51.75% and 26.07% in LBF respectively. The Company's latest venture, LB Microfinance Myanmar Company Limited with 100% stake held by L B Finance PLC.



OUR PRODUCTS AND SERVICES

We deliver our products and services through three main business clusters:

Business clusters	Our product and services	Our areas of strength and differentiation
Investing	L B Finance Fixed Deposits, Savings Accounts, Kids Savings Zone, L B Finance Salary Plan	Customer confidence and financial stability
Financing	L B Finance Leasing, Hire Purchase, Three Wheeler Leasing, Motor Cycle Leasing, LB Micro Loan, L B Finance Factoring, Margin Trading, L B Finance Power Plus, Power Draft, Personal Loans, Mortgage Loans, L B Finance Gold Loans	Market leader with strong expertise and relationships
Value-added services	PayHub, L B Finance money exchange, Western Union, Rent a Car	Innovative customised digital solutions

OUR CONTRIBUTION TO THE ECONOMY

Value for stakeholders

As a financial services institution, LBF is part of a wider socioeconomic ecosystem which requires us to maintain robust relationships with all our stakeholders. We appreciate the role played by all of our stakeholders and are committed to nurturing impactful relationships that deliver mutual benefits.

Why we are in business

At LBF, our mission is to help customers to improve their standard of living. We guide and assist our customers to transact, and financially interact with the world as it evolves. We believe that financial solutions we provide should not cost our customers excessive amounts of time or money and should enable them to spend these on things most important to them.

Our aim is to give our customers the tools they need to maintain proper financial discipline in order to continue to grow and thrive.

How we do business

We make financial solutions simple, transparent and easy to access from anywhere at any time. We offer our customers value for money, combined with an unparalleled customer experience. By putting our customers first, we help our them maintain control of their money.

We exercise proactive risk management and control across all our business functions. This has enabled LBF to secure an A- (lka) rating by Fitch Ratings Lanka Limited, a further affirmation of our strength and stability.

What we do

We offer solutions under the LB brand, which improves visibility and supports greater brand recognition. All LB products are designed and marketed responsibly in line with all regulatory guidelines, to give customers the opportunity to meet their financial goals; be it savings, or access to credit.

Our efforts contribute to financial inclusion of the vast segment of the society.

Our contribution to the economy through;

- Economic value distributed
- Tax payment
- Foreign currency exchange
- Employment generation
- Community engagement

Over 60% of Sri Lanka's population are self-employed and engaged in the Agriculture, Fishing and Construction sectors, all of which are key drivers of GDP. This is LBF's primary market. LBF continues to service the needs of enterprises and entrepreneurs in this segment vis-a-vis several product propositions, including leasing and auto finance, gold loans, micro lease, mortgage loans, etc. These efforts have also been instrumental in promoting financial inclusion across Sri Lanka by providing much needed financial access to underserved communities to empower them to improve their livelihoods and living standards. As a responsible financial services organisation, LBF's commitment extends beyond the provision of credit and goes further to instil proper financial discipline, which we believe is the key to maintaining overall economic stability in the long-term.

Our exposure to Agriculture, Trading and Services sectors is 26%, 16% and 48% respectively from our loan book. The total disbursements in leasing signify 1.59% of Gross Domestic Capital formation.
The remittances volume is 0.27% of the total inward remittances to the country.

ECONOMIC VALUE ADDED STATEMENT

Direct economic value generated

	2018/19 Rs. million	2017/18 Rs. million	2016/17 Rs. million
Interest income	27,363.77	23,394.12	17,909.94
Fee and commission income	1,782.07	1,504.19	1,209.34
Net gain/(loss) from trading	(2.56)	(0.30)	(0.15)
Other operating income	134.74	148.20	244.30
Economic value generated	**29,278.02**	**25,046.20**	**19,363.43**

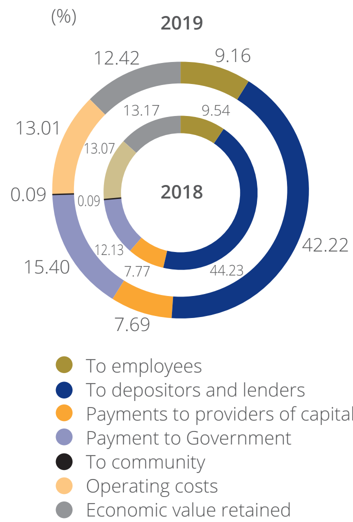
Direct economic value distributed

	Mechanism	2018/19 Rs. million	2017/18 Rs. million	2016/17 Rs. million
To employees	Employee salaries and benefits	2,682.61	2,389.35	2,102.36
To depositors and lenders	Interest expenses	12,361.66	11,077.10	7,766.75
Payments to providers of capital	Dividend to shareholders	1,662.17	1,523.66	1,246.63
	Interest to debenture holders	589.66	421.31	345.59
Payment to Government	Tax payment	4,508.35	3,038.17	2,660.77
To community	Social responsibility projects	26.95	23.51	14.54
	Donations	-	-	0.16
Operating costs		3,808.82	3,274.39	2,191.25
Economic value retained		3,637.79	3,298.71	3,035.39
Economic value distributed		**29,278.02**	**25,046.20**	**19,363.43**

The creation of positive economic value is a prerequisite for the sustainability of our business. It not only measures the effectiveness of our operations, but also serves as an indicator of our contribution towards the economy. Over the years, LBF has consistently generated positive economic value through its many spheres of activity. It is also noteworthy that LBF has been successful in the creation of positive value addition while maintaining its unceasing commitment towards employee growth and well-being, community development and the environment.

DIRECT ECONOMIC VALUE DISTRIBUTED

(%)



Market Value Added (MVA) Statement

Market value added statement reflects the Company's performance evaluated by the market through LBF's share price. This statement shows the difference between the Company's market value and the capital contributed by investors. In other words, it is the sum of all capital claims held against the company plus the market value of debt and equity.

A high MVA indicates substantial wealth creation for the shareholders and vice versa. A negative MVA means that the value of management's actions and investments have not succeeded in achieving the desired growth objectives.

Market value added

	2018/19 Rs. million	2017/18 Rs. million	2016/17 Rs. million
Market capitalisation	16,635.56	16,604.55	16,400.09
Book value of shares outstanding	18,427.70	15,348.89	12,509.22
Market value added	(1,655.57)	1,120.45	3,890.41

TAX PAYMENT

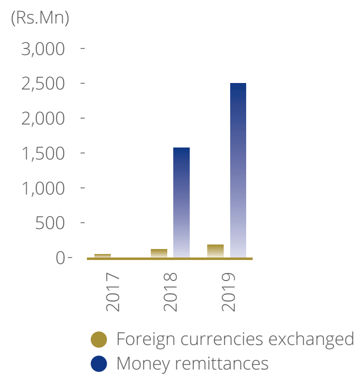
LBF is one of the largest taxpayers among the Non-Bank Financial Institutions in the country.

	2018/19 Rs. million	2017/18 Rs. million	2016/17 Rs. million
Direct taxes	3,703.89	2,928.32	2,727.35
Income Tax expenses	1,588.32	1,400.52	1,687.94
Value Added Tax on financial services	1,402.28	1,199.53	803.19
Nation Building Tax on financial services	186.50	156.34	125.59
Crop Insurance Levy	47.32	53.57	40.68
Economic Service Charge	142.41	118.36	69.95
Debt Repayment Levy (DRL) on financial services	337.06	-	-
Indirect taxes (collected and paid)	1,207.71	1,085.24	1,061.06
Value Added Tax	292.98	330.32	413.93
Nation Building Tax	36.50	32.01	27.46
Stamp Duty	411.30	315.99	291.79
Withholding Tax on dividend and interest	360.32	329.02	261.72
Payee Tax	106.61	77.90	66.16

FOREIGN CURRENCY EXCHANGE

Offering value-added services to LB Finance customers is one of our strategic priorities. In this context, we offer Western Union Money transfer services to support the large volume of migrant worker remittances coming into the country each year. In addition, we also offer foreign currency trading services to facilitate the currency exchange needs of the tourism and trading sector.

FOREIGN CURRENCY EXCHANGE AND REMITTANCES



EMPLOYMENT GENERATION

As a large financial services organisation, we provide employment to over 3,500 individuals across Sri Lanka and with our accelerated growth trajectory continue to offer new opportunities each year.

Moreover, through our lending activities to support self-employed individuals, SMEs and small-scale entrepreneurs, we contribute indirectly towards creating thousands of job opportunities across Sri Lanka.

	2018/19	2017/18	2016/17
No. of employees recruited	1,407	1,313	1,096

COMMUNITY ENGAGEMENT

At LBF, commitment to social welfare and community is an integral part of our corporate culture. Based on this, each year we have progressively increased our investment in environmental and community development.

	2018/19 Rs. million	2017/18 Rs. million	2016/17 Rs. million
Investment on CSR	26.95	23.51	14.54

Strategic Journey

Our journey has strongly positioned us as a fully-fledged local finance company with regional and international expertise. We aspire to become the leading financial services provider in both Sri Lanka and Myanmar to our valued customers.

1971

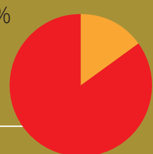
Established as a private company on 30th May 1971 with its registered office at No. 101, Vinayalankara Mawatha, Colombo 10. Majority shareholding of 94.9% was held by Lewis Brown & Company Limited

1982

Changed its status as a public company

1994

Vanik Incorporation Limited's shareholding increased to 83.26%



1997

Listed on the Colombo Stock Exchange

2003

It has been a period of transition which added a new chapter. Mr. K D D Perera took over a stake of 58.74 percent to turn around the loss-making Company into a profitable venture

2005

Registered in terms of Section 2 of the Finance Companies Act No. 78 of 1988

2008

The Company re-registered under the new Companies Act No. 07 of 2007

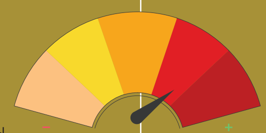
2010

Profits doubled and reached over Rs. 1 billion for the first time in the history

2010

North and east market presence for the first time

Became a part of Vallibel One umbrella which is a diversified company



2012

Moved to our new corporate office located at Dharmapala Mawatha, Colombo 03

Introduced LB Savings to customers

Largest expansion drive within the industry with 20 new outlets

Recorded the largest deposit base among the NBFI sector

2013

Global Banking and Finance Review UK awarded us as the 'Best Retail Finance in Sri Lanka for 2013'

Opened first Premier branch in Mount Lavinia

Staff strength surpassed 2,000

2014

Certified as a Carbon Conscious Company by the Sri Lankan Carbon Fund

Tied up with the Sri Lanka Interbank Payment System (SLIPS)

CSR re-branded as LB Sustainability

2015

Opened the 100th branch in Jaffna

Introduced the VISA shopping card

2016

Successfully completed 45 years in the finance industry with a profit growth of 70%, profit of Rs. 3.7 billion (PAT)

2017

Integrated with Common Electronic Fund Transfer Switch (CEFTS)

Exceeded Rs. 100 billion asset base

2018

First overseas expansion of L B Finance to Myanmar

Going into cloud-based IT platform

Ranked among the top 20 brands in Sri Lanka by Interbrand

Launched Cash Deposit Machine facility

2019

Profits reached over Rs. 5 billion for the first time in the history

Successfully launched ORACLE Fusion finance module

Established a Digital Financial Services Unit

Myanmar operation expanded to four branches

Commenced planting 50,000 trees under 'Thuru Wawamu' project

Board of Directors

Our Board consists of highly-qualified Directors from diverse backgrounds who are committed to the sustainable management of the business and affairs of the organisation with the goal of enhancing long-term stakeholder value.

MRS. SHIRANI JAYASEKARA
Chairperson/Independent Non-Executive Director

MR. RAVINDRA YATAWARA
Executive Director

MRS. ASHWINI NATESAN
Independent Non-Executive Director

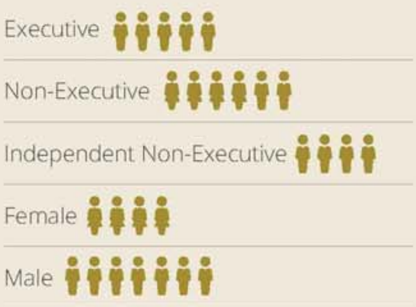
MR. B D A PERERA
Executive Director

MR. NIROSHAN UDAGE
Executive Director

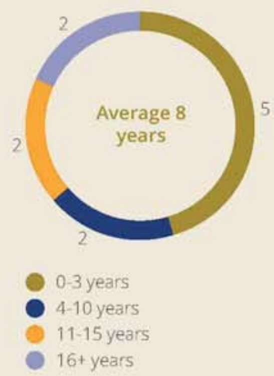
MR. SUMITH ADHIHETTY
Managing Director

BOARD DIVERSITY

DEMOGRAPHICS



BOARD TENURE



AGE

MR. DHAMMIKA PERERA
Executive Deputy Chairman

MRS. ANANDHIY GUNAWARDHANA
Independent Non-Executive Director

MR. ASHANE JAYASEKARA
Independent Non-Executive Director

MRS. YOGADINUSHA BHASKARAN
Non-Executive Director

MR. DHARMADASA RANGALLE
Non-Executive Director

MRS. SHIRANI JAYASEKARA

Chairperson

Independent Non-Executive Director

Skills and experience

She has over 38 years of experience combining Finance and IT, Audit and Risk Management in Sri Lanka, Zambia and Bahrain.

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

Appointed to the Board

On 25th August 2010.

Membership of Board Sub-Committees

Chairperson of the Related Party Transactions Review Committee.

Current appointments

None

Former appointments

She was the Head of Audit, British American Tobacco Sri Lanka and Bangladesh and Head of Group Internal Audit of Carsons Cumberbatch PLC. She was also a Director of Asian Hotels and Properties PLC., a subsidiary of John Keells Holdings PLC.

MR. DHAMMIKA PERERA

Executive Deputy Chairman

Skills and experience

Mr. Dhammika Perera is the quintessential strategist and business specialist with interests in a variety of key industries including manufacturing, banking and finance, leisure, aluminum extrusion, packaging, plantations, lifestyle, healthcare, consumer and hydro power generation.

He has over 30 years of experience in building formidable businesses through unmatched strategic foresight and extensive governance experience gained through membership of the Boards of quoted and un-quoted companies.

Appointed to the Board

On 22nd October 2002, appointed as the Chairman on 7th October 2010 and Executive Deputy Chairman on 21st October 2011.

Membership of Board Sub-Committees

None

Current appointments

He is the Chairman of Vallibel One PLC, Royal Ceramics Lanka PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resorts PLC, Vallibel Power Erathna PLC, Greener Water Ltd., Unidil Packaging Ltd., Delmege Ltd., and L B Microfinance Myanmar Company Ltd. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC and Singer (Sri Lanka) PLC, and Deputy Chairman of Horana Plantations PLC. He is also an Executive Director of Vallibel Finance PLC and serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC and Dipped Products PLC.

Former appointments

Chairman of Sampath Bank PLC.

MR. SUMITH ADHIHETTY

Managing Director

Skills and experience

A well-known professional in the marketing field, counts over 37 years of experience in the finance sector.

Appointed to the Board

On 10th December 2003.

Membership of Board Sub-Committees

Member of the Nomination Committee and Integrated Risk Management Committee.

Current appointments

Director of Vallibel One PLC, The Fortress Resorts PLC, Greener Water Ltd., Summer Season Ltd., Summer Season Mirissa (Pvt) Ltd., Summer Season Residencies Ltd., La Fortresse (Private) Limited and L B Microfinance Myanmar Company Limited.

Former appointments

Deputy Managing Director of Mercantile Investments Limited and served as a Director of Nuwara Eliya Hotels Company Limited, Grand Hotel (Private) Limited, Royal Palm Beach Hotels Limited, Tangerine Tours Limited, Security Ceylon (Private) Limited, Vallibel Finance PLC and Pan Asia Banking Corporation PLC.

Also served as the Managing Director of The Fortress Resorts PLC, and the said Executive office was relinquished on 2nd March 2018.

MR. NIROSHAN UDAGE

Executive Director

Skills and experience

Bachelor's Degree in Science from the University of Colombo and possesses 28 years of experience in the field of leasing and finance, including 10 years at Lanka Orix Leasing Company PLC and three years at Mercantile Investments Limited prior to joining L B Finance PLC in 2004.
He followed a course in 2007 conducted by Intentional Development Ireland Ltd. in Dublin and London on Strategy and Management in Banking and also successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA.

Appointed to the Board

On 1st January 2007.

Membership of Board Sub-Committees

Member of the Integrated Risk Management Committee.

Current appointments

Director of L B Microfinance Myanmar Company Limited.

Former appointments

Director of Hayleys Fibre PLC.

MR. B D A PERERA

Executive Director

Skills and experience

An Associate Member of the Chartered Institute of Management Accountants ACMA, CGMA (UK) and holds a BSc (Business Administration) Special Degree from the University of Sri Jayewardenapura, successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA.
Counts over 21 years of experience in the leasing industry that includes positions at Commercial Leasing Company Limited, Lanka Orix Leasing Company PLC and a Merchant Bank in Bangladesh.

Appointed to the Board

On 1st January 2007.

Membership of Board Sub-Committees

Member of the Integrated Risk Management Committee.

Current appointments

Director of L B Microfinance Myanmar Company Limited.

Former appointments

Director of Hayleys Fibre PLC.

MRS. ANANDHIY GUNAWARDHANA

Independent Non-Executive Director

Skills and experience

An Attorney-at-Law and a Partner of Julius and Creasy, Attorneys-at-Law and Notaries Public, she graduated from the University of Colombo's, Faculty of Law in 1995 with Second Class (Upper Division) Honours and also secured First Class Honours at the Attorneys-at-Law (Final) Examination in 1996, conducted by the Sri Lanka Law College. She is a Fulbright Scholar and was awarded the Master of Laws (LL.M. with Distinction) by Georgetown University, Washington DC, in May 2000 and, thereafter, served a seven month internship with the International Monetary Fund's Legal Department in Washington D.C. Her areas of specialisation are Corporate and Commercial Law, Mergers and Acquisitions.

Appointed to the Board

On 1st March 2013.

Membership of Board Sub-Committees

Chairperson of the Remuneration Committee, Member of the Audit Committee, Integrated Risk Management Committee and Nomination Committee.

Current appointments

Director of Messrs Jacey and Company, Jacey Trust Services (Private) Limited, Jacey Advisory Services (Private) Limited, Jacey & Company Lanka (Private) Limited and Brand Protection Services (Private) Limited, affiliate companies of Messrs Julius & Creasy engaged in providing ancillary services and of Corporate Holdings (Private) Limited, which is an investment company. She is also a Director of G S Investments (Private) Limited, S V Investments (Private) Limited, A S Investments (Private) Limited, S S Investments (Private) Limited, G T Investments (Private) Limited, M B Investments (Private) Limited, G J Investments (Private) Limited, S A Investments (Private) Limited, S T investments (Private) Limited, V P Investments (Private) Limited and John Keells PLC.

Former Appointments

Director of the The Colombo Fort Land and Building PLC.

MR. RAVINDRA YATAWARA

Executive Director

Skills and experience

Holds a BSc. Degree in Business Administration from the Oklahoma State University, USA. Counts over 22 years' experience in the Finance Industry, including both Managerial and Senior Managerial positions in the LOLC Group, Hatton National Bank PLC and AMW Capital Leasing PLC.

Appointed to the Board

On 15th March 2016.

Membership of Board Sub-Committees

Member of the Integrated Risk Management Committee.

Current appointments

Director of L B Microfinance Myanmar Company Limited, Director of Leasing Association of Sri Lanka (LASL), Nominee of The Finance Houses Association of Sri Lanka (FHA) on the Board of the Credit Information Bureau of Sri Lanka (CRIB).

Former appointments

General Manager of L B Finance PLC, Chairman of The Finance Houses Association of Sri Lanka (FHA).

MRS. YOGADINUSHA BHASKARAN

Non-Executive Director

Skills and experience

She is a Fellow of the Chartered Institute of Management Accountants UK (FCMA), Fellow of CPA Australia (FCPA) and an Associate Member of the Institute of Bankers, Sri Lanka.

Appointed to the Board

On 15th March 2016.

Membership of Board Sub-Committees

Chairperson of the Audit Committee and member of the Remuneration Committee.

Current appointments

Chief Executive Officer of Vallibel One PLC. Director of Delmege Limited, Delmege Air Line Services (Private) Limited and Delmege Aero Services (Private) Limited. Alternate Director to Mr. Dhammika Perera on the Boards of Dipped Products PLC, Hayleys Fabric PLC and Haycarb PLC.

Former appointments

Assistant General Manager (Finance & Planning) of Pan Asia Banking Corporation PLC, Financial Controller of several Australian companies in Melbourne.

MR. ASHANE JAYASEKARA

Independent Non-Executive Director

Skills and experience

He is the Deputy Managing Partner and Head of Risk, IT and Forensic Services for BDO Sri Lanka. He is the Managing Partner of BDO Partners Maldives and serves as a Director of BDO BPO Services (Pvt) Ltd. He has over 17 years of experience in providing outsourced internal audit, corporate governance and risk management solutions to private, public listed, multinational and government enterprises.

He has vast experience in managing the delivery of internal audits, forensic investigations and Information systems audits across a range of sectors. He has forensic services experience which includes assisting clients by undertaking investigations into allegations of fraud and misconduct, the provision of fraud awareness training, developing of fraud control strategies and policies as well as undertaking fraud risk assessments.

Fellow Member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants (UK) and the British Computer Society (UK). He holds a Bachelor of Science in Information Systems from the London Metropolitan University and a Masters Degree in Business Administration from the University of Southern Queensland. He is a Certified Internal Auditor, Certified Financial Services Auditor and a Certified Information Systems Auditor from the USA.

Appointed to the Board

On 30th October 2017.

Membership of Board Sub-Committees

Chairman of the Integrated Risk Management Committee and Nomination Committee.

Member of the Audit Committee, Remuneration Committee and Related Party Transactions Review Committee.

Current appointments

Director of B T Communications Lanka (Pvt) Ltd., Director of BDO BPO Services (Pvt) Ltd., Director of Sri Lanka Chapter of the Information Systems Audit and Control Association (USA).

Former appointments

Chairman of Information Technology Faculty of the Institute of Chartered Accountants of Sri Lanka, President/ Governor of Sri Lanka Chapter of the Institute of Internal Auditors (USA), Director of BDO Consultants (Pvt) Ltd.,

MRS. ASHWINI NATESAN

Independent Non-Executive Director

Skills and experience

She is a qualified legal practitioner from India. She specialises in Technology, Media & Telecommunications (TMT) Law. She currently lectures at APIIT Law School in Colombo, Sri Lanka while consulting on TMT Law issues including those concerning financial technology (FinTech). She also works on research projects relating to data protection, privacy, right to information, alternative dispute resolution mechanisms, etc.

In India, she has previously worked in litigation and corporate law offices including with Senior Counsel Mr. P. Wilson, former Additional Solicitor General of India and former Additional Advocate General of Tamil Nadu.

She holds an LL.M (Master of Laws) in International Business Law from Faculty of Law, National University of Singapore where she graduated in the top five of her class. She has a Bachelor of Arts and Law (B.A. LL.B (Hons.), Distinction) from the School of Excellence in Law, Tamil Nadu Dr. Ambedkar Law University, Chennai, India. Additionally, she has diplomas in International Business Management (offered by Loyola Institute of Business Administration, India) and Commercial Arbitration (offered by ICLP, Sri Lanka).

Appointed to the Board

1st September 2018.

Membership of Board Sub-Committees

Member of Integrated Risk Management Committee.

Current appointments

None

Former appointments

None

MR. DHARMADASA RANGALLE

Non-Executive Director

Skills and experience

He is a retired Senior Commissioner of the Department of Inland Revenue (Special Grade). He has over 34 years experience in the Government (Public) Sector, including 31 years experience of Tax Administration as an Assessor, Senior Assessor, Deputy Commissioner, Commissioner and Senior Commissioner. He has a Master of Commerce (M.Com) Degree from the University of Kelaniya, Bachelor of Commerce (B.Com) Special Degree – Second Class Upper Division (Honours) from the University of Kelaniya and is a Fellow Member of Institute of Taxation, Sri Lanka. He has completed all course work relating to the Doctoral Degree Programme of Open University of Malaysia. He is also a visiting Lecturer at the University of Kelaniya, Malabe Campus (SLIIT), Business School of Institute of Chartered Accountants of Sri Lanka and Institute of Taxation of Sri Lanka.

Appointed to the Board

10th April 2019.

Membership of Board Sub-Committees

None

Current appointments

Mr. Rangalle serves as a Non-Executive Director of Fentons Limited, Hayleys Aventura (Pvt) Ltd., and Hayleys Advantis Limited, which are subsidiaries of Hayleys PLC.

Former appointments

Senior Commissioner of the Department of Inland Revenue (Special Grade).

Senior Management

MR. MARLON PERERA

Senior Deputy General Manager – Deposits

Joined LBF in 1986.

Over 32 years of experience in the finance industry and has held many managerial positions.

MR. BIMAL PERERA

Deputy General Manager – Strategy and Digital Finance

CFA Charterholder, Certified FRM

Joined LBF in 2013.

Over 16 years in the fields of corporate treasury, strategic planning, investment finance and risk management both locally and overseas.

MR. AINSLEY MOTHA

Deputy General Manager – Credit and Branch Operations

MBA (Aus.), MABE (UK)

Joined LBF in 2013.

Over 28 years of experience in the field of banking, leasing and finance industry.

MR. CHETHANA KAHANDUGODA

Deputy General Manager – Information Technology

MSc Information Technology (University Of Colombo), MCS(SL), MIEEE.

Joined LBF in 2010.

Over 20 years of experience in the fields of information technology, information security, project management, software development, business intelligence, infrastructure and data communications predominantly in finance sector.

MR. HASITHA ATHAPATTU

Chief Financial Officer

CFA Charterholder, MA on Economics (University of Colombo), BBA (Sp.) (University of Colombo), ACA (SL), ACMA (SL), Member of Professional Risk Managers' International Association (PRM), holds ACI Dealing certificate (Distinction) from ACI – The Financial Markets Association.

Joined LBF in 2014.

Over 20 years of experience in the fields of private banking, wealth management, debt and equity research, accounting and operations both locally and overseas.

MR. ROSHAN JAYAWARDENA

Assistant General Manager – Microfinance

DipM, MCIM (UK), MBA (University of Sunderland, UK), FSSM (UK).

Joined LBF in 2007.

Over 29 years of experience in the fields of banking, leasing, finance, marketing and business development.

MR. PRASANNA KALINGA

Assistant General Manager – Human Resources

BA (MGM), KDA.IPMA certified professional

Joined LBF in 2016.

Over 20 years of industry experience both locally and overseas.

MR. UDUL CHANDRASENA

Assistant General Manager – Treasury

ACMA, MA (Econ.).

Joined LBF in 2017.

More than 32 years of experience in capital markets, commercial banking and financial management both locally and overseas.

MR. WICKRAMA PUNCHIHEWA

Head of Legal

LL.B, Attorney-at-Law (Hons), GDIBM (UK), MBA, CIMA Adv Dip MA, PGDBM, CCHRM, CPM, Notary Public.

Joined LBF in 2017.

Over 17 years as an Attorney-at-Law and experience in non-banking finance sector and commercial law sector.

MR. KALPA SANJEEWA

Senior Chief Manager – Credit and Branch Operations

MBA (UK).

Joined LBF in 2005.

Over 18 years of experience in the areas of credit, marketing, recovery and branch operations.

MR. CHINTHAKA CHANDRASENA

Chief Manager – Credit and Branch Operations

MBA (UK).

Joined LBF in 1996.

Over 23 years of experience in the areas of credit, marketing, recovery and branch operations.

MR. HIRANTHA JAYASINGHE

Chief Manager – Credit and Branch Operations

MBA (UK).

Joined LBF in 1999.

Over 20 years of experience in the areas of credit, marketing, recovery and branch operations.

MR. KENNETH DANIEL

Chief Manager – Credit and Branch Operations

Dip. in Bank Management (IBSL), MBA (UK).

Joined LBF in 2011.

Over 24 years of experience in the leasing, finance and banking industry.

MR. GAYAN AYUWARDANE

Chief Manager – Central Region

MBA (UK).

Joined LBF in 2015

Over 17 years of experience in the leasing, finance and banking industry.

MS. NIROSHA AMANULLA

Senior Manager – Kandy Branch

Joined LBF in 1985.

Over 33 years of experience in the financial industry and her career features many managerial positions.

MR. DINUDAYA ABEYWARDENA

Senior Manager – Corporate Lending

MBA (PIM- USJ), ACMA (UK), CGMA, AIB(SL).

Joined LBF in 2016.

Over 14 years of experience in the banking and finance industry.

MR. SHANAKA PERERA

Senior Manager – Administration

Joined LBF in 1998.

Over 21 years of experience in the fields of administration and procurement.

Senior Management

MR. MALITH HEWAGE

Senior Manager – Finance

B.sc Accounting (Sp) (University of Sri Jayewardenepura), ACA (SL), AIB (SL)

Joined LBF in 2013.

More than nine years of experience in the fields of financial reporting, accounting and auditing.

MR. SUDEEP PERERA

Head of Marketing

B.Sc. (Colombo), PG.Dip.M, MCIM MSLIM, MBA Sp. Marketing (Colombo).

Joined LBF in 2017.

Over 15 years of marketing experience in the fields of travel, automobile, consumer trade, banking and finance.

MR. ANIL BANDARA

Senior Manager – IS Audit and Compliance

Diploma in Information System Audit and Controls, Lead Auditor- ISO 27001- Information Security, Lead Auditor- ISO 9001, Quality Assurance.

Joined LBF in 2016.

Over 27 years of experience in information system and general audits experiences both locally and overseas.

MS. DESHIKA YATAWARA

Senior Manager – Treasury

MBA (PIM-USJ), ACMA (UK), CGMA.

Joined LBF in 2008.

Over 10 years of experience in the field of finance.

MS. ZAIRAA KALEEL

Compliance Officer

B. Com. (Hons) Sp. (Pera), MBA (Kelaniya), ACMA (UK), CGMA, CPA (Aus), ACSI (UK), AMBCS (UK), Dip in Compliance (IBSL).

Joined LBF in 2016.

Over 12 years of experience in the fields of banking, finance and capital markets.

MR.SURAJ KARUNANAYAKA

Senior Manager – Gold Loan

BSc. Physical Science (University of Kelaniya)

Joined LBF in 2016.

Over 10 years of experience in the banking and finance industry.

MR. DINUSHA MUDUNKOTUWA

Senior Manager – Business Analysis

BICT (University of Colombo), PMP (PMI USA).

Joined LBF in 2017.

Over eight years of experience in the fields of information technology, accounting and auditing, specialising in banking and finance sector.

MR GIHAN DE SILVA

Senior Manager Recoveries

AMDP (PIM University of Sri Jayewardenepura)

Joined LBF in 2004.

Over 17 years of experience in the finance industry.

WE'RE INVESTED IN SUCCESS

We are invested in the success of the diverse stakeholders we serve – driving wealth creation across the nation and inspiring the people's progress.

Letter from the Chairperson

Creating dynamic, sustainable value

As a finance company with a clear vision, strong fundamentals and a will to win, I envision even greater achievements for LBF in the years ahead and look forward to seeing the entire LBF team working single-mindedly with a clear line of sight.

MRS. SHIRANI JAYASEKARA
Chairperson

Dear Stakeholder,

As I begin to write this letter to you, my last as Chairperson, I find myself reflecting on LBF's journey so far. What I find most inspiring is the collective effort by the entire LBF team to live our Corporate Vision. I believe we do walk the talk and contribute to the quality of life experienced by our stakeholders, through palpable partnerships that fuel the growth of this great Company.

My words will become clear to you, as you continue to read the pages of this report that we have carefully compiled, to proudly share with you our impressive performance of the past year. At LBF we are focused on investing for the future and building our inter-relationships on our capital structures, to further increase value for our stakeholders.

AS A CUSTOMER, AS A DEPOSITOR…

You have been our trusted partner. I assure you that we continue to hold you in high esteem and are committed to protect your interests at all time. We believe that you will continue to do business with us and be a part of us, for life, as we refine our products and services to serve you better. Because of you, we have been able to significantly uphold value in our financial capital and grow our balance sheet.

AS AN EMPLOYEE…

To enable you to be proud of your own accomplishments in the past year and I appeal to you to continue to do well, amidst challenges that lie ahead. LBF has invested about Rs. 11 million in your training in the past year and I am confident that you will apply knowledge gained in activities in the future, to enable you to be proud of your own that enhanced accomplishments. About 1,400 new employees have been given the opportunity to join in, and grow with us. You all have certainly helped us to build our human capital and core competencies. Your collective learning and diverse skills using multiple technologies in your pool of talent, will surely deliver unique value to our customers. You are doing a great job as Brand Ambassadors of LBF.

AS A SHAREHOLDER…

You must be happy that LBF has now created a dynamic and sustainable business model and is deeply invested for the future. Significant growth is seen in most areas and this is clearly demonstrated to you by our results. Our financial position is comfortable and well invested and has now become a benchmark in the industry. Our operating performance too achieved new heights, marked by an unprecedented profit result of Rs. 5.05 billion.

As I am sure you are aware we have continued to share our profits through a healthy dividend each year. In the current financial year we declared and paid dividend of Rs. 12 per share.

As a shareholder you must note that we have delivered value against every performance indicator that matters. Both ROE and ROA were solid at 29.93% and 3.93% respectively as at 31st March 2019.

The Board in its supervisory role provides continuous and ongoing oversight and plays an active role in reviewing strategy, operating environment and the progress made towards achieving our goals. Being the apex body responsible for all activities of the Company, the Board and I as the Chairperson engages in continuous learning and capacity building initiatives to keep abreast of the latest developments in wider context. In the current financial year, we directed our focus towards improving our knowledge on anti-money laundering and anti-terrorism funding, two areas which we feel are directly linked to our business as financial solutions service provider.

The way I see it, LBF's ability to deliver such outstanding results even amidst severe negative headwinds in the immediate operating environment, is indeed a testament to our robust strategy and ability to establish good risk oversight and governance frameworks.

BUILDING RELATIONSHIPS WITH CITIZENS OF SRI LANKA...

Our Company is sustainably focused and growing; embracing innovation and leveraging investment in IT to optimise economic outcomes. We strive to build relationships with customers, investors, and the community at large.

As a caring citizen of Sri Lanka LBF has achieved many green initiatives, greatest of these are the establishment of a plan to grow 50,000 trees by 2021 (Thuru Wawamu). Achievement to date is 20,194 trees planted and will be geo mapped and monitored island-wide.

The year has indeed been challenging and we faced those challenges head on. The greatest challenge this year has been that we have had to work in a politically unstable environment with credit rating agencies downgrading Sri Lanka. Some foreign funds reduced their exposure to emerging markets and invested in higher yielding US market. This caused the Sri Lankan money market to face difficulties which caused interest rates to rise and LKR to devalue. Further the Government has imposed new taxes on the finance sector, through the new Inland Revenue Act, including the unexpected Debt Repayment Levy. I am sure you will agree that this is not healthy or sustainable for an industry which must support a growing nation. All this has forced us to drive costs down forcibly in order to deliver the profits. You would note that our cost to income ratios are one of the best in the industry as all financial institutions face this same dilemma of rising taxes. This industry needs to support other industries to keep the economy going so that we can all grow together and thereby support the development of the country.

Meanwhile LBF's commitment to succeed has enabled the Company to deliver a sustained performance on all fronts, even amidst challenging economic conditions and intense competitive pressures seen in recent years.

GRATEFUL THANKS...

I hereby wish to place on record my sincere gratitude to the Management and staff of L B Finance PLC for the commitment and passion they bring to their work, which has made it possible for LBF to scale greater heights with each successive year.

Mr. Thosapala Hewage was the Chairman of LBF from 2013 to May 2016, and retired from the Board this year at age of 70. During his period of service he shared with us his expertise gained in the public sector. On behalf of the Board of Directors I appreciate the contribution that Mr. Hewage rendered to the Company. We wish him the very best during his retired life! Simultaneously we welcome Mrs. Ashwini Natesan and Mr. Dharmadasa Rangalle to the Board as Director. I trust the vast experience and knowledge they possess will contribute positively in driving the Company to the next level.

To my colleagues on the Board, I thank you for your guidance and leadership in steering LBF to where it stands today.

MOVING FORWARD...

As a finance company with a clear vision, strong fundamentals and a will to win, I envision even greater achievements for LBF in the years ahead and look forward to seeing the entire LBF team working single-mindedly with a clear line of sight.

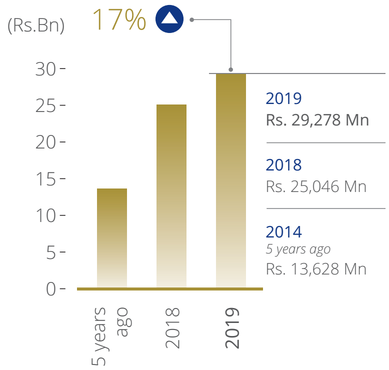
Financial Highlights

GRI - 102 - 7

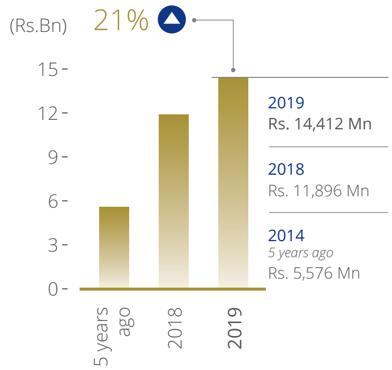
Indicator		2018/19	2017/18	Change (%)
Operating results				
Income	Rs. million	29,278.02	25,046.20	16.90
Interest income	Rs. million	27,363.77	23,394.12	16.97
Net interest income	Rs. million	14,412.44	11,895.71	21.16
Profit before taxation (PBT)	Rs. million	7,740.65	6,477.69	19.50
Profit after taxation (PAT)	Rs. million	5,054.66	4,250.72	18.91
Financial position				
Total assets	Rs. million	136,390.72	120,820.78	12.89
Lending portfolio	Rs. million	113,445.45	102,345.08	10.85
Deposits	Rs. million	83,214.95	72,943.83	14.08
Borrowings	Rs. million	27,741.29	27,990.87	(0.89)
Equity	Rs. million	18,427.15	15,348.90	20.06
Share information				
Market price per share	Rs.	120.10	118.90	1.01
Market capitalisation	Rs. million	16,635.57	16,469.35	1.01
Net asset value per share	Rs.	133.03	110.81	20.06
Earning per share (EPS)	Rs.	36.49	30.69	18.91
Price earning ratio (PE)	Times	3.29	3.87	(15.06)
Dividend per share (DPS)	Rs.	12.00*	11.00	9.10
Dividend yield	%	10.09*	9.25	9.09
Dividend payout ratio	%	32.88*	35.84	(8.26)
Statutory ratios				
Core capital to risk weighted assets ratio (Tier 1)	%	15.53	17.33	(10.39)
Total risk weighted capital ratio (Tier I & II)	%	17.67	19.78	(10.67)
Equity to deposits	%	22.14	21.04	5.24
Liquidity ratio	%	15.49	14.73	5.16
Other ratios				
Return on assets (ROA)	%	3.93	3.80	3.37
Return on equity (ROE)	%	29.93	30.52	(1.92)
Net interest margin (NIM)	%	11.87	11.15	6.46
Loan to deposits	Times	1.36	1.40	(2.84)
Non- performing loans ratio (NPL)	%	2.69	2.37	13.50

**Includes proposed final dividend of Rs. 4 per share*

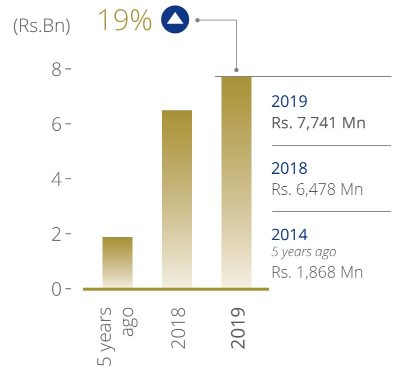
INCOME



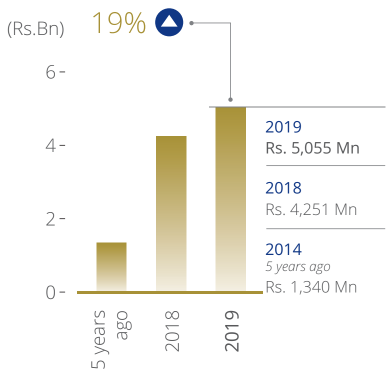
NET INTEREST INCOME



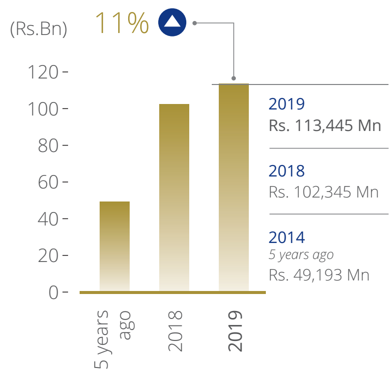
PROFIT BEFORE TAX



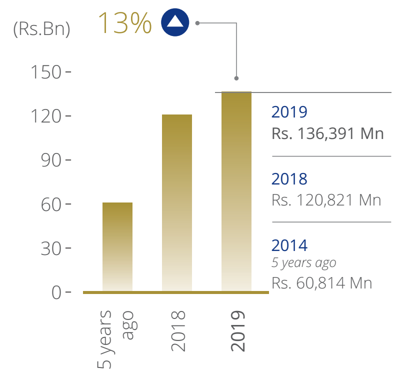
PROFIT AFTER TAX



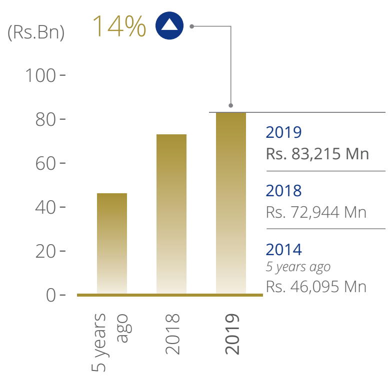
LENDING TO CUSTOMERS



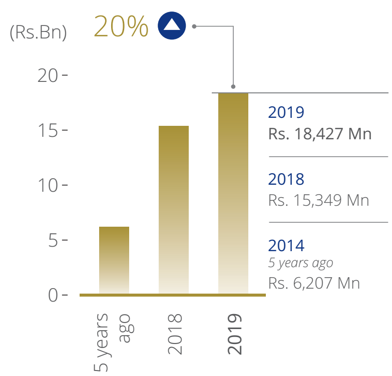
TOTAL ASSETS



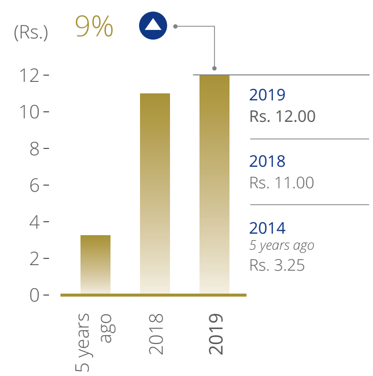
DUE TO DEPOSITORS



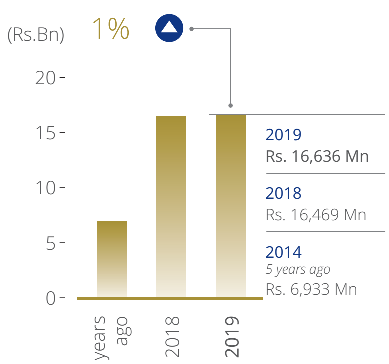
EQUITY



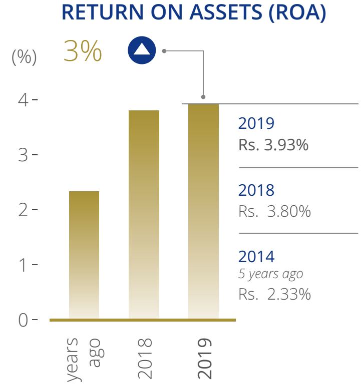
DIVIDEND PER SHARE



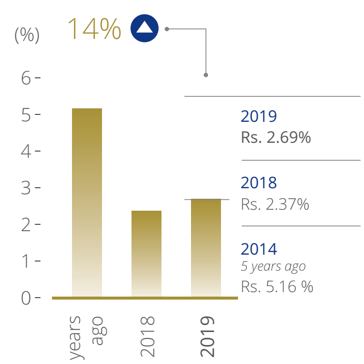
MARKET CAPITALISATION



RETURN ON ASSETS (ROA)



NON-PERFORMING LOANS RATIO (NPL)

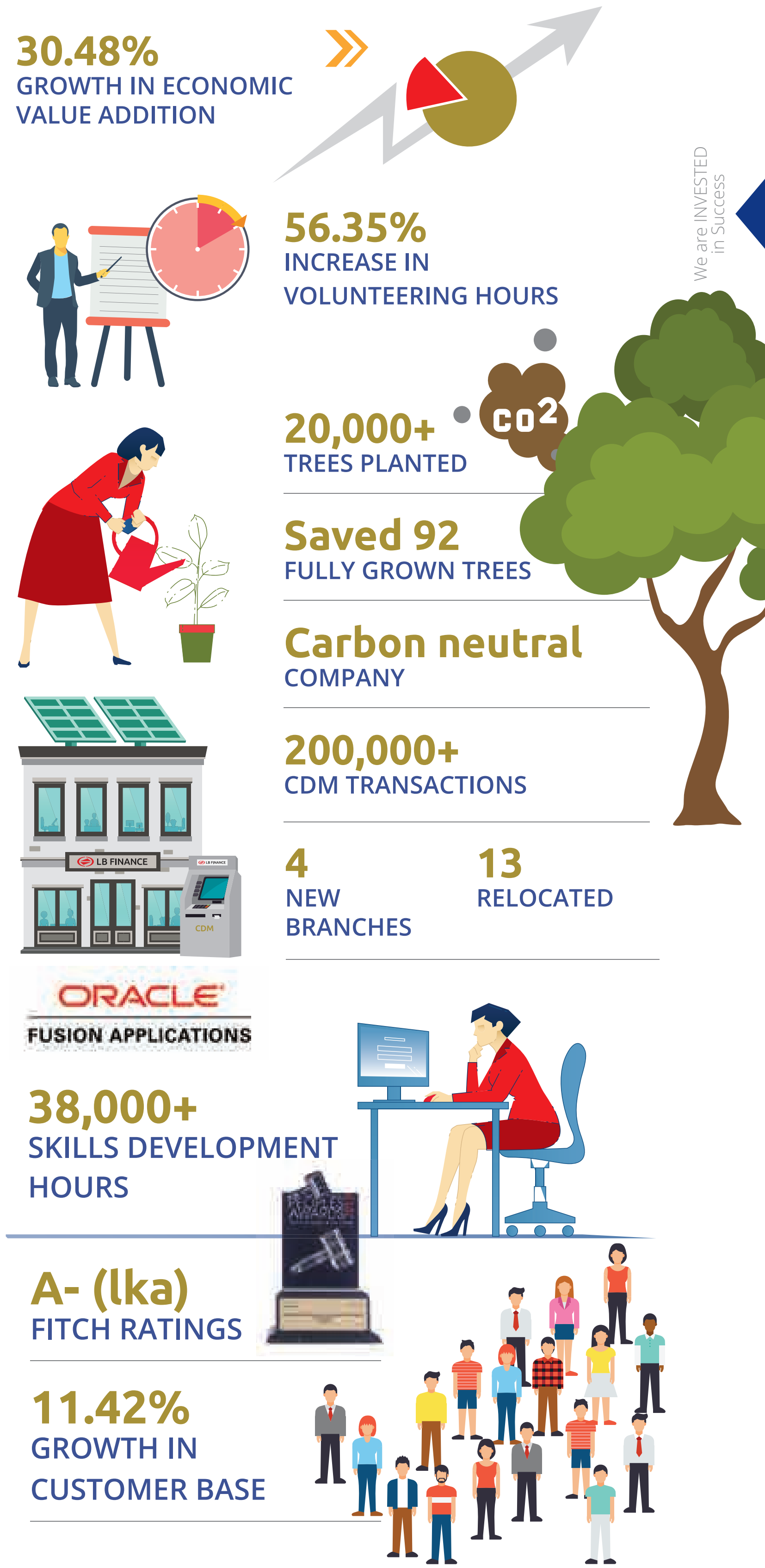


Non Financial Highlights

Macro Dimension	GRI	Indicator	Measurement	2018/19	2017/18
Economic wellbeing	201-1	Economic value added	Rs. million	4,047.61	3,090.42
	201-1	Economic value distributed to:			
		Depositors and lenders	Rs. million	12,361.66	11,077.10
		Employees	Rs. million	2,682.61	2,389.35
		Government	Rs. million	4,508.35	3,038.17
		Shareholders	Rs. million	1,662.17	1,523.66
Social wellbeing		Community development programmes	Number	28	26
		Staff volunteered hours	Number	14,195	9,079
Environment and landscape		Environment related projects	Number	6	6
	303-1	Water consumption	m3	43,007.00	29,891.91
		Water consumption per Rs. million of revenue	m3	1.46	1.19
		Trees planted/distributed	Number	20,194	612
		Trees saved by recycling paper	Number	92	68
		Investment on green initiatives	Rs. million	16.49	3.51
		Paper recycled	kg	5,432	3,978
	302-1	Energy consumption	GJ	20,020.70	18,231.87
		Energy per Rs. million of revenue	GJ	0.68	0.73
	305	Total carbon footprint	tCO2e	3,997	3,223
	305	Total carbon footprint per Rs. million of revenue	tCO2e	0.13	0.12
Business sophistication	102	Total outlets	Number	163	159
		Total branches	Number	127	123
		CDM machines	Number	23	3
		Branches outside Western Province	Number	84	82
		Gold loan centres	Number	36	36
		New outlets opened	Number	4	5
Infrastructure and quality of services	203-1	Investment on ICT	Rs. million	150.52	197.20
		E-connect transaction	Number	7,274	3,283
		Investment on freehold land and building	Rs. million	1,894.80	1,002.96
Employee wellbeing	102-7	Total workforce	Number	3,618	3,441
	401-1	Employees hired	Number	1,407	1,313
		Employment opportunities created	Number	177	220
	102-8	Employees completed 20 years of service	Number	23	20
	404-2	Training programs carried out	Number	195	113
		Investment in training and development	Rs. million	10.95	8.56
	404-1	Total training hours	Number	38,832	25,846
	404-1	Average hours of training per employee	Number	10.73	7.52
		Staff remuneration and benefits	Rs. million	2,610.60	2,305.87
Reputation	102-16	Brand value (LMD)	Rs. million	5,133	4,236
		Brand ranking - Most Respected Entity (LMD)	Number	23	33
		Credit rating (Fitch Rating)	Rating	A- (lka)	A- (lka)
Customers		Total customer base	Number	614,423	551,445
		Customer financial solutions	Number	29	27
		Improvement of customer base	%	11.42	14.85

● - High ● - Medium ● - Low

Our Priority	2020 objectives
	Create long-term value by enhancing the value proposition and greater engagement
	Lifelong projects to assist the poor and low income earners by way of financing, educational support, medicine, etc., through our CSR initiatives
	Further expand green initiatives and environmental conservation projects and protection of injured wildlife animals
	Priority will be given for relocating outlets to more customer friendly locations that offer greater visibility of LBF
	Technology-driven approach by leveraging platforms to align with changing customer aspirations
	Investing in employees to align with changing needs and improving productivity
	Moving up further in all brand rankings to testify our firm and unremitting commitment
	Remaining relevant to mass market customers by offering simple, convenient solutions which increase greater opportunities for growth through networking



We are INVESTED in Success

Awards and Accolades

Annual Report Awards 2018
Presented by CA Sri Lanka
Finance Companies and Leasing Companies

GOLD AWARD

Annual Report Awards 2018
Presented by CA Sri Lanka
Integrated Reporting –
Best Disclosure on Capital Management

SILVER AWARD

Peoples Awards
Presented by SLIM Nielsen

PEOPLE'S FINANCIAL SERVICE PROVIDER OF THE YEAR

SAFA Awards
Presented by
South Asian Federation of Accountants

SAARC ANNIVERSARY AWARDS
for Corporate Governance Disclosures

Swarna Sammana
Presented by All Island
Independent Journalists Association

Janabhimani Gaurawa,
Halaye Mahaviru Rawana Rajabhimani
SWARNA SAMMANA

Annual Report Awards 2018
Presented by CMA Sri Lanka

BEST DISCLOSURE ON STRATEGIC FOCUS

Annual Report Awards 2018
Presented by CMA Sri Lanka

TEN BEST INTEGRATED REPORTS

JASTECA CSR
and Sustainability Awards
Presented by JASTECA

CSR and Sustainability
MERIT AWARDS

Corporate Accountability Rating
Presented by STING Consultant

STANDARD OF GOLD

We are Carbon Neutral

Our commitment to protect and preserve the environment by continuously refining our policies and procedures and improving our products and services through the use of technology has enabled L B Finance PLC to be certified as a Carbon Neutral Company.


CARBON NEUTRAL CERTIFICATE

LB Finance PLC

Total

3,998


United Nations

VOLUNTARY CANCELLATION CERTIFICATE

Presented to:

Reason for cancellation:

Number and type of units cancelled

3,998 CERs

LBF's commitment towards nature and sustainability by promoting environment-friendly business practices to the various business segments of the country as well as reducing carbon footprints from our organisational framework.

Market Forces and LBF's Competitive Landscape

CUSTOMER POWER

Customers typically have a high power of bargaining since big corporates tend to be extremely rate sensitive. MSMEs have traditionally been less rate sensitive; however, as they are beginning to enjoy more access to finance and coupled with excess liquidity and frequent price wars, they are becoming more price sensitive. Big ticket customer loans (mainly leasing) customers' power is at the highest level currently with extreme price competition from industry participants.

Our strategy:

Focus on relationship building among existing customer base and channel resources towards finding new opportunities.

THREAT OF NEW ENTRANTS

Finance industry is crowded with banks and finance companies. The possibility of new entrants, intensifying competition further, cannot be ruled out. Threat of new entrants is also largely dependent on decisions made by various wings of the government, be it in terms of granting new licenses or varying the scope of services provide and/or operating procedures of financial and non-financial institutions.

Our strategy:

Ensure product differentiation and brand awareness, while keeping rates competitive. Continue efforts in process improvement to ensure long run competitiveness through balancing between cost minimisation and service flexibility.

COMPETITIVE RIVALRY

Number of competitors

The Sri Lankan financial services industry is marked by high levels of competition with 33 banks and 43 LFCs operating in the space.

Switching cost

The switching cost is low due to a high concentration of service providers.

Customer loyalty

Traditionally, customers are reasonably loyal; however, the recent phenomenon of liquidity and rate concentration has reduced loyalty to a great deal, especially across big ticket loans for all segments.

Our strategy:

Improve product matrix, customer service and process efficiency to attract and retain customers. Explore new ways of delivering value and innovative means of utilising existing resources to extend our range of offerings.

BUSINESS PARTNER POWER

As a financial institution, our major suppliers comprise of support services. These different service providers are elaborated in our business partners (pg. 120). The bargaining power of business partners are low.

Our strategy:

Focus on a diversified pool of support service providers to reduce risk of over-dependency on any specific group of service providers

THREAT OF SUBSTITUTE PRODUCTS COMPETITIVE RIVALRY

Low threat within the NBFI Industry. However, if we consider loan and leasing products from banks and the leasing companies as substitute products, then the threat is high. Additionally, for some segments, there exists a high threat of substitute products; for instance in vehicle loans where some of the vehicle suppliers themselves offer the vehicles in installments, removing the need to get a financier involved. There is a material threat in the medium and long run, with the potential for innovating alternative ways of creating value in meeting lending needs of businesses and individuals.

Our strategy:

Stay updated with industry best practices and new opportunities offered through technology and incentives.

- High - Moderate - Low

WE'RE INVESTED for the LONG TERM

We remain invested looking towards the years ahead with a long-term vision to achieve unparalleled growth and remain sustainable.

Managing Director's Review

GRI - 102 - 14

A steady trajectory of growth

As we turn our attention toward the future, we are well aware of the role technology will continue to play in this fast-changing world in which we live and work.

SUMITH ADHIHETTY
Managing Director

Dear Stakeholder,

The guiding principles that were established when L B Finance PLC was first founded in 1971 have allowed us to achieve steady, solid growth, year after year, with 2018/19 being no exception. LBF is reporting record results, which I believe is testifying to our unequivocal commitment to stay invested in our business.

Bolstered by higher lending volumes across all major lending categories, our asset base grew by 12.88% from Rs. 120.82 billion in 2017/18 to reach Rs. 136.38 billion by end March 2019.

Our deposit base reported 14.08% growth. I feel it is the proof of the longstanding public trust in our brand. Meanwhile our key top line indicator net interest income grew by 21.16%, while post tax profits surpassed the Rs. 5 billion mark for the first time in our history. Encouragingly, profit growth comes even amidst a substantial increase in the Company's tax burden resulting from the debt repayment levy imposed by the Government in October 2018.

Underpinned by these results, an interim dividend of Rs. 8 per share was paid in April 2019, while a final dividend of Rs. 4 per share has been proposed and will be paid subject to approval of shareholders. Improved performance across all key metrics helped LBF to maintain the A-(lka) rating assigned by Fitch Ratings Lanka Limited, a status the Company has succeeded in retaining in the past.

Quite frankly what I find most rewarding is the fact that we have been able to deliver this exceptional performance despite negative headwinds emanating from our immediate operating environment.

OPERATING ENVIRONMENT

Saying that the year 2018 was one of the toughest in recent times is stating the obvious. Sri Lanka's GDP growth slowed to 3.2% as weather-related disruptions in the previous year continued to bear down on the country's core agriculture sector, while weakening global demand led to a gradual slowing of export growth.

Meanwhile the constitutional crisis that erupted in October proved to be a severe blow for the country's tourism industry. And as investor confidence weakened in the immediate aftermath of these events, three major international rating agencies downgraded the country's sovereign rating in November 2018, making it increasingly difficult to source overseas funding. Given the mounting uncertainty the International Monetary Fund programme was also suspended, though the Government has since opened talks to review the three-year $1.5 billion bail-out which began in 2016.

Paradoxically the NBFI sector maintained a steady growth trajectory throughout 2018, albeit at a slightly slower pace than in the previous year. The sector-wide asset base increased despite tight regulatory controls that brought pressure on the core vehicle financing model, which I believe signals that the sector is gradually easing away from its over-dependence on vehicle financing and moving towards other viable lending activities.

On the downside the sector experienced some notable stress caused by rising NPLs, brought on by the spillover effects of adverse weather conditions as well as the general economic slowdown.

INVESTED IN OUR BUSINESS

If you recall, in my previous year's statement I outlined the preemptive measures we had begun taking in order to tackle the issue of NPLs. I am doubly glad that we had the foresight to take these preventive measures an year ago, just as the issues was emerging across the industry. Today we are seeing the results of our early action to streamline credit evaluation procedures and improve recovery monitoring and follow-up infrastructure. These efforts have redefined our lending approach, allowing us the flexibility to grow our loan book through selective high quality lending activities. Applying this approach to our leasing and auto finance business in the year under review, we redirected our attention towards the auto finance segment and began an aggressive promotional drive targeting the registered small cars and three-wheeler market, a strategy that we felt was more appropriate given the ongoing regulatory pressures that continues to diminish the prospects of the leasing business. The same prudent approach was applied to grow our other portfolios as well. As result we succeeded in growing our overall loan book by 10.85% year on year, while ensuring that Company-wide NPLs remained under control at 2.69%, only slightly above the previous year and still remarkably below the industry average of 7.7% as at end December 2018.

Throughout the year we were also quite aggressive in driving our gold loan business, an area where significant potential was evident. Given that the gold loan product by nature is a more generic offering, we looked to project our service delivery model as the key differentiator in the market. Having already invested and put in place the groundwork for a new full-fledged ERP for the gold loan segment, we completed its rollout in 2018, following which our service delivery timelines have improved by nearly 80%. In fact a customer can now walk into a Gold Loan centre at any LBF branch and complete their transaction and walk out in under a couple of minutes, which I see as a new industry benchmark. Improved efficiencies resulting from the ERP helped to boost the Gold Loan portfolio, which grew by 27.89% year-on-year. However, what I find even more pleasing is the positive feedback we are receiving from satisfied customers all around Sri Lanka, which tells me that we are on the right track with our decision to deepen investments in the Gold Loan business.

Our regional microfinance-based operation, LBF Myanmar, is progressing. Having started with just one branch in the Bago region, we have since expanded our footprint by adding on three new branches in 2018.

SURPASSED PROFIT AFTER TAX OF
Rs. 5 Bn

TOTAL ASSETS CROWNED
Rs. 136 Bn

MAINTAINED NPL AT
2.69%
while industry was at 7.7%

14.63%
INCREASE IN CSR-RELATED INVESTMENT TO
Rs. 26.95 Mn

CLINCHED
Sector Gold Award
AT THE CA SRI LANKA ANNUAL REPORT AWARDS

Our commitment to stakeholders is unconditional and everything we do is centered on increasing the value we deliver to them. In the year under review we took some big strides to strategically invest our capital to strengthen our capacity to generate sustainable value for all our stakeholders.

Deposits remained the primary funding source fuelling our lending activities. Throughout the year we continued to intensify our deposit mobilisation strategies through our flagship ‘LB Yasaisuru’ programme and directed our efforts towards mobilising term deposits with a stronger skew towards shorter tenure FDs, a strategy that was aimed at minimising a maturity mismatch that could potentially effect our overall liquidity position.

I am also doubly pleased to see how well our regional microfinance-based operation, LBF Myanmar, is progressing. Having started with just one branch in the Bago region, we have since expanded our footprint by adding on three new branches in 2018.

Led by our strong ethics, we have always advocated the early adoption of regulatory frameworks and best practices. In the year under review we actively engaged the process of implementing the SLFRS 09 requirements for the reporting of financial instruments and I wish to confirm that the Financial Statements for the year ended 31st March 2019 have been prepared on this basis.

INVESTED IN OUR STAKEHOLDERS

Our commitment to our stakeholders is unconditional and everything we do is centred on increasing the value we deliver to them. In the year under review we took some big strides to strategically invest our capital to strengthen our capacity to generate sustainable value for all our stakeholders.

The way we see it, supporting our customers’ ambitions is a key part of LBF’s role in society. To exercise this commitment LBF maintains a strong outreach across Sri Lanka. Through our network of 127 branches, 36 Gold Loan centres and we serve over 600,000 customers around the country. To further increase our reach, we unveiled four new outlets. At the same time, we continued innovating our product suite to make it more responsive to the needs of our customers. However I must admit our approach to innovation is somewhat unconventional. In that sense we are looking to leverage on our IT systems as a key enabler to develop and deliver new products and services outside of the realm of the traditional financial services model. To achieve this we continued investing in our existing infrastructure to improve system resilience and enable the migration to the latest in cloud technologies which are equipped with more robust frameworks that complement the wider eco-systems that we want to build around key customer experiences. The most significant undertaking for 2018/19 was the commissioning of the ORACLE Fusion ERP, which has provided an integrated platform to manage over 90% of our back-end operations and improve our workflows, in turn speeding up customer on-boarding and servicing. Ensuring the safety and security of our customer data and information also remains a key priority, which led to additional investments to strengthen LBF’s DR infrastructure as well as to begin initial ground work to set up a fully-fledged data warehouse solution in the next 12-18 months.

It goes without saying that our people are our most valuable asset. Therefore investing in their growth and development as well as their safety and wellbeing is not just a priority but rather one of our fundamental principles. In the year under review we focused on further enhancing the LBF employee value proposition with special emphasis on strengthening employee engagement and improving our performance management processes in alignment with globally-accepted best practices, as well as increasing our investment in training and development activities by almost 27.84%. Of course, I readily accept that there is always more we can do, which is why we have earmarked specific areas such as more structured succession planning, which we will work towards in time to come.

While it is unlikely that as a financial institution our business activities will have any significant impact on the environment, we nonetheless remain fully committed to being an exemplary environmental steward based on the premise that combating climate change is a joint effort that requires the co-operation of all individuals and corporates regardless of their own impact. Demonstrating our commitment in this regard is the 'Thuru Wavamu' initiative which was launched on 13th September 2018 as part of a broader effort to commemorate LBF's 50th anniversary in 2021. By far the most ambitious environmental project we have undertaken to date, the aim of the 'Thuru Wavamu' initiative is to see 50,000 new trees being planted across Sri Lanka by 2021. I am pleased to see that thanks to the enthusiastic participation of our teams we have succeeded in achieving 40% of our goal by end March 2019 which tells me the project is on its way to achieve its target by 2021.

As the world evolves, so too does the role of financial institutions. In today's complex society, we now know that serving the community is much more than mere philanthropy. We have come to understand that as a leading financial solutions provider in the country LBF has the ability to make a more impactful change towards uplifting the lives of the communities across Sri Lanka. As such our investments in the community are now very streamlined and focus on assisting the national socioeconomic development agenda. For example our education support programs for primary, secondary, tertiary and post-tertiary education help thousands of students each year, while our career guidance platforms continue to empower youth all across the country.

INVESTED IN THE FUTURE

As we turn our attention toward the future, we are well aware of the role technology will continue to play in this fast-changing world in which we live and work. Even now technological advancements are fast-evolving and influencing every aspect of our professional and personal lives. In the future the financial and economic landscape, along with our customers' needs, will be significantly affected by this next evolution. And as a leading financial service institution, LBF will need to be agile and proactive in order to remain at the forefront of this rapid change.

In this context, we will look to make significant improvements to our operations and strengthen our core competencies through ongoing refinements to our system architecture and core platform as well as through major investments in mobile app-based smart solutions that will improve the efficiency of LBF's business model, enabling us to navigate the opportunities that lie ahead and take our business to the next level in the years ahead.

APPRECIATIONS

As I conclude my review, I would like to take the opportunity to thank my colleagues on the Board for the guidance and wise counsel extended to me at all times. A special word of thanks to the Management and employees at all levels for their dedication and commitment in driving the Company forward.

I also wish to express my appreciation to the Governor of the Central Bank of Sri Lanka and the officials at the Department of Supervision of Non-Bank Financial Institutions, for their support at all times.

Finally, I would like to thank the shareholders and all other stakeholders for their longstanding trust and confidence in the Company and invite you to remain invested in LBF's future journey as well.

Our Business Model

For long-term sustainability, LBF business model magnets from the six capitals and Scorecard delivers us with the framework against which we reflect how we transform, increase or decrease capitals in generating value creation outputs. The diagram illustrates each of our core activities and how they translate into products and services to meet the needs of our Stakeholders.

Activities	What this means	Balance sheet impact	Income statement impact	Cash flow impact	Risk
Safe place to save and invest money	• Accepting customers' deposits • Payments and investments facilities • Guiding investment management products and advice	• Deposits • Debt securities Issued • Shareholders' equity	• Interest expense • Income • Dividends paid	• Interest paid to depositors and other funders • Returns generated for shareholders	• Interest rate • Liquidity • Operational
Best place to obtain financing facilities	• Extending credit, taking into account customers' credit standing • Providing individual and business financing	• Loans and advances • Provision for bad debts	• Net interest income • Fee and commission income • Bad debts expense	• Receive interest income from borrowers • Fee income relating to lending activities	• Credit • Market • Interest rate
Convenient place for non-financial services	• Providing value added services to individuals and businesses	• Foreign currency reserve	• Fee income • Commission income • Rental income	• Receive income for services	• Market • Operational

Our Value Creating Business Model

How We Create Value Using the Six Capitals

Transforming the stocks of capital through our business activities, we create value by developing and distributing a range of innovative and reliable products, and services. We depend on various resources and relationships, known as the six capitals, to do this.

INPUTS

17 PARTNERSHIPS FOR THE GOALS

Financial Capital
Composed of the financial resources available and allocated to businesses, our own or third parties, obtained in the form of financial products and services

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Manufactured Capital
Composed of the equipment and physical facilities, such as branches, centers, applications and technology systems used in the provision of products and services, and business management.

10 REDUCED INEQUALITIES

Human Capital
Composed of our employees and their skills, experiences, motivations to innovate and develop better products and services, in an ethical and responsible way

Intellectual Capital
Composed of the reputation obtained by our brand, our intellectual property and by the ability to develop new technologies, products and services that generate competitive advantages for the continuity of business

5 GENDER EQUALITY

Social Capital
Composed of the ethical and transparent relationship with our stockholders and reflects the ability to share value and enhance individual and collective well-being

Natural Capital
Composed of renewable and non-renewable environmental resources, consumed or affected for the prosperity of business

SGD

KEY ACTIVITIES

Investing
Our strategy is to grow and improve the quality of the deposit portfolio through a suitable investment mix that would strengthen the Company's ability to maximise investor returns

Financing
Lend responsibly in order to ensure customers become financially better off and in so doing improve LBF's competitive positioning in the market

Value-added services
Provide a range of value-added services that aim to enhance the customer experience with LBF

External environments: OPPORTUNITIES, THREATS
Internal environments: STRENGTHS, WEAKNESS

OUTPUT

We serve customer focused products and services to match their lifestyles as well as a vast range of high value-added differentiated products

OUTCOMES FOR OUR STAKEHOLDERS

In managing our six capitals, The Board and Management continues to;

- Assess risk tolerance and risk appetite measures
- Evaluate impact on our material matters
- Prioritise our strategic objectives
- Re-assess capital in further driving value
- Stakeholder management

Financial Impact

Profit after tax
Rs. 5,054 Mn

Return on equity
29.93%

Market capitalisation
Rs. 16,635 Mn

Value Distributed

To employees
Rs. 2,682 Mn

To depositors and lenders
Rs. 12,361 Mn

To Government
Rs. 4,508 Mn

To capital providers
Rs. 2,251.83 Mn

Sustainability Impact

Social investment
Rs. 10 Mn

Total carbon footprint
3,997 tCO_2e

Employee voluntary hours
14,195

Total customer base
over 600,000

Economic value added
Rs. 29,278 Mn

Governance | Risk management | High-performing people | Managing the capital trade-offs | Regulatory compliance

SCOREBOARD OF OUR SIX CAPITALS

Key Inputs

FINANCIAL CAPITAL

We use cash generated by our operations and investments as well as debt and equity financing to run our business and fund growth.

Rs. 16.60 billion market capitalisation

Rs. 15.34 billion equity

Rs. 72.94 billion deposits

MANUFACTURED CAPITAL

Investing in branches and equipment allows us to convert business opportunities into high-value product streams and operate reliably.

159 outlets

Rs. 579.03 million expenditure on advertising and business promotions

Rs. 179.63 million investment of IT hardware and equipment

HUMAN CAPITAL

To grow our business we require high-performing, innovative and diverse people with the right skills and experience.

3,441 employees

A strong leadership team, driving a culture of high performance

1,313 new employee opportunities

INTELLECTUAL CAPITAL

Our brand, technologies, software, licences, procedures and protocols support company competitive advantage.

28th most valuable consumer brand by LMD

Rs. 17.56 million investment on IT software and service

skilled, experienced and technically-qualified employees

SOCIAL AND RELATIONSHIP CAPITAL

To create an enabling environment for operations and investment, we integrate the needs of our stakeholders into our business and we deliver on our commitments.

An employee relations culture that encourages engagement

The sustained confidence of investors

Rs. 23.51 million invested on CSR activities

NATURAL CAPITAL

We require natural resources to operate our business and drive environment friendly practices through Green Lending.

Carbon-neutral business operations

Rs. 3.51 million investment on green initiatives

Total carbon footprint 3,223 tCO_2e

Outcomes

Financial Capital	2018/19	2017/18
Profit after tax (Rs. million)	5,054.66	4,250.72
Income generated by operating activities (Rs. million)	16,326.70	13,547.79
Earnings per share (Rs.)	36.49	30.69
Dividend per share (Rs.)	12	11

Actions to enhance outcomes

Continue to develop sustainable revenue streams while exercising prudent risk management

Structural cost transformation to cost optimisation

Manufactured Capital	2018/19	2017/18
New outlets opened	4	5
Investment on freehold land and buildings (Rs. million)	1,894.80	1,002.96
Strategic relocations	13	3

Actions to enhance outcomes

Modern, equipped, latest look and feel branch exteriors

Identifying and capturing untouched, opportunity available markets

Human Capital	2018/19	2017/18
Amount paid in wages and benefits (Rs. million)	2,694	2,306
Cost incurred in employee training (Rs. million)	10.95	8.56
Investment on employee welfare facilities (Rs. million)	65.65	78.81

Actions to enhance outcomes

Focused talent sourcing and succession planning

Refreshed our action-orientated values to improve our diverse and inclusive workforce

Encounter time constraints to develop soft skills

Intellectual Capital	2018/19	2017/18
Brand value (Rs. million)	5,133	4,236
Investment on IT systems (Rs. million)	9.21	17.56

Actions to enhance outcomes

Conducting continuous market research internally and through business experts

Invest in digital information systems

Social and Relationship Capital	2018/19	2017/18
Spending on corporate social responsibility (Rs. million)	26.95	23.51
Interest paid to the customers (Rs. million)	12,361.66	11,077.10
Taxes (direct and indirect) paid to the Government (Rs. million)	4,508.35	3,038.17

Actions to enhance outcomes

Investing in numerous social welfare activities to benefit the community

Continuous assessment of customer complaints and successfully handling them

Supporting entrepreneur development

Natural Capital	2018/19	2017/18
Total carbon footprint (tCO_2e)	3,997	3,223
Amount of paper recycling (Kg)	5,432	3,978
Green initiatives	6	6

Actions to enhance outcomes

Setting targets for energy management

Committing to promoting sustainable e-management practices

Working on environment conservation and natural resources management projects

MANAGING TRADE OFF, POSITIVE AND NEGATIVE OUTCOME

VALUE CREATION

Balancing short-term performance expectations and long-term expectations

We need to make decisions today that will often only bear fruit in the future. Our single most significant trade-off is managing a long-term strategy against short-term stakeholder performance expectations. At times, to ensure sustained value creation, we need to make decisions that are right for our lending portfolio in the long term, but may have negative short-term consequences.

INVESTMENT DECISIONS

Where we allocate our money

Our ability to raise financial capital is critical to our business and determines our ability to expand our asset base. However, we don't have an unlimited supply of funding, forcing us to make difficult choices about where and how to invest.

REDUCTION OF EXPENSES

Managing optional spend to ensure its effort

Reducing our investment in our staff training, advertising and marketing may increase short-term profitability, but adversely impacts our employees' productivity, contribution and engagement, as well as our brand reputation.

Executing our business model in an integrated manner

Role of Supporting Services

Common frameworks, policies and processes guide and support the execution of our core business activities, ensuring that we work consistently and in an integrated way for the benefit of our stakeholders. This functional integration allows us to improve service levels and take advantage of synergies and scale.

BUSINESS ACTIVITIES	Investing Monitored By : MD, EDAF	Financing Monitored By : MD, EDAF, EDAM, EDSBU	Value Added Services Monitored By : MD, EDAF EDAM	Managed by	Governed by
Group Finance	●	●	●	CFO	AC, ALCO
Group Human Resources	●	●	●	AGM-HR	AC
Group Risk	●	●	●		IRMC AC
Group Administration	●	●	●	SM-A	AC
Group Marketing	●	●	●	SM-M	AC
Group IT	●	●	●	DGM-IT	ITSC
Group Treasury	●	●	●	AGM-T	ALCO IRMC
Group Compliance	●	●	●	CO	AC
Group Legal	●	●	●	HOL	AC

MD – Managing Director
EDAF – Executive Director - Assets Finance
EDAM – Executive Director - Assets Management
EDSBU – Executive Director – Strategic Business Units
CFO – Chief Financial Officer
AGM-HR – Assistant General Manager – Human Resources
AGM-T – Assistant General Manager – Treasury
HOL – Head of Legal
DGM-IT – Deputy General Manager - Information Technology
CO – Compliance Officer
SM-A – Senior Manager – Administration
SM-M – Senior Manager – Marketing
AC – Audit Committee
ALCO – Assets and Liability Committee
IRMC – Integrated Risk Management Committee
ITSC – Information Technology Steering Committee

Creating a Sustainable Future

SUSTAINABILITY STRATEGY

At LBF we are committed to acting sustainably in our everyday business, for we believe that sustainability presents an opportunity to use our skills, expertise and relationships to make a positive difference to individuals, society and the environment. Underpinned by our sustainability strategy, we have set a number of commitment to anchor sustainability more deeply into our operations and to increase our vigilance of sustainability issues over time.

The areas of focus have been worked out cognisant to our vision, our way, corporate policies, external commitments and stakeholder insights. Based on this we have determined four sustainability pillars which will direct our focus: dialogue and transparency, financial education, environmental and social risks and opportunities. Action we will take in context will be based on four key principles: governance and management, efficiency, incentives and culture.

To formalise our commitment to sustainable development, we have established a robust Policy Framework that is reviewed and updated annually and approved by the Board of Directors.

The review process is divided into four main phases:

- Economic sustainability
- Social sustainability
- Environment sustainability
- Governance sustainability

VOLUNTARY COMMITMENTS

We highlight below the main engagement initiatives and volunteer commitments that guide LBF's sustainable performance:

SUSTAINABLE DEVELOPMENT GOALS | GRI | WORLD ECONOMIC FORUM | IR INTEGRATED REPORTING | THE GLOBAL COMPACT WE SUPPORT | GREENHOUSE GAS PROTOCOL

SUSTAINABILITY PERFORMANCE

Economic sustainability

These efforts are focused primarily on shareholders as the principal providers of capital. The aim is to deliver above market share appreciation and consistent dividend payments, supported by the group's growth in profitability, thereby maximising shareholder returns.

KPI	Performance 2018/19	Performance 2017/18	Status	Associated risks	Response	Opportunities identified	Capital linked
Financial returns				Policy and economic trends	Practicing low interest rates and our low risk approach	Changes in economic and social trends can create new economic models or consumer groups. New opportunities for cross-industry collaboration	
• Earnings per share (Rs.)	36.49	30.69	▲				
• ROE (%)	29.93	30.52	▼				
• Cost to income ratio (%)	34.22	37.37	▼				

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Social sustainability

Our social sustainability initiatives focus on our internal Human Capital or employees with programmes covering wellness, skills development, training, health and safety; likewise supply management and key external social sustainability initiatives focus on corporate social responsibility programmes.

KPI	Performance 2018/19	Performance 2017/18	Status	Associated risks	Response	Opportunities identified	Capital linked
Unmatched customer services				Technology development and digital convergence	Cyber security and the protection of customer data	Be the largest branch network and digital financial institution	
• e-connect transactions	7,274	3,283	↑				
• Customer complaints	1,009	954	↑				
• Customer complaints resolve ratio	100%	100%	-				
Safe workplace				Talent recruitment and cultivation	Building a culture in which everyone feels included, empowered and inspired to do the right things	Introduce technological and flexible way of working to enhance work-life balance	
• Investment in training (Rs. million)	10.95	8.56	↑				
• Male to female ratio	1.61	1.72	↓				
Corporate citizenship				Proper resource allocation	Focuses on education, welfare and enterprise	Developing financial education and inclusion	
• Investment in CSR activities (Rs. million)	26.95	23.51	↑				
• Employee volunteer hours	14,195	9,079	↑				

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Environmental sustainability

The Group strives to make an impact on the environment and its sustainability initiatives are therefore focused on the consumption of energy and resources and recycling within the office environment.

KPI	Performance 2018/19	Performance 2017/18	Status	Associated risks	Response	Opportunities identified	Capital linked
Greener practices				Climate change and energy scarcity	Commitment to reduce the environmental impact of our own operations	Supporting the transition to a low carbon economy through our financial products and services	
• Carbon footprint (tCo$_2$e)	3,997	3,223	↑				
• Carbon neutral financial institution	Continued	Continued	-				
• Paper recycling (Kg)	5,432	3,978	↑				

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Governance sustainability

With accountability and integrity forming a fundamental part of our core values, the Group strives to achieve a high level of good corporate governance and citizenship, so as to safeguard the Group's assets and ensure the success of all its sustainability initiatives.

KPI	Performance		Status	Associated risks	Response	Opportunities identified	Capital linked
	2018/19	2017/18					
• Focus on implementing local and international best practice	Complied	Complied	-	Reputation risk	Complied with all rules and regulations	Disclosure of the best practices and be the benchmark company for peers	
• The Group's corporate governance structures, methodologies and assessment	Complied	Complied	-				

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WE'RE INVESTED

in creating and SUSTAINING VALUE

We continue to invest in delivering lasting value in all we do leveraging on our unique capabilities and strategy to positively impact the people and communities in which we operate.

Management Discussion and Analysis

Risks and Opportunities in Our Operating Environment

GLOBAL ECONOMY - 2018 HIGHLIGHTS

GDP Growth Rate	2017 %	Estimated 2018 %	Projected 2019 %
World output	3.8	3.7	3.5
Advaced economies	2.4	2.3	2.0
United States	2.2	2.9	2.5
Euro Area	2.4	1.8	1.6
Japan	1.9	0.9	1.1
United Kingdom	1.8	1.4	1.5
Emerging markets and developing economies	4.7	4.6	4.5
Russia	1.5	1.7	1.6
China	6.9	6.6	6.2
India	6.7	7.3	7.5
ASEAN-5	5.3	5.2	5.1

Source: IMF World Economic Outlook | January 2019

Global economy loses steam amidst subdued global trade and investment activities

Global economic growth moderated in 2018, with global GDP expanding by a sedate 3% and falling well short of early forecasts that put growth at a much higher level. The Global economy lost steam amidst subdued global trade and investments activities. With the exception of the US economy, most advanced as well as emerging economies reported sub-par performances. Estimates suggest that growth in advanced economies to have decelerated to 2.2% in 2018, while growth in emerging economies is estimated to have edged down to 4.2%.

The US economy remains the exception, recording impressive growth compared to peers

The US economy exceeded initial expectations to report solid growth of 2.9% in 2018 bolstered by higher domestic spending and the ongoing fiscal stimulus program of the US Government. In contrast, Euro zone growth slowed notably in 2018 to an estimated 1.9% as exports continued to soften, the result of slowing external demand caused by the Euro appreciation in 2017. Meanwhile in Japan, growth slowed to an estimated 0.8% in 2018, on the back of persistent bad weather and several natural disasters that took a toll on the economic activity. In China, growth is estimated to have slowed but nonetheless still managed to hover at a robust 6.5%in 2018, supported by resilient domestic consumption and strong internal investment.

Slowdown in global trade following US-China trade tensions

Growth in global goods trade slowed during the first half of 2018 against a backdrop of escalating US-China trade tensions which resulted in the imposition of new tariffs affecting nearly 12% of US good imports, 6.5% China's imports and about 2.5% of the global good trade. The temporary pause in tariff hikes agreed by the United States and China during the G20 meeting in early December 2018 did succeed in controlling trade policy uncertainties to some extent.

Despite some fluctuations, oil prices remain mostly stable

Amidst supply side pressures and some market concerns regarding the impact of US-led sanctions on Iran, Brent crude oil prices kept rising to peak at $86/bbl in early October 2018. However, prices fell sharply in November after the US announced temporary waivers to the sanctions on Iran and for eight countries, including China and India. The increase in oil production in the United States, as well as the increase in supply by the Organization of the Petroleum Exporting Countries (OPEC) and the Russian Federation also contributed to the decline in oil prices in the latter part of 2018. Consequently Oil prices averaged $68 per barrel (bbl) in 2018.

Rate hikes by the US Federal Reserve attracting capital flows towards the US.

The US Federal Reserve announced four consecutive rate hikes in 2018, which had the desired effect of attracting large capital flows towards the US, and away from other markets especially emerging market economies. The resulting impact brought pressure on global equity markets in particular the emerging market economies where significant capital outflows were observed throughout the year.

World gold prices remain low year stable throughout the year

Affected by lower demand, believed to be a cascading effect of the higher US Fed rates, world gold prices declined in the first half of 2018. However after some notably tapering, prices rallied to end the year in a much stronger position, with clear indications to suggest an imminent increase towards mid-2018.

Source: GLOBAL ECONOMIC PROSPECTS | JANUARY 2019

A WEAKER OUTLOOK FOR THE GLOBAL ECONOMY, GOING FORWARD

Experts suggest the global economy is likely to moderate even further in 2019, with global trade expected to slow. Growth in advanced economies is projected to decelerate, while the US economy is expected to keep growing supported by ongoing fiscal stimulus in the near term. Meanwhile softening global trade and tighter financing conditions will likely result in a more challenging external environment for emerging economies, with their growth predicted to stay more or less flat in 2019.

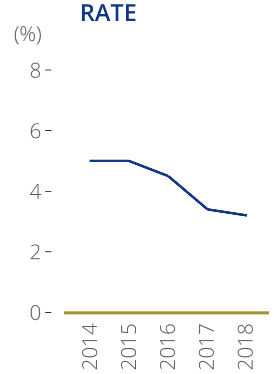
SRI LANKAN ECONOMY - 2018 HIGHLIGHTS

Economic Growth

Vulnerability to global and domestic pressures saw Sri Lanka's economy record a modest growth of 3.2% in 2018, reflecting a further deceleration from the 3.4% recorded in 2017. In particular the weakening of the Industrial sector, especially the construction industry, is thought to have had a major impact on the country's economic performance for 2018. On a more positive note however the Agriculture sector appeared to rebound as improved weather patterns in 2017 put an end to the prolonged drought. Driven by a strong increase in overall agricultural output, the Agriculture sector expanded by 4.8% in 2018. The Services sector too growing by 4.7% remained a key contributor towards economic growth. Within Services activities, financial services continued to be the key contributor to economic expansion.

Meanwhile reflecting heightened external refinancing risks and an uncertain policy outlook, three leading international credit rating agencies downgraded Sri Lanka's sovereign rating in December 2018.

GDP GROWTH RATE



HOW LBF IS RESPONDING

With the industrial and construction sectors under pressure, LBF's credit concentration risk towards these sectors is reviewed with new credit exposure limits put in place to minimise the risk of overexposure. We also continue to maintain a strong focus on lending to the Service sector, which has been growing steadily for the past few years. A measured approach was adopted with regard to the Agriculture sector, given the sector's inconsistent growth patterns.

Political Pressure

Several political developments also had a bearing on the country's prospects in 2018, most notable among them; the political standoff in October 2018 between the ruling party and the opposition. The resulting uncertainty had an immediate impact on the prospects of the tourism industry which was gearing up for a successful winter season. Investor confidence in the country also dipped, while the IMF-led bailout plan was also temporarily suspended.

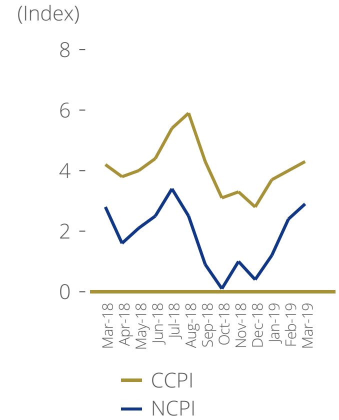
HOW LBF IS RESPONDING

Amidst mounting political pressure in the immediate aftermath of the standoff in October 2018, LBF adopted a wait-and-see approach to determine a suitable course of action for the next few months. With normalcy restored by January 2019 no material changes in the Company's strategy were made.

Inflation

Both headline and core inflation remained subdued in 2018, reflecting the rebound in the Agriculture sector, the impact of lower fuel prices resulting from the introduction of a market-based pricing formula and the success of the Governments' enhanced monetary policy framework. Accordingly, notwithstanding the sharp depreciation of the rupee against major currencies, consumer price inflation remained low in 2018 with only a few minor short-term fluctuations seen throughout the year. Reaching a peak in August 2018, inflation decelerated thereafter, and on occasion even fell below the desired mid-single digit levels. Accordingly, year-on-year headline inflation based on CCPI declined to 2.8% by end 2018 from 7.1% at end 2017. Meanwhile core inflation, which is a stronger measure of demand driven underlying inflation, remained at low single digit levels throughout 2018. Core inflation based on CCPI decelerated to 3.1% by end 2018 compared to 4.3% recorded at end 2017.

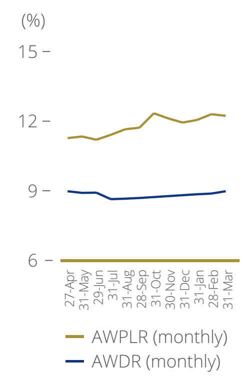
INFLATION



Interest Rates

With the CBSL's tight monetary policy stance adopted since 2015 delivering the desired outcomes of lowering inflation and containing money and credit growth, the authorities decided to end the monetary tightening cycle. In April 2018 CBSL decided to reduce the Standing Lending Facility Rate (SLFR) by 25 basis points to 8.50%, while the Standing Deposit Facility Rate (SDFR) was kept unchanged at 7.25%. The CBSL thereafter followed a neutral monetary policy stance as adverse developments in global economic conditions and capital outflows towards the US brought pressure on the country's external sector and raised volatility in the domestic markets. However, in view of the large and persistent liquidity deficit in the domestic money market since September 2018, the CBSL reduced the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks to 6% from 7.5%, with effect from mid November 2018. Steps taken in parallel to neutralise the impact of the SRR saw an upward adjustment in policy rates with the SDFR being raised to 8.00% and the SLFR to 9.00%. Consequently the Average Weighted Deposit Rate (AWDR) decreased to 8.81% by end 2018 from 9.07% recorded at end 2017, while the Average Weighted Lending Rate (AWLR) increased to 14.40% by end 2018 from 13.88% at end 2017.

MOVEMENT IN LENDING AND DEPOSIT RATES



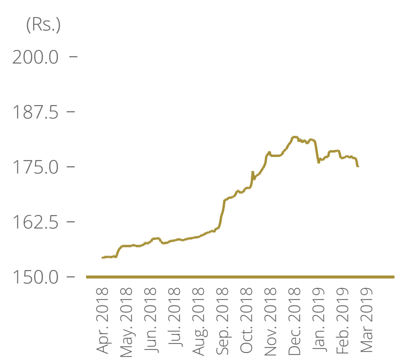
HOW LBF IS RESPONDING

In parallel to all these flucutations in interest rates, we repriced our deposit rates accordingly. As a result our Net interest income(NII) grew by 21.16%. Deposit rates repriced at a higher margin in early part of the year which provided opportunity to mobilise more funds. However, yields on lending products remain constant while deposit rates were reduced in the latter part of the year.

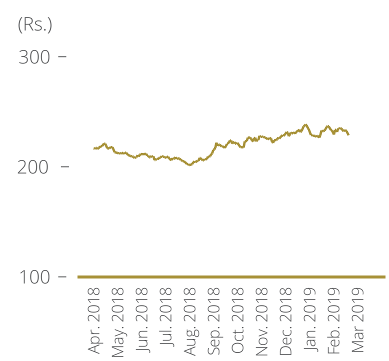
Exchange Rate

On the back of the broad-based strengthening of the US dollar as well as due to tight liquidity conditions in the domestic foreign exchange market, the Sri Lankan Rupee came under intense pressure in the second half of the year, prompting the CBSL to allow greater flexibility in the determination of the exchange rate with effect from September 2018. Marked by considerable volatility in the ensuing months, the Rupee ended 2018 depreciating by 16.4% against the US dollar.

EXCHANGE RATE USD TO LKR



EXCHANGE RATE GBP TO LKR



HOW LBF IS RESPONDING

Backed by a keen observation of exchange rate movements, LBF has over the years continued to prudently build up foreign exchange reserves. The depreciation of the Rupee in September 2018 provided an ideal opportunity for the Company to liquidate these reserves and realise a significant exchange gain.

External Sector

The country's external sector remained under pressure with imports continuing to outpace exports, as import expenditure grew by 6% while export income grew by only 4.7% in 2018. Consequently the overall trade deficit widened to US dollars 10,343 million in 2018 crossing the Rs. 10 billion mark for the first time. Meanwhile the trade deficit as a percentage of GDP also widened to 11.6% in 2018 from 10.9% in 2017.

OUTLOOK AND PROSPECTS

Economic growth in 2019 is expected to remain subdued with the prospects of the industry sector linked to a global trade activities. It is hoped that the pickup in the Agriculture sector can be sustained in 2019 as well. Meanwhile growth in the services sector will most likely remain the most consistent in fuelling GDP growth in 2019.

However the country's political outlook for 2019 remains uncertain amidst imminent elections towards the end of the year. On a positive note, regardless of the outcome of the election, it is unlikely that the structural reforms set in motion will be reversed as such an attempt would lead to further deteriorate economic conditions and downgrade credit ratings even more.

NBFI SECTOR

Asset Growth

Across the sector, lending activities were negatively impacted by two key factors 1) fiscal and prudential macro policy measures taken by the Government to curtail importation of motor vehicles and 2) the general slowdown in economic activity.

Accordingly, while the sector's asset base continued to expand in 2018, it was at a subdued pace of 5.6%. Of the total asset base of Rs. 1,431.3 billion by end December 2018, 79.4% was attributed to loans and advances. Finance leases accounted for the 52.8% share of loans and advances, while 38% was attributed to other secured loans.

Composition of assets and liabilities of the LFCs and SLCs sector

Item	2018 Rs.Bn	2017 Rs.Bn	Change %
Assets			
Loans and advances (net)	1,137.0	1,057.1	7.6
Investments	109.7	118.1	(7)
Other	184.6	179.8	2.7
Liabilities			
Total Deposits	716.8	686.7	4.4
Total Borrowings	463.8	396	17.1
Capital Elements	183.7	169.7	8.2
Other	67.0	102.6	(35)
Total assets/liabilities	1,431.3	1,355.0	5.60

Source: CBSL

HOW LBF IS RESPONDING

LBF's asset book expanded steadily recording above average growth of 12.89% in 2018/19. This was largely due to focused efforts by the Company to promote the auto finance proposition.

Asset Quality

A significant deterioration in asset quality was observed across the NBFI sector, being the result of weak economic activity as well as the poor performance of the Agriculture sector over the past two years, which together brought significant stress on the repayment capacity of customers especially those in the SME and micro segments. From 5.9% in 2017, the sector's gross Non-Performing Advances (NPAs) ratio increased to 7.7% in 2018, the highest NPA ratio recorded since February 2015.

HOW LBF IS RESPONDING

Taking proactive action to minimise entrants to the NPA bracket, LBF enhanced the collection monitoring infrastructure and stepped up recovery efforts with additional manpower being trained and deployed to strengthen field recovery efforts Meanwhile, taking preemptive measures, LBF also took steps to sharpen its credit evaluation and client investigation protocols. Broad-based action of this nature enabled LBF to contain its NPA ratio to 2.69%, well below the industry average.

Funding

Funds generated through deposit mobilisation activities remained the main funding source for the sector, with deposits accounting for 50.1% of the total liabilities of the sector. However it appears the sector's reliance on deposits is gradually shifting towards bank borrowings, with borrowings growing by 17.1% in 2018 compared to negative growth in 2017. Deposit growth was only 4.4%, in 2018 in comparison to 29.4% growth in 2017.

HOW LBF IS RESPONDING

As customary our funding mix remain within range of 64% deposits, 22% borrowings and 14% equity. Fixed deposits heavily biased towards three to 24 months maturity and we used borrowings to strengthen the maturity mismatch. Timely decisions to borrow fixed rate and build a cash surplus helped us to have adequate liquidity to handle all business activities without any strain. Among the borrowings 65% remained at fixed rate, hence we had a competitive advantage in defending our NII when the interest rates were rising.

Profitability

The sector posted a profit after tax of Rs. 21.4 billion, a decline of by 17.2% compared to the figure recorded in year 2017. The decline was attributed to several factors, key among them lower Net Interest Margins (NII) and higher provisioning costs.

NII, the sector's main source of income, increased by only 6% in 2018, due to the combined effect of lower than expected growth in portfolio and higher interest expenses.

Meanwhile the sector's bottom line came under pressure amidst higher provisioning costs required in a high NPA environment. In addition, the implementation of the SLFRS 09 standards as well as the impact of the Debt Relief program introduced by the Ministry of Finance and Mass Media in August 2018 were the other major factors responsible for driving up sector-wide provisioning costs.

Meanwhile sector-wide ROA decreased to 2.7%, while and ROE declined to 12.1% pointing to signs of stress in sector-wide profitability.

Income and expenses of the LFC and SLCs sector

Item	2018 Rs.Bn	2017 Rs.Bn	Change %
Interest income	241.5	231.5	4.3
Interest expenses	132.6	128.9	3
Net Interest income	108.8	102.7	5.9
Non-Interest income	38.1	34.0	12.1
Non-Interest expenses	81.2	80.0	1.5
Loan loss provisions (Net)	25.9	13.5	91.9
Profit before tax	39.7	43.2	(8.1)
Profit after tax	21.4	25.8	(17.2)

Source: CBSL

HOW LBF IS RESPONDING

L B posted appreciably high performance and delivered a profit after tax of Rs. 5.05 Bn, recording a growth of 18.91% and total assets growth of 12.89%. L B loan portfolio growth of 10.84% and increase in net interest margins to 11.78% contributed for Net Interest Income to increase by 21.16% compared to 2018.

We kept our focus on enhancing portfolio credit quality by acquiring better credit as well strengthening post-disbursement Risk Management Framework. Though our non-Performing Loans (NPLs) ratio increased to 2.69% from 2.37% in 2017/18, we stand far superior against the industry NPL ratio of 7.7%. Impairment charges increased by 47% increase is predominantly attributable to the impact of SLFRS 9 and weaker economic performance

The banking and finance industry is one of the heavily taxed industries and our effective taxation amounts to 34.79%.

ROA 3.93% and ROE was 29.93% in relative to previous year's figures which were 3.80% and 30.52% respectively.

Capitalisation

Led by the CBSL's decision to enhance the minimum capital requirement up to Rs. 1 billion with effect from 01 January 2018, the NBFI sector remained well capitalised and consistently above the minimum requirement throughout the year. The improvement in the total regulatory capital by Rs. 15.5 billion further indicates the sector's ability to withstand perceived adverse shocks. The sector's core capital and total capital ratios decreased to 9.9% and 11.2% in 2018 from 12.4% and 13.1% respectively in 2017 as companies began migrating to the new Capital Adequacy Reporting Framework and declaring risk weighted assets with a more risk sensitive focus covering credit risk and operational risk.

HOW LBF IS RESPONDING

LBF was over capitalised beyond the minimum requirement of the CBSL and maintained CAR much above the CBSL specified minimum. We had to retire Rs. 2 billion Tier II capital during the year and the well-planned issue in December 2017 gave us an interest advantage as well as a buffer on Tier II capital.

Regulatory Developments

- A Direction was issued to impose a new Capital Adequacy Framework which requires LFCs and SLCs to maintain capital adequacy ratio on a more risk sensitive focus covering credit and operational risks under the basic approach of the Basel accord.
- The LTV ratio for LFCs and SLCs was amended to reduce to 50 per cent for unregistered or registered hybrid vehicles which have been used in Sri Lanka for less than one year.
- A Direction on maximum rate of interest on microfinance loans was issued for LFCs and SLCs to protect customers from exorbitantly high interest rates.
- A circular on guidelines on the adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments.

Social Trends

Sri Lanka's journey towards positioning as a middle income economy has resulted in widespread changes in population demographics, lifestyles and consumer behaviour patterns. These changes have seen the emergence of new customer segments with a broad and diverse range of financial needs.

HOW LBF IS RESPONDING

We continually study the market and engage with our customers and potential customers in a bid to enhance our knowledge on current and emerging needs. In turn we use this knowledge to improve customer orientation by enhancing our product lines and investing in our service delivery architecture.

Technological Factors

The rapid evolution in technology over the past two decades has greatly increased competitive pressure in the NBFI sector, where those with technology leadership enjoy a strong market leverage.

HOW LBF IS RESPONDING

LBF's technology investment program, which was first launched nearly a decade ago, has in recent years gathered considerable momentum. Since 2016 we have further streamlined our technology investment program to make it one of the strategic value drivers of our business to complement our four value drivers: Customer Focus, Resource Optimisation, Employee Engagement and Sustainable Business Practice.

Environmental Impacts

With climate change becoming a critical issue in the past decade or so, the NBFI sector has been called upon to play an increasingly important role in spearheading a cultural shift in favor of the environment.

HOW LBF IS RESPONDING

At LBF we are seeking to lead by example by embedding environmental sustainability at the core of our operations. At the same time we are also looking to make a difference on a broader scale by engaging in impactful environmental conservation and protection initiatives in partnership with our stakeholders.

OUTLOOK AND PROSPECTS

Sri Lanka's economic slow down is likely to continue, bringing further pressure on the NBFI sector's asset quality and profitability in the medium term. Meanwhile, given the sector's dependence on vehicle financing, the ongoing macro-prudential policy measures to curb imports, including stricter rules on vehicle financing, will likely continue to hamper growth prospects while sector profitability will remain under pressure amidst higher funding costs and more taxes.

COMPANY SWOT ANALYSIS

We use a SWOT analysis to gain an insight into LBF's current positioning vis-a-vis the market and determine areas for immediate improvement. The SWOT also serves as an important tool that supports our strategic planning and goal setting exercise that drive our long- term aspirations.

As a practice we update our overall SWOT analysis annually. A summary of the most recent SWOT is shown below;

SWOT ANALYSIS

Strengths

- Best brand amongst NBFIs
- Highest geographical reach
- A-(lka) credit rating from Fitch
- Sustained financial stability (profitability , capital adequacy and low NPLs)
- Vastly experienced qualified top leadership

Weaknesses

- Lack of product diversification
- Inadequate investment in physical and technological infrastructure
- Absence of a capable second layer for key departments
- High attrition among front office and field staff

Opportunities

- Sri Lanka's largely untapped pool of digital savings deposits
- Under-catered demand for lower middle income home loans
- Un-tapped pawning customer base of banks
- Huge demand for working capital financing from the informal sector

Threats

Heavy competition from banks/NBFIs in the vehicle financing market

- Digital financial service providers disrupting mainstream banking
- Policy uncertainty disrupting overall vehicle financing demand
- Threat of litigation against gold loans

The Needs and Expectations of Our Stakeholders

GRI - 102 - 42

STAKEHOLDER RELATIONSHIPS

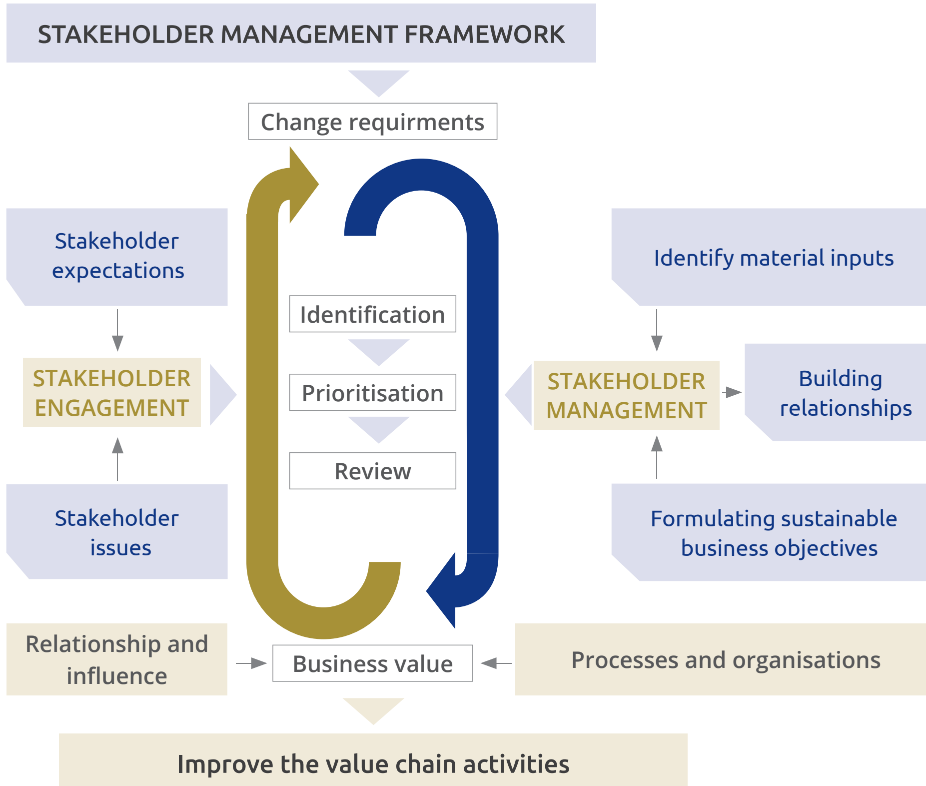
Being a financial services organisation, our business depends largely on relationships with customers, employees, shareholders, business partners, society/communities, regulators, etc. Every day, across our business we encounter stakeholders who determine our ability to create and sustain long-term value. It is therefore imperative that we connect with them and remain connected to all our stakeholders. We follow an Integrated Stakeholder Management Framework in order to build strong and rewarding relationships with our stakeholders which we expect will pave the way to achieve LBF's vision.

Stakeholder management

While reflecting LBF's integrated thinking, the Stakeholder Management Framework provides clear guidelines that help to streamline the Company's stakeholder engagement and communication activities and ensure they are undertaken in a coordinated manner which would result in producing the desired mutually beneficial outcomes. The ownership of the Stakeholder Management Framework lies with LBF's Sustainability Committee.

Stakeholder engagement

We believe the legitimate needs, interests and expectations of all stakeholders must be taken into account in order to ensure our business remains sustainable in the long term. We acknowledge our responsibility to engage stakeholders and obtain reliable information about their needs, interest and expectations before decisions are made. In order to formulate meaningful engagement strategies with our stakeholders, we have identified our material stakeholder groups according to their levels of influence on LBF, the Company's impact on them. Going further we measure the quality of our relationship with each stakeholder group and continuously review the scope and scale of our engagement activities. The matrix below illustrates the engagement mechanism.



Visit web page for more information on the stakeholder engagement framework

https://sustainability.lbfinance.com/stakeholder-management/

PRINCIPLES OF ENGAGEMENT

Purposeful

Conducting focused and meaningful engagement while striving to meet the different communication needs and preferences of stakeholders wherever possible.

Relevant

Selecting the most suitable engagement methods to engage with stakeholders.

Open and honest

Timely provision of information to stakeholders to promote meaningful participation and foster a culture of information sharing, including the provision of providing access to information about objectives, goals and strategies.

- Promoting transparency and feedback processes
- Expressing the willingness to acknowledge mistakes

Inclusive

Being open to alternative views and to listen as well as contribute to conversations.

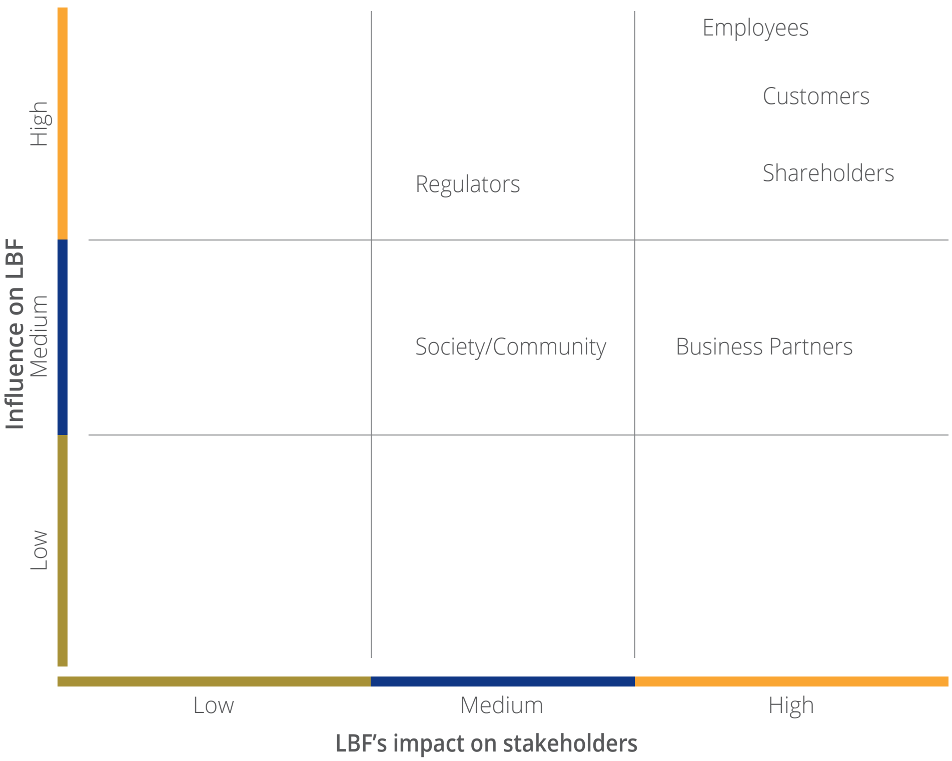
- Respecting stakeholders' expertise and appreciating the benefits of mutual learning

Responsive

Proactively acknowledging and addressing stakeholders' needs and concerns and responding to stakeholders in a timely manner.

OUR STAKEHOLDERS

Value for LBF is about meeting our stakeholder goals. Due to the quality of our relationships and our extensive engagement strategies, we are able to prioritise what each of our key stakeholders values most, but also what value LBF strives to achieve from each relationship in return.



This scale represents our internal assessment of the quality of our relationship

Level of engagement

- **Involve** – To work directly with the Company throughout the process to ensure that stakeholders' issues and concerns are taken into consideration
- **Consult** – To obtain stakeholders' feedback for the decision making
- **Collaborate** – To partner with stakeholders in all aspects, develop alternatives and identify preferred solutions

Relationship	
No existing relationship	★☆☆☆☆
Relationship established but much work to be done to improve quality of relationship	★★☆☆☆
Relationship established, value-generating connection, but still room for improvement	★★★☆☆
Good-quality, mutually-beneficial relationship, with some room for improvement	★★★★☆
Strong relationship of mutual benefit	★★★★★

The Needs and Expectations of Our Stakeholders

Sustainability dimension	Key stakeholders targeted	How we engage: Engagement mode	How we engage: Frequency	How we engage: Capital invested
Economic	Shareholders ★★★★☆	Shareholder meetings/ Annual General Meetings	Annual	
		Extraordinary General Meetings	Ad hoc	
		Annual Report	Annual	
		Interim Financial Statements	Quarterly	
		Announcements to CSE	Ad hoc as and when necessary	
		Press conferences and media releases	Ad hoc as and when necessary	
		One-to-one meetings	When necessary	
		Website information	On a regular basis	

Issues raised/concerns

- Timely performance review and transparency
- Business resilience to changes in the immediate operating environment
- Clarity on future growth strategy
- Wealth maximisation

Our strategic response

Communicate our strategy and governance model, as well as the rationale for it, with the aim of building confidence in our leadership and further investment interest in LBF

Sustainable business objectives

Maximising shareholder wealth by declaring sound returns annually

Risk identified

Lack of investor confidence due to market vulnerabilities in the NBFI sector

Opportunity identified

Ability to leverage our financial strength, to raise the necessary capital and funding at the best possible rates, and create shareholder value through stable ROE and fair retention of earnings

Sustainability dimension	Key stakeholders targeted	How we engage: Engagement mode	How we engage: Frequency	How we engage: Capital invested
Economic	Customers ★★★★★	Customer hotline	When necessary	
		Customer surveys	Annual	
		One-to-one meetings	When necessary	
		Direct customer feedback	On a regular basis	
		Media campaigns/advertisements	On a regular basis	
		Website information updates	When necessary	

Issues raised/concerns

- Diverse product Range
- Seamless connectivity across a multi-channel network
- World-class financial service experience
- Reliability of service

Our strategic response

Providing access to the widest possible range of financial products, services and global expansion to meet the diverse needs of customers

Sustainable business objectives

Provide quality product/service that meets absolute needs of customers

Careful management of operations so as to protect customer interest especially of depositors

Risk identified

Stiff competition from peers

Opportunity identified

Creating a differentiation through multi-brand, multi-channel propositions with data-driven customer experience

Sustainability dimension	Key stakeholders targeted	How we engage		
		Engagement mode	Frequency	Capital invested
Economic	Business Partners ★★☆☆☆	Supplier meetings	When necessary	
		Letters/Emails/Telephone conversations	On a regular basis	
		Suppliers' get together	Annual	
		One-to-one meetings	When necessary	
		Periodic visits	On a regular basis	

Issues raised/concerns
Fair procurement practice

Our strategic response
Focus on supplier relationship management

Sustainable business objectives
Adhere to proper procurement regulations while maintaining a good business relationships with the service providers

Risk identified
Loss of potential negotiation power due to breakdown of relationships with business partners

Opportunity identified
Forward and backward supplier integration to profitable ventures

Sustainability dimension	Key stakeholders targeted	How we engage		
		Engagement mode	Frequency	Capital invested
Economic	Regulators ★★☆☆☆	Directives and circulars	When necessary	
		On-site review by CBSL	Annual	
		Press releases	When necessary	
		Meetings and discussions with Board and Senior Management	When necessary	
		Submission of necessary reports	Periodic deadlines	

Issues raised/concerns
Strong governance and compliance

Our strategic response
Zero-tolerance approach towards non-compliance

Sustainable business objectives
Early adoption of regulatory changes leading to leadership in compliance

Risk identified
Strict rules governing the NBFI sector

Opportunity identified
Lobby for regulations that create a level playing field

The Needs and Expectations of Our Stakeholders

Sustainability dimension	Key stakeholders targeted	How we engage		
		Engagement mode	Frequency	Capital invested
Social	Employees ★★★★☆	Review meetings	Monthly	
		Management meeting	Monthly	
		HR newsletter	Quarterly	
		Company social events	Annual/Ad hoc	
		Email updates	On a regular basis	
		HR portal	On a regular basis	
		Employee notice board	When necessary	
		Employee direct meetings	When necessary	

Issues raised/concerns

- Compensation and benefits
- Rewards and recognition
- Career prospects
- Wellbeing

Our strategic response

Continuously enhance the LBF employee value proposition by communicating strategy and performance, culture and sustainability as well as through training, development, rewards and recognition Position LBF as an employer of choice

Sustainable business objectives

Continuously encouraging employees and working towards creating a healthy, ethical and supportive work environment

Nurturing human capital to ensure sustained collaboration with the Company

Risk identified

Staff attrition and slow pace of transformation

Opportunity identified

Providing greater clarity on LBF's training methodology and succession planning programme to attract and retain the best talent

Sustainability dimension	Key stakeholders targeted	How we engage		
		Engagement mode	Frequency	Capital invested
Social	Communities ★★★★☆	Media advertisements and press releases	When necessary	
		Public events	When necessary	
		Community projects	When necessary	
		Call centre conversations	When necessary	
		Interact through branch network	When necessary	
		Social media	On a regular basis	
		Sustainability website	When necessary	

Issues raised/concerns

LBF's involvement in the community

Our strategic response

In striving to continuously improve our corporate social investment (CSI) strategy, we adopt an integrated approach to engage with the communities and serve their needs by making timely and relevant investments that will deliver a consistent socio-economic impact

Sustainable business objectives

Promote financial inclusion

Responsible lending taking into account social factors

Risk identified

Reputational risk if the brand does is not properly portrayed as a responsible corporate citizen

Opportunity identified

Carefully planned programmes that seek to add value to the local communities in areas where LBF has a presence

Sustainability dimension	Key stakeholders targeted	How we engage		
		Engagement mode	Frequency	Capital invested
Environmental	Communities ★★★★☆	Public events	When necessary	
		Community projects	When necessary	

Issues raised/concerns
Environmental protection

Our strategic response
Implementing green lending practices and ensuring compliance

Sustainable business objectives
Working to reduce the Company's carbon footprint

Promoting green lending schemes

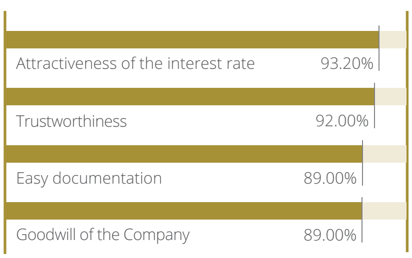
Risk identified
Adverse impact of climate changes and regulatory changes

Opportunity identified
Increase large-scale lending for clean energy projects

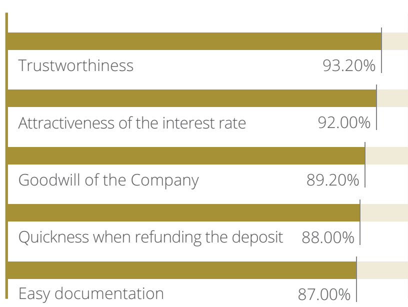
Survey insights

CUSTOMERS

FACTORS CONSIDERED IN SELECTING A FINANCIAL INSTITUTE FOR LOANS

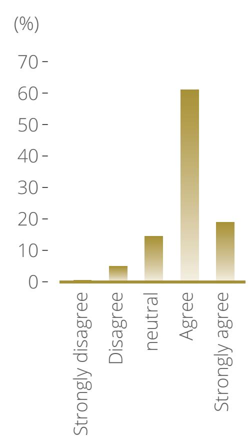


FACTORS CONSIDERED IN SELECTING A FINANCIAL INSTITUTE FOR FIXED DEPOSITS AND SAVINGS



EMPLOYEES

JOB SECURITY OF EMPLOYEES



Satisfaction of suppliers

All the suppliers were fully satisfied with the services provided by L B Finance PLC. They gave no any additional suggestions as per further improvements. No issues were found up to date. They mentioned that LBF provides better services in all areas and the storekeepers and their teams are very friendly with the suppliers too.

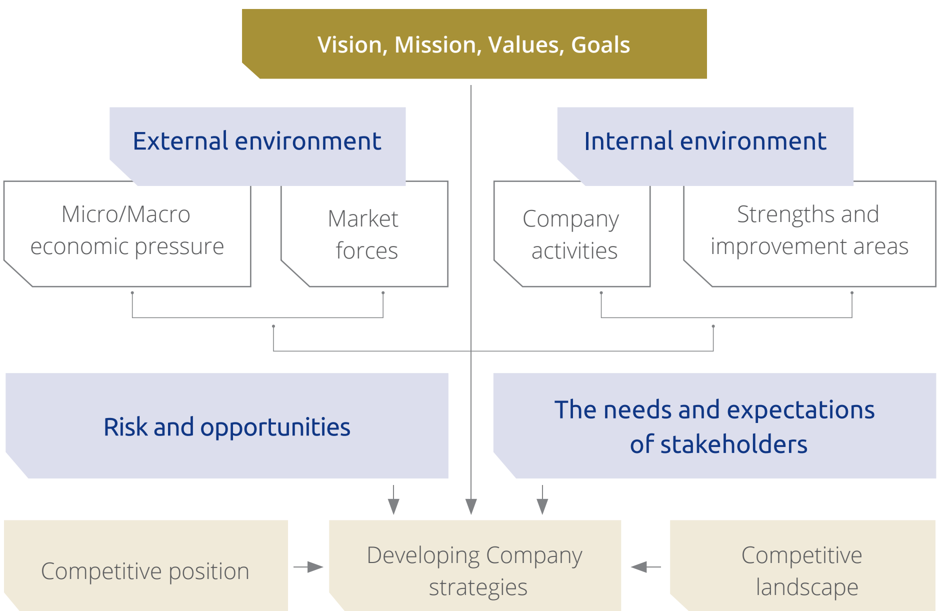
Study conducted by:
The Department of Marketing Management
University of Sri Jayewardenepura

Our Strategy and Resource Allocation

ADVANCING OUR INTEGRATED THINKING AND STRATEGIC FIT

Integrated thinking of operating environment and strategic response

Over the years, we have developed new strategies to further transform the Group and deliver sustainable value to our stakeholders. Therefore we regularly review our strategy in light of the changing external environment to ensure that our focus remains the right one for our customers and other stakeholders. As part of this process, the Board specifically discusses strategic issues at a meeting every year.



1 INTEGRATED THINKING

SITUATION ANALYSIS

The first step in the strategic planning process involves an assessment of the external environment through a horizon scan and a PESTEL analysis as well as the determination of internal factors including the availability of resources that have a bearing on our ability to achieve corporate objectives.

STRATEGY FORMULATION

Based on the outcomes of our 2018 situation analysis a new two year strategic plan was formulated targeting a broader set of goals aimed at strengthening and sustaining LBF's competitive position.

PLANNING AND IMPLEMENTATION

A number of changes to the Group's operating structure and Executive Management were announced to provide direction for the execution of our strategy.

During the year, the Board discussed and reviewed the proposed change initiatives in a number of deep-dive sessions for the strategic direction of the Company.

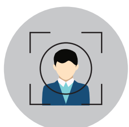
AN INTEGRATED APPROACH TO MAKING STRATEGIC CHOICES

2 INTEGRATED COLLABORATION

Strategic planning process

LBF's strategic planning process is an annual exercise that serves as a roadmap to enhance the Company's competitive position and support the achievement of the corporate vision to be the leading financial services Group in Sri Lanka. Taking cognisance of the performance outcomes over the past years, the strategic planning process culminates in providing direction for the future. Our execution plans outline the required capabilities and the focused initiatives undertaken to achieve our ambition. The entire strategic planning process is driven by a dedicated unit that works in collaboration with all pillar heads to determine the strategic objectives for their respective business pillars. The Board of Directors led by the Chairperson provides oversight for the strategic planning process to ensure that adequate resources are allocated to develop and preserve all our capitals – Financial, Manufactured, Human, and Social and Relationship, Intellectual and Natural, and thereby fulfill LBF's obligations towards its stakeholders. In this way our strategic planning process is designed to ensure that key resource considerations are integrated into our financial and execution plans.

Strategic focus for the year

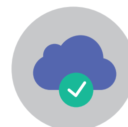

Customer focus


Employee engagement


Resource optimisation


Sustainable business practices


Risk management


Embracing IT and innovation

Competitive strength

Differentiated multi-brands, multi-channel propositions with data-driven customer experience	Market leading efficiency through tech-enabled productivity improvements	Prudent, low risk participation choices with strong capital position	Rigorous execution and management discipline focusing on key skills of the future	Global outreach to enhance the footprint

WHAT WE HAVE ACHIEVED OVER THE LAST TWO YEARS

3 INTEGRATED SOLUTION

Scorecard by strategic matter and resource allocation

We measure our performance against what matters most, using relevant Key Performance Indicators (KPIs) that are linked to our operation structure.

Key strategic executive insights

Key Performance Indicators	How does it link to value creation	YoY change	2018/19	2017/18	Connection to the capital	SDG impacted	Outlook/target
CUSTOMER FOCUS - UNDERSTANDING OUR CUSTOMER AND PLACING THEM AT THE CENTRE OF EVERYTHING WE DO							
L B e-connect transaction	Self-service facilities eliminate queuing time for customers	▲	7,274	3,283		5, 8, 9, 10, 12	Continued strong growth
Branch opening and relocation		▲	13	04			10% of total outlets re-located by 2020
Brand ranking - Most respected entities by LMD		▲	23	33			Top 20 brand by 2020

Key Performance Indicators	How does it link to value creation	YoY change	2018/19	2017/18	Connection to the capital	SDG impacted	Outlook/target
RESOURCE OPTIMISATION - MANAGING SCARCE RESOURCES TO OPTIMISE ECONOMIC OUTCOMES							
Profit per employee (Rs. million)	Leverage on the Company's strong financial position, to deliver cost efficiencies within the business	▲	1.39	1.23		6 CLEAN WATER AND SANITATION; 7 AFFORDABLE AND CLEAN ENERGY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES	10% increase year-on-year
Net Assets Value per share (Rs.)		▲	133.03	110.81			15% increase year-on-year
Dividend per share (Rs.)		●	12	11			Increased by 10%
EMPLOYEE ENGAGEMENT - EMPOWERING AND INSPIRING OUR WORKFORCE							
New employees hired	Continuously enhance the LBF employees' value proposition by communicating strategy and performance, culture and sustainability as well as through training, development, rewards and recognition	▲	1,407	1,313		3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES	10% increase year-on-year
Investment on training and development (Rs. million)		▲	10.95	8.56			10% increase year-on-year
Employee retention		▼	75%	77%			Increased by 10%
RISK MANAGEMENT							
Core capital to risk weighted assets ratio (%)	Embedding a risk culture that ensures proactive support and constructive challenge takes place across the business is important for delivering sustainable growth	▼	15.53	17.30		GOALS	Maintain above regulatory minimum requirement
Total risk weighted capital ratio (%)		▼	17.67	19.80			
SUSTAINABLE BUSINESS PRACTICES - SUSTAINABLY GROWING REVENUE MANAGING ECONOMIC HEADWINDS							
Operation expansion to Myanmar	Providing access to the widest possible range of financial products, services and global expansion to meet the diverse needs of customers	▲	4	1		8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 17 PARTNERSHIPS FOR THE GOALS	Increase upto 8
Total financial solutions		▲	29	27			Further introduced innovative financial solutions

Key Performance Indicators	How does it link to value creation	YoY change	2018/19	2017/18	Connection to the capital	SDG impacted	Outlook/target
TECHNOLOGICAL DRIVEN - EMBRACING INNOVATION AND LEVERAGING OUR INVESTMENTS ON IT							
Invested in ICT development (Rs. million)	Standardisation of the core financial platform to drive operational efficiencies at branch level, which would contribute towards enhancing the overall customer experience	↓	150.52	197.20		8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 13 CLIMATE ACTION	Implementation of ORACLE Fusion system for core financial functions

View more information for our strategy and resource allocation

https://sustainability.lbfinance.com/sustainability-philosophy/

OUR FUTURE GROWTH STRATEGY

4 INTEGRATED FOR FUTURE FOCUS

Our new strategy will enable us to seize new opportunities by building on our existing competitive advantages, based on four key pivots; digital superiority, simplex processes, transforming ways of working and a customer-focused culture.

Short-term objectives

Leading customer experience (Focused culture)

Driving stronger customer relationships through best-in-class propositions while continuing to provide our customers with exceptional service vis-a-vis multi-channel access.

Medium-term objectives

Digitising the group (Digital superiority)

Deploying new technology to improve our efficiency and make financial services simpler and easier for customers.

Transforming ways of working (Simplex processes)

Enhancing employee's skills and processes, investing in agile working practices and embracing new technology to drive better outcomes for customers.

Long-term objectives

Maximising the group's capabilities (transforming ways of working)

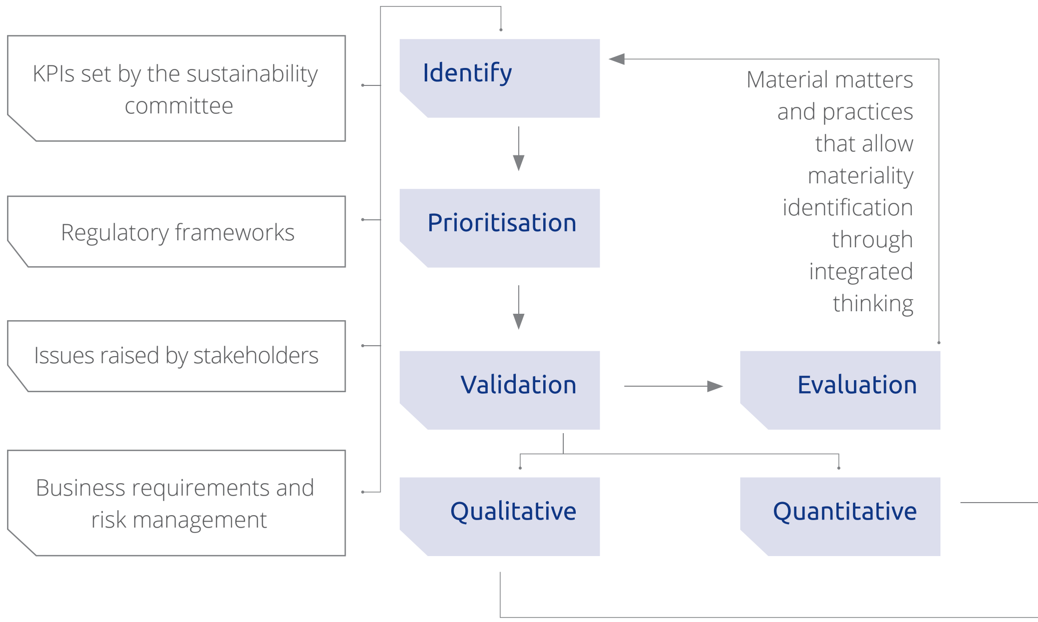
Aligning the Group's capabilities to pursue organic growth in targeted segments and to be the topmost financial institution in the market which provides diversified product portfolio.

Materiality Analysis

OUR MATERIAL THEMES AND MATERIALITY MANAGEMENT

We consider matters to be material if they have the potential to substantially alter our strategic direction or impact our ability to fulfill our commitment to create and sustain value for our stakeholders over the short-, medium- and long-term. Identifying our material themes goes hand-in-hand with our integrated decision-making approach.

To support our annual strategic planning process, each year we take a deep dive into our business to scrutinize both internal and external aspects that could be potentially material to our business as a financial services institution in Sri Lanka. Our aim is to scan our business through a 360-degree lens, where we consider results derived through quantitative and qualitative analysis of potential risks and opportunities in our immediate operating environment and their impact on our stakeholders and our Company.



MATERIALITY DETERMINATION AND DISCLOSURES

Materiality focus	Matter raised by	Material themes	Status	Why it matters most
Managing business practices through uncertain socio economic factors		• Sustainably growing revenue • Risk and capital management • Delivering appropriate shareholder returns • Operational excellence	↑	As a leading financial institution in Sri Lanka, we believe there is a need to strike a balance between our financial performance and our ability to provide appropriate business outcomes. This will ensure LBF's long-term sustainability, improve trust in the financial system and safeguard the Company against future uncertainties.
Technological advancement and increase competition		• Innovation • Information security • Technological advancement • Industry trends	↑	Technology is at the core of LBF's business and defines our every action. We use a technology-driven platform as a key differentiator in striving to achieve business excellence in a fiercely competitive market.

Quantitative analysis

External

Sector reports	Regulatory frameworks	Voluntary frameworks	Materiality of peers	Research agencies

Internal

Sustainability committee	Internal workshops	Company goals	Management directions	Internal business analysis

Qualitative analysis

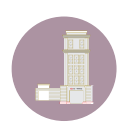
External

Interview with external experts	Social networks	Value chain	Industry trends	Research and surveys

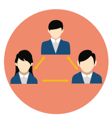
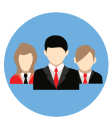
We view the materiality determination process as a business tool that facilitates integrated thinking. The process draws on our ongoing stakeholder engagements to consider the views of key stakeholders in determining the measures that underpin our strategic value drivers.

View more information on material matters identification process

https://sustainability.lbfinance.com/sustainability-philosophy/

How we are responding	Opportunities for value creation	Related risks	Related capital	GRI relevance	Sustainable Development Goals (SDGs)
• Budgeting and strategic planning • Participatory quality improvement and better ways of doing business • Continuous improvement to internal systems and controls by updating the Enterprise Risk Management Framework • Replacing legacy systems and modernising core system architecture with state-of-the-art technology	• Identify most appropriate financial requirements to tap into under-served market segments • Improve the agility of the business model to effectively respond to macroeconomic variables such as interest rates, credit demand and credit risk	• Credit risk • Market risk	  	201,202	
• Systems enhancement and management • Process improvement through software development • Enhancing knowledge-based resources	• Capitalise on digital technology to deliver first-to market products and services that secure captive market share • Use digital technology to create a parallel operating model to serve alongside the conventional brick and mortar branch	• Information security risk	 	418	

Materiality Analysis

Materiality focus	Matter raised by	Material themes	Status	Why it matters most
 Demand for governance, regulatory requirements and risk management		• Corporate governance • Ethics and transparency	●	Maintaining high ethical standards, responsible lending practices, proactive risk management and the fair treatment to employees, customers and other stakeholders in line with legislative changes applicable to the industry to enhance LBF's reputation in the market.
 Customer understanding, managing competitiveness and market positioning		• Customer satisfaction • Brand loyalty and Company reputation • Global expansion	▲	Be first-to-market groundbreaking new products and services that will secure a competitive advantage. Create top-of-the-mind brand awareness by effectively managing customer complaints and acting responsibly to address the root cause and thereby eliminating the possibility of recurrence.
 Managing social and environmental inequalities		• Financial education and inclusion • Corporate citizenship • Supply chain management • Environment management	▲	LBF's mission and values guide our broader purpose and the role we play as a corporate citizen. Accordingly, we consider the impact of our operational decisions on society and work to create positive long-term outcomes for all our stakeholders through our everyday actions.
 Manage evolving skill requirements of the talent pool		• Employee engagement • Occupational health, safety and wellbeing • Retention, training and development • Compensation and incentives	▲	We depend on our employees' skills and expertise to deliver our products and services and meet our strategic objectives. It is therefore critical that we attract and retain talented workforce.

▲ Increase ● Same

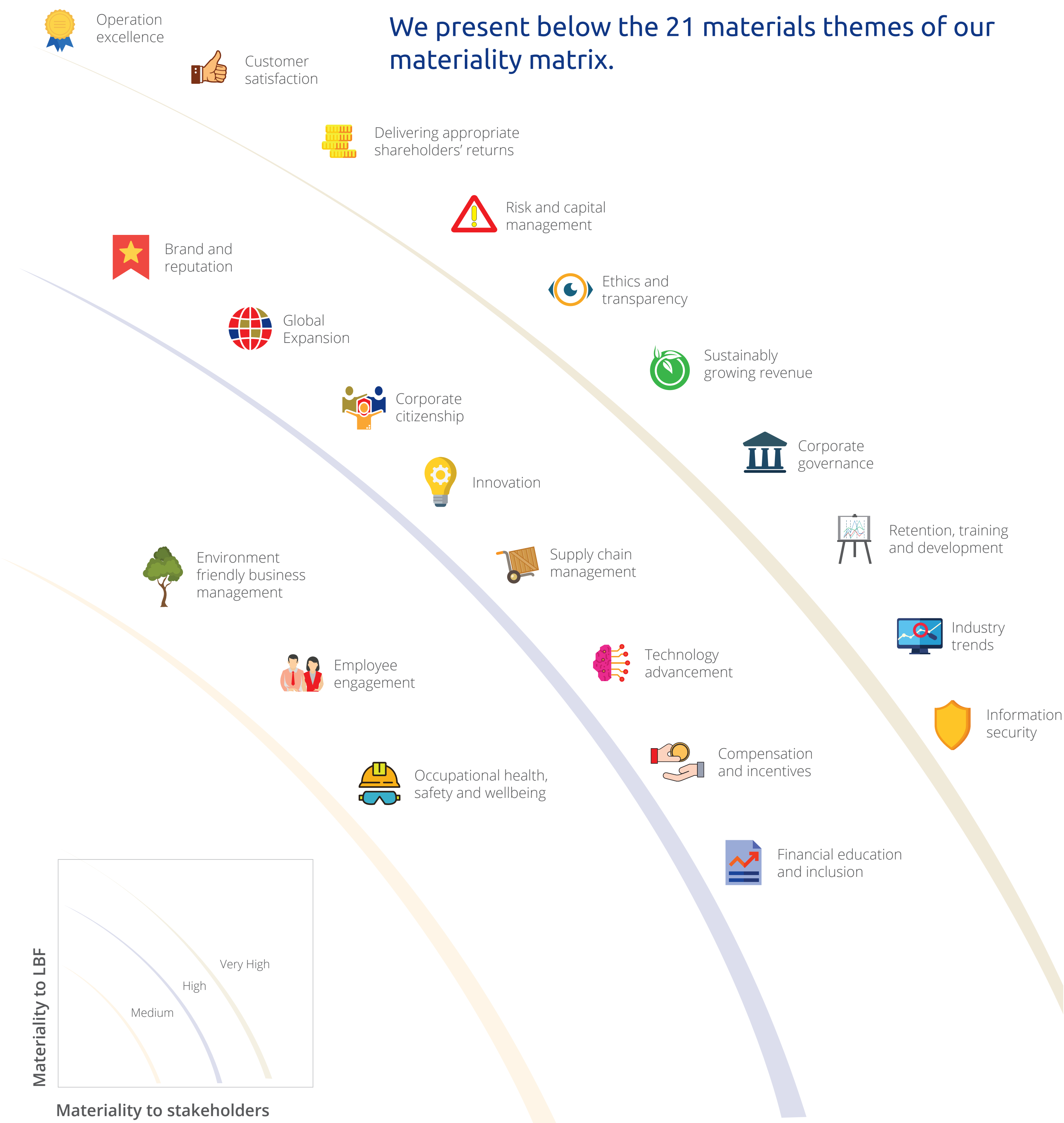
How we are responding	Opportunities for value creation	Related risks	Related capital	GRI relevance	Sustainable Development Goals (SDGs)
LBF remains proactive in addressing recent regulatory developments in capital adequacy and customer protection, vis-a-vis; • Steps taken to comply with the Customer Protection Framework • Keep abreast with all applicable rules and regulations and aligning with industry norms and best practices	• Early adoption of new regulatory requirements to demonstrate the compliance leadership • Seamless integration of new regulatory requirements into the business framework to minimise customer service	• Legal risk • Reputation risk		416, 418	17 PARTNERSHIPS FOR THE GOALS
• Improve digital functionality of the online channels • Simplify customer interactions through proactive customer on-boarding, the ongoing pursuit of service excellence and dealing with customer complaints efficiently	• Trade-off between customer retention marketing vs customer acquisition marketing	• Reputation risk • Credit risk		416, 418	
• Trigger broader socio-economic growth by finding solutions to key national priorities • Invest in uplifting the country's standard of education and health services through LBF's CSR initiatives • Commitment towards environmental protection and conservation	• Provide financial assistance to promote investment in alternative energy and renewable energy projects in support of the country's sustainable energy framework • Take action to combat climate change	• Reputation risk		203, 302, 305, 413	10 REDUCED INEQUALITIES 13 CLIMATE ACTION 6 CLEAN WATER AND SANITATION 4 QUALITY EDUCATION
• Putting our values and behaviors into practice though our training and development programmes • Recognising and rewarding performance excellence • Embedding transformation throughout the Company, while ensuring employees stay motivated through appropriate incentive schemes to reward them for achieving business targets • Improving employee engagement	• Position LBF as an employer of choice • Branch expansion to create new employment opportunities especially at a provincial level • Achieve gender equality	• Employee attrition		401, 404, 405	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH

View more information on KPI and target on material matters

https://sustainability.lbfinance.com/sustainability-philosophy/

Determining material themes is crucial to guide the decision making, since it provides a broader vision of the risks and opportunities inherent in the business and connects strategies to the multiple external interests.

We present below the 21 materials themes of our materiality matrix.



CAPITAL REPORTS

At LB Finance we manage our capitals effectively and efficiently – transforming our resources and relationships to deliver outstanding value to the people. These capitals consist of our unique resources, expertise and partnerships which serve to set us apart from our competition.

In-Depth review of our

Financial Capital

RELATED MATERIAL THEMES

RELATED STAKEHOLDERS

WHAT IT INCLUDES

Our Financial Capital includes our monetary resources, which have been contributed by our investors and are being enhanced through our business activities. Our key sources of financial capital comprise equity, debt and term deposits besides other sources of funds.

HOW IT ADDS VALUES

Returns generated by our business enhances our financial capital, which in turn is used to repay our investors with dividend payments and the rest retained to aid business operations and growth through enhancing other capitals.

MATERIAL DRIVERS

Financial result Page 74

Financial performance Page 74

Debt management Page 78

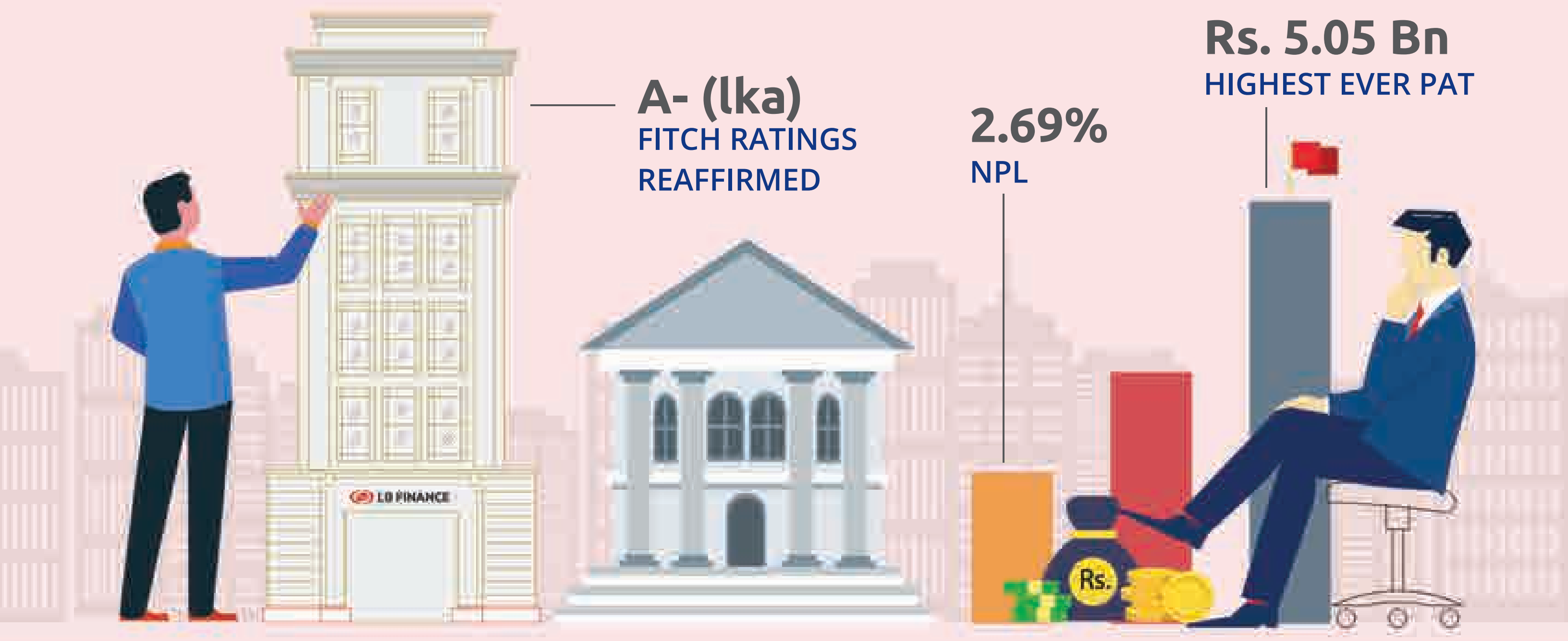
Economic value generation Page 81

Investor Page 83

A- (lka)
FITCH RATINGS REAFFIRMED

2.69%
NPL

Rs. 5.05 Bn
HIGHEST EVER PAT



Rs. 136 Bn
TOTAL ASSETS

4.50 Bn
PAID TO THE GOVERNMENT AS TAXES

Rs. 83 Bn
DEPOSIT BASE REACHED

29.93%
ROE

Visit web page for our philosophy, Management approaches and SWOT analysis of Financial Capital

https://sustainability.lbfinance.com/capital-management/

Every provider of capital intends to maximise the return from the risk undertaken. Financial Intermediaries arbitrage the risk by acquiring high risk assets and managing them in way that the Intermediary's overall risk profile is much lower than the investments it manages.

Sumith Adhihetty
Managing Director

Challenges	Disappointments
• Complicated tax system and imposing of unplanned taxes • Stiff competition and strict credit standards • Trending increasing non-performing loans	• Fiscal and monetary policies imbalance • Impact from political and social unrest

Improvements	Space for development
• 19.50% improvement in profit before taxation • Continuation of cost optimisation	• Introduce industry lending business intelligent platforms and knowledge of artificial intelligence

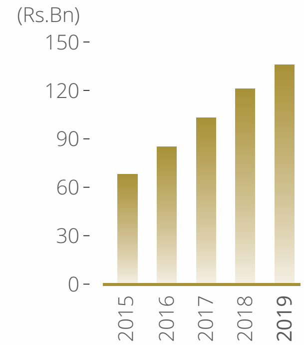
STRATEGIC RESPONSES FOR 2018/19

- **Below industry level of non-performance loan ratio**
- **Invest and partner with fintech providers**
- **Implementation of Oracle finance cloud system 1st time in Sri Lanka in the financial sector**

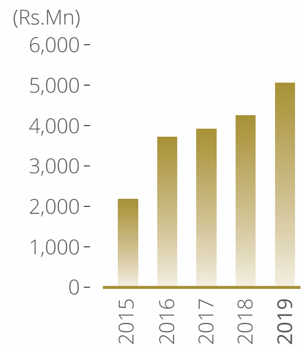
REFLECTING 2018/19

Key indicator	Our performance 2018/19	Priorities 2019/20
Focus more on non-traditional financial product	Deposit base grew by 14.08%	Situational approach to be competitive
Bring NIM to the historical average level	NIM recorded at 11.87%	Maintain at the same level
Structural cost transformation mechanism focus on physical, fiscal and funding level	Cost to income ratio recorded at 34.22%	Implementation of Oracle planning/budgeting module and financial accounting hub module
Diversification of funding sources	Borrowings 23.84% of the funding base	Obtain foreign borrowings

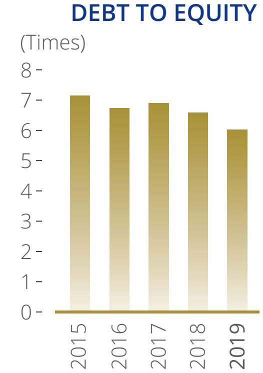
TOTAL ASSETS



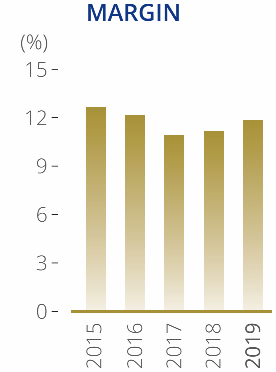
PROFIT FOR THE YEAR



DEBT TO EQUITY



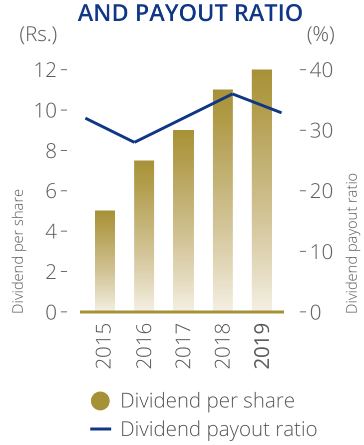
NET INTEREST MARGIN



OVERVIEW OF FINANCIAL RESULTS

L B recorded 18.91% year-on-year (YoY) increase in its net profit attributable to common shareholders to Rs. 5.05 billion in 2018/19. Net interest income reported a higher YoY growth of 21.16% to Rs. 14.41 billion in the period due to decreased cost on servicing deposits at the latter part of the financial year. The Company continued to maximise shareholder wealth during the year with earnings per share improving to Rs. 36.49. L B paid an interim dividend of Rs. 8 per share in April 2019 and expects to increase its payout to Rs. 12.00 per share for the financial year as against Rs. 11.00 per share distributed in 2017/18.

DIVIDEND PER SHARE AND PAYOUT RATIO



Financial highlights	31st March 2019 Rs. '000	31st March 2018 Rs. '000
Total assets	136,390,718	120,820,780
Investments	12,280,468	9,762,443
Loans (net of impairment)	113,445,454	102,345,084
Deposits by the public	83,214,949	72,943,833
Interest bearing liabilities	27,741,291	27,990,870
Net profit after tax	5,054,660	4,250,721
Total comprehensive income	5,040,004	4,224,360
Return on equity	29.93%	30.52%
Cost to income ratio	34.22%	37.48%
Earnings per share (Rs.)	36.49	30.69
Dividend per share (Rs.)	12	11

As we continue to develop sustainable revenue streams while exercising prudent risk management, our core business is performing well with a strong growth in loan volumes. Cost to income ratio (i.e. total operating expenses excluding impairment as a percentage of total operating income excluding impairment) decreased from 37.48% in 2017/18 to 34.22% in 2018/19 due to higher net interest margins and operating income has grown at a faster rate than operating expense. Operating expenses grew by 10.36% YoY to Rs. 5.58 billion and total operating income grew by 20.51% YoY to Rs. 16.32 billion in 2018/19.

We are one of the largest non-banking financial institutions in Sri Lanka with a total asset base of Rs. 136.39 billion. Our total loan book increase by Rs. 12.36 billion to Rs. 117.57 billion and customer deposits increased by Rs. 10.27 billion to Rs. 83.21 billion in 2018/19. Loan growth was mainly derived from gold loan and leasing products. Non-performing loans as a percentage of gross loans increased slightly by 0.32% from 2.37% last year.

Capital base grew by Rs. 3.07 billion during the year and remained well above the minimum capital requirement by the regulator. This further solidified our resilience to the anticipated increase in capital adequacy requirements.

STRUCTURAL COST TRANSFORMATION

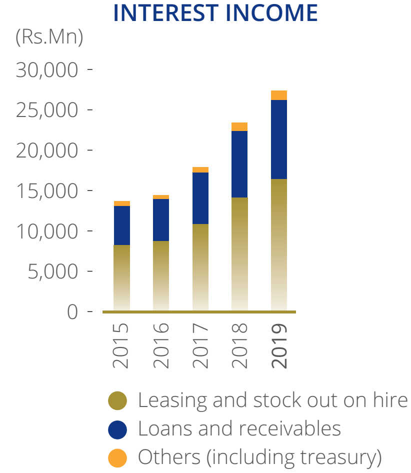
We are optimising our operations to be able to better serve our customers and lower effective cost. To build a more efficient, agile, and better company we are investing in levers such as technology, process improvements and organisational design to reduce complexity and improve productivity. We also maintain our thrust of identifying synergies and leverage opportunities for partnerships to improve our structure. Over the long term our intention is to lower operating costs while we deliver a superior experience to customers and generate good shareholder value. System and process revamping, transformation from legacy systems to modern systems, digital transformation, infrastructure investments are some leads for the structural cost transformation. These will be discussed detail in some other capital sections.

FINANCIAL PERFORMANCE

INTEREST INCOME

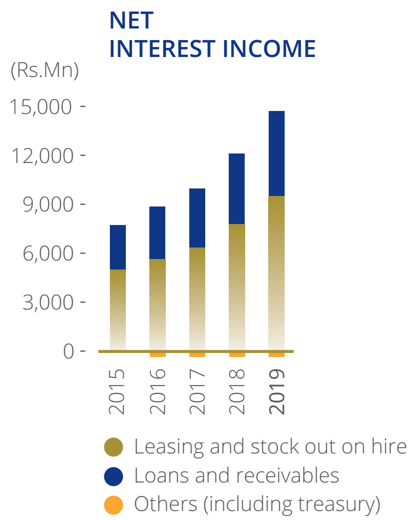
Total Interest Income grew by 16.97% YoY to Rs. 27.36 billion in 2018/19 with improved business volumes and increasing rates. All the major business segments such as loans, leases and Treasury contributed to the growth. LBF managed its risk and return at both product level and business levels.

GROSS INTEREST INCOME



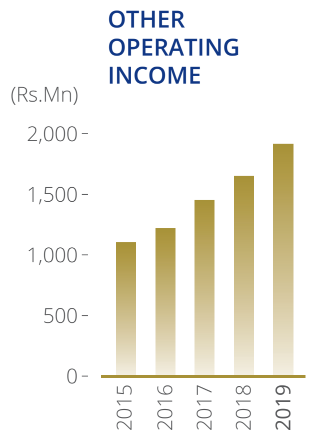
NET INTEREST INCOME

Net interest income grew by 21.16% to Rs. 14.41 billion in 2018/19 with increased loan volumes coupled with reduction in the deposit rates. Total interest earning assets increased by 13.01% YoY to Rs. 129.86 billion while net interest margin (net interest income as a percentage of average earning assets) or NIM increased by 63 basis points as of March 2019. Year-on-year yields on lending assets remain constant during the year. Rapid pace of re-pricing in the short-term deposit base as against loans, especially leases with longer-term tenure and fixed rates, impacted positively on net interest margin. Latter part of the year deposit were repriced at a lower rate, early part of the year deposits were repriced at a higher margin.



OTHER OPERATING INCOME

Other operating income (i.e. total income other than interest income) decreased 9.08% YoY to Rs. 134.74 million during the year. Meanwhile fees and commissions grew by 18.47% YoY to Rs. 1.78 billion directly as a result of higher transaction volumes. Income from documentation charges increased by 15.02% YoY to Rs. 1,063.36 million during the period. All other fees have increased along with transaction volumes.



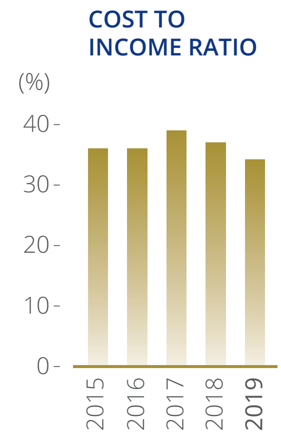
NON-INTEREST EXPENSES

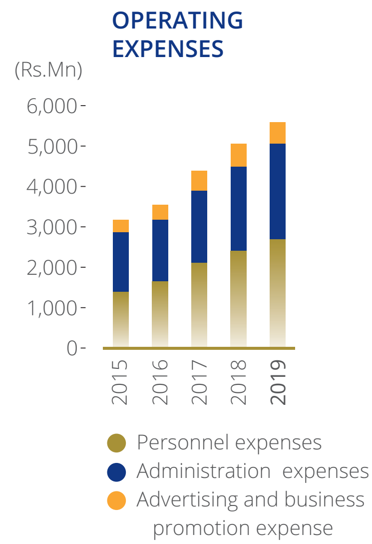
Non-interest expenses increased by 10.36% YoY to Rs. 5.58 billion in 2018/19 consistent with the business growth. Salaries and employee benefits increased 12.33% to Rs. 2.69 billion and represented 48.21% of the total operating expenses in 2018/19 (47.36% in 2017/18).

Office administration and establishment expenses mainly include rent on premises, electricity, insurance (both general and health), security, printing and stationery, postage and telecommunication. The growth of office administration and establishment expenses was driven by higher transaction volumes, opening new branches and growth in employment. During the year the Company added four new branches to its island-wide network.

Company managed to maintain its cost per employee and administration and establishment expenses per branch within the budgeted levels for the last five years consecutively.

Advertising and business promotion expenses decreased 6.88% YoY to Rs. 539.17 million. The Company curtailed its advertising expenses on fixed deposit and Gold Loan business. The business volume is one of the Key Performance Indicators (KPI) and the Company achieved a continuous volume growth even under stiff competition and the highly-regulated environment. Our cost to income ratio has been improved by 3.28% during the year.



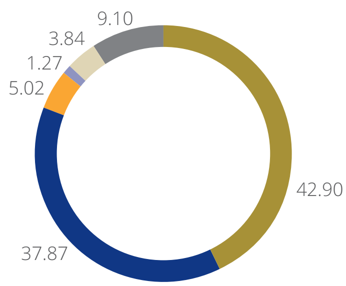


TAXES

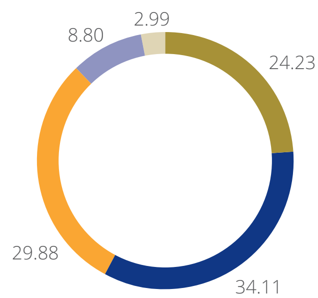
Taxation includes both direct taxes such as Income Tax, Debt Repayment Levy and Financial Service Taxes and Indirect Taxes include Value Added Tax (VAT), Withholding Tax, PAYE Tax and Stamp Duty. The effective tax rate increased from 34.38% to 34.79%.

The Company has a responsibility as a taxpayer. The Company has a tax strategy that outlines the framework by which the Company's tax obligations are met from an operational and risk management perspective. We adopt an overarching risk philosophy in relation to tax matters which aims to mitigate any adverse or unexpected financial consequences and protect our reputation. Total tax actually paid by our financial operations amounted to Rs. 3.70 billion (2018: Rs. 2.91 billion) and tax collected from third parties and employees amounted to Rs. 1.20 billion (2017: Rs. 1.08 billion).

TAX INCURRED 2019
(%)



TAX COLLECTED 2019
(%)



Tax incurred - 2019

Tax incurred	Rs. million
Income tax	1,588
Value added tax on financial services	1,402
Debt Repayment Levy on financial services	337
Nation building tax on financial services	186
Crop insurance levy	47
Economic service charge	142

Tax collected and paid – 2019

Tax collected and paid	Rs. million
Value-dded Tax	292
Stamp Duty	411
Withholding Tax on Dividend and interest	360
PAYE tax	106
Nation building tax	36

Financial highlights	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000
Profit before Taxes	9,756,268	7,814,383	6,901,944
VAT on financial services	2,015,619	1,336,693	1,027,101
Profit after VAT on financial services	7,740,649	6,477,690	5,874,843
Current Income Tax	2,441,729	1,658,321	1,595,055
Deferred Income Tax	244,260	568,648	361,584
Taxation Charge	2,685,989	2,226,969	1,956,639
Effective Tax Rate (Taxation Charge/Profit after VAT on FS)	34.70%	34.38%	33.31%

	Current Rs. million	2020 Rs. million	2021 Rs. million	2022 Rs. million	2023 Rs. million	2024 and beyond Rs. million
Deferred Tax Liabilities (at the FY end)	1133.00	584.86	86.72	(73.25)	522.67	13.00

Total tax expense including VAT on Financial services, NBT, Debt Repayment Levy and Income Tax increased by 27.03% YoY to Rs. 4.70 billion in 2018/19. Income Tax expense increased by 20.61% YoY to Rs. 2.68 billion while tax on financial services increased by 50.79% - YoY to Rs. 2.01 billion during the year. Increased tax on financial services mainly caused by the imposition of new tax, Debt Repayment Levy (DRL) on financial services. Company has paid Rs. 401.53 million DRL starting from October 2019, which has not been planned at the start of the year.

Deferred tax liability mainly arises due to the exponential growth in the lease portfolio during the last three years. Lower tax base due to higher amount of capital allowance claimed and higher accounting base due to the lower amount of amortisation (EIR method) has created temporally liability gap between tax base and accounting base. However, the new Inland Revenue Act No. 24 of 2017 has discontinued the current method of computation for taxes on finance leases. For the new leases, capital allowance will not be available and the net interest income is liable for taxes. Hence temporary differences in between accounting lease base and tax lease base for new leases is not created, and in future (for disbursements from 01-04- 2018) this difference will reverse gradually.

Current deferred tax liability is Rs. 1.30 billion and deferred tax liability due to leases are Rs. 1.13 billion which will be reversed within a six-year period.

LOANS AND RECEIVABLES SEGMENT

Gross loans and receivables grew by 19.63% i.e. Rs. 7.99 billion to Rs. 48.71 billion in 2018/19 mainly driven by Key Loan Segments – Gold Loans, medium- and short-term loans, and power draft. Factoring and mortgage loan decreased by 31.68% and 7.52% respectively on gross basis. The Company has taken a stricter view on credit underwriting standards of factoring and mortgage business during the year.

LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE SEGMENT

Lease rentals receivable and stock out on hire grew by 6.18% which is by Rs. 3.98 billion to Rs. 68.48 billion, a relatively lower growth. Stiff competition and strict credit standards and reculated high LTV made the credit disbursements difficult during the year.

TREASURY SEGMENT

The Company maintained a higher average liquidity level (mandatory and prudential liquidity targets) than the previous year driven by increased interest rates and illiquid in money market, resulting in increased interest income from other financial assets. Treasury department has rate targets for external borrowings. branch profitability is calculated on transfer pricing method, where branches that have excess liquidity will lend to branches with shortage of liquidity. A nominal rate is used as the interest for fund transfer pricing.

CREDIT QUALITY

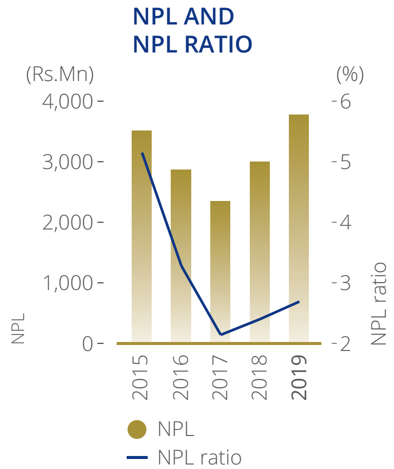
Credit quality of the Company loan book continued to improve with stringent strategic measures adopted with effective successful follow-up procedures on collection. Non-performing loan ratio (i.e. non-performing loans as percentage of total loans) slightly increased to 2.69% in 2018/19 from 2.37% in 2017/18. It is important to note that the Company's definition on NPL classification is stricter than the classification of the CBSL; CBSL defines non-performing loan as a loan which is six installments in arrears, however LBF defines NPL as a loan which is five installments in arrears. Even with a strict definition, the Company's NPL ratio yet remains below the industry average of 7.70%.

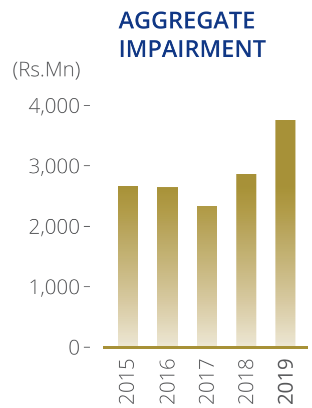
Net impairment was a charge of Rs. 982.11 million in 2018/19 as against of Rs. 667.62 million in 2017/18.

Financial highlights	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000
Gross loans (with unearned income)	140,145,117	126,875,307	109,781,320
Unearned income	22,950,300	21,662,825	18,301,275
Gross loans (1)	117,194,817	105,212,482	91,480,045
Non-performing loans (with unearned income)	3,773,333	3,003,175	2,350,483
Unearned income	276,867	223,230	120,228
Gross Non-performing loans	3,496,466	2,779,945	2,230,255
IFRS loan loss provision (2)	4,104,316	3,067,908	2,330,302
CBSL loan loss provision	3,230,002	2,345,999	1,802,697
Excess/(shortfall) loan loss provision compared to CBSL	874,314	721,909	527,605
IFRS loan loss provision as a percent gross loans (2/1)	3.20%	2.92%	2.55%
IFRS loan loss provision as a percent non-performing loans	117.38%	110.36%	104.49%
Total regulatory loan loss provision as a percent gross loans	2.26%	2.23%	1.97%
Total regulatory loan loss provision as a percent of non-performing loans	92.38%	84.39%	80.83%
Total assets	136,390,718	120,820,780	102,763,035
Net loans (after impairment)	113,445,454	102,345,084	89,149,743
NPL: gross loans	2.98%	2.64%	2.44%
NPL: total assets	2.56%	2.30%	2.17%
NPL: gross loans-unearned income basis*	2.69%	2.37%	2.14%

*NPL including future interest/gross loans including future interest (published NPL ratios).

It is noteworthy to mention that the Company has maintained 27.07 percent above the CBSL mandatory provision.





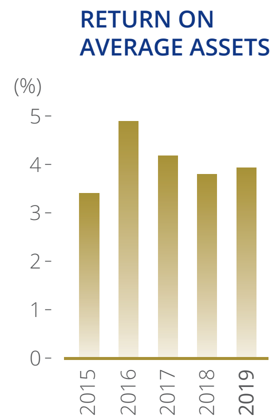
ASSETS

Total assets increased by 12.89% YoY to Rs. 136.39 billion while on a gross basis loans, leases and stock out on hire grew by 11.39% YoY to Rs. 117.19 billion during the year.

Cash and Cash Equivalents and Other Financial Assets

Our cash resources held to meet statutory reserves and the prudential liquidity targets stood at Rs. 13.36 billion, which is also well above the statutory liquidity requirement of Rs. 8.76 billion. We continued to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

Total asset mix	2019 Rs. '000	2018 Rs. '000
Cash Resources	4,040,586	5,874,375
Loans	113,445,454	102,345,084
Securities	10,420,198	6,411,831
Other Assets	8,484,480	6,189,490
	136,390,718	120,820,780



Property, Plant and Equipment

During the year Company acquired properties in three strategic locations to be in line with its future expansion plans. This was financed through a long-term bank borrowing.

LIABILITIES

Total liabilities increased 11.84% YoY to Rs. 117.96 billion in 2018/19, driven by increases in customer deposits.

Due to Customers

Customer deposits increased 14.08% YoY to Rs. 83.21 billion in 2018/19 with higher share of deposits from Individual customers as a result of close relationships. Our objective is to ease the concentration on larger value deposits to minimise the liquidity risk in the total deposit base.

Due to Banks

During the year, we have borrowed Rs. 9 billion in long-term loans from the banking sector with an average tenure of four years. This will reduce the maturity gap of assets and liabilities and mitigate the risk related to withdrawal of larger value deposits.

Debt Instruments Issued and other Borrowed Funds (Subordinated Debentures)

LBF issue Rs 3 billion listed debentures during the year of which Rs 2 billion were subordinated debentures to strengthen Tier 2 capital.

SHAREHOLDERS' EQUITY

Total shareholders' equity rose to Rs. 18.42 billion in 2018/19 from Rs. 15.34 billion in the previous year. During the year the Company paid an interim dividend of Rs. 1,108.11 million.

OFF-BALANCE SHEET ITEMS AND OTHER MATTERS

During the year, Company reported a 44.28 percent YoY increase in its total commitments and contingencies to Rs. 1.82 billion mainly due to an increase in commitment for unutilised facilities on Power Draft.

Further, operating leases (SLFRS 16) which are accounted for as an off-balance sheet item mainly consist of rented buildings of the Company.

The Western Province Provincial Council, the Central Province Provincial Council and the Southern Province Provincial Council have communicated with LBF, requiring it to register as pawnbrokers in terms of their respective Provincial Council Statutes, in view of the Gold Loan business carried out by LBF within such Provinces. Pursuant to receipt of such notices, LBF has challenged the right of such Provincial Councils to require registration by LBF. The basis for LBF's position that registration is not necessary is that its Gold Loan business is being carried out in terms of the Mortgage Act as mortgages of movables, and that LBF is in fact not engaged in pawnbroking business, and thus need not register in terms of such Statutes. LBF has filed three Writ Applications in the Court of Appeal, challenging the requirement to register under the said Provincial Council Statutes, and such Writ Applications are pending adjudication at present.

LB MICROFINANCE MYANMAR COMPANY LIMITED(LBMM)

LBMM recorded net profit of Rs. 25.25 million during the year and built a loans and advances portfolio of Rs. 378.92 million. Cash and cash equivalents at the end of the year was Rs.18.03 million.

ACCOUNTING DEVELOPMENTS

SLFRS 09 - FINANCIAL INSTRUMENTS

Impairment

The adoption of SLFRS 9 will have a significant impact on the Company's impairment methodology. The SLFRS 9 Expected Credit Loss (ECL) model is forward looking compared to the current incurred loss approach. Expected credit losses under SLFRS 9 are the present value of all cash shortfalls related to default events either:

I. Over the following 12 months or

II. Over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability weighted outcome as opposed to the single best estimate allowed under the current approach. The probability weighted outcome considers multiple scenarios based on reasonable and supportable forecasts. SLFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

    SLFRS 9 impairment model uses a three -stage approach based on the extent of credit deterioration since origination:

Stage 1 - A loss allowance at an amount equal to at least 12-month expected credit losses will be recognised through the life of the financial assets. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months or less in line with the maturity profile of the asset.

Stage 2 - When a financial asset experiences significant increases in credit risk since origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining lifetime of the financial asset.

Stage 3 - Under the incurred loss method the Company identified the loan as impaired if a payment on a loan is contractually three months/rentals in arrears or objectively identified as credit deteriorated even if the rental in arrears is even less than three (see Note 4.17 Allowance for Impairment Losses). The Company's definition of impairment is aligned with the regulatory guidelines for SLFR 9 issued in February 2019.

Some of the key concepts in SLFRS 9 that have the most significant impact and require a high level of judgment are:

- Assessment of significant increase in credit risk
- Macroeconomic factors, forward-looking information and multiple scenarios. SLFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporate forecasts of future economic conditions.

Definition of default

We have followed the regulatory guidelines for SLFRS 9 and revisited on our previous year stage (impairment) classification assumptions. Current assumptions as follows,

- Customers' credit risk significantly increase just after 30 days of past due.
- Incurred loss just after 90 days of past due.

Probability of default (PD) estimation

We used internal information to estimate the PDs for our loans, lease receivables, loan commitments and financial guarantees. The client has two credit statuses which can be identified as default or not default. We used Cohort Method (CM) to compute the PDs. Cohort Method (CM) is applied where the number of obligors at the end of each month and the number of obligors that have defaulted during next month are counted respectively. The resulting PD estimate is arrived at by dividing the overall number of defaults (during the month) by the overall number of obligors (previous month end). At each stage of the loan PDs are computed. Average PDs are computed and used forward looking information to adjust those average PDs. The Multiple Economic Factor Model was developed to forecast the forward looking information. The model predicts the one year forward industry NPL levels and which has been used to adjust the Company PD curve using statistically quantified variance. The Economic Factor Model is developed by the University of Colombo, Science and Technology CELL and consent to use with an annual review. The Economic Factor Model predicts the NPL as an output and use some key economic factors as an input to the model. The key variables of the model is follows,

- Industry NPL
- Real Interest Rates
- Rainfall
- Assets Recovery Ratio
- All Share Price Index (ASPI)
- Fuel Prices
- Exchange Rates
- Company Probability of Default Curve

The published global financial sector credit rating migration matrix (2016/2017) Probability of Default used for fixed income (bank deposits) securities expected loss calculation, Value at Risk Methodology (VAR) is used for gold-based loan expected loss calculation and bi-nominal distribution model is used for small number of obligors' portfolio expected loss calculation. Any Financial Asset fully secured through a cash collateral has not taken into the expected loss calculation. Loan types with undrawn limits are expected to change the exposure over a period due to the available portion in the unutilised limit. The drawdowns for unutilised portions (only for stage 1 and 2) are considered by applying the behavioural (average) use of the facility over the given period and current excess over the average (positive net exposure). Then the positive net exposure is classified as 12 month or lifetime expected credit loss.

Expected life

All contractual terms had been considered when determining the expected life, including prepayment/early termination options and extension and rollover options.

Model validation

New models and systems for expected loss computation are being developed to meet the requirements of SLFRS 9. The impairment model and computation was reviewed by the EY Assurance/Tax Transactions Advisory Division of Sri Lanka and agreed with the model.

The entire impairment process is automated and manual involvement is minimal.

Transition and impact

The impact of SLFRS 9 on the Company's financial results at the time of adoption is dependent upon prevailing market factors and economic conditions at that time of actual implementation. We have estimated the gross and net impact as at 31st March 2018. Following asset types are taken for the expected loss estimation:

- Loans and lease receivables including Gold Loans
- Fixed Income Securities (Bank Deposits)
- At fair value through other comprehensive income
- Loan commitments
- Financial guarantees

The existing collective allowances against performing loans contribute a significant component of allowance levels required for Stage 1 and Stage 2 assets under SLFRS 9 at transition. The existing Specific Allowances against impaired loans should not change significantly for Stage 3 assets under SLFRS 9 at transition. Under the existing accounting practice, the change in allowances on performing loans (collective) will now be recorded in the Stage 1 and Stage 2 as impairment for expected losses.

	Rs. '000
Total expected loss as at 31st March 2019 for all products	1,056,747
(Minus) Collective provision for unimpaired loans as at 31st March 2018	763,029
Charge for the year	141,469
Current year Adjustment to Retained Earning	152,249

ECONOMIC CONTRIBUTION

The Company's approach to value creation is armed with strategies focusing on operational excellence and sustainability. This is not merely short-term but looks to long-term value creation focusing triple bottom line sustainable business practices.

ECONOMIC VALUE ADDED STATEMENT (EVA)

EVA is the incremental change in the rate of return over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested and a positive EVA denotes the company is generating value.

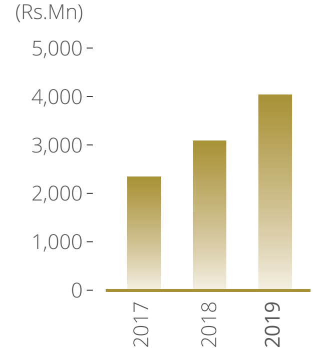
For the year ended 31st March	2018/19 Rs. million	2017/18 Rs. million	2016/17 Rs. million
Invested Equity			
Shareholders' funds	18,427.15	15,348.90	12,509.68
Add: Cumulative loan loss provision/ provision for impairment	3,746.91	2,867.40	2,330.30
Total	**22,174.06**	**18,216.30**	**14,839.98**
Earnings			
Profit attributable to shareholders	5,054.66	4,224.36	3,900.30
Add: Loan losses and provisions/impairment provision	982.11	667.63	(42.27)
Total	**6,036.77**	**4,891.99**	**3,858.04**
Economic cost % (Average 3 months Treasury Bill rate plus 2% risk premium)	9.85	10.90	10.85
Economic cost	1,989.55	1,801.57	1,516.89
Economic value added	**4,047.61**	**3,090.42**	**2,341.15**

MARKET VALUE ADDED (MVA)

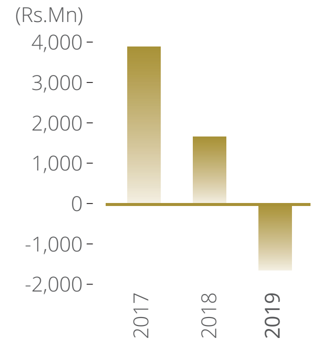
MVA is the difference between the market value of the Company and the capital contributed by investors; In other words, it is the sum of all Company capital claims held against the market value of debt and equity.

For the year ended 31st March	2018/19 Rs. million	2017/18 Rs. million	2016/17 Rs. million
Market capitalisation			
Market value of equity	16,635.57	16,469.35	16,400.09
Less: Equity owners' funds			
Shareholders' funds	18,427.15	15,348.90	12,509.68
Total equity owners' funds	18,427.15	15,348.90	12,509.68
Market value added	**(1,791.59)**	**1,120.45**	**3,890.41**

ECONOMIC VALUE ADDED



MARKET VALUE ADDED



VALUE GENERATED AND DISTRIBUTED

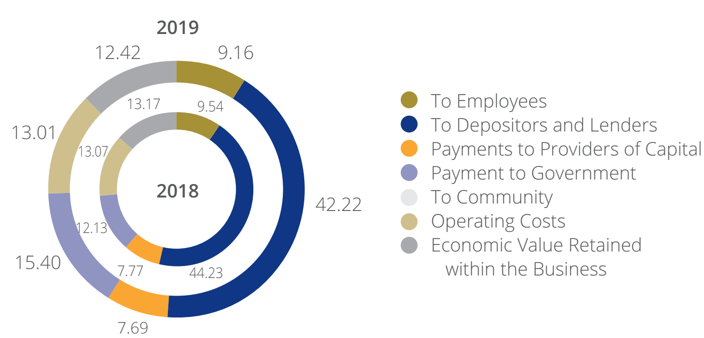
Information on the generated and distributed value provides a basic indication of how the Company has created wealth for the stakeholders. Components of the economic value generated and distributed provides an economic profile of the Company, which may be useful for controlling other performance indicators. Economic value generated and distributed portrays the direct monetary value added to local economy.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

For the year ended 31st March	2018/19 Rs. million	%	2017/18 Rs. million	%	2016/17 Rs. million	%
Direct Economic Value Generated						
Interest Income	27,363.77		23,394.12		17,909.94	
Fee Commission Income	1,782.07		1,504.19		1,209.34	
Net Gain/(loss) from trading	(2.56)		(0.30)		(0.15)	
Other operating income	134.74		148.20		244.30	
Economic Value Generated	**29,278.02**		**25,046.20**		**19,363.43**	
Economic Value Distributed						
To Employees						
Employees salaries & Benefits	2,682.61		2,389.35		2,102.36	
	2,682.61	9.16	**2,389.35**	9.54	**2,102.36**	10.86
To Depositors and Lenders						
Interest expenses	12,361.66		11,077.10		7,766.75	
	12,361.66	42.22	**11,077.10**	44.23	**7,766.75**	40.11
Payments to Providers of Capital						
Dividend to shareholders	1,662.17		1,523.66		1,246.63	
Interest to debenture holders	589.66		421.31		345.59	
	2,251.83	7.69	**1,944.96**	7.77	**1,592.21**	8.22
Payment to Government						
Income Tax expenses	2,441.73		1,658.32		1,595.06	
Debt Repayment Levy	401.53		-		-	
VAT & NBT on Financial Services	1,614.09		1,336.69		1,027.10	
Crop Insurance & Levy	51.00		43.15		38.61	
	4,508.35	15.40	**3,038.17**	12.13	**2,660.77**	13.74
To Community						
Social responsibility projects	26.95		23.51		14.54	
Donations	-		-		0.16	
	26.95	0.09	**23.51**	0.09	**14.70**	0.08
Operating Costs						
Depreciation & Amortisation Set Aside	435.38		384.23		343.22	
Impairment charge for loans and other losses	982.11		667.63		(42.27)	
Training Cost	10.95		8.57		8.05	
Other operating expenses	2,380.39		2,213.96		1,882.3	
	3,808.82	13.01	**3,274.39**	13.07	**2,191.25**	11.32
Economic Value Retained	3,637.79	12.42	3,298.71	13.17	3,035.39	15.68
Economic Value Distributed	**29,278.02**	100.00	**25,046.20**	100.00	**19,363.43**	100.00

ECONOMIC VALUE ADDED DISTRIBUTED

(%)



INVESTOR

LBF always pays attention to maximising shareholders' wealth by carefully balancing risk and return while crafting the business strategies in the best interest of its shareholders since the lifeblood of LBF is its investors. With the main view of gaining investors' trust and confidence in the Company, we constantly keep them updated on our strategies, plans and performance.

LBF believes that this will lead the shareholders to taking a long-term view of the Company without being swayed by short-term fluctuations with a view to building lasting and trusting relationships. In order to maintain professionalism and good governance, some of the channels LBF uses to keep the investors informed are the Annual General Meeting, investor meetings, Annual Report, Interim Financial Statements and announcements at the Colombo Stock Exchange (CSE), press conferences and media releases.

In the year under review total shareholders' equity increased by 20% to Rs. 18.42 billion from Rs. 15.34 billion in the previous year. Company paid an interim dividend of Rs. 1,108 million for the year 2018/19 which amounts to Rs. 8 per share and it has also proposed a final dividend of Rs. 4.00 per share in May 2019 making the total payout of Rs. 1.66 billion. Above average growth in the profitability helped LBF's share to outperform the market and sector indices during the financial period.

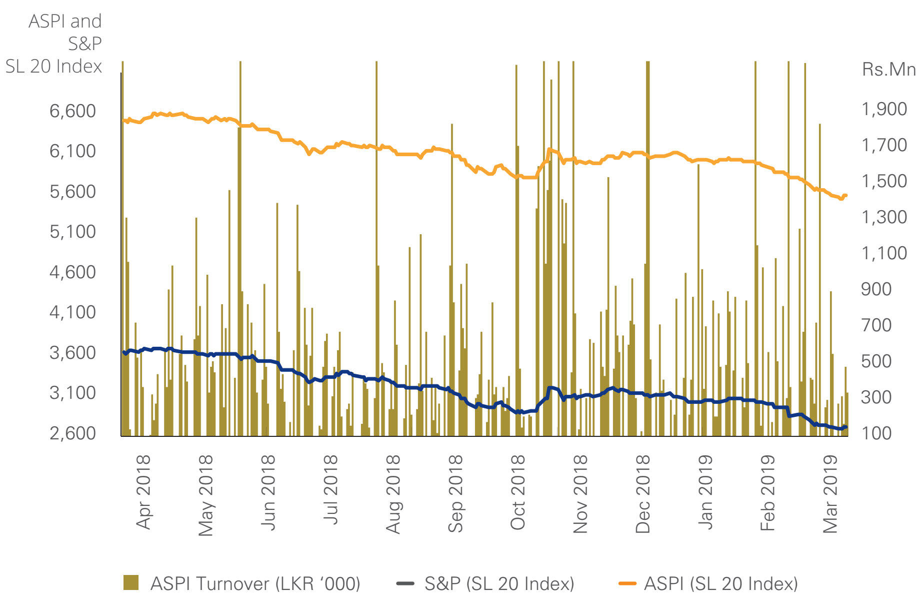
THE COLOMBO STOCK EXCHANGE

The Colombo stock market was less active during the financial year 2018/19, due to political uncertainty in the country and external shocks. Lack of local and foreign investor participation was observed during the year. The All Share Price Index closed 13.8% lower to be at 5,557.24 points compared to 2017/18. Standard and Poor's (S&P SL 20) which tracks the performance of larger blue chip companies decreased by 24.63% YoY to 2,738.95 points during the period. The market has failed to attract foreign investment throughout 2018/19, with Rs. 62.71 billion in foreign buying contributing to a net foreign outflow of Rs. 26.65 billion. The daily average turnover of the CSE decreased by 32.64% YoY to Rs. 697.58 million in 2018/19, while daily share volume decreased by 44.23% YoY to 20.52 million shares. Market capitalisation of listed companies reduced by 14.07% to Rs.2.60 trillion at the end of the period.

BANKING, FINANCE AND INSURANCE SECTOR (BFI)

Banking, Finance and Insurance sector index decreased by 13.69% YoY to 14,678.62 points during 2018/19. In the sector, average monthly turnover decreased by 40.55% YoY to Rs. 4.7 billion, while average monthly volume decreased by 47.78% YoY to 118.75 million shares in 2018/19. Sector P/E decrease from 6.87 times in 2017/18 to 4.67 times in 2018/19, while sector P/B decrease from 1.07 times in 2017/18 to 0.88 times in 2018/19.

ASPI & S&P SL 20 INDEX AND MARKET TURNOVER



LBF SHARE

General Information

Total number of shares in issue as at 31 March 2019	138,514,284
Public shareholding as at 31st 2019	21.83%
Beta value against ASPI as at 31st March 2019	0.19
Stock symbol	LFIN : N0000

Newswire codes of LBF share:	
Bloomberg	LBFIN : SL
Dow Jones	LFINN
Reuters	LFIN. CM

We are INVESTED in creating and sustaining value

ANNUAL PERFORMANCE

	2018/19	2017/18	2016/17
Share Price			
Highest (Rs.)	129.90	145.00	134.00
Lowest (Rs.)	110.00	118.00	105.10
Closing (Rs.)	120.10	118.90	118.40
Number of transactions	1,857	2,766	5,616
Number of shares traded	2,845,955	4,602,929	11,098,533
Value of shares traded (Rs. billion)	0.33	0.60	1.41
Number of days traded	218	217	240
Average daily turnover (Rs. million)	1.41	2.77	5.87
Market capitalisation (Rs. billion)	16.7	16.6	16.4

QUARTERLY PERFORMANCE 2018/19

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Share Price				
Highest (Rs.)	126.00	120.00	129.00	129.90
Lowest (Rs.)	118.50	113.00	110.0	118.00
Closing (Rs.)	120.30	115.00	123.00	120.10
Number of transactions	529	407	482	439
Number of share traded	657,259	292,737	1,276,840	619,119
Value of shares traded (Rs. million)	79.56	33.93	149.81	75.67
Number of days traded	55	55	52	56
Average daily turnover (Rs. million)	1.34	0.54	2.45	1.30

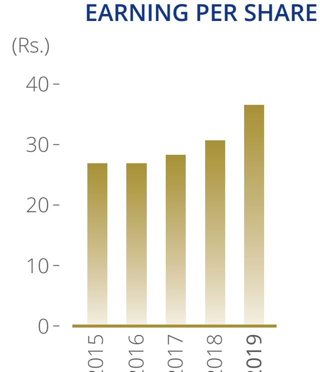
STATED CAPITAL

The stated capital of the Company as at 31st March 2019 was Rs. 838 million represented by 138.5 million fully paid ordinary shares. The share capital comprised a single class in which every share has the same voting power and the same entitlement to dividends.

EARNINGS PER SHARE (EPS)

The earnings per share (EPS) for the period increased to Rs. 36.49 in 2018/19 from Rs. 30.69 in 2017/18, as a result of increased profit attributable to shareholders.

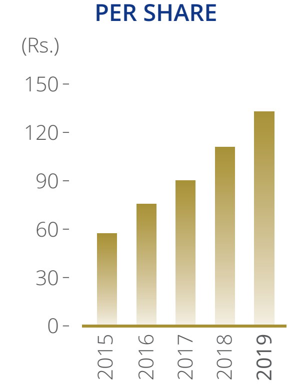
MOVEMENT OF EARNING PER SHARE



NET ASSET VALUE PER SHARE

As at the financial year ended 31st March 2019, the net assets value per share of the Company stood at Rs. 133.04, which reflected an increase of 20.06% compared to Rs. 110.81 the previous year.

NET ASSET PER SHARE



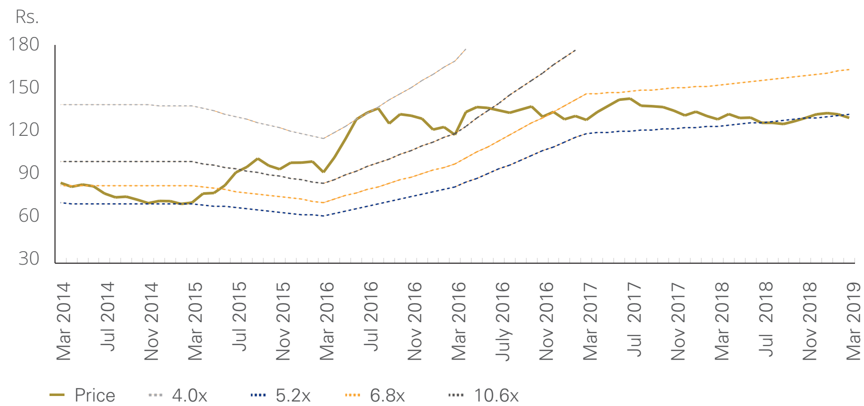
FINANCIAL CAPITAL ANALYSIS

Dupont analysis (ROE analysis)

PRICE EARNINGS RATIO (P/E)

The P/E ratio as at 31st March 2019 decreased to 3.29 times from 3.87 times as at 31st March 2018. The improvement in the P/E ratio is mainly due to increased EPS.

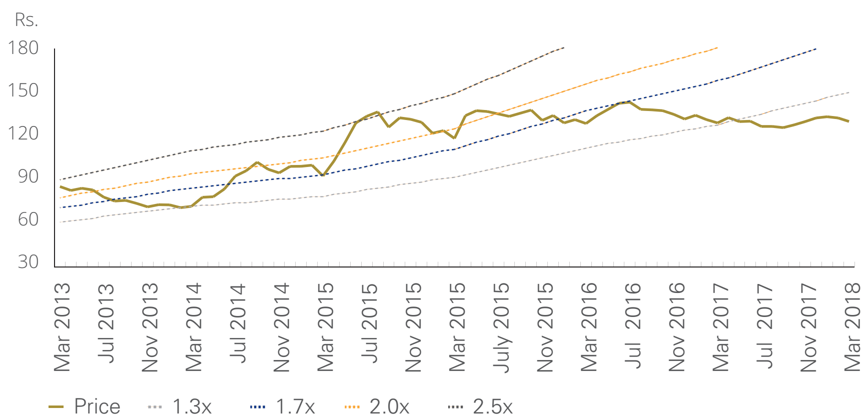
P/E MULTIPLE BAND CHART



PRICE TO BOOK VALUE (P/B)

The P/B ratio as at 31st March 2019 marginally decreased in 0.90 times from 1.07 times compared to the previous financial year due to increase in shareholder wealth outpacing the share price growth.

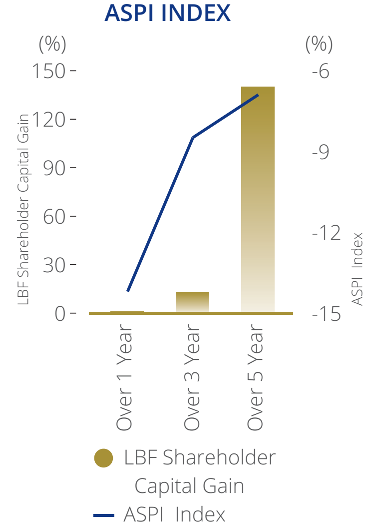
P/B MULTIPLE BAND CHART



TOTAL SHAREHOLDER RETURN

Total shareholder return (including both dividends and change in share price of the common share), recorded a 11.10% for the accounting period 2018/19 including gross dividend per share of Rs. 12. Return was higher than the previous year of 9.69%. Share market index return was decline of 13.84% in 2018/19 from 6.84% in 2017/18. Share price appreciated 1.01% in 2018/19. We remain focused on achieving sustainable, long-term earnings growth and maintaining stable dividend income streams to our shareholders.

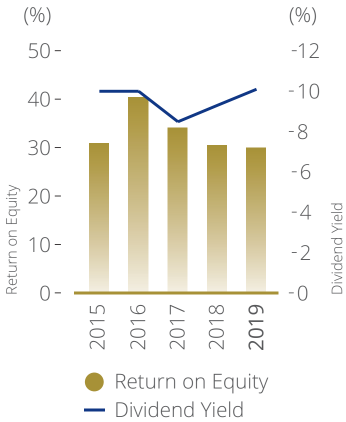
SHAREHOLDERS' RETURNS AND ASPI INDEX



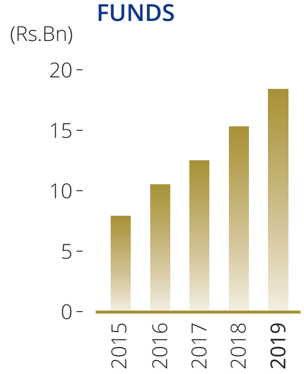
SHAREHOLDERS' RETURN

Year ended 31 march	2019	2018	2017	2016
Closing market price (Rs.)	120.10	118.90	118.40	106.10
Dividends paid/proposed (Rs.)	12	11.00	9.00	7.50
Dividend Yield	10.09%	9.29%	8.48%	9.99%
Dividend Cover	3.04	2.79	3.77	3.58
Change in share price	1.01%	0.4%	11.59%	41.28%
Total annual shareholder return	11.10%	9.69%	20.07%	51.26%

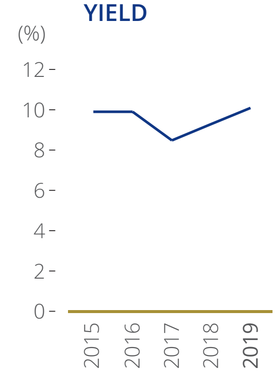
RETURN ON EQUITY AND DIVIDEND YIELD



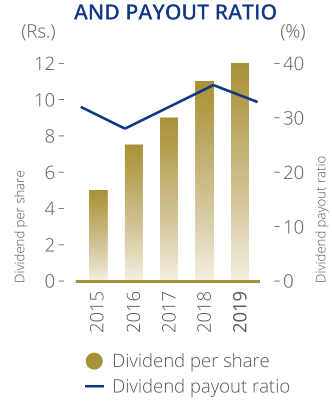
SHAREHOLDERS' FUNDS



DIVIDEND YIELD



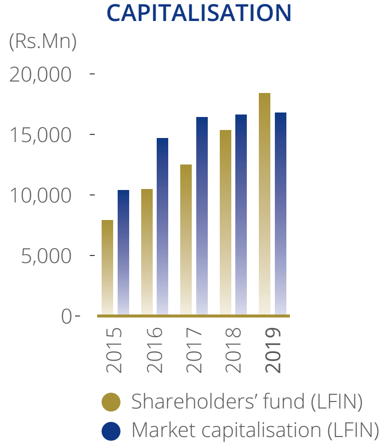
DIVIDEND PER SHARE AND PAYOUT RATIO



MARKET CAPITALISATION (AS AT 31ST MARCH)

Year	Shareholders' funds Rs Mn	LFIN market capitalisation Rs Mn	CSE market capitalisation Rs Mn	LFIN market capitalisation as % of CSE market capitalisation
2014	6,207	6,933	2,498,000	0.28%
2015	7,927	10,402	2,891,170	0.36%
2016	10,479	14,696	2,586,150	0.57%
2017	12,510	16,400	2,662,860	0.62%
2018	15,349	16,604	3,032,710	0.54%
2019	**18,427**	**16,635**	**2,605,899**	**0.64%**

SHAREHOLDERS' FUNDS AND MARKET CAPITALISATION



PUBLIC HOLDING

Public holding as at 31st March 2019 was 21.83% comprising 1,985 shareholders. This is a decrease when compared to the previous year's 21.89% public holding comprising 1,997 shareholders. Float adjusted market capitalisation of the Company is Rs. 3.63 billion and the Company falls under option 4 of rule 7.13.1 (a) of the listing rules of the Colombo Stock Exchange and the company has complied with the minimum public holding requirement applicable the said option.

DIVIDENDS

LBF's investor-friendly dividend policy determines the immediate returns to investors, whilst retaining funds for future investments. This ensures growth in the medium- and long-term which grows shareholder wealth in these time frames. The Board has proposed a final dividend of Rs. 4 per share (Interim dividend of Rs. 8.00 per share paid on 18th April 2019). The dividend payout ratio was decreased to 32.88% in 2018/19 from 35.84% in 2017/18.

LIQUIDITY

Average daily shares traded during the year decreased to 11,858 in 2018/19 from 21,211 shares in 2017/18. Total shares that changed hands during the year decreased to 2.8 million in 2017/18 from 4.6 million in 2017/18.

ANALYSIS OF SHAREHOLDERS

With reference to the distribution of shareholding, approximately 91.52% of the shares amounted to shareholding of over one million shares whilst it was 90.80% in the previous year. The total number of shareholders decreased to 1,994 in the year under review from 2,006 in the previous year. Local investors constituted 96.33% of the investor base (97.06% in 2017/18). Out of the total shareholder base 5.61% was individual shareholders (6.08% in 2017/18).

DISTRIBUTION OF SHAREHOLDINGS

	As at 31st March 2019				As at 31st March 2018			
	Number of shareholders	%	Number of shares held	%	Number of shareholders	%	Number of shares held	%
1 to 1,000	1,261	63.24	309,997	0.22	1,237	61.67	319,598	0.23
1,001 to 10,000	564	28.29	2,005,227	1.45	589	29.36	2,121,168	1.53
100,001 to 100,000	142	7.12	4,013,703	2.90	152	7.57	4,383,696	3.16
100,001 to 1,000,000	20	1.00	5,419,965	3.91	22	1.10	5,931,655	4.28
Over 1,000,000	7	0.35	126,765,392	91.52	6	0.30	125,758,167	90.80
Total	**1,994**	**100.00**	**138,514,284**	**100.00**	**2,006**	**100**	**138,514,284**	**100.00**

COMPOSITION OF SHAREHOLDINGS

	As at 31st March 2019			As at 31st March 2018		
Category	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
Local - Individual	1,855	7,611,018	5.50	1,862	8,285,590	5.98
Local - Institutional	111	125,812,634	90.83	120	126,156,613	91.08
Foreign - Individual	24	156,272	0.11	21	144,946	0.10
Foreign - Institutional	4	4,934,360	3.56	3	3,927,135	2.84
Total	**1,994**	**138,514,284**	**100.00**	**2,006**	**138,514,284**	**100.00**

DIRECTORS' SHAREHOLDINGS

Names of Directors	No. of shares as at 31st March 2019	As a % of total shares	No. of shares as at 31st March 2018	As a % of total shares
Mrs. Shirani Jayasekara	-	-	-	-
Mr. Dhammika Perera	-	-	-	-
Mr. Sumith Adhihetty	106,120	0.077	106,120	0.077
Mr. Niroshan Udage	329,135	0.238	250,325	0.181
Mr. B D A Perera	-	-	-	-
Mr. Ravindra Yatawara	-	-	-	-
Mrs. Anandhiy Gunawardhana	-	-	-	-
Mrs. Yogadinusha Bhaskaran	-	-	-	-
Mr. Ashane Jayasekara	-	-	-	-
Mrs. Ashwini Natesan	-	-	-	-
Mr. Thosapala Hewage (ceased w.e.f. 19.02.2019	-	-	-	-
Mr. Dharmadasa Rangalle (appointed w.e.f. 10.04.2019)	-	-	-	-

LARGEST SHAREHOLDERS OF THE COMPANY

Shareholders	As at 31st March 2019			As at 31st March 2018	
	Number of shares	Percentage holding (%)	Cumulative percentage holding (%)	Number of shares	Percentage holding (%)
1. Vallibel One PLC	71,682,400	51.751	51.751	71,682,400	51.751
2. Royal Ceramics Lanka PLC Commercial Bank of Ceylon PLC/ Royal Ceramics Lanka PLC	36,123,232	26.079	77.830	36,123,232	26.079
3. Esna Holdings (Pvt) Ltd.	14,062,400	10.152	87.982	14,062,400	10.152
4. Bnymsanv Re-Frontaura Global Frontier Fund LLC	2,290,135	1.653	89.635	2,290,135	1.653
5. SBI Ven Holdings Pte Ltd.	1,600,000	1.155	90.790	1,600,000	1.155
6. Pershing LLC S/A Averbach Grauson & Co.	1,007,225	0.727	91.517	-	-
7. AIA Insurance Lanka PLC A/C No.07	777,843	0.562	92.079	777,843	0.562
8. Sterling Holdings (Private) Limited	502,826	0.363	92.442	502,826	0.363
9. Janashakthi Insurance PLC (Policy Holders) Janashakthi Insurance PLC – NON PAR	- 500,000	- 0.361	- 92.803	500,000 -	0.361 -
10. Mr. K D A Perera	438,996	0.317	93.120	373,776	0.270
11. Hatton National Bank/Mr. Karuna Ranaraja Ekanayaka Mudiyanselage Dharshan Maduranga Bandara Jayasundara	361,699	0.261	93.381	344,297	0.249
12. Mr. N Udage	329,135	0.238	93.619	250,325	0.181
13. Mr. A A Page	314,800	0.227	93.846	314,800	0.227
14. Mr. N P De A Samaranayake	300,000	0.217	94.063	300,000	0.217
15. People's Leasing & Finance PLC/Dr. H S D Soysa & Mrs. G Soysa	230,816	0.167	94.230	230,816	0.167
16. Mrs. P C Cooray	208,632	0.151	94.381	208,632	0.151
17. J B Cocoshell (Pvt) Ltd.	197,859	0.143	94.524	224,100	0.162
18. DFCC Bank PLC / Mr. W G D C Ranaweera	190,275	0.137	94.661	-	-
19. Mr. T Jeremiah	155,164	0.112	94.773	155,164	0.112
20. Mr. P Somadasa	151,141	0.109	94.882	152,626	0.110
Total of top 20 shareholders	131,424,578	94.882			
Other public shareholders	7,089,706	5.118			
Total	**138,514,284**	**100.00**			

DEBENTURES

In December 2017, LBF raised Rs. 3 billion (to boost business growth opportunity, reducing the mismatch of maturity period, to improve the capital adequacy of the Company and to strengthen Tier II capital position and in November 2013, LBF raised Rs. 2 billion by the issue of subordinated, unsecured debentures to boost Tier II capital position.

Year	2018/19					2017/18				
Issued date	11-Dec-17		29-Nov-13			11-Dec-17		29-Nov-13		
Type of Debenture	Type A	Type B	Type A	Type B	Type C	Type A	Type B	Type A	Type B	Type C
Maturity date	11-Dec-22	11-Dec-22	28-Nov-18	28-Nov-18	28-Nov-18	11-Dec-22	11-Dec-22	28-Nov-18	28-Nov-18	28-Nov-18
CSE listing	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed	Listed
Code	LFIN/ BD/11/12/22- C2387-A-12.75	LFIN/ BD/11/12/22- C2388-B-13.25	LFIN/ BC/28/11 18A14	LFIN/ BC/28/11 18B14.5	LFIN/ BC/28/11 18C15	LFIN/ BD/11/12/22- C2387-A-12.75	LFIN/ BD/11/12/22- C2388-B-13.25	LFIN/ BC/28/11 18A14	LFIN/ BC/28/11 18B14.5	LFIN/ BC/28/11 18C15
Interest payment frequency	Bi-Annually	Bi-Annually	Monthly	Bi-Annually	Annually	Bi-Annually	Bi-Annually	Monthly	Bi-Annually	Annually
Coupon Interest rate	12.75% p.a	13.25% p.a	14.00% p.a	14.50% p.a	15.00% p.a	12.75% p.a	13.25% p.a	14.00% p.a	14.50% p.a	15.00% p.a
Effective annual Yield (%)	13.16%	13.69%	14.93%	15.03%	15.00%	13.16%	13.69%	14.93%	15.03%	15.00%
No of Debentures	10,000,000	20,000,000	6,401,400	7,570,100	6,028,500	10,000,000	20,000,000	6,401,400	7,570,100	6,028,500
Amount (Rs. Mn)	1,000	2,000	640.14	757.01	602.85	1,000	2,000	640.14	757.01	602.85
Interest rate of comparable government security	10.93%	10.93%	10.93%	10.93%	10.93%	10.06%	10.06%	10.06%	10.06%	10.06%
Market price										
Highest (Rs)	Did not trade during the year	90.00	Did not trade during the year			Did not trade during the year		Did not trade during the year		100.5
Lowest (Rs)		90.00								100.5
Close (Rs)		90.00								100.5
Other ratios as at the date of last trade										
Yield to maturity %	NA	17.52%	NA	NA	NA	NA	NA	NA	NA	13.52%
Interest yield %	NA	16.79%	NA	NA	NA	NA	NA	NA	NA	14.30%

CREDIT RATINGS

The Company's credit rating, A- (lka) affirmed by Fitch Ratings Lanka Limited, in 2018.

Credit ratings – Debentures

The credit rating of the Company's Senior and Subordinated Debentures affirmed at A-(lka) and BBB+ (lka) by Fitch Ratings Lanka Limited.

FINANCIAL CAPITAL IMPACTS ON THE OTHER CAPITALS

		Capital impact	Impacted strategic priorities
Enhance process efficiency, Company invested on ICT developments to fine tune our software and hardware structure to provide ultimate benefits to the our customers	Improved productivity		
Our ability to investing training and developments for our employees to prepare for the future business acquisition	Enhance employee productivity		
Reduce our impact on environment we introduced digital platform to promote e-solution among the customers	Promoting digital mediums		

TRADE-OFFS IN OUR USE OF FINANCIAL CAPITAL

Understanding the trade-off	2018/19	Capital impact	Impacted strategic priorities
Capital structure decision which leads to debt to equity mix	Debt to equity ratio decreased to 6.02 times		
Gross fixed capital formation	Depreciation increased to 417.88 million		

BUILDING FOR THE FUTURE

Value creation for our Stakeholders

Short-term	Medium-term	Long-term
Maintain minimal dividend level	Sustainable dividend growth	Above index price return
Maintain above industry average capital adequacy level	Adequate economic capital to absorb the shocks	Maintain stable credit risk levels even at different economic cycles

Utilisation of our
Manufactured Capital

RELATED MATERIAL THEMES

RELATED STAKEHOLDERS

WHAT IT INCLUDES

Our Manufactured Capital includes all the physical objects that support our day-to-day operations.

HOW IT ADDS VALUE

Our investment in Manufactured Capital improves efficiency of our day-to-day operations, facilitates our growing business needs and helps maintain optimum accessibility to clients.

MATERIAL DRIVERS

- Accessibility to customers Page 93
- Our presence Page 94
- Penetrate regional markets Page 95
- Resource utilisation Page 95
- Process automation Page 95

127
BRANCHES

Rs. 1,894 Mn
INVESTMENT IN FREEHOLD LAND AND BUILDING

23
CASH DEPOSIT MACHINES

Rs. 36 Mn
INVESTED IN MOTOR VEHICLES

36
GOLD LOAN CENTRES

Rs. 150 Mn
INVESTED IN IT INFRASTRUCTURE

4
BRANCHES IN MYANMAR

Visit web page for our philosophy, Management approaches and SWOT analysis of Manufactured Capital

https://sustainability.lbfinance.com/capital-management/

Continuous investment to develop and upgrade Manufactured Capital in line with customer expectations has enabled LBF to deliver fit-for-purpose financial solutions to more and more people across Sri Lanka.

Niroshan Udage
Executive Director

Challenges	Disappointments
• Local political instability and policy uncertainty continues to contribute to weak domestic economic growth • Intense competition driving up the cost of commercial property • Customer resistance towards new technology • Competitive landscape in regional markets	• Lack of adequate infrastructure to expand LBF's presence in emerging towns • Tough rules and regulations to regional expansion

Improvements	Space for development
• 13 outlets relocated • Implemented the ORACLE Fusion system to streamline back-end systems	• Diversify distribution and service channels • Launch alternate delivery channels • Introduce non-financial services

STRATEGIC RESPONSES FOR 2018/19

- **To address these challenges we have focused on the factors we can control, looking inward to ensure we have a sharper focus on operational efficiency and effectively managing relationships**
- **Relocate selected outlets to more strategic locations**
- **Invest in technology-based innovations to expand customer touch-points**
- **Strengthen network support systems to enhance overall operational efficiency across the business**

REFLECTING 2018/19

Key indicator	Our performance 2018/19	Priorities 2019/20
Upgraded outlets	13 outlets relocated	Plan to relocate 10 outlets
Regional outlets	Opened three branches in Myanmar	Expand branches up to eight
CDMs transactions	Commissioned 20 CDMs	Improve operational sustainability by installing CDMs in every branch
Investment in freehold land and building	Rs. 1,894 million	Establish premium branches

ACCESSIBILITY TO CUSTOMERS

Customer outreach

Since the inception, we have relied on our branch network to reach out to customers across Sri Lanka, which has enabled LBF to serve over 600,000 customers around the country. Having invested heavily in the past to grow the outreach, our footprint is now well represented across all provinces and districts in Sri Lanka. In fact our iconic presence consisting of a network of 127 branches and 36 gold loan centres places LBF at a distinct advantage with one of the highest branch penetration rates in the local NBFI sector.

Having built a strong island-wide footprint, our branch strategy now is more focused on sharpening our branch model to make it more customer-centric. Following an indepth study to determine the effectiveness of our current branch strategy, a new branch refresh program was launched in the current financial year to sensitise each branch in relation to the needs of their immediate target market. In this way the branch refresh programme seeks to maximise both outreach and customer convenience.

The first phase of the branch refresh programme was kicked off with 13 LBF outlets being strategically relocated to areas where customers can experience better convenience. As part of the same effort, steps were also taken to realign the product offering at each branch to match the customer profile in the area. This led to the setting up of Gold Loan centres and Islamic finance units in areas where strong growth potential for these products was evident. Moreover, to enhance the overall service standards across the network, the branch layout was further streamlined to maintain more efficient space allocation for different business segments. Using these key concepts as a base, four new branches were opened in Minuwangoda, Mullaitivu, Tirunelveli and Kohuwala.

Further emphasising the commitment to strengthen LBF's Manufactured Capital, we acquired two premium properties in Colombo and Kandy. Plans are currently being formulated to develop these assets appropriately for the benefit of our stakeholders.

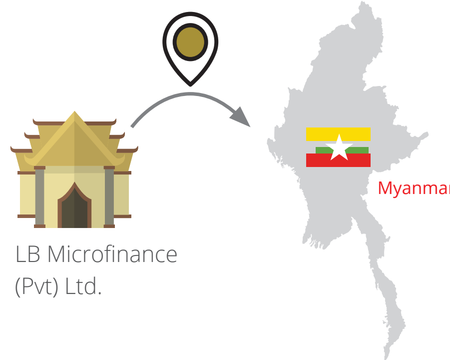
GRI - 102 - 6

OUR PRESENCE

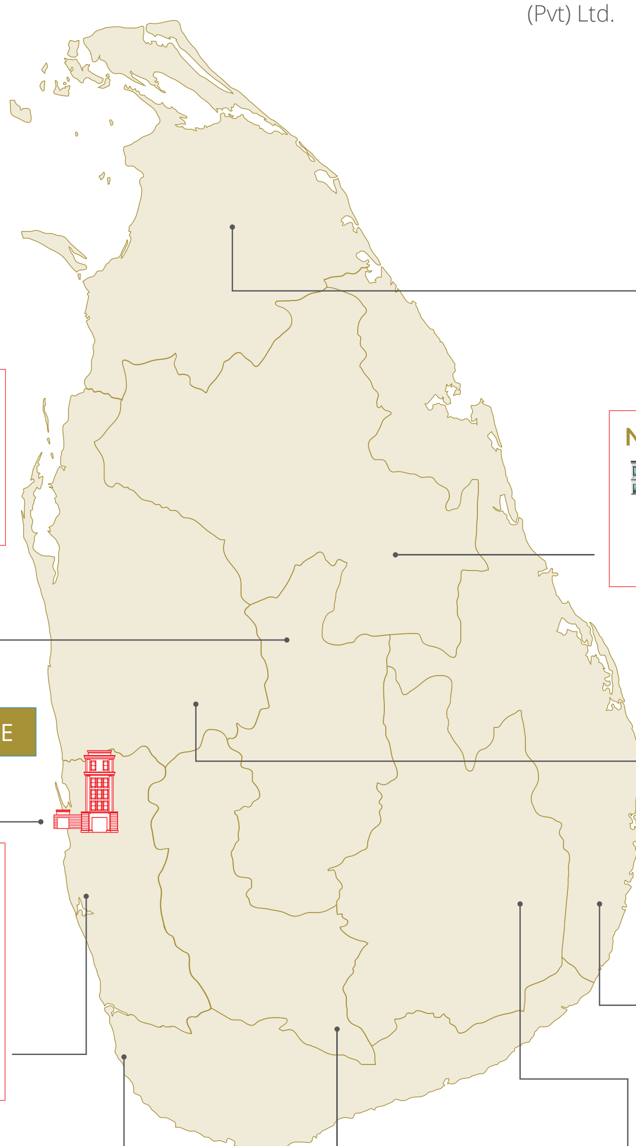
127
Branches

36
Gold Loan centres

3,618
Employees



163
Locations



NORTHERN PROVINCE
14 122 3
1,131 607

NORTH CENTRAL PROVINCE
7 120 4
1,330 690

NORTH WESTERN PROVINCE
9 211 10
1,366 755

CENTRAL PROVINCE
15 308 11
2,750 1,439

WESTERN PROVINCE
43 2,116
36 59
6,129 4,987

EASTERN PROVINCE
15 204 5
1,710 759

SOUTHERN PROVINCE
12 258 11
2,637 1,327

SABARAGAMUWA PROVINCE
6 155 3
2,047 1,067

UVA PROVINCE
6 117 3
1,364 1,054

Branches Gold Loan centres Employees Population ('000)
GDP 2018 (Rs. billion) LBF distribution of loans (Rs. billion)

Visit web page for more information on list of branches

https://sustainability.lbfinance.com/capital-management/

CUSTOMER CHANNEL PREFERENCE

Customer segment	Branches	Gold Loan centres	Connected ATMs	Social media	LB e-connect	Marketing officers	CDMs	Call centre
Individual customer								
Kids/ teenagers	✓							
Millennials	✓		✓	✓	✓		✓	
Young families	✓	✓	✓	✓	✓	✓	✓	
Established families	✓	✓	✓			✓		✓
Mature well-off	✓	✓				✓		✓
Senior citizens	✓	✓						✓
Corporate customers								
Corporates/ institutions	✓					✓		✓
SME/MSME	✓	✓				✓		✓

Research insights – University of Sri Jayewardenepura

PENETRATE REGIONAL MARKETS

Regional presence

Since marking its maiden entry to regional markets in December 2017, LB Microfinance Myanmar (LBMF), has continued to gain traction in its target market - the township of Pyay, in the Bago region of Myanmar. Given the tremendous success of this venture, in the year under review LBMF expanded its presence to the townships of Paukkhaung, Shwe-daung and Paungde, all within the same region. The rapid expansion of the LBMF footprint in Myanmar greatly enhanced LBF's profile as a regional player (page 136 for more information).

RESOURCE UTILISATION

Technology systems

We have always considered technology to be the key in enhancing the effectiveness of our Manufactured Capital. It is this thinking that promoted LBF to continue deepening its investments in technology systems that will complement the objectives of our physical infrastructure. We have made steady progress in this regard with some notable highlights in the recent past. Among them the investment in Cash Deposit Machines (CDMs) which have the capacity to process all mainstream over-the-counter transactions. As at 31st March 2019, a total of 23 CDMs were installed at high volume branches across LBF's network. Additional system improvements were also made to enable customers to perform savings, Gold Loan and leasing transactions via the CDM.

FY	No. of CDM transactions
2017/18	4,691
2018/19	211,800

PROCESS AUTOMATION

Network support

We believe a strong, reliable network support system is another vital component of our Manufactured Capital base. It provides mission critical support to ensure the smooth functioning of the day-to-day operations with minimum downtime to the customer. In the year under review we achieved a number of millstones in improving our structures, unifying systems, as well as automating, digitalising and simplifying processes, most notable among them; the launch of ORACLE Fusion, back-end ERP system that provides an integrated platform to help manage a range back-end systems including; procurement, finance and inventory. Using advanced cloud-based architecture ORACLE Fusion supports large volumes of back-end source data to be stored securely on cloud servers. While greatly improving overall efficiency, the need for continuous maintenance and upgrading of storage has also been eliminated, enabling the Company to immediately benefit from a considerable cost reduction. Moreover the full adoption of ORACLE Fusion has helped LBF to upgrade its system architecture on par with international standards for the first time in the Company's history.

Further investments were also made to strengthen the capacity of DR site, where all customer data is stored. A live test run was also conducted to determine the capability of the DR site to support the Company's business activities for an extended period of time. We also laid the groundwork for the introduction of a new data warehouse solution, which going forward would greatly enhance our capacity to store front-end customer data.

Our geographical presence is certainly a key factor in determining how accessible our services are to our customers. Our business model involves making financial services available and accessible to those with value creation capacity.

We extend our presence strategically, balancing the need to maintain close proximity to our customers

INITIATIVES FOR THE YEAR

Initiative/Project	Key features/Impact	Value addition/Outcomes of initiatives
ORACLE Fusion cloud-based back-end support system	Integrated solution to manage procurement, finance and inventory models	Increase resource utilisation with latest technological features
Introduce CDMs	Established 20 new CDMs in Western province.	Reduce transaction time by 30%
Upgrade customer touchpoints	Relocate 13 branches Island-wide.	Branches become more spacious and convenience to customers
Strengthen the Company's asset base	Acquired premium lands in Colombo and Kandy.	Strengthen Company asset base while reserving the space for future service expansion.

MANUFACTURED CAPITAL IMPACTS ON THE OTHER CAPITALS

Capital impact | Impacted strategic priorities

Digital mediums

Partnering with private sector partners creates end-to-end infrastructure solutions for customers, including technology solutions and specialised services

Business relationship

We are focused on enhancing our operational efficiency and fine-tuning our structures to build strong relationships with our service providers. We understand, however, that in optimising costs there are relational trade-offs that need to be carefully managed.

Empowering communities

A more integrated approach has been taken to engage with the communities in which we operate and to manage impact. We also seek development opportunities in under resourced areas.

TRADE-OFFS IN OUR USE OF MANUFACTURED CAPITAL

Understanding the trade-off	2018/19	Capital impact	Impacted strategic priorities
Our ability to raise Financial Capital is critical to our business and determines our ability to expand our branch network. However, we do not have an unlimited profitability, forcing us to make difficult choices about where and how to invest.	We opened four and relocated 13 branches		
To enable LBF to extend its services to a wider geographical location we are deepening our investment in IT infrastructure to allow us to serve greater numbers of people virtually.	We invested over Rs. 150.52 million in IT infrastructure		

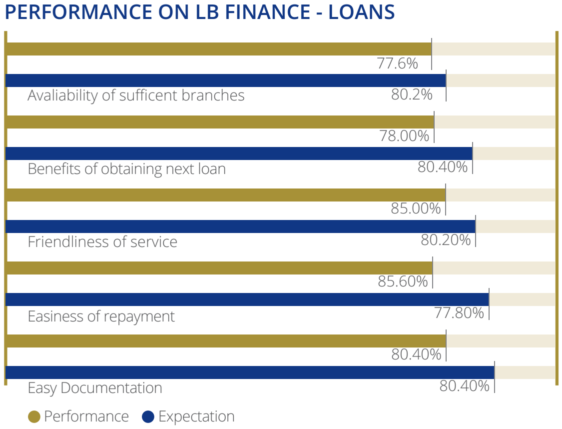
BUILDING FOR THE FUTURE

Value creation for our Stakeholders

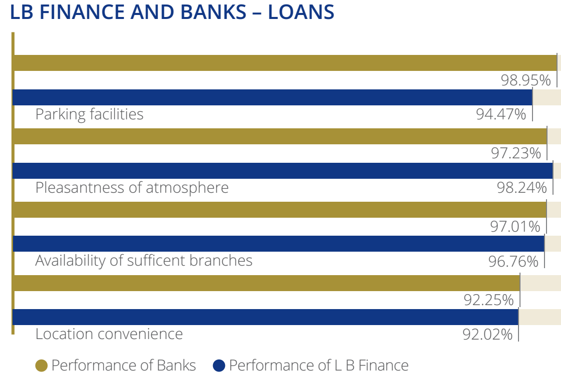
Short-term	Medium-term	Long-term
Automate process via introducing CDMs to remaining branches and integrate more services	We are looking forward to expand the regional presence by introducing new branches in Myanmar	Branch expansion beyond South Asian countries
Upgrade our existing branches to make more spacious and placed on convenience locations	Migrate to cloud-based platform to enjoy the latest technology and cost optimisation	Digitalise all functions of the financial services

Survey insights

CUSTOMER EXPECTATION VS PERFORMANCE ON LB FINANCE - LOANS



COMPARISON OF PERCEIVED PERFORMANCE OF LB FINANCE AND BANKS – LOANS



Study conducted by:
The Department of Marketing Management
University of Sri Jayewardenepura

Managing our
Human Capital

RELATED MATERIAL THEME

RELATED STAKEHOLDERS

WHAT IT INCLUDES

Our Human Capital refers to the strength of our employees including their health and well-being, expertise, experience, innovative capacity and attitude.

HOW IT ADDS VALUE

We strive to cultivate and harness the power of our employees' passion and commitment, differentiating ourselves through a dedicated people-centric approach to business as our employees to go above and beyond the call of duty.

MATERIAL DRIVERS

- Human resource management Page 99
- People management Page 100
- Talent management Page 102
- Employee engagement Page 103
- Health and safety Page 104
- Human resources accounting Page 104

3,618
TOTAL NO. OF EMPLOYEES

38%
FEMALE EMPLOYEES

Rs. 10 Mn
INVESTMENT IN TRAINING

1,407
NEW EMPLOYEES

38,832
TRAINING HOURS

733
EMPLOYEES WERE PROMOTED

Visit web page for our philosophy, Management approaches and SWOT analysis of Human Capital

https://sustainability.lbfinance.com/capital-management/

At LBF, we recognise Human Capital (our people) to be the key custodians of our business - the driving force of our competitive advantage and the defining factor of our success.

Niroshan Udage
Executive Director

Challenges	Disappointments
• Ensuring work-life balance • Improving employee retention and ensuring employee motivation • Enhancing productivity	• Low adoption to e-learning modules • High attrition rate

Improvements	Space for development
• Rs. 10.95 million invested in training • 12% increased in new female recruits • 'LBF New Business Idea', competitions carried out for innovative and new business ideas	• Encouraging collective enforcement to adhere to our desired organisational values and culture • Developing critical skills and succession planning to achieve long-term strategic objectives • Promote employee wellbeing at all levels

STRATEGIC RESPONSES FOR 2018/19

- **Assigning work that is realistic and achievable**
- **Blend of internal resources and external hires for important roles, based on:**
  - **Requirement of new expertise**
  - **Need for change in policies and process improvements**
- **Attractive benefit packages, motivating through engagement, recognition and promotion**
- **Linking performance with reward**
- **Promote employee health and wellbeing**

REFLECTING 2018/19

Key indicator	Our performance 2018/19	Priorities 2019/20
Focusing on further utilising our human capital to advance our business objectives to enhance stakeholder value	1,407 new recruitments made during the year	• Prioritise, monitor and implement key engagement initiatives to support the business • Focus on implementing a structured succession planning program • Improve employee communication, information and knowledge-sharing through effective utilisation of technology • Improving HR service delivery through appropriate policies and procedures, and establishing solid labour relationships
Enrich employee engagement practices	11 engagement activities during the year	
Promote a values-driven culture and energise a culture of reward and recognition	12% increment of benefit provided	
Ensure employee demographics are relevant	36% recruited out of the Western Province	

HUMAN RESOURCE MANAGEMENT

Our human resource management is based on three material aspects which provide a blueprint for the planning, governance and creating ethical culture for our people. These themes guide how we manage and grow our human capital to achieve LBF's overall vision.

HR planning

↓

HR governance model

↓

An ethical culture

HR Planning

Objective

Control attrition risk

Mechanism

HR planning is an integral part of our Operational Risk Framework. The main aim of the exercise is to ensure that we have the right people at the right time in the right position in order to execute our strategy and maintain LBF's growth momentum. HR planning is a comprehensive annual exercise that is based on four key pivots; manpower planning and budgeting, training needs analysis, performance management and succession planning. All other HR processes stem from these pillars.

HR governance

Objective

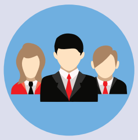
Create a foundation to manage the Company's Human Capital

Mechanism

LBF's Human Resources Department (HRD) headed by the AGM HR is the main body in charge of the Company's HR matters. The AGM HR reports directly to the Board on all key areas. The HRD is responsible for ensuring the Company remains fully compliant with all applicable labour laws and for benchmarking globally accepted

CREATING VALUE FOR OUR EMPLOYEES

Employees and intermediaries create value by supplying the necessary capacity, skills and expertise to deliver on our promises to stakeholders.



Value for employee

- Incentives linked to performance
- Career advancement through comprehensive development programmes
- Fringe benefits that recognise practical day-to-day employee needs

Value for LBF

- An appropriately skilled and motivated workforce
- Insights through diversity
- Lower employee turnover and therefore lower costs

Value for customer

- High service levels
- Products that meet their needs
- Responsible financial advice and compliant products and services

best practices for HR management. The duties of the HRD include developing strategies and providing services to support the management in implementing and monitoring a human resources policies and procedures to facilitate LBF's current and future needs.

An ethical culture

Objective

Build a culture that is underpinned by LBF's core values

Mechanism

As a financial services organisation, ethics and integrity are ingrained in our DNA and drive our strategy and business model. LBF's Board of Directors set the tone from the top which flows through the Company via the following policies and procedures that seek to encourage our employees to demonstrate the same commitment towards maintaining the highest standards of ethics and integrity in the course of their duties;

- The Code of Conduct for all employees
- The Code of Conduct and governance requirements for Board of Directors
- The Whistle Blower Policy
- Anti-Money Laundering and Terrorism Financing Risk Policy
- Anti-Bribery and Anti-Corruption Policy
- Policy on managing conflicts of interest

A violation of any of the above may result in disciplinary action under the Company's Disciplinary Action Policy.

PEOPLE MANAGEMENT

Recruitment and selection

↓

Remuneration and benefits

↓

Performance management

Recruitment and selection

Objective

Attract and retain the best-fit employees to the Company

Mechanism

Our recruitment process is designed to attract the most suitable candidate (either within or outside the Company) for a particular position and to do so in the most efficient and cost effective manner. We maintain a strict screening and evaluation process to determine not only skills and competencies but also ability of potential candidates to connect with our corporate value, culture and work ethics. A strategic and professional approach to recruitment and selection enables LBF to attract, appoint and retain employees with the necessary skills and attributes to fulfil strategic aim of the Company's values.

HRD provides an oversight for all recruitment activities, ensuring they are consistent with the pre-approved manpower plan. The HRD is also tasked with maintaining the Company's non-discriminatory approach and ensuring the recruitment process remains fair and equitable in line with our commitment to the principles of equality and diversity.

Accordingly, all vacant positions are advertised publicly and simultaneously notified internally as well in order to give existing employees the opportunity for lateral and vertical career mobility.

External Recruitment Process

- Head count planning
- Manpower needs and recruitment requisition
- Job posting
- CV sourcing and short listing
- Interview
- Job offer
- Appointment letter

Internal Recruitment Process

- Job posting
- CV short listing
- Interview
- Appointment to the new role

View more about the recruitment process

https://sustainability.lbfinance.com/capital-management/

Remuneration and benefits

Objective

Demonstrate industry leadership as an employer of choice

Mechanism

A key part of LBF's Employee Value Proposition is our industry competitive remuneration and benefits package (full time employees.

Our policy is to ensure that each employee receives fair, equitable, non-discriminatory pay that is in line with market standards. While firmly aligned to all statutory requirements, LBF's remuneration and benefit model is underpinned by three parameters: job profile, work performance and commitment to corporate values. Accordingly, all employees are entitled to the following benefits;

Employee benefits	2018/19 Rs. Mn	2017/18 Rs. Mn	2016/17 Rs. Mn
Salaries and other related expenses	2,289.61	2,034.81	1,798.76
Employer's contribution to EPF	214.90	188.58	162.96
Employer's contribution to ETF	42.98	37.71	32.59
Gratuity	63.09	44.68	37.10

Performance management

Objective

Reward high performers

Mechanism

As a responsible employer LBF strives to create an environment where all employees understand how their contributions towards the achievement of corporate goals can influence their personal rewards and career prospects. The key catalyst in this regard is our performance review process, which provides a vital link between the LBF's strategy and the goals and targets expected of individual staff members.

At least four weeks prior to the commencement of the financial year, managers begin working with their teams to develop goals and objectives for their respective business units in line with LBF's business plan. These are then cascaded into a series of qualitative and quantitative targets for each individual employee for the upcoming 12 months. At this point, due consideration is given to the employees' performance over the past 12 months along with their long-term career objectives.

While ongoing progress reviews are conducted on an informal basis, a structured bi-annual performance review mechanism is in place to measure employees' performance against targets. The formal mid-year review helps managers to clearly identify performance gaps and provide additional training and/or assign coaching and mentoring activities to realign such employees with their year-end performance targets. The annual performance review is conducted after the conclusion of the financial year with the results of this final review being used to determine annual increments and the annual bonus entitlement, as well as non-monetary and reward programmes to recognise specific achievements (eg: foreign tours). Over and above this high performers are earmarked for further development under LBF's training and development initiatives.

Our Human Capital strategy is based on four themes which provide a blueprint for the planning, sourcing, deployment and development of our people. These themes guide how we manage and grow our Human Capital to achieve our vision

TALENT MANAGEMENT

Our Human Capital strategy is based on four themes which provide a blueprint for the planning, sourcing, deployment and development of our people. These themes guide how we manage and grow our Human Capital to achieve our vision.

Identification of people's capabilities
↓
Talent management and mobility
↓
Culture and transformation
↓
Training and development

Identification of people's capabilities

Objective

Enable growth by building capabilities in line with business needs

Mechanism

LBF competes with the industry for talent and strives to offer employees mobility, flexibility and opportunity. We support career growth by progressing people through functions, customer facing units and geographies. LBF offers a range of development programmes designed to strengthen the group's talent pipeline. These programmes cover technical and management skills as well as the inter-personal skills required by the Company.

Talent management and mobility

Objective

Attract, develop, retain and deploy quality employees to realise their full potential

Mechanism

Talent and human resource management are strategic imperatives. Our Talent Framework has been aligned to the core capabilities we require to deliver customer centricity. By understanding the talent and capabilities we have, we can appropriately match these to critical roles in the organisation, thereby maximising employee potential and achieving our strategic goals.

Culture and transformation

Objective

Build a culture that is underpinned by the LBF values

Mechanism

Inclusiveness is at the centre of our culture. We have chosen to take the lead in this objective and are actively transforming LBF to a fully representative workforce. We believe that being widely representative creates a competitive advantage across our communities and markets.

Training and development

Objective

Provide relevant and timely learning opportunities

Mechanism

Our commitment to training and development is aligned with the expectation that all LBF employees should be competent and knowledgeable and maintain the highest standards of ethics in the discharge of their duties. We allocate ample resources to learning and development with the aim of sustaining a competent, professional and ethical workforce that will contribute to the success of Company. LBF's non-discriminatory approach ensures equal learning opportunities for all employees and hence no staff member will be excluded from learning on the grounds of gender, marital status, family status, religious belief, age and any other status protected by law.

We follow a 70:20:10 training model, where 70% is experiential on-the-job training, 20% through knowledge sharing and 10% through formal classroom training activities conducted mainly by in-house trainers.

All routine training activities (Level 01) are undertaken as per the annual training plan, of while special competency training is carried out on a "need basis" depending on the training gaps identified through the performance review process.

Moreover in line with our policy to promote life-long learning, we encourage our employees to pursue professional or academic qualifications (Level 02) that will support personal and professional growth.

Level 01 - Basic level

Training relating to the enhancement of skills for a staff member's current role, including internal and external courses providing technical or specialist training relating to the skills that enhance their capacity to perform their existing job role

Level 02 – Advanced level

Training leading to a professional or academic qualification, where employees are encouraged to pursue continuous professional development to keep abreast of the latest developments in the industry, macro, regulatory environment etc.

Level 03 - Experienced level

Management training, including supervisory skills and leadership development programs

DEVELOP LEADERS AS A SOURCE OF VALUE

At LBF, we believe it is critical that we develop the next generation of leaders to ensure the Company stays ahead in an increasingly competitive and technologically sophisticated environment. We follow a systematic approach to identify and grow our leadership pipeline. We ask all our staff about their career aspirations and focus on creating personalised leadership journeys and driving behavioural change to equip leaders at all levels with the capabilities required to execute LBF's business strategy into the future. We do this by:

- Developing specific leadership skills, qualities and behaviours at each leadership tier
- Align leadership development opportunities to LBF's values, strategic plan and performance management processes
- Providing potential leaders with a variety of level 03 learning opportunities, activities and pathways
- Continuously evaluate the outcomes of these learning activities to determine their effectiveness in building strong, well equipped leaders
- Providing additional support enable leaders to transition easily

Career mapping

Objective

Facilitate internal career mobility

Mechanism

The scope and scale of our business creates many opportunities for our employees to advance their careers within the Company. We support our employees through structured career mapping together with necessary training, coaching and mentoring to promote a high degree of all-round professional development that would drive career growth. In addition our employees have multiple opportunities to fast track their career through cross functional assignments, undertaking special projects, accepting job rotations and need-based business transfers, all of which will help them to develop their functional, managerial and leadership capabilities.

At LBF even entry level recruits (starters) have the opportunity to advance their career right from the beginning. The top 10 best starters who have performed consistently well during their first 12 months with the Company are identified and mentored to enable them to swiftly move on to the next stage in their career path.

EMPLOYEE ENGAGEMENT

Business engagement

Objective

Develop employees as business partners

Mechanism

We aim to keep our employees fully informed and engaged in our activities which will ensure they remain motivated and increase their commitment towards the Company's success. As per our leadership principles all managers are required to maintain continuous and ongoing dialogue with their teams in order to develop them as proactive business partners who share a keen interest in the Company's current and future direction. Moreover we maintain an Open Door Policy to enable LBF employees to directly reach out to any member of the Corporate Management or even the Managing Director to share their views.

LB 'Thuru Wawamu' project

We have a two-way knowledge sharing channel that enables employees to foster closer connections with their superiors and colleagues. A new initiative launched in the year under review was the 'LBF Business Idea' competition, an effort to gather productive and practical business ideas from employees, with the most innovative ideas being recognised and awarded accordingly.

Employee volunteerism

Objective

Align with LBF's sustainability philosophy

Mechanism

We expect to our employees to focus on more than just their day-to-day work and align themselves with LBF's broader sustainability vision. Our aim is to mould our employees as exemplary citizens who take their duty towards the nation very seriously. Premised on this, we continue to mobilise our workforce to give of their time and volunteer in the Company's community initiatives. We believe such initiatives help employees to find personal fulfillment, renewed appreciation for teamwork and gain increased satisfaction in the work they are doing to contribute towards the development of our country and its people.

BEST PRACTICES

Diversity and equal opportunity

Objective

Fair and equitable treatment of employees

Mechanism

At LBF, we believe that safeguarding the wellbeing of our employees also means creating a culture that respects and values each other's differences. As such we strictly advocate the principles of equality and diversity in everything we do. We execute this commitment across our business by maintaining;

- An inclusive workplace that embraces individual differences

- Equitable frameworks and policies, processes and practices that limit potential unconscious bias
- Equal employment opportunities based on capability and performance
- Awareness of the different needs of employees
- Attraction and retention of a diverse range of talented people.

Moreover we are committed to ensure all employees are treated with dignity and respect, including being remunerated fairly for the work they do, and given equal opportunity to learn and grow with the Company. Our responsibility in this regard includes creating a work environment free from behaviours including discrimination, harassment, bullying and victimisation and ensuring employees can come forward confidently to resolve concerns with their immediate managers. This is accompanied by social training to raise awareness among employees.

Employees also have access to a formal grievance procedure should they wish to escalate their grievances directly to the AGM- HR. In such instances the AGM - HR is required to conduct a thorough investigation and provide the employee with a fair and equitable resolution to his/her grievance. The entire process is then documented, with a summary report presented to the Managing Director.

Respect and Human Rights

Objective

Freedom of association and collective bargaining

Mechanism

While respecting the universal principles and norms that protect human rights in employment, as specified in the UN Global Compact (UNGC) and in the declarations of the International Labor Organisation (ILO), including, the employee right to the freedom of association and the right to engage in collective bargaining, LBF's strong relationships with employees has meant there is no need for any collective agreement.

During the year under review, the Company has not faced any type of industrial disputes.

Health and Safety

Objective

Maintain a zero injury workplace

Mechanism

Given the nature of our business as a financial services institution, LBF's employees work in a relatively low risk environment and as such are not exposed to any significant occupational health and safety hazards. Nevertheless, we have taken all reasonable and practical steps to ensure a safe working environment for our employees. In compliance with national safety standards, all our premises are fitted with standard safety equipment, with basic safety instructions prominently displayed at all locations. We remain proactive in monitoring the effectiveness of our safety systems and conduct regular safety drills as part of Business Continuity Plans (BCP). Moreover to enforce the safety culture, we continue to provide regular safety training, with all branches being covered at least once every year.

HUMAN RESOURCES ACCOUNTING (HRA)

Human Resource Accounting involves quantifying the value of the LBF's Human Capital (management and employees) in terms of its capacity to create value for the Company in the future. Essentially HRA is the process of identifying, measuring and reporting on the investments made on human resources that is currently not accounted for in the conventional accounting practices.

As per the HRA approach, the expenditures related to human resources are reported as assets on the balance sheet as opposed to the traditional accounting approach which considers personnel costs as an expense item in the profit and loss account.

Principle objectives and benefits of HRA

The aim of HR accounting is to monetise employee contribution to Company. This is achieved by ascertaining the Company's investment (cost of attracting, retaining, training, developing and maintaining) in its employees for a given period as against the expected ROI for the next few years.

As an important decision making tool this information allows the Management to monitor how effectively LBF's human resources are being utilised across the Company. It also provides a valuable benchmark to the investors interested in making long-term investments in service sector companies.

Visit web page for HR statistics

https://sustainability.lbfinance.com/capital-management/

HUMAN RESOURCE ACCOUNTING - PER EMPLOYEE HIGHLIGHTS

Operating income **Rs. 4.51 Mn** *Rs. 3.93 Mn (2017/18)*	Total asset **Rs. 37.69 Mn** *Rs. 35.11 Mn (2017/18)*	PBT **Rs. 2.13 Mn** *Rs. 1.88 Mn (2017/18)*
Operating cost **Rs. 1.54 Mn** *1.47 Mn (2017/18)*	Gross turnover **Rs. 3.98 Mn** *Rs. 3.45 Mn (2017/18)*	PAT **Rs. 1.39 Mn** *Rs. 1.23 Mn (2017/18)*
Operating profit **Rs. 2.69 Mn** *2.27 Mn (2017/18)*	Net operating income **Rs. 4.24 Mn** *Rs. 3.74 Mn (2017/18)*	PBT before salary **Rs. 1.50 Mn** *Rs. 1.88 Mn (2017/18)*

HUMAN CAPITAL IMPACTS ON THE OTHER CAPITALS

		Capital impact	Impacted strategic priorities
By attracting and retaining scarce technical and specialist skills, we are able to maintain/improve productivity levels and innovate around new technical solutions. In addition, investments in training and development build competencies, drive operational excellence and nurture the innovative spirit	Talent acquisition		
The LBF remuneration philosophy and framework form an integral part of the human resources strategy. Rewards strategies focus on entrenching a performance-driven culture which supports cost optimisation.	Performance driven culture		
Improving HR service delivery through appropriate policies and procedures and establishing solid community engagements	Empowering communities		

TRADE-OFFS IN OUR USE OF HUMAN CAPITAL

Understanding the trade-off	2018/19	Capital impact	Impacted strategic priorities
Our ability to invest in Human Capital is critical to our business and determines our ability to expand our customer base. However, we don't have an unlimited profitability, forcing us to make difficult choices about where and how to invest.	1,407 employees were recruited		
Given the high churning of employees and uncontrollable hike will impact LBF's bottom line	Personnel cost incurred Rs. 2,693 million		

BUILDING FOR THE FUTURE

Value creation for our Stakeholders

Short-term	Medium-term	Long-term
Training a workforce to work in a digitalised environment	Build a strong employer brand and emerge as one of the top employer of choice	Increase the depth and breadth of talent pool with role-based specialised training and development programs
Evolve an engaging and inspiring culture, based on mutual trust, respect, and accountability	Drive superior performance with differentiated reward	Further embed the process of identifying high potential employees and drive the individual career plan with more rigour

Mastering Our
Intellectual Capital

RELATED MATERIAL THEMES

RELATED STAKEHOLDERS

WHAT IT INCLUDES

Our Intellectual Capital includes our valuable brand, technology systems and knowledge-based assets such as licenses, software, procedures and protocols.

HOW IT ADDS VALUE

Our proprietary technologies in combination with our expertise, provide us a key competitive advantage that underpins our growth ambitions and help us generate the returns on investment we seek.

MATERIAL DRIVERS

- Our brand Page 107
- Information security Page 108
- Knowledge enhancement Page 109
- Digital journey Page 110

CREDIT RATING
A- (lka)
FITCH RATINGS

BEST FINANCIAL SERVICE PROVIDER 2018 (SLIM NIELSEN)

BRAND VALUE
Rs. 5,133 Mn
BY LMD

ISO 27001:2013
INFORMATION SECURITY STANDARD RECERTIFIED

7,274
LB E-CONNECT TRANSACTIONS

DEDICATED DIGITAL FINANCE UNIT

Visit web page for our philosophy, Management approaches and SWOT analysis of Intellectual Capital

https://sustainability.lbfinance.com/capital-management/

Execution is more important than the strategy itself. In a fiercely competitive environment, leveraging and consistently challenging our Intellectual Capital to remain relevant enables us to implement our strategy in the most effective and efficient way.

Mr. B D A Perera
Executive Director

Challenges	Disappointments
• Sustaining brand value • Enhance process efficiency • Information security	• High cost of investments limits the ability to frequently implement new technologies • Transition time from manual to digital processes along with change management issues involving employees

Improvements	Space for development
• Introducing a dedicated digital financial unit to enhance both customer and operational efficiency • Introduced ORACLE Fusion cloud financial system	• Enhance the accuracy of information by introducing the data warehouse • Introduce machine learning to everyday decision making process

STRATEGIC RESPONSES FOR 2018/19

- **Introduced a dedicated Digital Finance Service Unit**
- **Replaced manual processes via system automation**
- **Introduced unified customer database for efficient customer services**
- **Affirmed Information System Security with ISO 27001 Certification**
- **Introduced new system for the business efficiency, gold loan and IT**

REFLECTING 2018/19

Key indicator	Our performance 2018/19	Priorities for 2019/20
Introduced multipurpose Cash Deposit Machines	Installed 23 CDMs	Expand the CDM distribute by 10%
L B e-connect transactions	144% Transactions increased	Increase by 60%
Gold loan transaction processing time	Waiting time reduce by 60%	Reduce the customer waiting time up to 80%

OUR BRAND

Since the inception, the LB brand philosophy has centered on bringing to life the Company's 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 create shareholder value both in the short and long term". For the past many decades LBF has remained a strong and resilient force, unwavering in its commitment to the people of Sri Lanka. We have exercised strict control over the stewardship of our brand to ensure everything we have done over the years has been consistent with our core values; Excellence, Ethics, Professionalism, Transparency, Innovation and Quality. Accordingly we have conducted our operations in line with the highest ethical standards and in full compliance with all applicable regulations in the NBFI sector. At the same time we have progressively increased our investment in research and worked tirelessly to develop innovative ground breaking products and services that would give LB first-mover advantage in the market. We have also substantially improved our one-to-one customer engagement through the annual brand health study and more frequent mystery shopper surveys. Increasingly more emphasis has also been placed on deepening LBF's social media presence. In parallel, we intensified our training activities to imbue a more customer-centric mindset among all our employees at branch level.

The culmination of these efforts and the commitment of our employees, has enabled us to reach out to millions across the country. Having helped many generations of Sri Lankans to grow and prosper, the 'LBF brand' is one of the most respected and instantly recognisable brands in Sri Lanka today. Moreover our brand is valued at Rs. 5,133 million in Brands Annual 2019 by LMD.

Technology is changing the way we live our lives on a daily basis. It makes sense that we stay ahead of the game, actively pursuing digital financial services - creating future-ready innovative components that enhance our customers' experience and lifestyle.

The numerous awards and accolades we have received over the years and continue to receive testify to our iconic status. LBF was awarded the People's Financial Service Provider of the Year 2019 at the SLIM - Nielsen Brand Awards.

While our status as a premier brand gives LBF considerable leverage, sustaining this position in an increasingly competitive market continues to be a challenge. Taking definitive action to stay ahead of the curve we have sought the advice of the Global Brand Consultant Interbrand, to help restrategise our next moves. It has been suggested that we make some changes to our brand architecture to portray our futuristic, digital-driven theme while reinforcing LBF's solid reputed as a beacon of strength and stability in the NBFI sector. At the moment, we are in the process of fine tuning these suggestions to determine how best to position the brand in order to maximise our market advantage in the coming years.

People's Financial Service Provider of the Year (by SLIM Nielsen)	
Most Respected Entities 2018 (The Nielsen)	23rd
Most Valuable Consumer Brands in 2019 (By Brand Finance)	30th

INFORMATION SECURITY SYSTEMS

With technology evolving at an unprecedented speed, security threats too are growing at an alarming pace and becoming increasingly sophisticated. In such an environment, safeguarding our information and maintaining the integrity of our systems will crucially determine our competitive advantage, profitability, and the ability to maintain the trust and confidence of our stakeholders in the long-term. Therefore information security is a critical business function which calls for regular investments to upgrade security infrastructure along with continuous and ongoing updates to Company-wide policies and procedures to mitigate the risk during the course of normal business activity. The success of this process also depends on the expectation that all employees have an inherent responsibility to protect our information assets including confidential customer data and other Intellectual Capital owned by the Company.

The ultimate responsibility for safeguarding LBF's entire information ecosystem lies with the IT Steering Committee.

As part of the ongoing efforts by the IT Steering Committee to strengthen information security systems, the following initiatives were undertaken in the year under review;

- Carried out advanced security assessments, led by a network surveying and vulnerability assessment to identify the external and internal security via network surveying, port scanning, system fingerprint, service probing and security vulnerability scanning. A comprehensive firewall security assessment was also done to ensure the current firewalls are properly configured to provide adequate security and enhance network performance in daily business processes, while a cyber security drill was performed to evaluate the competency of the IT staff to successfully overcome a cyber-attack and train them on cyber security incident handling. Among the other notable developments was a wireless network security assessment to analyse the security of the Company's wireless network, followed by a post-assessment review to determine the effectiveness of corrective measures. We also began work on a comprehensive web application security vulnerability assessment, host discovery assessment and physical and environment security covering all the systems and facilities. Meanwhile to safeguard against an external cyber security attack, we implemented an Information Security Operation Centre (ISOC) to identify the possible cyber attacks or intrusion or threats which could have a business impact. The ISOC is an online monitoring system which works 24/7 to identify the current system vulnerability for possible attack or any security breach. Over and above this, we have also secured the services of a third party information security expert specialising in Financial Sector Computer Security Incident Response Team (FINCSIRT) which serves as a credible source to access the latest security vulnerability and threat information.

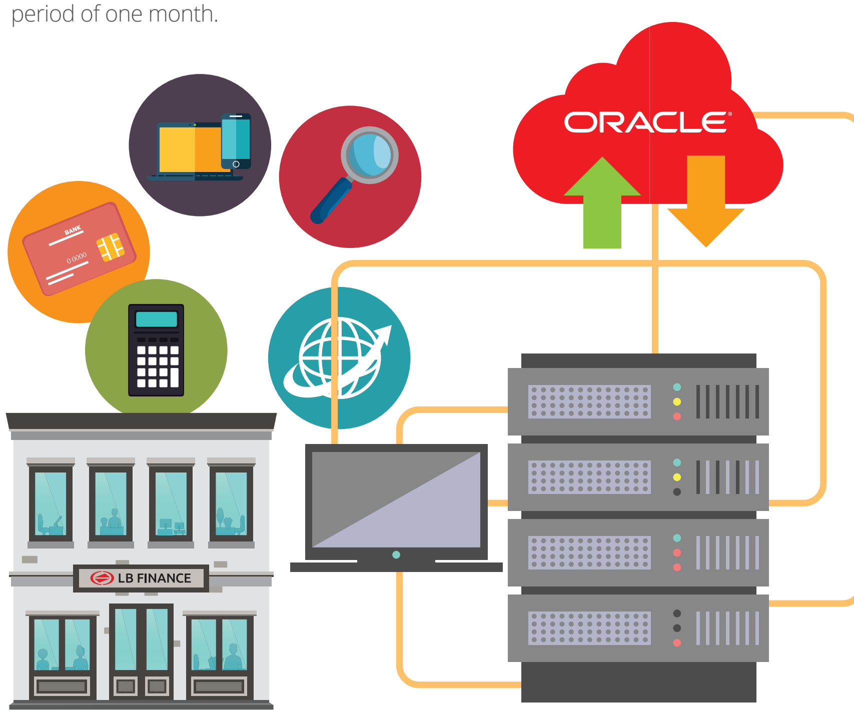
- Commissioned a Central Customer Data Base (Eclipse Project - Phase 1) to store front-end customer information from all core products systems. Equipped with advanced inbuilt data capture mechanisms, the system has the capacity to store large volumes of data that enables us to provide more personalised service across our product lines. Our due diligence procedures will also be greatly improved thanks to system-enabled tracking and monitoring of blacklisted customers. In addition the advanced functionality of the system has made it possible to establish a direct link to the Finance Houses Association of Sri Lanka database to help us to identify the blacklisted customers in other financial institutions as well. The system is designed to ensure the Company remains fully compliant with the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 at all times.

- Completed the re-certification of the ISO 27001:2013 Information Security Standard for the fifth consecutive year.
- Ran a specially designed campaign to educate employees on email security, followed by a mock ransomware mail to determine their responsiveness and educate the user based on their behaviour.

KNOWLEDGE ENHANCEMENT

As a financial services organisation, our knowledge-based systems make a vital contribution towards improving the efficiency of our day-to-day operations. Continuous investments to enhance our knowledge-based systems is therefore an obvious priority. In the year under review, we made some major strides in this regard, most notably;

- **Roll out of the 'ORACLE Fusion' ERP system** - LBF became the first financial institution in South Asia to adopt the globally-renowned 'ORACLE Fusion' ERP to support 100% LBF's back-end processes including finance procurement and inventory management. Aside from the significant improvement in process efficiency, being a fully-fledged ERP system running on the cloud, 'ORACLE Fusion' also helps to lower infrastructure cost which would otherwise have been incurred on hardware, software and maintenance.
- **Gold Loan system (Eclipse Project - Phase 1)** - The project which commenced in the previous year was completed and the new module to support our Gold Loan operation went live in August 2018, with the immediate improvement in service delivery times enabling LBF's Gold Loan unit to achieve record results for the financial year. We have also enabled Gold Loan payments to be made through CDMs, which has reduced the customer queuing time at the counters. Moreover being a fully digital interface, the entire Gold Loan operation has been made paperless, which has led to a reduction in the paper consumption in that segment. The launch of the Gold Loan module marks the first of a series of similar planned initiatives to modernise all core business lines under the Eclipse Project.
- **Disaster Recovery System (DRS)** - To ensure our systems are fully equipped to support our growing business, we invested in upgrading our DRS capacity by 50% and strengthening its performance capability. As a result we have been able to reduce the DRS migration time to 15 minutes and ensure 99.99% availability at all times. The test run conducted following the upgrade saw all activities being run on the DRF for a period of one month.
- **Data Analytics** - With the central customer data base (discussed above) providing the foundation for LBF to begin using data analytics, a new dedicated team was carved out from within the IT department to work with consultant data scientists to develop appropriate data analytic models to assist in the development of market-responsive new products and improve customer service. As a pilot project, the team was assigned to focus on developing suitable models for LBF's deposit segment.
- **Digital Finance Services (DFS)** - Established in the early part of 2019, the DFS seeks to achieve two clear objectives:
  1) Develop a digital financial services model to enable LB to widen its Island-wide reach and,
  2) Explore opportunities to improve the versatility of core products through advanced digital solutions. Focusing on achieving the first objective, work began on developing a digital wallet, which would serves as a highly-functional tool to facilitate cash transactions between customers and merchants. The product remains at the development stage as at end March 2019.



Our Intellectual Capital consists primarily of a range of interconnected components knowledge, brand value, information power, ethics and corporate culture, all of which serve as the foundation for the LB brand promise.

LBF DIGITAL JOURNEY

2011

- Fully-fledged end-to-end core financial application

2012

- Savings accounts with ATM integration and SMS alert on transactions

2013

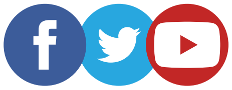
- Paperless boardroom initiative
- Introduction of VISA debit card with added security features

2014

- SLIPS integration
- ISO 27001:2013 Certification

2015

- Social media marketing and introduction of daily collection loans system



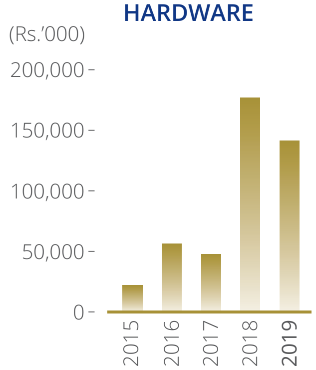
2016

- Launch of LB e-connect an online financial platform
- Mobile-based microfinance solution to cater to people who do not have access to banks, ATMs, etc.

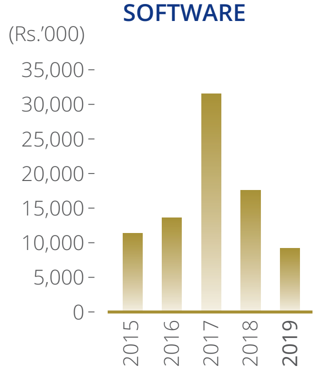
2017

- Introduction of LBgiftstore.lk - an online e-commerce site
- CEFT integration for LB e-connect customers

ICT INVESTMENT - HARDWARE



ICT INVESTMENT - SOFTWARE



2018

- Introduced Eclipse Gold Loan system
- Installed Cash Deposit Machines (CDM) technology
- Rewamped sustainability website with new look
- Introduced e-learning modules
- Introduced ORACLE Fusion cloud financial system,the first finance company in South Asia to do so
- Introduced Gold Loan and leasing payment via CDM
- Implemented paperless Gold Loan transaction process

2019

- Started new digital financial services for dedicated IT Innovation
- Implemented geo-tagging technology
- Introduce instant credit approval via mobile app
- Introduce digital wallet
- Introduce value-added service via CDM
- Introduce dedicated switch for ATM transactions
- Launch Eclipse credit module
- Introduce paperless credit approval process
- Implement machine learning technology for fixed deposit module
- Introduce NFC enable debit card
- Migrate the current local host disaster recovery system to cloud-base hosted to a dedicated data centre managed by Sri Lanka Telecom

2020

- Implement Artificial Intelligence technology for leasing module
- Introduce Cash Recycle Machines (CRM) for cash withdrawals
- Introduce digitalised face recognition for fraud detection

INTELLECTUAL CAPITAL IMPACTS ON THE OTHER CAPITALS

		Capital impact	Impacted strategic priorities
Investment in ICT development	Enhance process efficiency		
Started digital financial services	Digital mediums		
Introduced Gold Loan and leasing payment via CDM technology	Encouraging customers		
Re-certified ISO 27001 :2013 Information Security Standard	Quality of the information		

TRADE-OFFS IN OUR USE OF INTELLECTUAL CAPITAL

Understanding the trade-off	2018/19	Capital impact	Impacted strategic priorities
Moving to the digital branch concept will require extensive system development covering both back-end and front-end. This means investing in new technologies (Artificial Intelligence or Data Science), automatically leading to a reduction in the need for manual operations.	We started our first digital financial service unit		
Improve IT infrastructure and system development to improve operational efficiency within the Company. However, we don't have unlimited profitability, forcing us to make difficult choices about where and how to invest.	We invested Rs. 9.21 Mn in IT software and services		

Systematically transform the Company's Intellectual Capital in order to retain brand leadership in the NBFI sector and thereby position LBF among the top 10 brands in Sri Lanka.

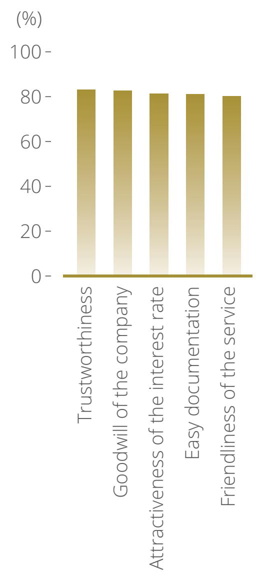
BUILDING FOR THE FUTURE

Value creation for our stakeholders

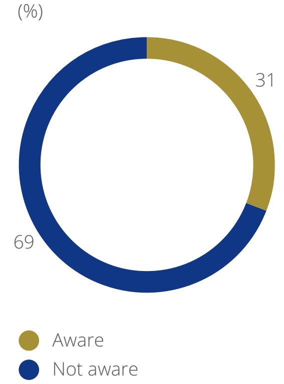
Short-term	Medium-term	Long-term
Introducing Digital Platforms • Introduce Near-Field Communication (NFC) enabled debit cards, offering maximum protection against skimming or cloning of a card to prevent counterfeit transactions • Perform the credit evaluation process via mobile application • Integrate new budgeting and profitability management into the ORACLE Fusion • Enable geo-tag for customer identification • Increase the LB ATM card access points via dedicated ATM switch API	**Business Automation** • Automate the internal approval flows to reduce credit approval time • Migrate to a paperless environment by automating the back office function • Robotic Process Automation (RPA) to take over routine work	**Moving to Artificial Intelligence** • Enhance the decision making via introducing data analytics and artificial intelligence

Survey insights

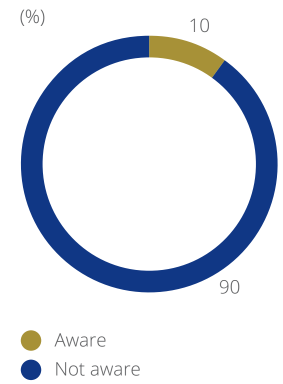
CUSTOMER CONSIDERATION FOR DEPOSITS OF LBF



AWARENESS OF LB CDMs - NON-CUSTOMERS



AWARENESS OF LB E-CONNECT - NON-CUSTOMERS



Study conducted by:
The Department of Marketing Management
University of Sri Jayewardenepura

Expanding on Our

Social and Relationship Capital

RELATED MATERIAL THEMES

RELATED STAKEHOLDERS

WHAT IT INCLUDES

Our social and relationship capital involves the relationships we have created and nurtured with our stakeholders as well as the inter-relationships between them that enable greater value creation for all.

HOW IT ADDS VALUE

Our active engagement with all our stakeholders creates sustainable value and helps us to achieve our objectives in a mutually-beneficial way.

MATERIAL DRIVERS

- Creating value for our customers Page 115
- Business relationship for business continuity Page 120
- Addressing social well-being priorities Page 122
- Resource utilisation Page 123

OVER **600,000** CUSTOMER BASE

29 COMPREHENSIVE FINANCIAL SOLUTIONS

Rs. 10 Mn INVESTED IN COMMUNITY DEVELOPMENT PROJECTS

Rs. 4,508 Mn PAID TO THE GOVERNMENT AS TAXES

14,195 EMPLOYEE VOLUNTEER HOURS

Visit web page for our philosophy, Management approaches and SWOT analysis of Social and Relationship Capital

https://sustainability.lbfinance.com/capital-management/

LBF is embedded in the community. As a result, we see social and relationship capital as the link between our business and society. We are able to create and identify new opportunities to deliver enduring value and mutual benefit to the societies in which we operate.

Mr. Ravindra Yatawara
Executive Director

Challenges	Disappointments
• Evolving needs of customers • Addressing stakeholders' queries and potential complaints • Finding the right partnerships that can bolster value creation for the Company in the process of serving the larger community	• Repeat business with existing customers • Customer switching

Improvements	Space for development
• Rs. 26.9 million invested in CSR initiatives • Introduced digital financial services to meet customer needs • 13 outlets were relocated to enhance customer convenience	• Cross selling opportunities • Finding the right partnerships/business relationships/community engagements that can bolster value creation for the Company in the process of serving the larger community

STRATEGIC RESPONSES FOR 2018/19

- **Better and faster customer service**
- **Earnings disclosure sessions with analysts, increased engagement through social media**
- **Partnerships with multilateral organisations to innovate financing solutions for underserved segments**

REFLECTING 2018/19

Key indicator	Our performance 2018/19	Priorities 2019/20
Customer loyalty	• Increased customer base by 11.42% • FD renewal ratio 77.85%	• Offering tailor-made financial solutions for untapped markets within and beyond the country
Community development	• Investment in community development projects Rs. 10.46 million. • Appointed CSR ambassadors in various regions of the country to execute CSR vision of LBF	• Providing training and guidance programmes in different regions of the country to develop youth and woman entrepreneurs • Establishing a five year community development strategy and a policy for the organisation
Enhanced business partnerships	30 key business partners	• Attracting high quality business partners to ensure uninterrupted supply chain activities

OFFERING MORE VALUE THAN EXPECTED - UNDERSTAND OUR CUSTOMERS' NEEDS

We deal with the most important things in human life – peoples' hopes, dreams and their moments of most profound human vulnerability.

Sumith Adihetty
Managing Director

MATERIAL DRIVERS - CUSTOMERS

Offering more value than expected
Page 115

Diversifying our product offerings
Page 117

Broadening our channels to market
Page 117

Ensuring trust and safety
Page 118

Customer relationship
Page 119

CUSTOMERS

CREATING VALUE FOR OUR CUSTOMERS

Why customers are important

The continuity and success of our business depends on our customers. Hence it is critical that we retain existing customers and acquire new ones. This means putting the customer at the centre of everything we do.

Value for customer

- Customised products to satisfy every financial need
- Investment products that provide retirement income and meet savings goals
- Responsible and objective financial advices

Value for LBF

- Income generated through lending activities
- Access to funds through deposit mobilisation activities
- Ability to earn fee-based income

Value for society

- Ensure financial well-being
- Increased national savings
- Enhanced trust in the financial services industry

As a financial services institution, our business is essentially based on trust. The degree of trust our customers have in our brand will determine the success of our Company. It is why we strive to go above and beyond our mandate to provide financial solutions, and deliver not just what our customers expect from us but something much deeper and more meaningful - the promise to be the trusted financial partner for everyone, our customers at every stage of their life journey. We reinforce this commitment through the following customer trust principles;

- We will be courteous and helpful at all times
- We will be fair and open in resolving our customers' issues
- We will be flexible and practical in making prompt decisions that affect our customers
- We will use feedback of all types to enhance our customers' experience.
- We will respond to customer issues promptly by resolving them as often as possible with our front-line staff, or at the point of origin, where appropriate.
- We will make decisions based on the best long-term interests of our customers.
- We will maintain adequate measures to safeguard the interests of the customer at all times

To help us deliver on these principles, we expect our customer in turn to provide constructive feedback to let us know how we can improve our services.

Customers are increasingly demanding that businesses understand them better and use already received information to provide better service. Interactions with our customers from a Point-Of-Sale (POS) device, an ATM, internet banking or in a branch, are opportunities to understand them better. Harnessing this information allows us to better tailor customised solutions, which meet their needs at the right moment.

Survey insights

University of Sri Jayewardenepura

We enhance our understanding of these needs across the customer segments through our program of annual customer satisfaction and customer sentiment surveys. These studies provide us with both quantitative and qualitative information, which give us a deeper insight into what our customers preferences are today and what they want tomorrow and into the future.

The surveys target responses in four defined areas:

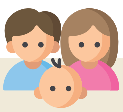
CUSTOMER SATISFACTION	PRODUCT AND SERVICES
BUSINESS PARTNER RELATIONSHIP	EMPLOYEE SATISFACTION

DIVERSIFYING OUR PRODUCT OFFERINGS

Customer segmentation

Customer segmentation is a tool that we have been using for some time now in order to connect with our customers on a more granular level. We have found that clear segmentation helps to better understand the customer lifecycle and predict customer behaviour, which in turn goes on to support our efforts to improve the relevance of our product offerings and maintain appropriate customer service strategies for each separate segment.

In our present business context, we have identified six critical customer segments:

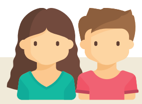


Kids/Teenagers 01-18

Children are the custodians of the future.

Nurturing their hopes and dreams in the right way is the key to a stable future.

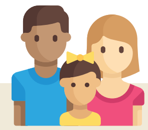
Focus product: 'LB Little Heroes'



Millennials 19-29

Millennials are focused on life experiences and as such express a strong skew towards investment and retirement products

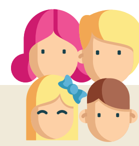
Focus products: Personal loan, leasing and savings products



Young families 30-39

Young families are often under financial pressure brought on by lifestyle aspirations including; bigger homes, family vehicles, etc.

Focus products: Leasing, mortgage loan and savings products



Established families 40-55

Balancing work commitments, children's education expenses and retirement planning is difficult, highlighting the need for flexible products to accommodate unplanned expenses.

Focus product: Education loan and savings products

Mature well-off 55-60

Mature, financially-stable customers who focus on a higher quality of life and planning for their retirement.

Focus product: FD products and savings products

Senior Citizens 60+

Seniors with the need to maintain the standard of living they have worked so hard for and expect secure product returns.

Focus products: Senior citizens' FD and savings products

We structure our core business activities and processes to develop solutions that are best suited to support our customers through life. LB products also come with the assurance of outstanding customer experiences, privacy and security.

Market leading investment products

During the financial year we enhanced our investment product suite to respond to the market. Please refer page 198 to 207 of this report to understand how we are delivering our strategy through our business segments.

BROADENING OUR CHANNELS TO MARKET - DELIVER PRODUCTS AND SERVICES

The ongoing evolution of financial services gives our customers a choice from a range of relevant channels, suited to their individual lifestyles and needs. LBF's multi-channel framework provides customers with a diverse range of platforms to choose from, ranging from face-to-face interactions to more sophisticated technology-based AI solutions. Given the nature of our business, interacting with customers is an important part of how we build trust. We have invested in extensive servicing capabilities to maintain proactive and reactive.

Our Sri Lankan distribution diversified and multi-channelled

127
Branches

36
Gold Loan centres

347
Experienced marketing officers

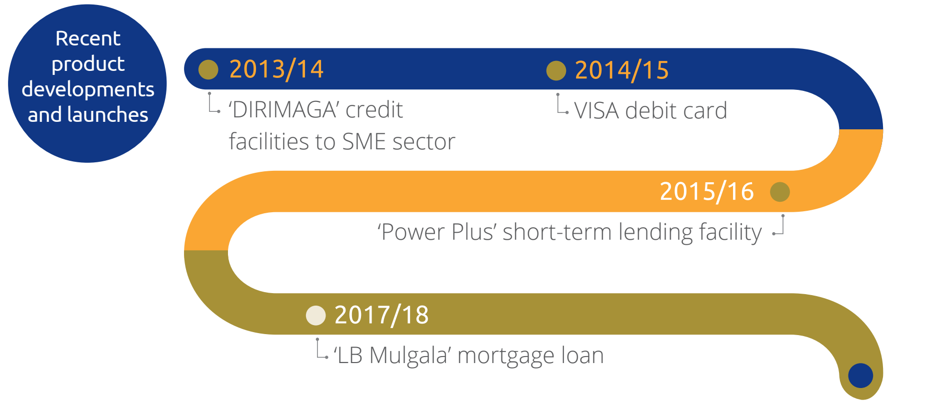
271
New employees recruited into our sales force

3,618
Dedicated employees

communication with our customers. Our sales force is a key enabler in one-to-one communication, while our internet, mobile and call centre capabilities drive our mass communication activities.

We continue improving customer experience by simplifying processes, reshaping our branch network and investing in our digital channels. In addition, we focus on providing quick resolution to queries raised by our customers and remain firmly committed to continuously improve our customer complaint handling and dispute resolution processes.

Our trust principles extend to the new product development process as well, where we ensure adequate administration and service support are in place when products are launched. Risk officers rigorously scrutinise specs of each new product along with a thorough investigation of the support processes involved to ensure consistent delivery on the LB promise. Ahead of each product launch, we also conduct extensive training for our staff regarding product information and provide them with relevant sales support tools to assist them to improve their capacity.



We are focused on simplifying the way we interact with our customers to eliminate duplicated effort, manual intervention and fragmented processes.

2018/19
Digital financial services

Fulfil our promises

Fundamental to our customer promise is the assurance of responsible financial products and services. At a minimum this means ensuring full compliance with all legal and regulatory requirements applicable to our business. LBF however, goes beyond three minimum requirements and voluntarily undertakes to abide by accepted industry norms and best practices that safeguard the interest of the customer at all times.

Accordingly we have now taken steps to measure the environmental and social impact of all new products.

Principle	Our Responsibility
Customer accountability	Own the issue and don't pass the blame
Customer first	Consider the customer's needs and wants first
Simple, clear and transparent	Communicate in clear and uncomplicated language
Continuous improvement	Continuously improve our products, services and channels in line with customer expectations and changing needs
Monitor and reporting	Identify gaps and initiate appropriate corrective action

ENSURING TRUST AND SAFETY

Data management

Data management is fundamental to our trust principles. Standardising our data management is an area that we have begun focusing on very seriously in the recent past and have been actively looking to benchmark globally accepted best practices in this area.

Data privacy, customer privacy and information security

We recognise the importance of our customers place on privacy and the security of their personal information and our goal is to protect the personal information we receive through every customer interaction, be it over the telephone, in our lobby, at one of our ATMs, or on the Internet. As a financial institution, we comply with all national information security regulations and have developed strict policies and procedures to safeguard the personal information of our customers. Accordingly we do not disclose any nonpublic personal information about our customers, former customers, and website visitors to anyone, except when mandated by law. We restrict employee access to sensitive personal information to a "need-to-know" basis and maintain several layers of physical, electronic, and procedural controls to safeguard personal information of our customers. Furthermore we educate our employees about the importance of confidentiality and customer privacy and take appropriate disciplinary measures to enforce employee privacy responsibilities.

In 2018/19, we consolidated our security and fraud prevention operations, integrating investigations and enhancing the quality of our decision making while mitigating risks. In the context of fraud prevention, we continue to educate our customers regarding the risks and request them to be vigilant and conduct their own due diligence protocols. For example, we constantly inform our customers never to share their credit/debit card PIN with anyone, even if the caller claims to be a LBF employee.

CUSTOMER RELATIONSHIP

Brand trust and awareness

We believe that being a responsible financial institution is about more than appearing trustworthy. It is about genuinely earning the trust of customers by demonstrating our commitment to reliability. In this context, our strength lies in our robust value proposition that encompasses diverse investment, financial and value-added product lines as well as our commitment to maintain a branding and customer awareness strategy based on clarity and transparency that puts the interests of our customers above all else. As part of this commitment, we have laid out clear guidelines on responsible business practices that our sales teams and frontline staff marketing officers should follow during their interactions with customers. These guidelines are reinforced through regular training. These measures have ensured LBF has not been subject to any fines or penalties regarding anti-competitive behaviour or non-compliance with monetary authority regulations.

Customer experience

An unparalleled customer experience is at the heart of LBF's business strategy and a central part of our brand promise to customers. We continue to make significant investments to enhance the customer experience, to ensure we are there for our customers when, where and how they need us. In an effort to keep improving the experience we regularly measure customer experiences. We seek feedback through multiple channels to understand customer needs and then use these insights to drive performance improvements.

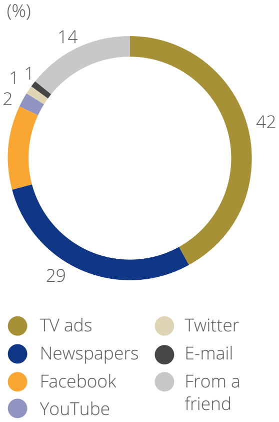
Call centre measures

We have four dedicated call centres (Recovery - Delkanda, Gold Loan - Jaffna, General - City Office, Mount Lavinia) implemented for handling customer inquiries and complaints. Any inquiry or complaint could be raised by dialling 011-2 200 200. Calls taken after office hours are recorded and directed to call centre agents the next day. Collectively all four call centres are manned by 64 fully-trained personnel. LBF dedicated call centre agents dealt with nearly 1,009 complaints in 2018/19 and 954 in 2017/18, resolving 100% of cases to the complete satisfaction of our customers.

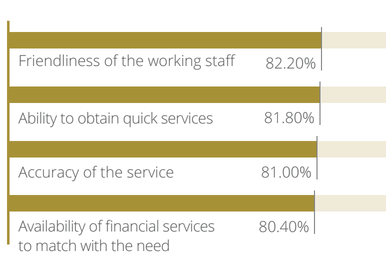
We continue to upgrade the call centre IT infrastructure and in the year under review invested in an interactive voice response system that allows the customer to receive automated responses to the more basic of queries in a more timely manner. The CMU tables a report to the Managing Director at the end of each month summarising the nature of complaints received, the action taken towards complaint resolution as well as the steps taken to prevent recurrence in the future.

Survey insights

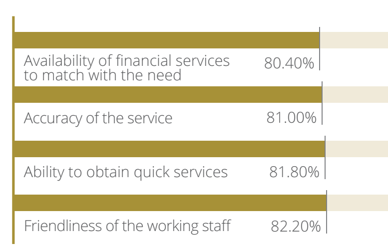
MODE OF SPREADING AWARENESS



CUSTOMER CONSIDERATIONS FOR DEPOSITS OF LBF



MEASUREMENT OF CUSTOMER SATISFACTION OF L B FINANCE



Study Conducted By:
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University of Sri Jayewardenepura

Outcome from customers

Rs. 83.21 Bn
Deposit base

Rs. 27.36 Bn
Interest income received

Rs. 113.43 Bn
Loans and advances

Rs. 12.36 Bn
Interest paid to depositors and lenders

BUSINESS PARTNERS

CREATING VALUE FOR OUR BUSINESS PARTNERS

Why business partners are important

We recognise that our business partners are essential to our business and, therefore, strive to build mutually-beneficial long-term sustainable relationships with them.

Value for business partners

- Quick settlement of dues
- Possibility to establish long-term business relationships
- Opportunities for new entrants

Value for LBF

- Quality business material
- Sustain business continuity
- Leverage on new technology for more cost effective solutions

Value for society

- Enhances the service quality of the Company
- Improves trust in the financial services industry
- Supporting new entrepreneurs

MATERIAL DRIVERS - BUSINESS PARTNERS

Supply chain management
Page 120

Diversified business partners
Page 120

Strategic partnerships
Page 121

SUPPLY CHAIN MANAGEMENT

Procurement of goods and services

With the exception of IT, LBF's general procurement process is managed centrally by our Administrative department. It is the duty of the Administrative department to identify and develop sustainable supplier relationships that would ensure procurement activities are fully streamlined with the requirements of each business unit.

The supply chain is composed of three phases: pre purchase, purchase and post purchase.

View web page for supply chain management

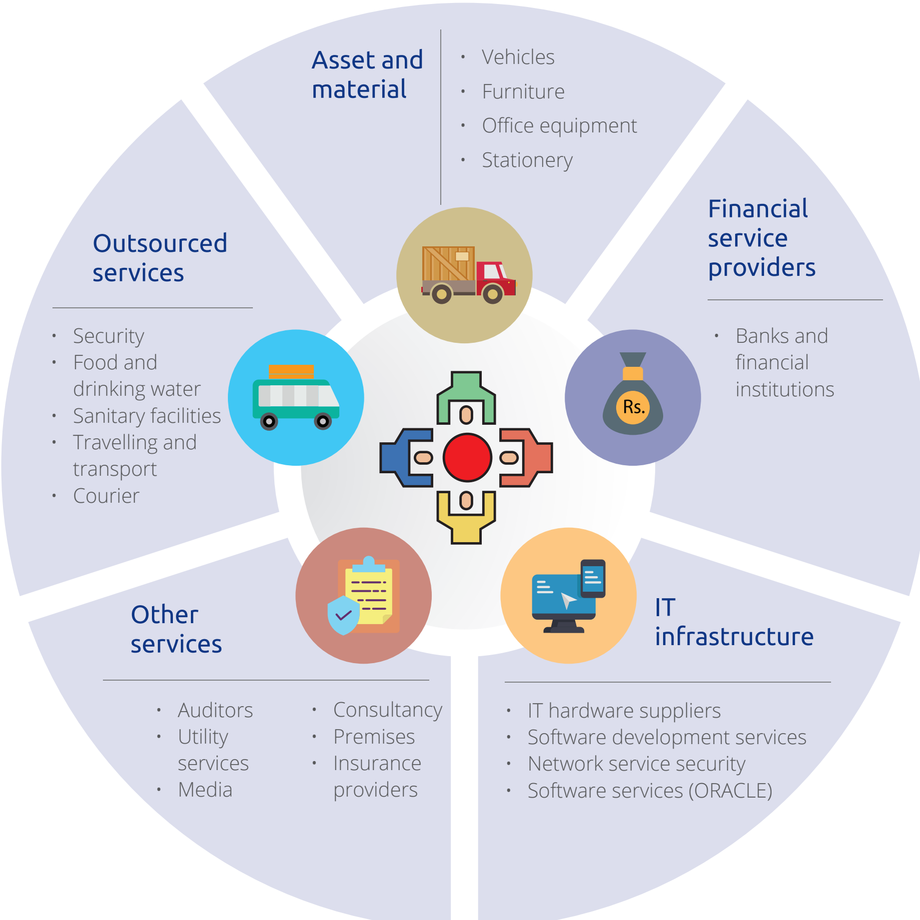
https://sustainability.lbfinance.com/capital-management/

DIVERSIFIED BUSINESS PARTNERS

Being a large financial institution with multiple products and business lines, we deal with a large number of suppliers. For ease of management, our suppliers are broadly categorised based on the degree of functional support they provide to LBF.

Business partner base and spending

Financial Year	2018/19
No. of business partners	30
Payment to business partners (Rs. million)	277.63



We know that our business partners are critical to our business and without them, we would not survive. Our business partners want their expectations not only met, but also consistently exceeded.

Business partners get-together events

STRATEGIC PARTNERSHIPS

LBF maintains strict procurement guidelines that form the basis of building strategic partnerships with our suppliers and service providers. It creates a level playing field to ensure that all suppliers are treated equally and fairly throughout their relationship with LBF. We have made it mandatory that all suppliers be screened as per the procurement guidelines in order to ensure that all those whom we deal with are fully aligned with LBF's standard operating procedures and code of ethics.

Business partner engagement

We maintain a separate supplier engagement agenda to strengthen our relationships with suppliers and business partners. In the year under review supplier events conducted which saw the participation of LBF's suppliers/business partners.

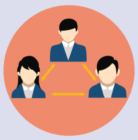
In the interest of mutual benefit, we also support our suppliers and business partners in CSR and other events they may organise from time to time.

COMMUNITY

CREATING VALUE FOR OUR COMMUNITY

Why community is important

We believe that empowered communities are the foundation of a strong nation. Premised on this LBF's community strategy is driven by the desire to serve our country and led by our efforts to tackle the key priority issues outlined in Sri Lanka's national development agenda. Ultimately our aim is to assist Sri Lanka to fulfil its commitment towards the 2030 Agenda for Sustainable Development as outlined by the UN Sustainable Development Goals.



Value for community

- Reduced inequalities
- Sustainable communities
- Development of the rural economy

Value for LBF

- Improved brand equity
- Increased brand recognition and awareness of products and services
- Creating a pool of future potential stakeholders

Value for customers

- Association with a trusted financial partner
- Ability to benefit from sound investment advice
- Enhanced trust in the financial services industry

MATERIAL DRIVERS - COMMUNITY

Knowledge and beyond
Page 123

Share expertise
Page 124

Build partnerships
Page 124

Financial assistance
Page 125

How our material matters affect sustainability development goals

Material Themes	SDG Goals 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Sustainably growing revenue	✓							✓									
Risk and capital management								✓				✓					
Delivering appropriate shareholder returns																✓	
Innovation									✓								
Information security									✓							✓	
Technological advancement									✓								
Industry trends								✓									
Corporate governance												✓				✓	
Ethics and transparency													✓			✓	
Customer satisfaction																	
Brand and reputation								✓									
Global expansion								✓									✓
Financial education and inclusion				✓						✓							
Corporate citizenship											✓						
Supply chain management												✓					
Diversity and employee engagement										✓							
Occupational health, safety and well-being			✓														
Retention, training and development								✓									
Compensation and incentives	✓							✓									

KNOWLEDGE AND BEYOND

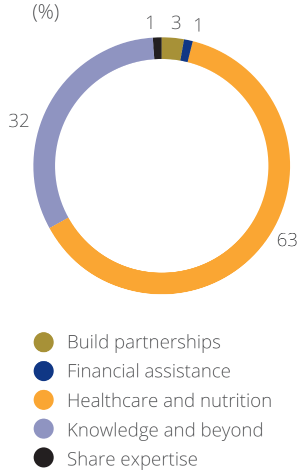
Access to education

LBF's CSR strategy prioritises access to education with the aim of eliminating the persistent knowledge disparity that exists in Sri Lanka. We believe a quality education at primary, secondary and tertiary levels will lay the foundation to reduce inequalities and pave the way for sustainable socioeconomic development in the long-term.

Furthermore, as a responsible financial institution, we feel we have a bigger role to play in improving financial literacy among the wider community which in turn would support the creation of self-sustaining communities with the capacity to fuel economic growth.

CSR COST DISTRIBUTION

(%)



Rs. 26.95 Mn
Invested in CSR initiatives

548
Employees engaged

14,195
Employee volunteer hours

Intervention area	Primary education	Secondary education	Tertiary and post-tertiary	Consumer education
Description	• Provision of educational materials • Infrastructure development	• Ordinary Level examination support seminar series focusing on science and mathematics subjects • Island-wide quiz competition to enhance students' knowledge on the stock market	• Talent show for University students • Workshop and inter-university competition on entrepreneurship skill development	• Social media posts for financial literacy • SMS business updates
Achievements	• 14 schools received educational materials • Infrastructure development of 2 pre-schools	• 1,100+ students participated in 15 seminars held across the island • 75 Schools participated Quiz competition	• 500+ contestants from 16 universities participated in the inter-university talent show • 20 university teams participated in the competition with a total of 20 business plans being submitted	• 10 social media post uploaded • 13 business units were sent SMS updates
Employee Volunteerism	• 42 employees voluntarily participated • 331 employees' volunteer hours spent	• 66 employees voluntarily participated • 1,568 employees' volunteer hours spent	• 6 employees voluntarily participated • 124 employees' volunteer hours spent	• 6 employees voluntarily participated • 24 employees' volunteer hours spent
2018/19 Expenditure	**Rs. 90,000**	**Rs. 2,492,600**	**Rs. 500,000**	**Nil**

SHARE EXPERTISE

Youth empowerment

Youth are the future of our nation and empowering them will help lead our country's growth trajectory in the years to come. At LBF we maintain a structured agenda to provide the necessary guidance and support to mould a new generation of innovators, business professionals and corporate leaders.

Intervention area	School children	School leavers	Graduates
Description	• Providing career guidance to Advanced Level students through seminars that focus more job-oriented education	• Providing training opportunities for school leavers and post-training employment opportunities within LBF	• Providing internship opportunities and management trainee opportunities to young graduates
Achievements	• Career guidance seminars were conducted for 230 students in North Western region	• 236 school leavers were trained	• 48 internship opportunities provided for undergraduates • 13 management trainees recruited and trained
Employee volunteerism	• 8 employees voluntarily participated • 52 employees' volunteer hours spent	• 7 employees voluntarily participated • 214 employees' volunteer hours spent	• 10 employees voluntarily participated • 120 employees' volunteer hours spent
2018/19 Expenditure	**Rs. 40,250**	**Under the training and development cost**	

BUILD PARTNERSHIPS

We have come to understand that strategic partnerships with like-minded institutions can bring synergies that greatly enhance the impact of our community initiatives. As such, we seek to forge appropriate value-adding partnerships from time to time, depending on the scope and scale of the projects that we undertake.

Intervention area	Government institutions	Charity organisation	Public awareness
Description	• Building partnerships with Government institutions to increase the quality of life of the general public. The Government institution may be schools, hospitals, State universities, etc	• Partnered with Colombo friend-in-need society and provided free artificial limbs for financially-disabled citizens • Partnering Ruth Children's Home, a non-profit organisation for providing IT literacy to residing children	• Providing awareness of Non-Communicable Diseases in Polonnaruwa region
Achievements	• 500+ university students participated in the inter university talent show ('Chathurmana') • 9,500+ trees planted in State organisations • Rs. 72,000 spent on improving infrastructure facilities of MOH office Thamankaduwa	• 12 artificial limbs distributed • 40 children participated in IT literacy	• 200+ people participated in awareness building programmes
Employee volunteerism	• 10 employees voluntarily participated • 92 employees' volunteer hours spent	• 20 employees voluntarily participated • 280 employees' volunteer hours spent	• 13 employees voluntarily participated • 94 employees' volunteer hours spent
2018/19 Expenditure	**Rs. 572,000**	**Rs. 396,000**	**Rs. 25,000**

FINANCIAL ASSISTANCE

We continue to provide direct financial assistance in line with our commitment to undertake philanthropic activities for the benefit of the community.

Intervention Area	Low privileged state institutions	Individuals	General Public
Description	• Assistance provided to the Eastern Province Cancer Care Centre • Helping Commando basketball team • Provide assistance and guidance to a rehabilitation centre at Rumassala	• Providing financial assistance to conduct surgical treatment for a child from a low-income community	• Ramazan Sponsorship
Achievements	• Rs. 1,022,903 donation to purchase furniture for the Eastern Province Cancer Hospital • Rs. 141,850 provided to the Commando basketball team	• Rs. 124,000 donation for a surgical treatment	• Rs. 12,000 financial contribution to Ramazan festival
Employee volunteerism	• 19 employees voluntarily participated • 368 employees' volunteer hours spent	• 2 employees voluntarily participated • 12 employees' volunteer hours spent	• 2 employees voluntarily participated • 28 employees' volunteer hours spent
2018/19 Expenditure	**Rs. 1,164,753**	**Rs. 124,000**	**Rs. 12,000**

View web page for CSR projects

https://sustainability.lbfinance.com/capital-management/


Providing assistance to Eastern Cancer Care Centre


A helping hand to Ruth Children's Home


Distribution of artificial limbs


Leadership development training programme


'Chathurmaana' talent show organised by University of Sri Jayewardenepura


Opened a rehabilitation centre at Rumassala

KEY SOCIAL AND RELATIONSHIP CAPITAL IMPACTS ON THE OTHER CAPITALS AND STRATEGIC PRIORITIES

		Capital impact	Impacted strategic priorities
Partnering with private sector organisations creates end-to-end infrastructure and logistics solutions for customers, including technology solutions and specialised services.	Digital mediums		
We are focused on enhancing our operational efficiency and fine-tuning our structures to build strong relationships with our suppliers. We understand, however, that in optimising costs, there are relational trade-offs that need to be carefully managed.	Business relationship		
A more integrated approach has been taken to engage with the communities in which we operate and to manage impact. We also seek development opportunities in under-resourced areas.	Empowering communities		

TRADE-OFFS IN OUR USE OF SOCIAL AND RELATIONSHIP CAPITAL

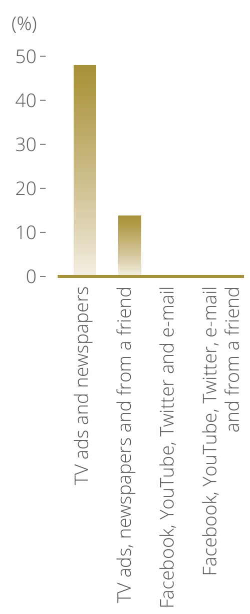
Understanding the trade-off	2018/19	Capital impact	Impacted strategic priorities
Our ability to raise Financial Capital is critical to our business and determines our ability to expand our Social and Relationship Capital. However, we don't have an unlimited profitability, forcing us to make difficult choices about where and how to invest.	Opened 4 and relocated 13 outlets		
Spending on CSR projects is a cost to the Company. However, we provide the opportunity to help Sri Lanka fulfil its commitment to the 2030 Sustainable Development Agenda.	Invested Rs. 26.95 million on CSR initiatives		

VALUE CREATION FOR OUR STAKEHOLDERS

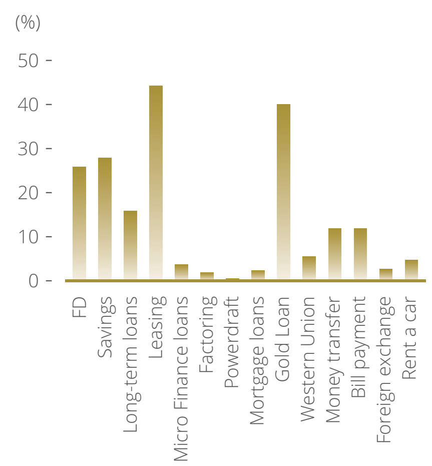
Short-term	Medium-term	Long-term
Continuously innovating in product suite and operational process to meet customer requirements in the most efficient manner	Enhancing financial access to the marginalised population	Moulding existing service suites to cater to diversified customer requirements through digital mediums
Playing a meaningful role in the broader society as a procurer of goods and services	Transforming economies and society positively through our lending and transactional activities, which are increasingly aligned with the SDGs	Enabling financial inclusion by providing the previously unbanked with access to affordable products
Always thriving to achieve global best practices	Migrate to cloud-based platform to enjoy the latest technology and cost optimisation	Embracing sustainable financial practices and regulatory compliance that enables a safe and stable financial system and a thriving society

Survey insights

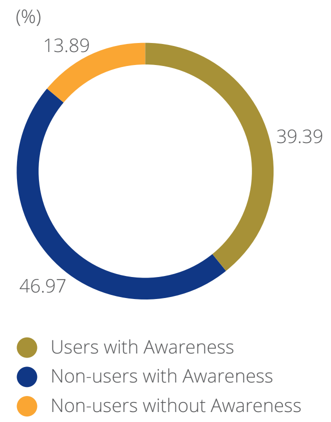
STAKEHOLDER REACH FROM MULTIPLE MODES



USAGE OF LB FINANCE PRODUCTS



AWARENESS AND USAGE OF GOLD LOANS



Study Conducted By:
The Department of Marketing Management
University of Sri Jayewardenepura

Our Conservation for Natural Capital

RELATED MATERIAL THEMES

RELATED STAKEHOLDERS

WHAT IT INCLUDES

We consider Natural Capital to be all renewable and non-renewable environmental resources and processes that support current and future prosperity for our business and all our stakeholders.

HOW IT ADDS VALUE

Our environmental initiatives help us to reduce the impact of our operations on the ecosystem and pave the way towards a more sustainable way of doing business.

MATERIAL DRIVERS

- Commitment to environmental sustainability Page 129
- Responsible operations Page 131
- Responsible products and services Page 134
- Commitment to environmental protection and conservation Page 134

CARBON NEUTRAL COMPANY

6
ENVIRONMENTAL INITIATIVES

Rs. 8,566 Mn
GREEN LENDING

20,000+
TREES PLANTED

Rs. 16 Mn
INVESTED IN ENVIRONMENTAL INITIATIVES

INTRODUCED DIGITAL FINANCIAL SERVICES

Visit web page for our philosophy, management approaches and SWOT analysis of Natural Capital

https://sustainability.lbfinance.com/capital-management/

We remain committed to reduce our direct impact on the environment by promoting responsible environmental management activities across all of our operations. At the same time, by using our position as a leading financial institution in the country, we seek to positively influence society to work towards generating favourable environmental outcomes.

Mr. B D A Perera
Executive Director

Challenges	Disappointments
• Reducing paper usage • Lowering the carbon footprint across the organisation • Improving awareness regarding the benefits of green projects	• Customer conversion, paper base to e-base systems • Initial investment is high for green initiatives

Improvements	Space for development
• Introducing digital financial services to reduce paper-based business activities • Business promotion campaigns for hybrid and electric vehicles	• Convert all product lines and process to the e-version • Introducing green buildings

STRATEGIC RESPONSES FOR 2018/19

- **In the process of shifting towards a paperless e-memo system**
- **Enhanced our green management practices**
- **Regularly conduct trainings and seminars for employees and other stakeholders about the benefits of green projects**

REFLECTING 2018/19

Key indicators	Our performance 2018/19	Priorities for 2019/20
Reduction of carbon footprint	Carbon footprint of the Company 3,997tCO_2e	Reduce carbon footprint by 5%
Green lending	Credit facilities for hybrid vehicles and electric vehicles	7% increase green lending facilities
Digital services	Introducing an app for digital financial services	Plan to introduce 2 digital products
Invest on environmental initiatives	6 projects and Rs. 16 million invested in environmental CSR initiatives	Implement 12 massive projects for environmental management

OUR COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

We consider our commitment to environmental sustainability to be a long-term journey to reduce the footprint of our responsible operations and responsible products and services as well as LBF's contribution towards environmental protection and conservation.

Our Environmental Management System (EMS) fundamentally brings to life the first two objectives by focusing on integrating environmental concerns across every aspect of our business. All our employees are encouraged to commit to LBF's Environmental Pledge which reflects the Company's core principles reflected in the our EMS.

We consider it our duty to lead social movements and take pride in setting an example for responsible environmental stewardship. Each year we make several thematic commitments to direct our focus towards addressing key environmental challenges facing our nation. At the same time, we also extend our support for national programmes that aim to create broader systemic change across the country.

GOVERNANCE

The sustainability team provides an oversight for the effective management of the EMS. Part of this responsibility includes monitoring the adequacy of the EMS vis-à-vis relevant legislature that may become applicable from time to time.

The sustainability team is also tasked with implementing environmental initiatives that reflect LBF's commitment to trigger systematic change across a broader spectrum.

POLICY FRAMEWORKS

ENVIRONMENT POLICY | **ENVIRONMENT PLEDGE**

Visit web page for Environment Policy and Environment Pledge

https://sustainability.lbfinance.com/capital-management/

We are committed to understanding, managing and minimising the environmental impact of our business and operations. We achieve this through energy efficient practices and technologies, resource conservation and pollution prevention.

We focus on three key environmental aspects; energy, material and water usage. Our Environmental Management System (EMS) supports our commitment to understanding and minimising our impact on the environment. The EMS is built on six pillars; reduce, reuse, recycle, training, policies and practices and employee engagement. It provides guidance to the management on key environmental aspects in the planning, design, construction and operation stages. The outcome of this is the green employee, green business and a conserved environment as a whole.

RESOURCE MANAGEMENT - UNDERSTANDING OUR IMPACTS

INPUT MANAGEMENT

Water Footprint

We have established contingency plans to mitigate and improve efficiency of water consumption across our business.

Energy Footprint

Our energy consumption matrix helps to streamline energy consumption in the day-to-day activities.

OUTPUT MANAGEMENT

Emission Footprint

Continuous and ongoing monitoring of our carbon footprint helps to maintain control over our emissions and emission related materials.

Waste Footprint

Proactive effort to control waste through the promotion of 3R principles. (Reduce, Reuse and Recycle)

RESPONSIBLE OPERATIONS

Water footprint

Despite our minimal usage, reducing our water footprint is one of the key objectives of LBF's EMS. As part of our EMS, we have put in place a Company-wide water management plan which provides clear guidelines to reduce daily consumption. To complement these efforts we continue to raise awareness and encourage employees to remain vigilant in order to minimise wastage.

Total water consumption
43,007m³
29,892m3 (2017/18)

Per employee
11.88m³
8.69 m3 (2017/18)

Per working day
146.28m³
101.32 m3 (2017/18)

Per outlet
263.84m³
187.99 m3 (2017/18)

LBF's ongoing actions on water management

Main focus	Action taken
Reduce consumption	• Use of high-intensity pressure pumps for vehicle washing • Usage of pressure reducing valves to maintain consistent water pressure • Taps with spray attachment to regulate water flow
Awareness	• Display of water saving tips
Reuse	• Usage of drain water for air conditioning cooling
Policies and procedures	• Commitment of employees to Sustainability Pledge

Energy footprint

Grid electricity is our primary energy source. It is also the single largest contributor towards our carbon footprint. LBF's energy consumption levels have continued to increase over the years in direct correlation to the growth in our business. Given the obvious impact on our carbon footprint, we continue to strengthen our Energy Management Framework. Going beyond mere energy conservation initiatives, we have deepened our focus by incorporating baseline standards into our EMS in order to measure and monitor our weekly usage.

Overall energy consumption
20,021GJ
18,232GJ (2017/18)

Per employee
5.53GJ
5.29GJ (2017/18)

Per working day
68.10GJ
61.80GJ (2017/18)

Per outlet
122.83GJ
114.66GJ (2017/18)

LBF's ongoing actions on energy management

Main focus	Action taken
Reduce consumption	• Use of high-tech energy efficient equipment • Energy reduction methodologies • Electronic data collection and analysis • Energy audits • Installation of solar water heating systems to save electricity • Energy efficient lighting for sign boards at outlets • Maximum usage of natural light
Awareness	• Display of energy saving tips • E-mail campaign on the benefits of energy saving
Employee engagement	• Use of energy reduction methods at office and home
Policies and procedures	• Commitment of employees to the Sustainability Pledge • Regulate the operating time of equipment

Emission footprint

Being a financial services institution, LBF's direct emissions (Scope 1 as defined by the GHG protocol) resulting from business activities are minimal. However, we do accept responsibility for Scope 2 and Scope 3 emissions due respectively to electricity purchased in the course of business and the emissions caused by employees commuting to and from work.

Since 2013, we have taken steps to measure LBF's carbon footprint, which has enabled further improvements to our EMS with the aim of being recognised as a carbon credit generated company by 2025.

Our assessments for the year under review, did not reveal any significant air emissions or emission of ozone depleting substances, pollutants and other hazardous compounds arising from LBF's operations. As a result, no detailed measurement of emissions was carried out for LBF, except for what was computed under the carbon footprint calculation process.

Total CO_2 emitted
3,848 tCO_2
3,189 tCO_2 (2017/18)

Per employee
1.06 tCO_2
0.926 tCO_2 (2017/18)

Per working day
13.08 tCO_2
10.81 tCO_2 (2017/18)

Per outlet
23.61 tCO_2
20.05 tCO_2 (2017/18)

LBF's ongoing actions on emission management

Main focus	Action taken
Reduce	• Moving away from high-energy consuming equipment in favour of energy saving equipment • Promote the use the common transport as opposed to private transport • Regulating usage during peak times • Providing integrated transport solutions for business duties
Awareness	• E-mail campaign on energy saving mechanisms in the office • Encourage all customers, corporate entities and the general public to contribute in shifting • Sri Lanka to become a low-carbon economy through the adoption of eco-friendly practices
Leadership	• Lead by example to encourage peers to strive for carbon neutrality by adopting the carbon footprint calculation process
Policies and Procedures	• Secure the commitment of employees to the EMS

Carbon footprint calculation

The carbon footprint calculation is the key driver of our emission management strategy. For this calculation we have adopted the methodology promulgated by GHG protocol. Accordingly LBF reports on GHG emissions against three WBCSD/WRI scopes; which is further verified by the ISO 14064 - 1:2006 standards.

Visit web page for more information on the Carbon Footprint Report

https://sustainability.lbfinance.com/capital-management/

SCOPE 1
Direct emission
348 tCO_2e
182 tCO2e (2017/18)

+

SCOPE 2
Indirect emission
2,686 tCO_2e
2,251 tCO2e (2017/18)

+

SCOPE 3
Indirect emissions
963 tCO_2e
790 tCO2e (2017/18)

=

Total carbon footprint
3,997 tCO_2e
3,223 tCO2e (2017/18)

Waste Footprint

In working to control paper waste generated on a daily basis, our EMS promotes 4R practices. Meanwhile to ensure the proper disposal of paper waste we work only with Central Environment Authority (CEA) registered waste disposal contractors.

In recent years, we have increased our investments towards technology-driven process automation in a bid to reduce the internal use of paper, while the new Digital Financial Service unit set up in 2019 forms part of a long-term strategy to reduce paper use across the company by 50% in 10 years.

LBF's ongoing actions on emission management

Main focus	Action taken
Refuse	• Create a paperless environment through of a digitalised document management system to store documents. • The centralised web portal (intranet) has significantly contributed in creating a paperless work environment which contains organisational policies, procedures, news, photo gallery and other downloadable documents. • Usage of paperless fax machines for day-to-day operations
Reduce	• To monitor and control the inventory consumption using inventory management system
Reuse	• Reuse of paper and envelopes as much as possible
Recycle	• Paper items directed for recycling are directed to a designated area within each office • All paper waste is recycled through Neptune Recyclers • Recycle all e-waste through an authorised e-waste recycle partner
Awareness	• Regular e-mails notifications to build awareness • Sticker campaigns to promote the effective usage of material
Policies and Practices	• Policies on material usage • The Company enforces a dual side printing policy, with all default settings on printers adjusted accordingly

Total paper recycled

5,432Kg

3,978Kg (2017/18)

Saved

92

68 (2017/18)

No. of fully-grown trees

9,533 Litres

6,981 Litres (2017/18)

of oil

21,728 KWh

15,912 KWh (2017/18)

of electricity

172,629 Litres

126,421 Litres (2017/18)

of water

16 m^3

12 m^3 (2017/18)

of landfill

RESPONSIBLE PRODUCTS AND SERVICES

Managing environmental risk through our core business

Recognising that our lending activities can have an impact on the environment, we use sound risk management practices to identify, evaluate and mitigate the environmental impact of our lending and financing activities. Since 2017, LBF's risk management structure has included strict procedures to evaluate the track record of customers with a view to ensuring the Company does not extend credit to those with a poor environmental credentials.

Green lending scheme

LBF's green lending scheme offers concessionary terms for the lease of hybrid vehicles, which are deemed to have a significantly lower carbon footprint compared to traditional diesel or petrol vehicles.

Year	No. of green financing facilities	Amount granted (Rs. million)
2018/19	3,561	8,566.00
2017/18	450	1,159.00
2016/17	800	2,471.36
2015/16	368	1,081.61
2014/15	443	1,260.95

'Thuru' mobile app

In a proactive effort to link our core business to mainstream environmental conservation programs, LBF signed up with the "Thuru" mobile App, a global platform which promotes the planting of trees. Users can download the 'Thuru' App either from the Google Play or Apple Store, and use the app to upload images of their tree planting efforts. Over time successful users will become eligible to receive a bonus interest through the "LB Yasaisuru" fixed deposit accounts.

Visit web page for more information on the environment initiatives

https://sustainability.lbfinance.com/capital-management/

Digital Financial Service unit

LBF's Digital Financial Service unit was launched in March 2019 with the intention of designing and developing digital products, which by nature require minimal natural resources. The main aim here is to pave the way for LBF to systematically increase the proportion of products and services which have a low environmental profile.

ENVIRONMENTAL PROTECTION AND CONSERVATION

'Thuru Wawamu' 50 to 50,000

LBF's 'Thuru Wawamu' project launched on 13th September 2018 is an ambitious initiative aimed at lessening the impact of deforestation that has led to a 4% reduction in Sri Lanka's forest cover. A long-term initiative by the Company's CSR committee, the 'Thuru Wawamu' project targets to plant 50,000 saplings by 2021 to coincide with LBF's 50th anniversary.

The project kicked off with an island-wide campaign to raise awareness and secure the participation of school authorities, local governing bodies and the general public. Renowned actor Sathischandra Edirisinghe was appointed as Brand Ambassador for the project, which has up to now seen a total of over 20,000 trees planted in various parts of the country.

The 'Thuru' mobile app is also expected to be a key catalyst in achieving our 'Thuru Wawamu, 50-50 Thousand' mission.

Distribution of outfits to forest rangers

An ongoing initiative by LBF to support the efforts of the National Wildlife Authority, by providing protective clothing for forest rangers at all major wildlife parks across Sri Lanka.

Year	Project location
2018/19	Ampara
2017/18	Padawiya, Chundikulam, Madu, Ampara, Anuradhapura, Galoya, Nilgala
2016/17	Horton Plains, Kaudulla, Wasgamuwa, Angamadilla, Horagolla
2015/16	Ritigala
2014/15	Yala
2013/14	Minneriya
2012/13	Wilpattu

Awareness building

As part of our ongoing efforts to increase awareness, LBF has undertaken to install and maintain display boards and warning messages at the entrance to all national parks. The project is an ongoing initiative of the Company conducted in partnership with the Young Zoologists' Association of Sri Lanka.

Year	Project location
2018/19	Ridiyagama, Pinnawala, Dehiwala
2017/18	Wasgamuwa
2016/17	Udawalawe, Wilpattu, Minneriya, Horton Plains and Bundala

National threatened species protection initiative

LBF, launched a new CSR initiative to preserve and protect red-listed species in Sri Lanka. We selected to preserve the Loris, a critically-endangered species native to Sri Lanka's rainforests. For this task we planted 500 trees in those areas which helps to expand the living areas of the Loris.

NATURAL CAPITAL IMPACTS ON THE OTHER CAPITALS

		Capital impact	Impacted strategic priorities
Changes in Government policy and tax adjustments for hybrid vehicles	Business lines		
Restructuring of operations in an eco-friendly manner	Digital mediums		
Reduce our direct impact on the environment through commitment to responsible environmental management activities and promote in paperless e-solutions amongst customers	Encouraging customers		

TRADE-OFFS IN OUR USE OF NATURAL CAPITAL

Understanding the trade-off	2018/19	Capital impact	Impacted strategic priorities
Our ability to increase green lending supports the preservation of Natural Capital. However, non-green lending remains the key driver of profitability	Our non-green lending portfolio 7.55% from the total lending portfolio		
IT infrastructure and systems development required to go green having a short-term impact on profitability	Invested Rs. 9.21 million in IT software and services		

VALUE CREATION FOR OUR STAKEHOLDERS

Short-term	Medium-term	Long-term
Low CO_2 emitting equipment and materials - Using alternative energy such as solar power and maximise the use of natural light in day-to-day operations	Green cleaning - Using biodegradable products reduces the adverse environmental impact	Green building - Reduced carbon emissions through the green branches
Operational efficiency - Smart operations that decrease the waste of natural resources and increase the lifespan of equipment	Supporting the low carbon economy - Encouraging and promoting the use of electric or hybrid vehicles	Fully-fledged digital branch - Digitalise all functions of financial services

Subsidiary Information

L B MICROFINANCE MYANMAR (LBMF)

The Company's latest venture, L B Microfinance Myanmar (LBMF) was set up in 2017, with a 100% stake held by L B Finance PLC.

Vision

"To contribute to the development of sustainable and socially-significant enterprises that improve the lives of the entire nation."

Mission

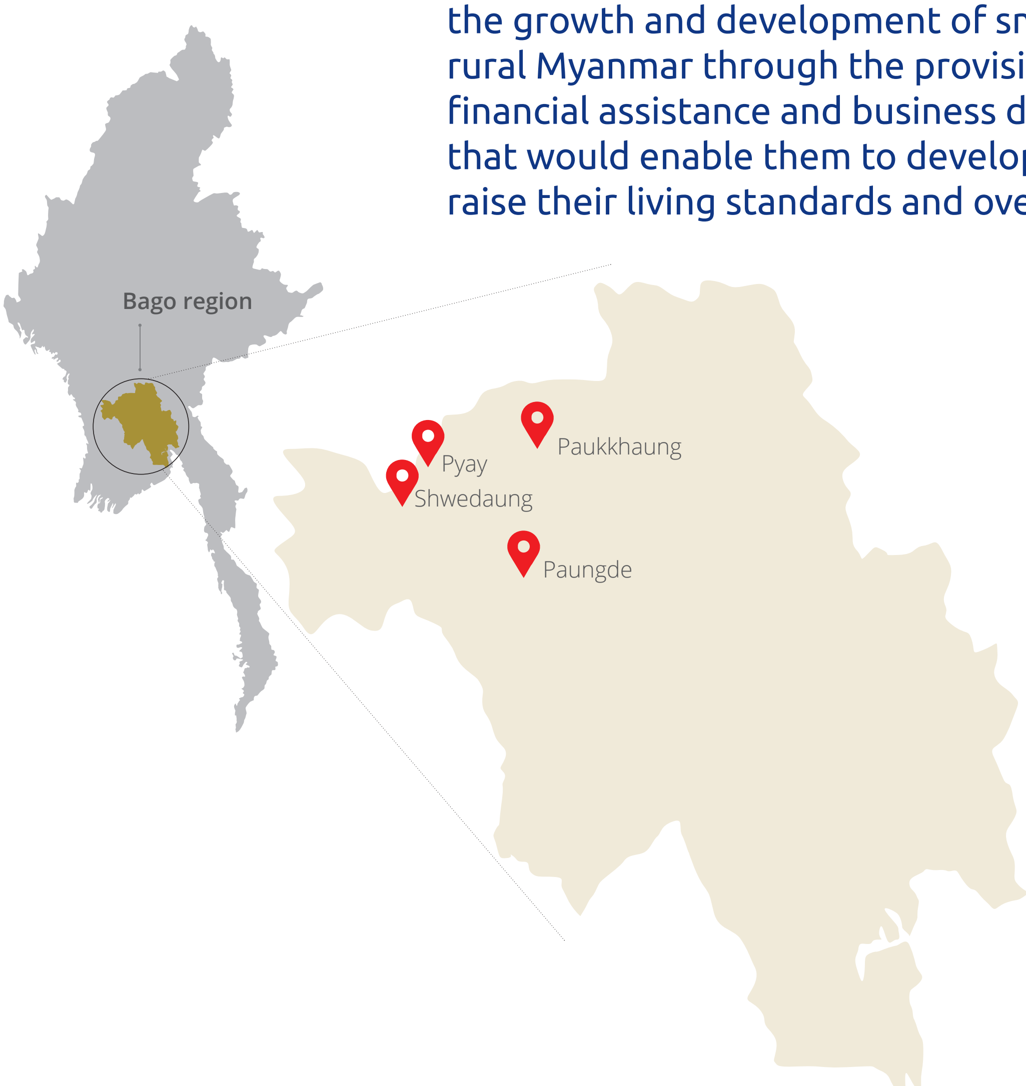
The mission of LB Microfinance Myanmar is to bridge the gap between ambition and achievement of the low income individuals of Myanmar by providing financial assistance to creative entrepreneurs, value-demanding consumers and innovative business partners, through a robust microfinance model leading to the creation of businesses and markets which mutually benefit LB Microfinance Myanmar and the poor communities of Myanmar.

Values

- Excellence
- Ethics
- Professionalism
- Transparency
- Respect
- Quality

REGIONAL FOOTPRINT

BFM's robust micro finance model is geared to support the growth and development of small-scale farmers in rural Myanmar through the provision of much-needed financial assistance and business development advice that would enable them to develop stable livelihoods, raise their living standards and overall quality of life.



Over 15,000
Customer base

15,343
Loan facilities granted

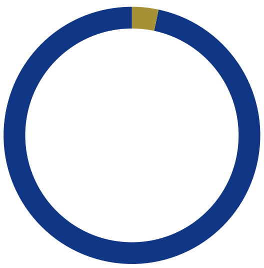
Rs. 217.87 Mn
Profit after tax

Rs. 3,535.67 Mn
Asset base

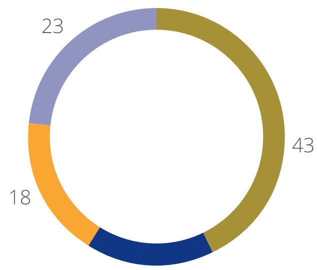
23.38%
ROE

8.84%
ROA

NUMBER OF EMPLOYEES
(%)



NUMBER OF EMPLOYEES
(%)



Correspondingly, LBFM's robust micro finance model is geared to support the growth and development of small-scale farmers in rural Myanmar through the provision of much-needed financial assistance and business development advice that would enable them to develop stable livelihoods, raise their living standards and overall quality of life. As part of a broader strategy, the Company has also undertaken to improve the level of financial literacy among community stakeholders through grass-root level training and knowledge sharing workshops aimed at developing a strong credit culture.

CORPORATE INFORMATION

Name of Company
LB Microfinance Myanmar Company Limited

Legal Form
Company limited

Date of Incorporation
16th December 2016

Company registration number
844FC/2016-2017(YGN)

Board of Directors
Mr. Dhammika Perera
Mr. Sumith Adhihetty
Mr. Dulan de Silva
Mr. Niroshan Udage
Mr. B D A Perera
Mr. Ravindra Yatawara

Corporate Office
Level 8, Unit #1, Uniteam Marine Office Building, No. 84, Pan Hlaing Street, Sanchaung Township, Yangon, Myanmar.

Microfinance Head Office
No.505, Tat Street, Kyaung Gyi Oh Tan Quarter, Pyay Township, Bago Region, Myanmar.

Financial Year end
31st March 2018

Secretaries
Luther Law Firm Limited
Uniteam Marine Office Building - 8th Floor - Unit #1, No. 84, Pan Hlaing Street - Sanchaung Township - Yangon, Myanmar.

External Auditors
Vigour & Associates Limited
#411, Level 4, Strand Square, No 53, Strand Road, Pabedan Township, Yangon, Myanmar.

Bankers
Cooperative Bank Limited (PLC)
No. 334/336, Corner of 23st & Strand Rd, Latha Township, Yangon, Myanmar

Year at a Glance

APR 2018

Branch opening in Myanmar - Paukkaung

MAY 2018

LB Big Wheels Motor Show

JUN 2018

Annual blood donation campaign

JUL 2018

Chathurmaana Inter-University talent show

AUG 2018

Branch opening in Myanmar - Shewedaung

SEP 2018

Project 'Thuru Wawamu'

OCT 2018

Branch opening in Myanmar - Paungde

NOV 2018

Janabhimani Gawrava Uththama Sewa Award

DEC 2018

Sector Gold at CA Sri Lanka Annual report awards

JAN 2019

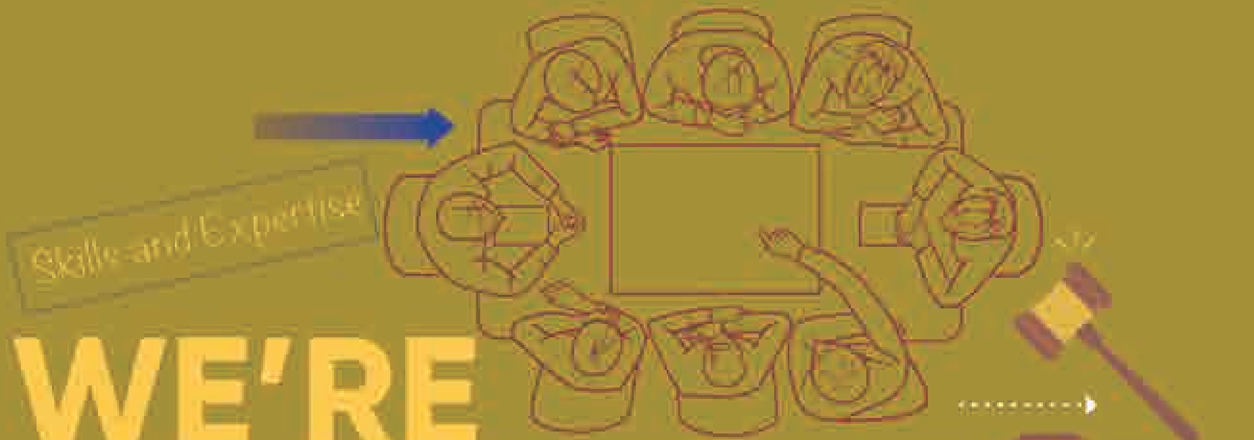
Branch Relocation- Kiribathgoda

FEB 2019

Financial Service Provider of the year

MAR 2019

Established Digital Finance Services Unit



WE'RE INVESTED

in governing and PROTECTING OUR BUSINESS

We are invested in the highest levels of accountability and transparency relying on robust, flexible mechanisms to ensure best practices in corporate governance and managing risk.

Governance and Risk Management

Corporate Governance Report

CHAIRPERSON'S MESSAGE

Our faithful stakeholders,

Effective corporate governance practices are essential to achieve and maintain public trust and confidence in the financial system which in effect booster financial sector and economy as a whole.

L B Finance PLC Board and our Board-appointed committees discharged their governance duties with a clear and meaningful objective to follow and comply with the principles of good governance enshrined in the Code of Best Practice for Corporate Governance issued by the Institute of Chartered Accountants, Sri Lanka, and the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and all amendments thereto, and adhere to the Listing Rules of the Colombo Stock Exchange.

Your Board oversees your business

The Board and the Management believe that corporate governance is a critical component of sound strategic business management and therefore remain fully committed to maintain very high standards of corporate governance and ensure values and behaviour are consistent across the business.

Board and Management stay connected with our stakeholders

Our operations are managed through an established organisational structure supported by adequate policies and procedures embodied in the manuals approved by the Management committees, Board committees and the Board. These manuals are subject to periodic reviews and updates to align and ensure consistency with new laws and regulations and generally conform to evolving global and national standards and best practices. Moreover we undertake every effort necessary to create awareness within the organisation to ensure the principles of fairness, accountability and transparency are applied in conducting the day-to-day business of the Company and its subsidiary.

We maintain the industry best practices

We continue to refine our corporate governance policies and look to benchmark the best practices followed by national and international agencies and regulatory bodies as well as other private sector organisations. Our aim is to raise corporate governance standards to a level that is at par with global standards and ultimately contribute to the development of Sri Lanka's financial markets.

Corporate responsibility

At LBF, doing business responsibly is at the core of our culture with the Board and the Management setting the tone towards corporate responsibility. Guided by a robust corporate responsibility strategy that reflects LBF's Vision, we proactively seek ways to address environmental, social and governance issues in our day-to-day activities. Our aim is to be an exemplary corporate entity that recognises and fulfils its responsibilities towards customers, communities and the environment.

Lastly, I would like to encourage all shareholders to find the time to attend our AGM on 27th June 2019, which provides an excellent opportunity to meet the Board and the Management team.

We welcome engagement with our stakeholders and look forward to your valuable feedback in order to continue our commitment to further improve on our corporate governance philosophy on a continuing basis.

Shirani Jayasekara
Chairperson

28 May 2019

CORPORATE GOVERNANCE PHILOSOPHY

LBF's corporate governance philosophy stems from our belief that corporate governance is an integral element in improving efficiency and growth as well as enhancing investor confidence. The corporate governance philosophy is scripted as:

"As a good corporate citizen, the Company is committed to sound corporate practices based on conscience, openness, fairness, professionalism and accountability in building confidence of its various stakeholders in it thereby paving the way for its long-term success."

The Company believes in sustainable corporate growth that emanates from the top leadership down through the organisation to the various stakeholders which is reflected in its sound financial system, enhanced market reputation and improved efficiency.

We believe that our Company shall go beyond adherence to the regulatory framework. Our corporate structure, business, operations and disclosure practices have been strictly aligned to our corporate governance philosophy. Transparency, accountability, fairness and intensive communication with stakeholders are integral to our functioning.

We believe in system-driven performance and performance-oriented systems. We accord highest priority to these systems and protect the interests of all our shareholders, particularly the minority shareholders.

We have tried to blend growth and efficiency with governance and ethics. Our Board of Directors, guided by the mission statement, formulate strategies and policies having focus on optimising value for various stakeholders including customers, shareholders and society at large.

The Board leads the Company with the integrity and competence in a manner that is responsible, accountable, fair and transparent, show as to ensure leadership that results in the achievement of the Company's strategic objectives, positive outcomes, overtime and value creation to the stakeholders. Following pin points how we value created through the governance structure.

VALUE CREATION THROUGH OUR GOVERNANCE STRUCTURES

- Compliance with applicable laws, regulations and governance practices
- Collective responsibility for primary governance roles
- Custodians of corporate governance
- Cultivation and exhibition of ethical characteristics

ACTIVITIES

- Leadership, ethics and corporate citizenship
- Strategy, performance and reporting
- Risk, oversight and compliance
- Remuneration
- Stakeholder relations
- Corporate governance

OUTCOMES

Enable and support the Company's value creation process

VALUE CREATION

Achievement of and benefits realised through good governance outcomes

- Ethical culture
- Effective control
- Good performance

Achievement of stakeholder goals

- Delivery on strategic matters
- Operate efficiency
- Invest strategically
- Optimise capital

Source of sustained growth in total returns

- Employer of choice
- Provider of relevant space
- Preferred business partner
- Responsible community participant

We believe that our Company shall go beyond adherence to the regulatory framework. Our corporate structure, business, operations and disclosure practices have been strictly aligned to our corporate governance philosophy.

Governance Framework

Our governance framework is anchored on (i) competent leadership, (ii) effective internal controls, (iii) a strong risk culture and (iv) accountability to shareholders.

We believe that it is crucial to have a good balance between continuity and fresh perspectives on the Board. Our Board plays a key role in setting our governance standards to meet our stakeholders' expectations. Our leadership model ensures an appropriate balance of power, accountability and independence in decision-making.

Regulatory benchmarks on corporate governance

- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011 and all Directions/Guidelines issued thereunder
- Corporate Governance Direction No. 3 of 2008 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka
- Listing Rules of the Colombo Stock Exchange (CSE)
- The Code of Best Practice on Corporate Governance as published by the Institute of Chartered Accountants of Sri Lanka (voluntary)
- Continuing Listing Requirements of the Colombo Stock Exchange (CSE)
- Related Party Transactions Section 9 of the Listing Rules of the CSE
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)
- Inland Revenue Act No. 24 of 2017 and amendments thereto and other statutes
- Shop and Office Employees Act No. 19 of 1954 and amendments thereto
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Anti-Money Laundering Laws and Regulations and Financial Transactions Reporting Act No. 6 of 2006

Internal benchmarks on corporate governance

- Articles of Association
- Board Charter
- Charters/Terms of Reference of Board Subcommittees and Management Committees
- Organisational structure
- Code of Ethics and Conduct for all employees
- Policies related to corporate governance
- Securities Trading Policy
- Human Resources Policy and Manual
- Whistleblowing Policy
- Policy on Managing Conflicts of Interest

- Communication Policy
- Complaint Handling Policy
- Related Party Transactions Policy
- Document Retention and Destruction Policy
- Information Systems Security Policy
- Anti-Money Laundering and Suppression of Terrorist Financing Policy
- Risk Management Policy
- All Board approved Policies on operational areas

Corporate governance principles

LBF's approach to corporate governance is guided by the following core principles:

Ethical culture

Trust, integrity and good governance are hallmarks of the Board's governance approach. By setting the tone from above, the Board champions the values of trust, integrity and good governance that are well entrenched in the culture of LBF, and reinforces the ethical principles on which LBF's reputation and success are founded.

To maximise shareholder value on a sustainable basis, these values must extend into every segment of LBF operations and business activities.

Stewardship

The members of the Board are the stewards of LBF, exercising independent judgment in overseeing management and safeguarding the interests of shareholders.

In fulfilling its stewardship role, the Board seeks to instil and foster a corporate environment founded on integrity and to provide Management with sound guidance in pursuit of long-term shareholder value.

Strategic oversight

The members of the Board are the key advisors to Management, advising on strategic direction, objectives and action plans, taking into account both the opportunities and LBF's risk appetite.

In carrying out this oversight role, the Board actively engages in setting the long-term strategic goals for the organisation, reviews and approves business strategies, corporate financial objectives and financial and capital plans that are consistent with the strategic goals, and monitors LBF's performance in executing strategies and meeting objectives.

Riskoversight

The Board oversees the framework, policies and systems to identify and manage risks to the businesses and seeks to embed a strong risk management culture throughout LBF.

The Board actively monitors the organisation's risk profile relative to risk appetite and seeks to ensure that Management's plans and activities provide an appropriate balance of return for the risks assumed and are prudently focused on generating shareholder value.

Independence

Independence from Management is fundamental to the Board's effective oversight and mechanisms are in place to ensure its independence.

All direct and indirect material relationships with LBF are considered in determining whether a member of the Board is independent.

Accountability

Transparency is a key component of good governance. The Board is committed to clear and comprehensive financial reporting and disclosure, and constructive shareholder engagement.

The Board has carefully defined the expectations and scope of duties of the Board, its committees and Management.

Continuous improvement

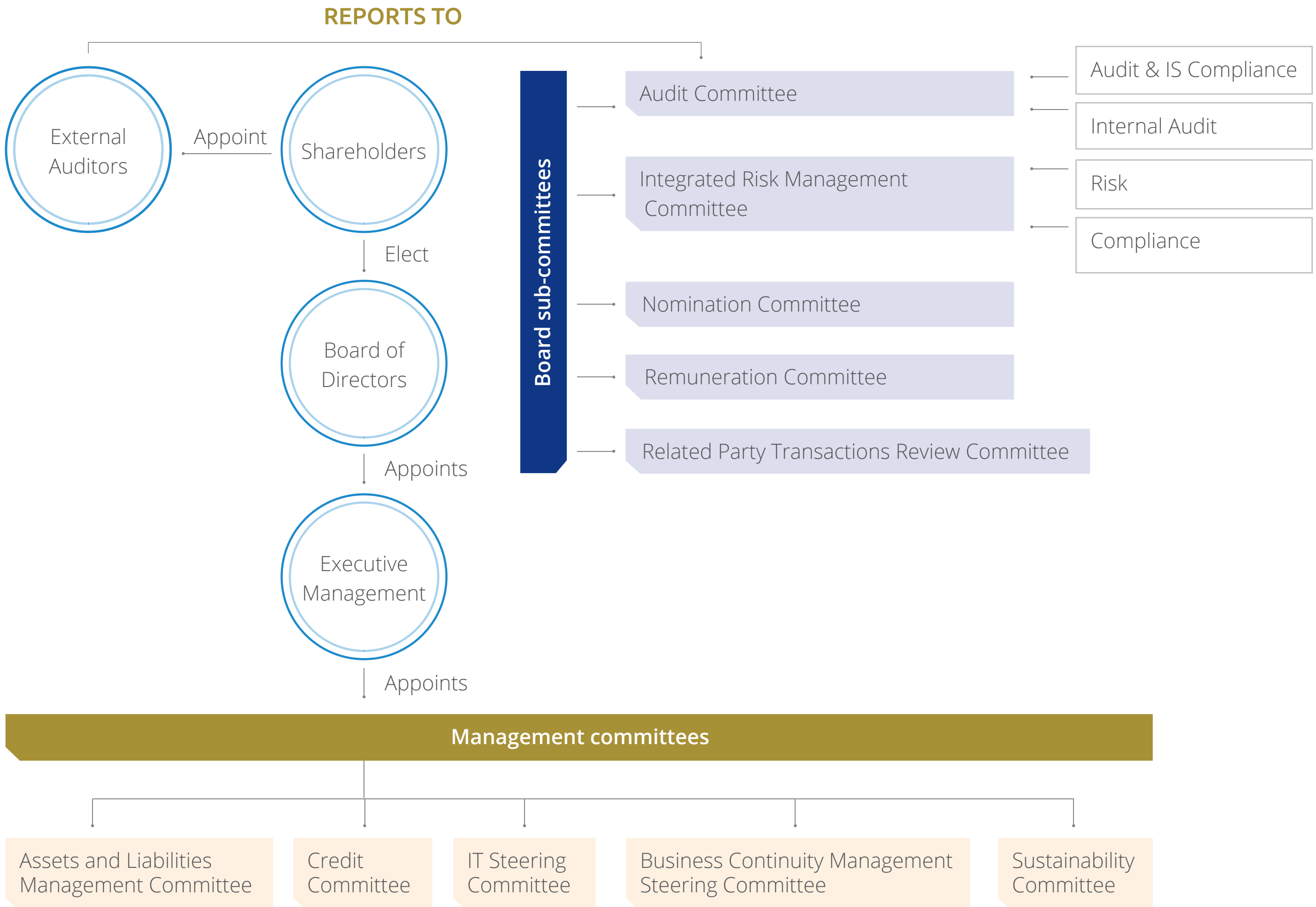
The Board is committed to continuous improvement of its corporate governance principles, policies and practices, which are designed to align the interests of the Board and Management with those of shareholders, to support the stewardship role of the Board and to enhance the Board's ability to safeguard the interests of shareholders through independent supervision of Management.

To ensure policies and practices meet or exceed evolving best practices and regulatory expectations, LBF's corporate governance system is subject to ongoing review by the Board.

GOVERNANCE STRUCTURE

The fundamental relationships among the Board, its sub-committees, management, shareholders, regulators and other stakeholders are guided by LBF's governance structure. Through this framework, the Company's values and strategic and corporate objectives are set, and plans are determined for achieving those objectives and monitoring performance.

The duties and responsibilities imposed on Directors of a financial institution are expansive and demanding. LBF's present governance structure therefore remains critical to ensuring strict compliance at all times, and is reviewed in response to matters arising, and at least on an annual basis.



CORPORATE GOVERNANCE INITIATIVES FOR THE YEAR 2018/19

Strategic function and monitoring

Company launched the strategic plan on 2nd April 2018 and also had regional presentations to cross functional staff

Quarterly review of strategic plan was performed

Transparency and disclosures

The Board resolved voluntarily adopt the Code of Best Practice on Corporate Governance 2017 (the Code) issued by the Institute of Charted Accountants of Sri Lanka in December 2017.

Reviewed the Interim Financial Statements for the year ended 31st March 2018

Continues developments

An awareness session was arranged for the Board on key developments to the AML regulatory landscape

Training programmes on "Anti-Money Laundering Regulations, AML Trends and Industry Best Practices" was conducted for the entire staffs

CORPORATE GOVERNANCE INITIATIVES FOR THE YEAR 2018/19 (Contd.)

Policies and Procedures Framework

In terms of corporate governance Direction No. 3 of 2008 (as amended), section 2, Audit Committee discussed the paper submitted jointly by CFO, Head of IT, Internal Audit and IS Audit and reviewed the adequacy and the integrity of the Company's internal control system and Management Information System (MIS).

The Document Retention Policy 2018, along with Documents Retention Schedule and Records Retention and Destruction Procedure were considered and approved by the Board.

Policy Manual for Foreign Currency Operations presented to the Board and approved by the Board.

Customer Complaint Policy was reviewed and approved by the Board.

Reviewed IT Policies.

Related Party Transactions Policy was reviewed and approved by the Board.

Penal Interest Rate Policy approved by the Board.

Remuneration Policy reviewed approved by the Board.

Amended Policy for refund of excess proceeds realised from Gold Loan Auction was considered and approved by the Board.

Amendments to the Information Security Policy was approved by the Board.

Policy on Valuation and Inspection of Immovable Properties reviewed and approved by the Board.

Board approved the Outsourcing Policy.

Performance appraisal

The Board and all Board Subcommittees carried out self-assessments to critically evaluate the effectiveness of the Board and each of the Subcommittees. The results of the self-evaluations were discussed in detail and areas for improvement together with an action plan were mandated.

Reviewed and improved the Director's Annual Self-assessment by assessing the progress/achievement of the goals and targets set for and agreed on the KPIs for the financial year 2018/19 and to assess the performance during the year 2017/18.

The Board and all Board Subcommittees carry out self-assessments to critically evaluate the effectiveness of the Board and each of the Subcommittees. The results of the self-evaluations were discussed in detail and areas for improvement together with an action plan where mandated.

Compliance and risk oversight

The Board reviewed the Organisational chart and the Organisational Chart – Functional Structure

In Terms of Customer Due Diligence Rules No. 01 of 2016, the Compliance Officer recommended the standard KYC forms for the following;

- Individual customers
- Sole Proprietorship/Partnership
- Limited Liability Companies
- Clubs/Societies/Charities/Associations/NGO/Trust and Miscellaneous
- KYC of Directors/Partners/Sole Proprietors/Office bearers of Clubs & Societies/Trustees/Attorneys/Administrators/Executors, etc. as the case may be.

Guidelines for Financial Institutions on Identification of Beneficial Ownership, No. 04 of 2018 was presented to Board Audit Committee and Draft form to identify the requirements was presented and approved by the Board Audit Committee.

The Audit Committee recommended adopting the KYC and CDD forms for implementation.

Carried out unannounced Real time testing on the comprehensive business continuity plan (BCP Drill) – 08th of November 2018.

Risk assessment on existing outsourcing arrangements was proposed to the Audit Committee in order to comply with Finance Business Act No. 07 of 2018 – Outsourcing of Business Operations).

Risk Assessment of all deposit and lending products and all processes was presented to the Audit Committee.

DIVERSITY IN THE BOARDROOM

Board composition

The board of directors forms one of the pillars of a robust corporate governance framework. Your board diversity aims to cultivate a broad spectrum of demographic attributes and characteristics in the boardroom, with the benefits of more effective decision making, better utilisation of the talent pool and enhancement of corporate reputation and investor relations by establishing the company as a responsible corporate citizen.

The Board has adopted a diversity policy, which recognizes the importance of having an appropriate balance of industry knowledge, skills, experience, professional qualifications, gender and nationalities to build an effective and cohesive board. In particular, the Board has set an objective of having female representation. Board members have a broad range of experience and deep industry expertise. LBF have a good balance between continuity and fresh perspectives on the Board.

Skills, expertise and experience

Your board having the optimal mix of skills, expertise and experience is paramount to ensure that the board as a collective is equipped to guide the business and strategy of the company.

Board skill matrix

Skill Category	Explanation
Business leadership and development	Successful career at senior executive level in a large and complex organisation
Strategy	Development and oversight of execution of strategic objectives
Financial services experience	Retail, corporate and investment banking, wealth and superannuation, Treasury, financial services advisory
Financial acumen	Accounting, internal and external reporting, audit, capital markets and funding, able to assess the effectiveness of financial controls
Risk management	Oversight of risk frameworks and practices which identify and manage key risks
Culture and conduct	Promotion and demonstration of LBF's Values as the basis of behaviour and decision making
People and remuneration	Oversight of LBF's remuneration policy and framework, including succession planning
Technology and digital	Development of and investment in IT infrastructure, adaptation to digital change and innovation
Corporate governance	Commitment to the highest standards and systems of governance
Legal and compliance	Oversight of operations and obligations in a highly complex and regulated environment

Gender and age

These elements are some of the most emphasised forms of diversity in the boardroom. Historically, corporate boardrooms have largely been a male consortium. In recent years, this practice has been challenged and, LBF Board and shareholders have recognise the benefits of having the benefits of gender balance Board room. Age diversity too is well exihibited at the LBF Board room.

INDEPENDENCE

To be independent of management, a director must be free of any business or other association that could materially interfere with his or her ability to act in the best interests of LBF. A register of directors' material interests is maintained and regularly reviewed by each director. If a director is involved with another company or firm that may have dealings with LBF, those dealings must be at arm's length and on normal commercial terms.

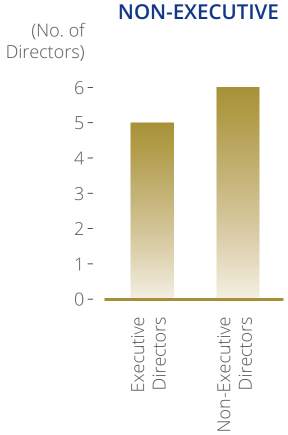
To assist in determining independence, each non-executive director is required to make an annual disclosure to the Board of all relevant information. The Board considers the independence of each director, taking into account the factors outlined in the Corporate Governance Principles and Recommendations.

To further assist in ensuring that the Board operates independently of management, non-executive directors meet in the absence of management, where necessary at scheduled Board and Committee meetings.

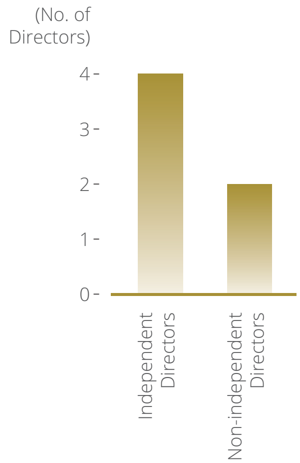
The Board is satisfied that each non-executive director who has served on the Board during 2018/19 has retained independence of character and judgment and has not formed associations with management or others that might compromise their ability to fulfill their role as an independent director.

BOARD COMPOSITION

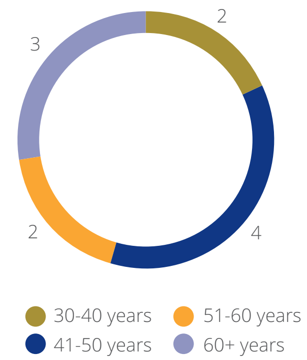
EXECUTIVE/ NON-EXECUTIVE



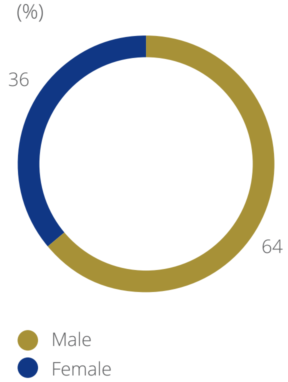
INDEPENDENCY



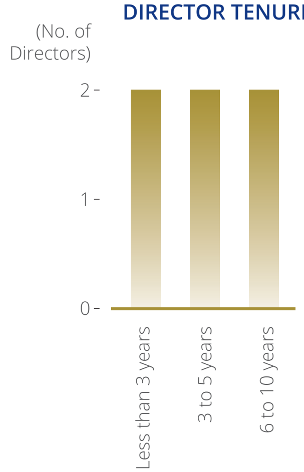
AGE COMPOSITION
(No. of Directors)



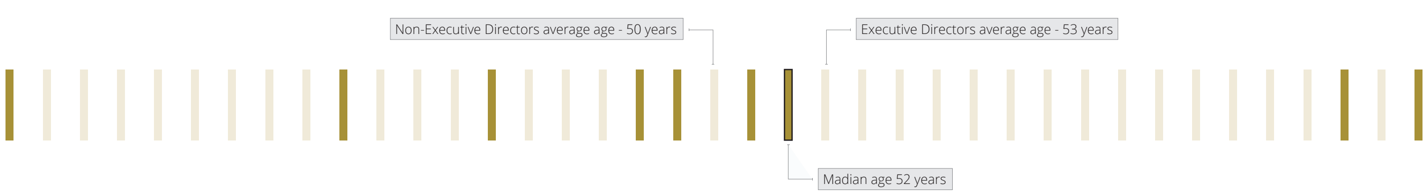
GENDER COMPOSITION
(%)



NON-EXECUTIVE DIRECTOR TENURE



AGE COMPOSITION



BOARD MEETINGS AND ACTIVITIES

We have a highly engaged Board with diverse perspectives. Board and Board committee meetings are held regularly to discuss key topics such as strategic, governance and operational issues.

Before meeting

- To facilitate meaningful participation, all Board and Board committee meetings are planned and scheduled well in advance in consultation with the Directors
- The Chairperson oversees the setting of the agenda of Board meetings in consultation with the CEO/MD to ensure that there is sufficient information and time to address all agenda items
- The agenda of the Board meetings is carefully thought out and well-managed. At the same time, the agenda allows for flexibility when it is needed
- Directors are provided with complete information related to agenda items in a timely manner.
- All materials for Board and Board committee meetings are uploaded onto a secure portal which can be readily accessed on tablet devices provided to the Board members
- When exigencies prevent a Director from attending a Board or Board committee meeting in person, that Director can participate by telephone or video-conference
- Directors have the discretion to engage external advisers

At every meeting

- The Chairperson promotes open and frank debates by all Directors at Board meetings
- The Board members come well prepared and engage in robust discussions on key matters pertaining to the company
- If there are any situations where there is a conflict of interest, the Director in question will excuse him or herself from the discussions and abstain from participating in any Board decision
- Chairperson of each Board committee provides a thorough update on significant matters discussed at the Board committee meetings which are typically scheduled before the Board meeting
- The CEO/MD gives a complete and comprehensive update on the Company's business and operations as well as a macro perspective on industry trends and developments
- The Chief Financial Officer (CFO) presents the financial performance and significant financial highlights
- The Compliance Officer (CO) presents the status of compliance with regulations and significant regulation updates
- Certain business heads provide updates on their areas of business
- Key Management Personnel are present at all Board meetings, Directors have the opportunity to discuss specific areas with them and challenge the ideas on consructive manner
- Exposures of LBF to the individual Directors and their respective related concerns are tabled
- The Board holds a private session for Directors
- External professionals or in-house subject matter experts are also invited to present key topics identified by the Board as well as updates on corporate governance, risk management, capital, tax, accounting, listing and other regulations, which may have an impact on LBF' affairs

Frequent and effective engagement with the Board

- The Board is regularly updated on the performance and prospects of LBF
- Board approvals for matters in the ordinary course of business can be obtained through the circulation of written resolutions
- Ad-hoc meetings are held when necessary.
- The CFO provides the Board with detailed financial performance reports on a monthly basis
- Directors have direct access to senior management and may request from management any additional information to make informed and timely decisions
- Throughout the year, the Directors also have various opportunities to interact with members of the Management Committees
- Directors have ongoing interactions across various levels, functions within LBF. This allows Directors to have a better understanding of the business and operations of LBF.
- Directors have separate and independent access to the Company Secretary at all times. The Company Secretary attends all Board meetings and generally assists Directors in the discharge of their duties. The Company Secretary facilitates communication between the Board, its committees and management. The Company Secretary helps with the induction of new Directors. The appointment and removal of the Company Secretary require the approval of the Board

Board Meeting attendance from April 2018 to March 2019

Board members	Composition	Date of appointed to the board	Board meeting attendence
Mrs. Shirani Jayasekara	Chairperson	25.08.2010	12/12
Mr. Dhammika Perera	Executive Deputy Chairman	22.10.2002	12/12
Mr. Thosapala Hewage	Independent Non-Executive Director	23.04.2013	9/10*
Mr. Sumith Adhihetty	Managing Director	12.10.2003	12/12
Mr. Niroshan Udage	Executive Director	01.01.2007	12/12
Mr. B D A Perera	Executive Director	01.01.2007	12/12
Mr. Ravindra Yatawara	Executive Director	15.03.2016	12/12
Mrs. Anandhiy Gunawardhana	Independent Non-Executive Director	03.01.2013	11/12
Mrs. Yogadinusha Bhaskaran	Non-Executive Director	15.03.2016	12/12
Mr. Ashane Jayasekara	Independent Non-Executive Director	30.10.2017	12/12
Mrs. Ashwini Natesan	Independent Non-Executive Director	01.09.2018	7/7

** Ceased w.e.f 19.02.2019*

ROLES AND RESPONSIBILITIES

The Board

The Board is elected by the shareholders to supervise the management of the business and affairs of the Company. The prime stewardship responsibility of the Board is to ensure the viability of the LBF and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders. LBF has a board charter adopted by the Board.

Key responsibilities

- reviewing and approving overall business strategy as well as organisation structure, as developed and recommended by management;
- ensuring that decisions and investments are consistent with long-term strategic goals;
- ensuring that the Company operates in such a way as to preserve its financial integrity and in accordance with policies approved by the Board;
- overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure and procedures and internal controls; and, through the Risk Management Committee, the quality of the risk management processes and systems;
- providing oversight in ensuring that the Company's risk appetite and activities are consistent with its strategic intent, the operating environment and effective internal controls, as well as capital sufficiency and regulatory standards;
- overseeing, through the Risk Management Committee, the establishment and operation of an independent risk management system for managing risks on an enterprise-wide basis, the adequacy of the risk management function (including ensuring that it is sufficiently resourced to monitor risk by the various risk categories and that it has appropriate independent reporting lines), and the quality of the risk management processes and systems;
- reviewing any transaction for the acquisition or disposal of assets that is material to the Company;
- ensuring that the necessary human resources are in place for the Company to meet its objectives;
- overseeing the related party transactions through the Related Party Transaction Review Committee;
- reviewing management performance and ensuring that management formulates policies and processes to promote fair practices and high standards of business conduct by staff;

- establishing corporate values and standards, emphasising integrity, honesty and proper conduct at all times with respect to internal dealings and external transactions, including situations where there are potential conflicts of interest;
- overseeing, through the Remuneration Committee, the design and operation of an appropriate remuneration framework, and ensuring that remuneration practices are aligned to and in accord with the remuneration framework;
- providing a balanced and understandable assessment of the Company's performance, position and prospects, including interim and other price-sensitive public reports as well as reports to regulators;
- ensuring that obligations to shareholders and others are understood and met;
- maintaining records of all meetings of the Board and Board Committees, particularly records of discussion on key deliberations and decisions taken;
- identifying the key stakeholder groups, recognising that perceptions affect the Company's reputation; and
- considering sustainability issues, e.g. environmental and social factors, as part of strategy formulation.

Board approval

The Company has documented internal guidelines for matters that require Board approval. Matters which are specifically reserved for Board approval, amongst others, are:

- Material acquisition and disposal of assets;
- Financial reporting
- Corporate or financial restructuring; and
- Share issuance, dividends and other returns to shareholders.

The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to the Board Committees and management to optimise operational efficiency

Chairperson

The role of Chairperson is distinct and separate from that of the Chief Executive and there is a clear division of responsibilities with the Chairperson leading the Board and the Chief Executive managing LBF business day to day.

Key responsibilities

- provide strong and effective leadership to the Board;
- ensure the Board is structured effectively, observes the highest standards of integrity and corporate governance, and sets the tone from the top in terms of culture and values;
- build an effective and complementary Board with an appropriate balance of skills and personalities;
- foster open and inclusive discussions at each Board /Committee meeting which challenge executives, where appropriate;
- in conjunction with the Chief Executive and Company Secretary, ensure that members of the Board receive accurate, timely and clear information to enable the Board to lead LBF, take sound decisions and monitor effectively the performance of executive management;
- ensure that the performance of individual directors and of the Board as a whole and its committees is evaluated regularly; and
- ensure LBF maintains effective communication with shareholders and other stakeholders.

Chief Executive Officer / Managing Director

The Chief Executive Officer / Managing Director has responsibility for all of LBF's business and acts in accordance with the authority delegated by the Board.

Key responsibilities

- exercise executive accountability for the LBF businesses delivering operational management and oversee the full range of activities of the customer businesses and functions;
- develop, drive and deliver the strategy approved by the Board;
- drive and deliver performance against financial plans, acting in accordance with authority delegated by the Board;
- consult regularly with the Chairperson and Board on matters which may have a material impact on LBF;
- lead the culture and values of LBF, creating an environment where employees are engaged and committed to good customer outcomes;
- lead, manage and develop LBF's senior leadership team, ensuring professional capability is developed and that succession coverage meets the needs of LBF;
- ensure LBF has effective frameworks and structures to identify, assess and mitigate risks; and
- in conjunction with the Chairperson and Company Secretary, ensure the Board receives accurate, timely and clear information.

Non-Executive Directors

Along with the Chairperson and executive directors, the nonexecutive directors are responsible for ensuring that the Board fulfils its responsibilities under its terms of reference. The nonexecutive directors combine broad business and commercial experience with independent and objective judgment and they provide independent challenge to the executive directors and the leadership team. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across LBF's business activities. The standard terms and conditions of appointment of nonexecutive directors are documented and approved by the board.

The non-executive Directors on the Board constructively challenge and help develop proposals on strategy, review the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. They meet during the year, without the presence of Executive Directors, to discuss the effectiveness of management.

Separate sessions are also arranged for the independent Directors to meet at least once a year to ensure effective corporate governance in managing the affairs of the Board and the Company

Company secretary

All directors have access to the services and advice of the Company Secretary P & W Corporate Secretarial (Pvt) Ltd. The Company Secretary is not a director of LBF and they maintains an arm's-length relationship with the Board. The Company Secretary supports the Board as a whole, and directors individually, by providing guidance as to how to fulfil their responsibilities as directors in the best interests of LBF. To achieve these objectives, independent advisory services are retained by the Company Secretary at the request of the Board or its Committees. The Company Secretary maintains their knowledge of developments in corporate governance best practice and regulation.

Key responsibilities

- Working closely with the Chairperson to ensure effective functioning of the Board and appropriate alignment and information flows between the Board and its committees, including the Executive Committee. This includes Board succession planning, induction, and professional development;
- executive responsibility for Chairman/ non-executive director search and appointment process;
- management of LBF's profile with key stakeholders, including oversight of relations with key influencers and regulators;
- the provision of professional support to the Board and its committees and leading on implementation of recommendations from the annual Board evaluation.

DIRECTORS' TRAINING AND DEVELOPMENT

- The Nomination Committee oversees Director Education, providing Directors with an ongoing programme to assist them in understanding their responsibilities, as well as keeping current their knowledge and understanding of the industry within which the Company operates. Directors identify their continuing education needs through Annual Board and Board Sub-Committee Performance Assessments and regular feedback to the Board Chairperson and Sub- Committee Chairs.
- Members of the Board participated in Seminars and Conferences held throughout the financial year.

BOARD SUB COMMITTEES

The Board has established the standing committees in accordance with the relevant rules, regulations and best practices. Each Committee is chaired by an Independent Nonexecutive Director, and has its own terms of reference. These terms of reference set out the committees' roles and responsibilities, functions, scope of authority and composition. Committees report to the Board at each Board meeting and make recommendations in accordance with their terms of reference.

Board subcommittee areas of oversight activities for 2018/19

Board sub committee	Board Members	Areas of oversight	Report reference (page no.)
Remuneration committee	Mrs. Anandhiy Gunawardhana (Chairperson) Mrs. Yogadinusha Bhaskaran Mr. Ashane Jayasekara	• Remuneration policy Directors remuneration and compensations	168
Nomination committee	Mr. Thosapala Hewage (Chairman up to 31.01.2019) Mr. Ashane Jayasekara (Chairman W.E.F. 01.02.2019) Mrs. Anandhiy Gunawardhana Mr. Sumith Adhihetty	• Review the board structure, size, composition and competencies • Board member and key personnel appointments	169-170
Audit committee	Mrs. Yogadinusha Bhaskaran (Chairperson) Mrs. Anandhiy Gunawardhana Mr. Ashane Jayasekara	• Reviewing the financial reporting • Internal and external audit • Ensure the whistleblower policy	171-172
Integrated risk management committee	Mr. Ashane Jayasekara (Chairman) Mrs Anandhiy Gunawardhana Mrs. Ashwini Natesan Mr. Sumith Adhihetty Mr. Niroshan Udage Mr. B D A Perera Mr. Ravindra Yatawara	• Risk Management Framework • Risk measurement, monitoring and management • Compliance with regulatory and internal prudential requirements	173-174
Related party transactions review committee	Mrs. Shirani Jayasekara (Chairperson) Mr Ashane Jayasekara Mr Thosapala Hewage (Member up to 31.01.2019) Mrs. Ashwini Natesan	• Related party transaction policy • Providing independent review, approval and oversight of RPT • Ensuring relevant market disclosures	175-176

Attendence of Directors at meeting of sub-committees from April 2018 to March 2019

Name of the Directors	Board status	Remuneration committee	Nomination committee	Audit committee	Integrated risk management committee	Related party transactions review committee
Total meetings held		3	3	15	4	5
Mrs. Shirani Jayasekara	CP					5/5*
Mr. Thosapala Hewage**	IND		1/1* (upto 31.1.2019)			4/5
Mr. Sumith Adhihetty	MD		3/3		4/4	
Mr. Niroshan Udage	ED				4/4	
Mr. B D A Perera***	ED				4/4	5/5
Mr. Ravindra Yatawara	ED				Excused	
Mrs. Anandhiy Gunawardhana	IND	3/3*	3/3	15/15	4/4	
Ms. Yogadinusha Bhaskaran	ND	3/3		15/15*		
Mr. Ashane Jayasekara	IND	3/3	2/2* (from 1.2.2019)	15/15	4/4*	5/5
Mrs Ashwini Natesan	IND				2/2	

*Chairman/Chairperson **Ceased as a Director w.e.f 19.02.2019 ***Permanent invitee

CP - Chairperson, **MD** - Managing Director, **IND** - Independent Non-Executive Director, **ED** - Excecutive Director, **ND** - Non Executive Director

MANAGEMENT COMMITTEES

These committees operate under the guidance of the Managing Director and Executive Directors and are dedicated and focused towards designing, implementing and monitoring best practices in their respective functions. The main objective of forming these committees is to encourage the respective functions to take responsibility and accountability to the lowest possible level and to ensure that decision-making is on a participatory basis. The management committees include Asset and Liability Committee, Credit and Recoveries Committee, sustainability and IT Steering Committee and their functions are summarized on below;

Description	Tasks	Members	Frequency of meetings held
IT steering committee	to ensure that IT strategy is aligned with the strategic goals of the Company whilst its top most mandate is to find and align business solutions that may leverage technology. IT Steering Committee also looks into information security-related matters on a regular basis	Executive Director -Asset Management Head of IT Representatives from relevant departments.	Monthly
Sustainability committee	the formulation and the review of the Company's CSR policy, and ensuring that CSR activities are integrated into the Company's operations. Keeping in line with the Company's triple bottom line focus, the Committee is tasked with the responsibility of steering the Company's CSR activities aimed at uplifting the communities we work with and preserving the environment	Executive Director Head of Treasury National Manager Strategy Representatives from relevant departments.	Qurately

Description	Tasks	Members	Frequency of meetings held
Assets and liability committee	to monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements	Managing Director Executive Directors Head of Treasury Head of Deposits Chief Financial Officer	Weekly
Credit committee	is responsible for laying out the overoll credit policy for the Company. This includes setting lending guidelines in confermity with credit risk appetite set by the Board of Directors	Managing Director Executive Directors Chief Financial Officer	Monthly
Business continuity management steering committee	is responsible for align BCM goals with business goals and provides strategic direction and support in establishing, implementing, operating, monitoring, reviewing and improving the BCMS.	Executive Directors Business Continuity Manager Representatives from the relevent departments	Monthly

BOARD AND COMMITTEE PERFORMANCE

The Board has an annual performance evaluation process, to assess the effectiveness of the Board, Board Committees and each Director's contribution. The purpose of the evaluation process is to increase the overall effectiveness of the Board.

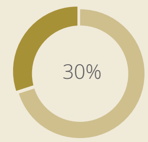
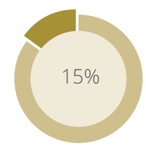
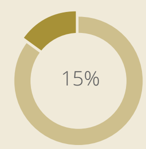
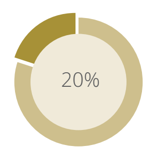
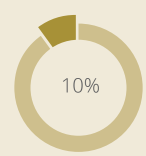
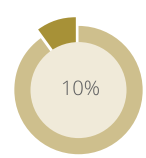
The Directors participate in the evaluation. Each Director evaluates the performance of the Board and Board Committees whilst the Chairperson and Nominating Committee Chairman evaluate the performance of each Director and meet to discuss the matter. The assessments are made against pre-established criteria which are derived from the Board's charter and responsibilities. The results of the evaluation are used constructively to discuss improvements to the Board and ensure that each Director remains qualified for office. The Chairperson and/or Nominating Committee Chairman acts on the results of the evaluation, and if appropriate, proposes new Directors or seeks the resignation of Directors, in consultation with the Nomination Committee.

Directors are expected to set aside adequate time for their oversight of matters relating to the Company. They must provide declarations of any changes in their other appointments, which are disseminated to all members. The Company has guidelines on meeting attendance and the extent of other appointments that a Director can assume. The Nominating Committee, based on the guidelines established, assesses annually each Director's attendance record and degree of participation at meetings. In respect of other appointments, it takes into account - among various factors - the nature of an appointment (full-time or otherwise), number of meetings to attend, complexity of organisation and degree of participation in sub-committees.

Board's key areas of focus

- Review LBF' strategic and business plans
- Monitor the responsibilities delegated to the Board committees to ensure proper and effective oversight and control of LBF' activities
- Establish a framework for risks to be assessed and managed
- Review management performance
- Determine LBF' values and standards (including ethical standards) and ensure that obligations to its stakeholders are understood and met
- Develop succession plans for the Board and Key Management Personnel
- Consider sustainability issues (including environmental and social factors) as part of LBF' strategy

2018/19 highlights of Board oversight activities and time spends

Responsibility	Activities	Time Spent
Strategic planning	• Approving the LBF's strategic plan . • Overseeing the LBF's strategic direction and formulation of priorities, ensuring alignment with the Company's Risk Appetite. • Discussing aspects of strategy and, within the context of the Company's enterprise-wide performance management framework, monitoring implementation of strategic initiatives. • Reviewing and approving the LBF's organisational structure. • Approving the Company's financial objectives and operating plans, including significant capital allocations, expenditures and transactions that exceed delegated authorities. • Reviewing results of an annual assessment of business performance.	
Governance	• Monitoring best practices in governance, developing corporate governance principles and guidelines, and establishing appropriate structures and procedures to allow the Board to function effectively and independently of management. • The Board also conducted detailed annual reviews of the Company's key Policies and Procedures.	
Risk management	• Updating the Company's Risk Management Policy and Enterprise Wide Risk Management Framework to meet changing demands. • Overseeing and approving the Company's Risk Appetite Framework. • Promoting a strong risk management culture and ensuring that conduct aligns with the Company's Enterprise-Wide Risk Management Framework. • Meeting with Regulators on the Company's Risk Appetite and control environment.	
Financial reporting and internal controls	• Overseeing compliance with applicable audit, accounting and financial reporting requirements. • Requiring Management to implement and maintain effective systems of internal control, including management information systems. • Through the Audit & Risk Management Committee, assessing the adequacy and effectiveness of systems of internal control. • Approving the annual audited financial reports, and quarterly financial reports	
Culture of Integrity	• Championing the Company's values, as set out in its Code of Business Conduct, and satisfying itself that a culture of integrity is maintained throughout the LBF.	
Talent management and succession planning	• Reviewing strategies and programmes for assessment and development of talent. • Supervising succession planning processes. • Annually reviewing and approving the mandate of the CEO/MD and the Management Team.	

BOARD ACTIVITIES AND TIME SPENT

(%)

ACTING ETHICALLY AND RESPONSIBLY

Managing conflicts of interest

All Directors are guided by the provisions of Conflict of Interest Policy. It is mandated that Directors should avoid any situation which might give rise to a conflict between their personal interests and those of the Company. During the nomination process, conflicts of interest (actual and potential) are disclosed and assessed to ensure that there are no matters which would prevent that person from offering himself for election to the Office of Director. Directors are responsible for disclosure as soon as they become aware of conflict situations. In instances where Directors have an interest in a material transaction or matter involving the Company that is being considered at the Board or a Board Sub – Committee level, they:

- Disclose that interest;
- As a general requirement, excuse themselves from the meeting during board or board- sub- committee discussions; and
- Do not cast a vote on the matter.

Related party transactions

Company has established policies and procedures on related party transactions. These include definitions of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving and monitoring the transactions. The Related Party Transaction Review Committee reviews non recurrent related party and interested person transactions and keeps the Board informed of such transactions, if any. Measures are taken to ensure that terms and conditions for related party lendings are not more favourable than those granted to non-related obligors under similar circumstances.

Share trading

The Board has laid down " Share Trading Policy " as the code of Internal Procedures and Conduct for Prevention of Insider Trading , with the objective of preventing purchase and/or sale of shares of the Company by an Insider on the basis of unpublished price sensitive information. Under this Policy, Insiders (Designated Employees and their dependents) are prevented to deal in the Company's shares during the closure of Trading Window.

To deal in Securities beyond limits specified, permission is required. All Directors/ Designated Employees are also required to disclose related information periodically as defined in the Policy.

RISK GOVERNANCE

As a financial institution engaged in a varied offering of financial services, assuming and active management of risks plays an integral part of our business strategy. The integrated risk management committee, on behalf of the Board, is responsible for the overall oversight of reviewing the effectiveness of risk management activities . The Company has implemented a wide array of risk management strategies to treat the risks that the Company is exposed to; while aligning the business strategy within the boundaries of the risk appetite of the Company.   The principal risks identified and the mitigation strategies are set out on in the Risk Management section of the annual report.

IT GOVERNANCE

In the corporate world, Information Technology (IT) plays a vital role. Increasing complexities and criticalities in IT decision-making demands the Company to adopt an effective IT governance system. IT governance, which forms an integral part of the Company's corporate governance, deals primarily with optimising the linkage between strategic direction and information systems management of the Company. IT governance of the Company creates value that fits into the overall corporate governance strategy of the Company and is not a discipline on its own. IT governance of the Company ensures that the investments in IT generate value, avoids failure and mitigates IT associated risks.

The Company's IT steering committee is headed by Executive Director – Asset Management and meets monthly to discuss the following:

- To ensure that IT has suffi cient resources to meet Company's demand.
- To assess and report IT-related risks and organisational impact.
- Provide feedback about compliance of IT carrying out the system reviews according to CBSL.
- Reviews are made to ensure that the objectives are achieved.

HR GOVERNANCE

Human capital relates to the actual resources or people of the organisation and that create the productivity and sustainability of the business. Hence HR governance strategy allows for inclusion and effective delivery towards the business strategy. This strategic intent is achieved through HR governance with regards to culture, performance, controls and legitimacy.

Whistleblower protection

The Company places great importance on fostering a culture that encourages its people to speak up about issues and conduct that cause them concern. The Whistleblower Policy is designed to encourage and support individuals in reporting such matters, knowing that it is safe to do so, they will receive support and they will not be subject to retaliation or victimization in response.

SUSTAINABILITY REPORTING

Sustainability governance

Effective integration and operative management of sustainability committee at a company needs to have dedicated leadership, clear vision, business direction, and strategic focus and none of this will happen without a robust governance structure. Sustainability governance benefits a company implement sustainability strategy across the business, manage goal-setting and reporting processes, strengthen relations with external stakeholders, and ensure overall accountability.

Sustainability fits into the overall corporate structure can be very revealing of a company's direction and priorities. It's important to keep in mind that there is no cookie-cutter structure that can be applied; every company must tailor its approach for what makes most sense given its business model, structure, resources, and level of sustainability integration into the business.

Commitment coming from the top

Reporting to the Board of Directors or other key leaderships can help demonstrate that a company is serious about sustainability.

Accountability must be established and communicated clearly

Accountability helps ensure that sustainability is integrated with other business goals. Including sustainability performance into the company's annual goals and employee performance review and compensation processes may be helpful mechanisms.

Alignment between the structure and the business is imperative

Sustainability governance structures that align with and complement the existing business model and organisational structures can be more successful than creating redundant or competing structures.

Sustainability programme

Flexibility to adapt and build up on the sustainability program across business units and regions can advance the sustainability agenda. Allowing for some adaptation can help ensure the sustainability program's relevance to a business unit's own strategies or region's local conditions. It also can generate employee engagement.

SHAREHOLDER/STAKEHOLDER RELATIONS

Stakeholders are the individuals, groups or entities that are affected by the products, services or operations of the Company or whose actions, decisions or attitudes affect the strategy, objectives and operations of the Company. LBF aims to build lasting relationships that add value to both parties, with its stakeholders. LBF has in place a rigorous process to identify its significant stakeholders. Through its process of engagement with the stakeholders, LBF is able to identify and understand their aspirations, concerns and also find ways and means of adding value to the stakeholder relationships in order to build lasting relationships.

LBF's stakeholder engagement govern by the sustainability committee. The unit is responsible for facilitating an integrated approach to stakeholder engagement across the group. This approach is aligned with LBF's organisational philosophy, brand ethos and values, material sustainability focus areas and strategy. The frequency of engagement varies according to each stakeholder group and the particular issue at hand. LBF is proactive in identifying and responding to its stakeholders' expectations, concerns and conflicts. A centralised approach is used to manage investors, employees, regulators and communities. LBF's customer facing units undertake stakeholder engagement relevant to each of their areas and are responsible for identifying relevant stakeholder concerns and taking appropriate action. The board of directors is kept appraised of engagement activities, concerns raised and mitigating action taken through the group social, ethics and transformation through sustainability committee.

Accountability to our shareholders

Stakeholders	Responsibilities reserved to the Board
Shareholders	• Approval of business strategy and vision in line with efforts to drive shareholder value creation. • Approval of business plans, assuring that sufficient resources are available to implement and monitor the strategy. • Approval and monitoring of major investments or divestitures and strategic commitments. • Oversight of risk management, internal controls and compliance systems as per the Bangladesh Bank's 'Core Risk Guideline'. • Approval of annual budgets including major capital expenditure proposals. • Monitoring the adequacy, appropriateness and operations of internal controls. • Ensure that technology and information systems are sufficient to operate the organisation effectively and sustain competitiveness. • Recommendation for appointment or removal of external auditors and determination of the remuneration and terms of appointment of the auditors.
Customers	• Benchmarking value creation for customers and partners. • Reinforcement of the corporate culture and core values and ensuring that the Company remains an employer of choice.
Employees	• Oversight of succession planning for the CEO, Executive Management team and such other Executives as the Board may deem fit.
Community	• Oversight of the management of social, economic and environmental concerns consistent with the delivery of sustainable outcomes for stakeholders • Reinforcement of reputation, brand and community relations.
Directors	• Director's nomination, selection, removal, succession planning and remuneration. • Review of the Board's performance.

Shareholder rights

LBF promotes fair and equitable treatment of all shareholders. All shareholders enjoy specific rights under the Companies' Act. These rights include, among others, the right to participate in profit distributions and the right to attend and vote at general meetings.

Ordinary shareholders are entitled to attend and vote at the AGM in person or by proxy. LBF respects the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure. All price-sensitive information is publicly released prior to any sessions with individual investors or analysts.

Communication with shareholders

The Board welcomes engagement with shareholders and encourages them to express their views. To allow shareholders to provide timely and meaningful feedback, the Board has developed practices appropriate for the Company's investor base to facilitate constructive engagement. Examples of these practices include methods of hearing from shareholders and responding to their inquiries on an ongoing basis. The Board continues to proactively consider and adapt, as suitable to the circumstances of LBF, emerging practices of Board engagement with shareholders.

Procedures are in place to provide timely information to current and potential investors. The Board reviews and approves the contents of major disclosure documents, including the Annual Report, quarterly reports to shareholders and Management's Discussion and Analysis.

Channels of communication with stakeholders

Annual General Meetings
Shareholders use their voting rights to vote on current issues such as appointments of Company's Board of Directors, dividends and selection of auditors.

2018/19 share information
A thorough analysis of share information in connection to the market is available in the financial capital in annual report

Reports and announcements
- Annual report and sustainability report
- Quarterly financial statements
- Announcements and press releases

LB Website
Updates of recent financial information and latest investor information

Conduct of shareholder meetings

The Annual General Meeting (AGM) provides shareholders with the opportunity to share their views and to meet the Board, including the chairpersons of the Board committees and members of Key Management Personnel. Our external auditor is available to answer shareholders' queries.

At the AGM, LBF' financial performance for the preceding year is presented to shareholders. At general meetings, the Chairperson plays a pivotal role in fostering constructive dialogue between shareholders, Board members and the management.

LBF encourages and values shareholder participation at its general meetings. In accordance with the recommendations contained in the Code and the Guidelines, resolutions requiring shareholder approval are tabled separately for adoption at the Company's general meetings unless they are closely related and are more appropriately tabled together.

Feedback from shareholders

The Company is committed to communication with shareholders which is depicted via the introduction of the Investor Feedback Form which was continued in the preceding year an provides the opportunity for shareholders to comment on their Company. Refer page 409 for the feedback form.

Inquiries by shareholders

Shareholders are well invited to have a direct communication with the Company and they can raise their inquaries and concerns with the Board by contacting the Company Secretary, P & W Corporate Secretarial (Pvt) Ltd, through the following channels:

Telephone	:	011-4640360-3
Fax	:	011-4740588
Email	:	pwcs@pwcs.lk
Address	:	

P W Corporate Secretarial (Pvt) Ltd
No. 3/17, Kynsey Road, Colombo 08

COMPLIANCE STATEMENT

We are happy to confirm that throughout the year ended 31st March 2019 and as at the date of this Annual Report, the Company was compliant with the Listing Rules of the Colombo Stock Exchange and Finance Companies Direction No. 3 of 2008 on Corporate Governance and amendments thereto. In addition, tables set out in pages 153 to 165 depict the extent of adherence with the Code of Best Practice on Corporate Governance, issued by the ICASL. Further, the Company has complied with the provisions of the Companies Act No. 07 of 2007 and other statutes as applicable to the Company. All statutory payments due to 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 LKAS 19 – 'Employee Benefits'.

FUTURE OUTLOOK

Corporate governance plays a vital role in business and future emphasis is to further satisfy the Company's stakeholders whilst sustaining growth of the Company. Therefore we believe in the following; operating structure, internal control, review, benchmark, feedback, effective and transparent communication.

By Order of the Board,

L B Finance PLC
P W Corporate Secretarial (Pvt) Ltd
Secretaries

28 May 2019

Annual Report of the Board of Directors on the affairs of the Company

The Directors of L B Finance PLC have pleasure in presenting to the shareholders the Annual Report of the Board of Directors on the affairs of the Company together with the Consolidated Financial Statements of the Company and its subsidiary for the year ended 31st March 2019 and the Independent Auditors Report on those Financial Statements, conforming to all relevant statutory requirements.

This Report includes the information as required by the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange. It is also guided by the Recommended Best Practices on Corporate Governance.

GENERAL

L B Finance PLC (the Company) is a Licensed Finance Company in terms of the Finance Business Act No.42 of 2011

It 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 and was admitted to the Official List of the Colombo Stock Exchange on 30th December 1997. The Company was re-registered as per the Companies Act No. 07 of 2007 on 6th June 2008 under Company Registration No. PQ 156.

The Company is a registered finance leasing establishment in terms of the Finance Leasing Act No. 56 of 2000.

The ordinary shares of the Company and Debentures issued by the Company [10,000,00 Senior Unsecured Redeemable Rated Debentures (Redeemable in 2022) and 20,000,000 Subordinated, Unsecured, Redeemable Rated Debentures (redeemable in 2022] are listed on the Main Board of the Colombo Stock Exchange.

The Company has been affirmed a national long-term rating at A-(lka) with a stable outlook by Fitch Ratings Lanka Limited. The rating in respect of the Debentures issued by the Company are 10,000,000 Senior Debentures redeemable in 2022 – national long term rating at A-(lka) and 20,000,000 Subordinated Debentures redeemable in 2022 – national long term rating at BBB + (lka).

Both the registered office of the Company and its head office are situated at No. 275/75, Prof. Stanley Wijesundera Mawatha, Colombo 07.

As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report for the year under review

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Level of compliance by the Company
The nature of the business of the Company	Section 168 (1) (a)	Complied - Page 160
Signed Group Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Complied - Page 219 to 337
Auditor's Report on Group Financial Statements of the Company	Section 168 (1) (c)	Complied - Page 216 to 218
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Complied - Page 229
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Complied - Page 162
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Complied - Page 328
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Complied - Page 165
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Complied - Page 161
Amounts payable to the Auditor as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Section 168 (1) (i)	Complied - Page 244
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Complied - Page 165
Annual Report of the Board of Directors on the affairs of the Company to be signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Complied - Page 166
Information as per Section 168 (1) (b) to (j) in relation to the subsidiary	Section 168 (2)	Complied - Page 162, 165, 226 to 218, 228, 229 and 328

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission, values and goals are given on page 10 of this Report.

PRINCIPAL ACTIVITIES

The Company's principal activities during the year were acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, margin trading facilities, personal loans, factoring and trade finance facilities, microfinance, other credit facilities and value added services.

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

The Company's only subsidiary, which is incorporated in the Republic of the Union of Myanmar, L B Microfinance Myanmar Company Limited, carried on micro finance business in Myanmar.

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

REVIEW OF OPERATIONS

A review of the business of the Company and its subsidiary and their performance during the year with comments on financial results, future strategies and prospects are contained in the Managing Director's Review on pages 38 to 41 which form an integral part of this Report.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairperson's Message on pages 28 to 29, Managing Director's Review on pages 38 to 41 and the Management Discussion and Analysis on pages 48 to 136.

FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Company and its subsidiary have been prepared in accordance with the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No.42 of 2011 the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 21st May 2019.

The Consolidated Financial Statements of the Company and its subsidiary duly signed by the Chief Financial Officer and two Directors on behalf of the Board are given on pages 219 to 337 which form an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

In terms of Section 150 (1), 151, 152 (1) and 153 (1) and (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Company is responsible for the preparation of the financial Statements of the Group and the Company which reflect a true and fair view of the state of affairs of the Company and its subsidiary as at the balance sheet date and the profit or loss or income and expenditure of the Company and its subsidiary for the accounting period ending as at the balance sheet date.

The Directors confirm that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements appearing on pages 219 to 337 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, Companies Act No. 07 of 2007, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibility for Financial Reporting is given on page 215 and forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 3 of 2008.

The said statement which forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company is given on page 214.

The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Control over Financial Reporting as referred to in page 213.

AUDITORS' REPORT

The Report of the Independent Auditors on the Financial Statements of the Company and the Group is given on pages 216 to 218.

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The accounting policies adopted in the preparation of the Financial Statements are given on pages 226 to 337. Except as stated in Note 2.15 there were no significant changes to the accounting policies used by the Company during the year under review vis-à-vis those used in the previous year.

INCOME

The income of the Company for the year ended 31st March 2019 was Rs. 29,278 million (in 2018 it was Rs. 25,046 million).

Group Income during the year was Rs. 29,342 million (2018 – Rs. 25,046 million).

An analysis of the Income is given in Note 4.1.1 to the Financial Statements.

FINANCIAL RESULTS AND APPROPRIATIONS

The Company has recorded a growth in profit before tax of 19% and a growth in profit after tax of 19% in the year ended 31st March 2019 in comparison to those of the preceding year.

The growth in total Comprehensive Income was 19%.

Details of appropriation of profit of the Company and the Group are given below:

	2019 Rs.'000	2018 Rs.'000
Profit for the year after payment of all the expenses of management, provision for depreciation and amortization, impairment of loans and other losses, gold loan auction losses and tax on financial services.	7,740,649	6,477,690
Less: Income tax expense	2,685,989	2,226,969
Profit after tax	5,054,660	4,250,721
Unappropriated balance brought forward from previous year	10,240,092	8,259,079
Actuarial gains/ (losses) on defined benefit plans	17,257	(34,421)
Profit available for appropriation	15,312,009	12,475,379
Less: Appropriations		
Impact of Adoption of SLFRS 09	299,578	-
Dividend paid for previous financial year	554,057	415,543
Interim dividend paid for current financial year	1,108,114	969,600
Transfers During the Year	971,488	850,144
Total appropriation	2,933,237	2,235,287
Un-appropriated balance carried forward	12,378,772	10,240,092
Proposed final dividend	554,057	554,057

RESERVES

The reserves of the Company and the Group with the movements during the year are given in Note 4.34 to the Financial Statements on pages 307 to 308.

TAXATION

The Income Tax rate applicable to the Company's operations is 28 % (28 % in 2017/18).

The Company was also liable for Value Added Tax (VAT) on Financial Services at 15% (2017/18 -15%) and Nation Building Tax (NBT) on Financial Services VAT at 2% (2017/18-2%).

THE BOARD OF DIRECTORS

The Board of Directors of the Company as at 31st March 2019 consisted of 10 Directors with a balance of skills, wide knowledge and experience in entrepreneurship, banking, finance, audit, and assurance, legal and marketing which is appropriate for the business carried out by the Company.

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 20 to 23.

Executive Directors

Mr. Dhammika Perera –Executive Deputy Chairman

Mr. Sumith Adhihetty – Managing Director

Mr. Niroshan Udage

Mr. B D A Perera

Mr. Ravindra Yatawara

Non-Executive Directors

Mrs. Shirani Jayasekara – Chairperson *

Mr. Thosapala Hewage - *(ceased to be a Director wef 19th February 2019)*

Mrs. Anandhiy Gunawardhana*

Mrs. Yogadinusha Bhaskaran

Mr. Ashane Jayasekara *

Mrs. Ashwini Natesan *
(appointed wef 1st September 2018)

** Based on Annual declarations provided by the Non-Executive Directors, the Board has determined that Mrs. Shirani Jayasekara, Mrs. Anandhiy Gunawardhana, Mr. Ashane Jayasekara, and Mrs. Ashwini Natesan are "Independent" as per the Listing Rules and the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended).*

New appointments during the year and upto the date of this Report

Mrs. Ashwini Natesan was appointed as an Independent Non-Executive Director on 01st September 2018 after having obtained the relevant regulatory approval under the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 3 of 2011.

Mr. Dharmadasa Rangalle was appointed as a Non Executive Director on 10th April 2019, after having obtained the relevant regulatory approval under the aforesaid Direction No. 3 of 2011.

Resignations during the year

There were no resignations during the year.

Cessations during the year

Mr. Thosapala Hewage, an Independent Non-Executive Director on the Board ceased his office on 19th February 2019 on reaching the age of 70 years, pursuant to paragraph 5(1) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

Directors of the Subsidiary

The Directors of the subsidiary, L B Microfinance Myanmar Company Limited as at 31st March 2019 consisted of the following:

Mr. Dhammika Perera

Mr. Sumith Adhihetty

Mr. Dulan De Silva

Mr. Niroshan Udage

Mr. B D A Perera

Mr. Ravindra Yatawara

There were no changes in the Directors of the subsidiary, during the year under review and upto the date of this Report.

Retirement by rotation and re-election of directors

The names of the Directors who are

(i) subject to retirement by rotation in terms of Articles 85 and 86 of the Articles of Association and

(ii) who retire in terms of Article 92 of the Articles of Association

and the applicable provisions are set out in the undernoted Table:

The Nomination Committee and the Board have recommended the re-election of the said Directors.

Directors' interests register and Directors' interests in contracts or proposed contracts

The Company maintains a Directors' Interests Register in terms of the Companies Act No. 07 of 2007.

Directors of the Company have made necessary declarations of their interests in Contracts and proposed Contracts in terms of Section 192 (1) and 192 (2) of the Companies Act. These interests are entered in the Interests Register which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

The particulars of the Directors Interests in Contracts with the Company are given in Note 6.1 to the Financial Statements on pages 328 to 330 and form an integral part of this Annual Report.

The remuneration paid to the Directors during the year under review is entered in the Interests Register and the aggregate of such remuneration is disclosed in this Annual Report under "Directors' Remuneration" on page 163.

The relevant interests of Directors in the shares of the Company as at 31st March 2019 as recorded in the Interests Register are given in this Report under Directors' shareholding on page 163.

In accordance with the Myanmar Companies Law, Directors of the subsidiary have disclosed their interests in shares and securities in the said subsidiary and related companies and also their interests in contracts and other arrangements with the said company.

Directors' Declarations in terms of paragraph 7(3) of the Finance Companies (Corporate governance) Direction No. 3 of 2008

The Chairperson and the Directors of the Company have made declarations as per the requirements in Section 7(3) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008, that there is no financial, business, family or other material/relevant relationship(s) between the Chairperson and the Managing Director and/or amongst the members of the Board.

Name of Director	Applicable Article of the Articles of Association	Other information
Mrs. Yogadinusha Bhaskaran	Articles 85 and 86	According to Articles 85 and 86, the Directors to retire by rotation at the Annual General meeting are those who (being subject to retirement by rotation) have been longest in office since their last election or appointment. If one-third of the Directors eligible for retirement by rotation is not a multiple of three, the number nearest to (but not greater than) one-third shall retire from office. As per the Articles, in calculating the said number, Executive Directors and Directors who were appointed to fill casual vacancies and as additional Directors are excluded. Accordingly after excluding 5 Executive Directors and 2 Directors who were appointed upto the date of this Report, the number of Directors subject to retirement by rotation is four and therefore, one Director (Mrs Yogadinusha Bhaskaran) is due to retire at this Meeting and is recommended by the Directors for re-election. Mrs. Bhaskaran was last re-elected as a Director at the Annual General Meeting held in 2016.

Name of Director	Applicable Article of the Articles of Association	Other information
Mrs. Ashwini Natesan Mr. Dharmadasa Rangalle	Article 92	According to Article 92 any Director appointed during the year, shall hold office only until the next Annual General Meeting and shall then be eligible for re-election. Mrs Ashwini Natesan and Mr Dharmadasa Rangalle being Directors appointed since the last Annual General Meeting retire at the Annual General Meeting in terms of Article 92 and being eligible are recommended by the Directors for election by the shareholders.

Related parties' transactions with the company

The Directors have also disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24.

With effect from 1st January 2016, all proposed non-recurrent Related Party Transactions have been placed before the Related Party Transactions Review Committee formed under the Listing Rules of the Colombo Stock Exchange, for its review and recommendations.

The aggregate value of transactions of related parties (as defined in LKAS 24 – 'Related Parties Disclosure') with the Company are set out in Note 6.1 to the Financial Statements on pages 328 to 330.

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party 'more favorable treatment' than that accorded to other similar constituents of the Company.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2019.

Directors' remuneration

The remuneration of Directors of the Company and its subsidiary is disclosed under transactions with key management personnel in Note 6.1.1 to the Financial Statements on page 328.

Relevant interests of directors' in shares

The Directors' shareholding and the relevant interests of Directors in the shares of the Company as at 31st March 2019 and 31st March 2018 are as follows:

	Shareholding as at 31st March	
	2019	2018
Mrs. Shirani Jayasekara	-	-
Mr. Dhammika Perera	-	-
Mr. Sumith Adhihetty	106,120	106,120
Mr. Niroshan Udage	250,325	250,325
Mr. B D A Perera	-	-
Mr. Ravindra Yatawara	-	-
Mrs. Anandhiy Gunawardhana		
Mrs. Yogadinusha Bhaskaran	-	-
Mr. Ashane Jayasekara	-	-
Mrs Ashwini Natesan	-	-
Mr. Dharmadasa Rangalle (appointed on 10.4.2019)	-	-

Mr. Dhammika Perera is the major shareholder of Vallibel One PLC, which holds 71,682,400 shares constituting 51.75% of the shares representing the stated capital of the Company.

Vallibel One PLC is also the holding company of Royal Ceramics Lanka PLC which holds 36,123,232 shares constituting 26.08% of the shares representing the stated capital of the Company.

Mr. Dhammika Perera and Mr. Sumith Adhihetty are Directors of Vallibel One PLC, where they serve as the Chairman/Managing Director and Non-Executive Director.

Mrs. Yogadinusha Bhaskaran is the Chief Executive Officer of Vallibel One PLC.

Mr. Dhammika Perera, serves as the Chairman of Royal Ceramics Lanka PLC.

Directors' interests in debentures

Except, 15,000 Subordinated, Unsecured, Listed, Redeemable, Rated Debentures held by Mrs. Anandhiy Gunawardhana, no debentures were registered in the name of any Director at the beginning and at the end of the year under review.

Board appointed committees

The Board of Directors of the Company has formed five Committees in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008, Listing Rules of the Colombo Stock Exchange and as per the recommended best practices on Corporate Governance.

They are the Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and the Nomination Committee.

The composition of the said Committees is as follows:

Audit Committee

Mrs. Yogadinusha Bhaskaran - Chairperson

Mrs. Anandhiy Gunawardhana

Mr. Ashane Jayasekara

The Report of the Audit Committee appears on page 171 to 172.

Integrated Risk Management Committee (IRMC)

Mr. Ashane Jayasekara – Chairman

Mrs. Anandhiy Gunawardhana - Independent Non Executive Director

Mrs. Ashwini Natesan - Independent Non Executive Director

Mr. Sumith Adhihetty – Managing Director

Mr. Niroshan Udage – Executive Director – Asset Finance

Mr. B D A Perera – Executive Director – Asset Management

Mr. Ravindra Yatawara – Executive Director

Mr. Hasitha Athapattu – Chief Financial Officer

Mr. Udul Chandrasena – AGM Treasury & Planning

Mr. Bimal Perera – DGM – Strategy & Digital Finance

Mrs. Zairaa Kaleel – Compliance Officer

Mrs. Waruni Perera – Manager – Risk Management

The Report of the IRMC appears on pages 173 to 174.

Remuneration committee

Mrs. Anandhiy Gunawardhana – Chairperson

Mr. Ashane Jayasekara

Mrs. Yogadinusha Bhaskaran

The Report of the Remuneration Committee appears on page 168.

Related Party Transactions Review Committee (RPTRC)

Mrs Shirani Jayasekara – Chairperson

Mr. Thosapala Hewage – (upto – 31st January 2019)

Mr. Ashane Jayasekera

Mrs. Ashwini Natesan (from 1st February 2019)

Mr. B D A Perera (Member upto 24th April 2018 and thereafter a Permanent Invitee)

The Report of the RPTRC appears on pages 175 to 176.

Nomination Committee

Mr. Ashane Jayasekera - (Chairman from 1st February 2019)

Mr. Thosapala Hewage - (Chairman upto 31st January 2019)

Mrs. Anandhiy Gunawardhana

Mr. Sumith Adhihetty

The Report of the Nomination Committee appears on pages 169 to 170.

Stated Capital and debentures

The stated capital of the Company as at 31st March 2019 was Rs. 838,282,159/-represented by 138,514,282 ordinary shares. There were no changes in the stated capital of the Company during the year. The details of the debentures in issue as at 31st March 2019 are set out in Note 4.27 to the Financial Statements on page 300.

SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS

Shareholders

There were 1,994 shareholders registered as at 31st March 2019 (2,006 shareholders as at 31st March 2018).

Distribution schedule of shareholders, major shareholders, public holding and ratios and market price information

Information as required by the Listing Rules on distribution of shareholding with the respective percentages, twenty largest shareholders, public holding and ratios and market price information are set out on pages 89, 87, and 84 under Financial Capital.

Ratios and market prices of debentures

Interest rate of comparable government securities, ratios and market prices of the debentures issued by the Company, as required by the Listing Rules are set out on page 90.

During the year under review, there were no changes in the credit rating for the Company and/or the Debentures issued by the Company during the year 2017/18.

Dividends

Information on dividends paid by the Company is given in Note 4.11 to the Financial Statements. The Company paid an interim dividend of Rs. 8/- per share for the year under review out of the profits of the Company, which was subjected to a 14 % withholding tax.

The Directors recommended a final dividend of Rs. 4/- per share for the year under review to be approved by the shareholders at the forthcoming Annual General Meeting. This dividend will be subject to a 14 % withholding tax.

As required by Section 56 of the Companies Act, the Directors have certified that they are satisfied that the Company will, immediately after the said distribution is made, satisfy the solvency test in accordance with the Companies Act and subsequent to such declaration, the Directors have obtained the Auditors certificate of solvency thereon.

In compliance with Finance Companies Guideline No. 01 of 2013, the Company has obtained the approval of the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the proposed final dividend.

The said final dividend will, subject to approval by the shareholders, be payable on 8th July 2019.

Property plant & equipment and significant changes in the Company's and its subsidiary's fixed assets / market value of land

The details of property, plant and equipment are given in Note 4.23 of the Financial Statements.

The land and buildings owned by the Company are recorded at cost and details of those properties and their market values as at 31st March 2019 as per valuations conducted by Mr H V Manjula Basnayake an Independent Valuer are set out in Note 4.23.10 to the Financial Statements on page 293.

HUMAN RESOURCES

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

As at 31st March 2019, the Company had 3,618 employees (3,441 employees as at 31st March 2018).

MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS PERTAINING TO THE COMPANY

No material issues pertaining to employees or industrial relations of the Company occurred during the year under review which required disclosure under Rule 7.6 (vii) of the Listing Rules.

EMPLOYEE SHARE OPTION SCHEMES/EMPLOYEE SHARE PURCHASE SCHEMES

The Company has not implemented any Share Option/Share Purchase Schemes for its employees.

DONATIONS

During the year under review, the Company and its subsidiary made donations to the value of Rs. 8,100,000 and USD 191.60 repectively.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Company carries out CSR activities, annually, details of which are set out in the section on Social and Relationship Capital on pages 114 to 127.

AUDITORS

Messrs Ernst & Young, Chartered Accountants served as the Auditors during the year under review and also provided audit related services and permitted non-audit/consultancy services.

The Auditor of the subsidiary company, L B Microfinance Myanmar Company Ltd is Myanmar Rigour & Associates Limited.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in the Company. The Auditors too have provided a declaration confirming that they are not aware of any relationship with or interest in the Company or, in their professional judgement may reasonably be thought to have a bearing on their independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka applicable as at the date of their declaration.

A total amount of Rs. 6,357,000/- is payable by the Company to the Auditors for the year under review comprising Rs. 3,137,000/- as Audit Fees, and Rs. 2,734,000/-. as audit related fees and expenses and Rs. 486,000/- for non-audit services. A fee of USD 8,550 is payable to the Auditors of the subsidiary company as audit fees.

The Auditors of the Company, have expressed their willingness to continue in office. The Audit Committee at a meeting held on 22nd April 2019 recommended that they be reappointed as Auditors. A resolution to re-appoint the Auditors and to authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

RISK MANAGEMENT AND INTERNAL CONTROL

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company. The Directors review this process through the Audit Committee and the Integrated Risk Management Committee. Specific steps taken by the Company to manage the Risks are detailed in the section on Risk Management on pages 177 to 196.

Directors' statement on Internal Controls over Financial Reporting is on page 214.

MATERIAL FORESEEABLE RISK FACTORS

Material Foreseeable Risk Factors as applicable to the business operations of the Company and the subsidiary are set out in Notes 5.1 to 5.5 to the Financial Statements on pages 310 to 327.

APPRAISAL OF BOARD PERFORMANCE

A scheme of self-assessment is undertaken annually by each Director in conformity with the Section 2 (8) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 by answering a self-assessment questionnaire. The responses are collated by the Company Secretary, which are submitted to the Board and discussed and further evaluated at the Board Meeting.

The Board also carried out an annual self-evaluation of its own performance and that of the Sub-committees to ensure that they discharge their duties and responsibilities satisfactorily, in terms of the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 3 of 2008, Listing Rules of the Colombo Stock Exchange and Best Practices on Corporate Governance.

Board and sub committee evaluations for the year under review were discussed at the Board Meeting held on 28th May 2019.

CORPORATE GOVERNANCE

The Board of Directors is 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 of the Company's dealings and on making the best effort in achieving performance and quality profits. The Board has continuously refined the structure and systems to ensure governance on the lines as defined, being aware all the time that it is accountable to the stakeholders and to the general public.

The Report on Corporate Governance on pages 139 to 158 describes the application of the Corporate Governance practices within the Company during the year under review.

COMPLIANCE WITH LAWS AND REGULATIONS

The Compliance Officer independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Board and the Integrated Risk Management Committee.

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 in terms of the Finance Business Act No. 42 of 2011.

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 reporting date have been paid or, where relevant provided for, except for certain assessments where appeals have been lodged.

ENVIRONMENTAL PROTECTION

The Company has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Company on environmental protection are given in the report on Natural Capital on pages 128 to 135.

OUTSTANDING LITIGATION

In the opinion of the Directors and Company's lawyers, pending litigation by and against the Company will not have a material impact on the financial position of the Company or its future operations.

CONTINGENT LIABILITIES

Except as disclosed in Note 6.5 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

EVENTS OCCURING AFTER THE REPORTING DATE

Except for the matters disclosed in Note 6.9 to the Financial Statements on page 336 there are no material events as at the date of the Auditor's Report which require adjustment to or disclosure in the Financial Statements.

GOING CONCERN

The Board of Directors has reviewed the Company's corporate/business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the going concern concept.

ANNUAL GENERAL MEETING

The Notice of the forty sixth (46th) Annual General Meeting to be held on 27th June 2019 appears on Page 406.

ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

As required by section 168 (1) (k) of the Companies Act, this report is signed on behalf of the Board of the Company by two Directors and the Secretaries of the Company in pursuance of the authority granted by the Board by a Resolution passed on 28th May 2019 having acknowledged the contents of this Annual Report.

Signed on behalf of the Board by

Shirani Jayasekara
Chairperson

Sumith Adhihetty
Managing Director

P W Corporate Secretarial (Pvt) Ltd
Secretaries

28 May 2019

Remuneration Committee Report

Aligning remuneration with performance, and making continued progress towards ensuring a high performing culture in line with the Company's values.

Anandhiy Gunawardhana
Chairperson
Remuneration Committee

COMPOSITION OF THE COMMITTEE

Mrs. Anandhiy Gunawardhana - Chairperson - Independent Non-Executive Director
Mrs. Yogadinusha Bhaskaran - Non-Executive Director
Mr. Ashane Jayasekara - Independent Non-Executive Director

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mrs. Anandhiy Gunawardhana - Chairperson - Independent Non-Executive Director	3/3
Mrs. Yogadinusha Bhaskaran - Non – Executive Director	3/3
Mr. Ashane Jayasekara - Independent Non-Executive Director	3/3

The Company Secretary functions as the Secretary to the Remuneration Committee

The proceedings of the Committee were reported regularly to the Board.

The Remuneration Committee was formed by the Board in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange and its composition and functions are in conformity with the provisions of the Listing Rules.

The Remuneration Committee operates within the agreed terms of reference.

The remuneration of the Chairman and Non Executive Directors is determined by the Board without the participation of the Non Executive Directors.

MEETINGS

The Committee meets as often as necessary to make recommendations on compensation structures, bonuses and increments of Executive Directors, and also on matters pertaining to the remuneration of the Senior Management and in instances where the Board refers specific matters for review by the Committee.

The Managing Director and the Executive Directors 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 Committee met thrice during the year.

FUNCTIONS

The functions of the Committee include making recommendations to the Board on the compensation and benefits of the Managing Director, Executive Directors and the Senior Management of the Company, and on specific matters referred to the Committee by the Board.

During the year the Committee reviewed the Remuneration Policy, and the Board adopted the revised Remuneration Policy on 9th October 2019.

REMUNERATION POLICY

The primary objective of the Remuneration Policy of the Company is to align remuneration with performance, whilst ensuring that the Company is able to attract and retain employees critical to deliver the Company's strategy and to make continued progress towards ensuring a high performing culture in line with the Company's values.

DIRECTORS' REMUNERATION

The total of the Directors' remuneration paid during the year under review is set out in Note 6.1.1 to the Financial Statements.

Anandhiy Gunawardhana
Chairperson
Remuneration Committee

28 May 2019

Nomination Committee Report

Assessing whether the balance of skills, experience, knowledge and independence is appropriate to enable the Board to operate effectively.

Ashane Jayasekara
Chairman
Nomination Committee

COMPOSITION OF THE COMMITTEE

Mr. Ashane Jayasekara - Chairman - Independent Non-Executive Director
Mrs. Anandhiy Gunawardhana - Independent Non-Executive Director
Mr. Sumith Adhihetty - Managing Director

Mr. Thosapala Hewage, Independent Non-Executive Director, served as the Chairman upto 31st January 2019

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mr. Thosapala Hewage - Independent Non-Executive Director *Chairman upto 31.1.2019*	1/1
Mr. Ashane Jayasekara - Independent Non-Executive Director *Chairman from 1.2.2019*	2/2
Mr. Sumith Adhihetty - Managing Director	3/3
Mrs. Anandhiy Gunawardhana - Independent Non-Executive Director	3/3

The Company Secretary functions as the Secretary to the Nomination Committee.

The proceedings of the Committee were reported regularly to the Board.

The Committee was reconstituted by the Board on 29th January 2019 considering that its Chairman, Mr Thosapala Hewage would cease office on 19th February 2019 on reaching the age of 70 years. Accordingly, Mr Ashane Jayasekara, an Indepdent Non-Executive Director was appointed to the Committee as its Chairman, effective from 1st February 2019.

FUNCTIONS

The functions of the Nomination Committee are:

- To regularly review the structure, size, composition and competencies of the Board, the requirement of additional / new expertise and the succession arrangements for retiring Directors and make recommendations to the Board with regard to any changes;
- To consider the making of any appointments to the Board and to provide advice and recommendations to the Board on such appointments;
- To ensure that Directors are fit and proper persons to hold office as per the criteria set out in the Direction issued by the Central Bank of Sri Lanka and relevant Statutes;
- To make recommendations on other related matters referred it to by the Board of Directors.

MEETINGS

During the year the Committee had three (3) meetings.

ACTIVITIES DURING THE YEAR

Following the appraisal of the Board and Sub Committees conducted in March 2018, where certain additional expertise on the Board was taken cognizance of, the Committee met on 5th July 2018 when it reviewed the requirement of expertise related to Digital Technology and Telecommunications Law considering that the traditional financial services industry was past transforming into a digital financial services industry and that digitalization is a key factor in improving product / process efficiency. In that light, it recommended the appointment of Mrs Ashwini Natesan, a practitioner from India specialized in Technology, Media & Telecommunications Law. The Committee's recommendations were subsequently approved by the Board and Mrs Natesan was appointed as an Independent Non Executive Director on 1st September 2018 after obtaining the requisite regulatory approval.

The Committee met on 29th January 2019, to consider the casual vacancy that would arise from the cessation of office of Mr Thosapala Hewage, an Independent Non Executive Director, who joined the Company following an illustrious career in the public sector. The Committee being of the view that public sector experience should continue on the Board and considering the requirements for further expertise on the Board, recommended the appointment of a retired Senior Commissioner of the Department of Inland Revenue (Special Grade) who counts over 34 years experience in the Public Sector, including 31 years of experience in Tax Administration. In its deliberations, the Committee considered the other Directorships held by the nominee and the provisions of paragraph 4(1)(f)(ii) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 pertaining to Independent Directors and noted that the said nominee would not qualify as an Independent Director due to the directorships held by him in three companies, which are subsidiaries of a listed company, where the major shareholder was the Executive Deputy Chairman of the Company. Accordingly, consequent to the Committee's recommendations and after having received the approval of the Board and the regulator, Mr Dharmadasa Rangalle was appointed a Non Executive Director on 10th April 2019.

The Committee also met on 29th March 2019 to consider the succession planning for two key positions in the Company who will cease office during the latter part of this year and the next year pursuant to the provisions of the Finance Companies (Corporate Governance) Direction No. 3 of 2008. In its deliberations, the Committee reviewed the KMP Succession Plan adopted by the Company and the nominees' qualifications, competencies, knowledge, experience, acceptance by the Board, colleagues and subordinates and any relationships which have potential to give rise to conflict vis-à-vis the business and operations of the Company and the fit and proper criteria under Finance Companies Direction No. 3 of 2011. Following further discussions with the nominees, the Committee made its recommendations to the Board at the meeting held on 28th May 2019. During its review of the KMP Succession Plan, the Committee made certain recommendations to ensure that the succession planning was in order.

Ashane Jayasekara
Chairman
Nomination Committee

28 May 2019

Audit Committee Report

The Committee continues to deliver on its key responsibilities, ensuring focus is maintained on the Group's control environment.

Yogadinusha Bhaskaran
Chairperson
Audit Committee

COMPOSITION OF THE COMMITTEE

Mrs. Yogadinusha Bhaskaran – Chairperson - Non – Executive Director
Mrs. Anandhiy Gunawardhana - Independent Non-Executive Director
Mr. Ashane Jayasekara - Independent Non-Executive Director

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mrs. Yogadinusha Bhaskaran – Chairperson - Non – Executive Director	15/15
Mrs. Anandhiy Gunawardhana - Independent Non-Executive Director	15/15
Mr. Ashane Jayasekara - Independent Non-Executive Director	15/15

The Company Secretary functions as the Secretary to the Audit Committee.

The proceedings of the audit committee were reported regularly to the Board.

As the Chairperson of the Audit Committee of LB Finance PLC, I am happy to address you on behalf of the members of this Committee. The year under review was a challenging year with new regulations and directions brought into force by the Central Bank of Sri Lanka (CBSL) and other regulatory authorities.

COMMITTEE DUTIES AND RESPONSIBILITIES

The Charter of Audit Committee clearly defines the Terms of Reference of the Committee. The Charter is reviewed annually, to ensure new developments to the Committee's functions and concerns are adequately addressed. The latest review of the Audit Committee Charter was done in February 2019 and approved by the Board of Directors during the same month.

The Audit Committee is setup primarily for assisting the Board in carrying out its oversight functions in relation to the accuracy and integrity of the financial statements and compliance with Company policies, legal and regulatory requirements, with a view to safeguarding the interests of shareholders, depositors and other stakeholders. The Committee is responsible for the oversight of the effectiveness of the system of internal controls, risk management, compliance to the laws, regulations and Directions of the CBSL and the independence and performance of the external & internal auditors.

The Managing Director, three Executive Directors , Chief Financial Officer, Deputy General Manager –Digital Financial Services, Manager-Risk Management, Audit Manager, Compliance Officer, Senior Manager –IS Audit, Head of Treasury and Head of IT attended the meetings by invitation. The members of the management team and Company's External Auditors, Messrs.' Ernst & Young were invited to participate at the meetings as and when required.

The profiles of the Board members are given on pages 20 to 23

SUMMARY OF AUDIT COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

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 Financial Reporting Standards and 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 all transactions are accurately recorded in the 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.

Regulatory Compliance

Process owners comply with regulations as part of their standard operating procedure.

The Compliance Officer checks on new regulations and adds any relevant new areas of compliance to policies and procedure manuals. She also reviews and reports on any gaps or areas of non compliance to the Audit Committee.

Thirdly, there is a review of regulatory compliance done by outsourced internal auditor in selected areas in line with their internal audit programs.

Internal audit

The internal audit function is outsourced to Chartered Accountants, Messrs KPMG and they report to the Audit Committee. During last financial year, BDO Partners too functioned as internal auditors until end February reporting to the Audit Committee. The internal auditors are responsible to review and report on the efficacy of the internal control system and compliance with statutory and other regulations and the Company's accounting and operational policies. Prior to the commencement of audits, the audit scope is reviewed by the Committee and the Committee recommends amendments where necessary, prior to approving the scope. Control weaknesses highlighted in the internal audit reports are critically examined by the Committee and follow-up action taken by the management on the audit recommendations are also reviewed. The Committee had recommended re-audits of certain processes, to ensure effectiveness of controls. Internal audit representatives are present at Audit Committee meetings during the discussion of their respective reports.

During the year, The Committee advised the management to set up an Internal Audit Department as per CBSL Direction No. 07 of 2018.

External Audit

The Audit Committee reviewed and monitored the independence and objectivity of the external auditors Messrs Ernst & Young, Chartered Accountants. The Committee reviewed the non-audit services provided by the auditors to ensure that the provision of these services does not impair their independence. During the year, the Committee evaluated the performance of the external auditors.

The Committee met the external auditors to discuss the management letter pertaining to the previous year's audit and the management's response thereto. Follow-up actions were taken to ensure that the recommendations contained in the management letter were implemented by the management. Private meetings were held with the external auditors, in the absence of management, for the auditors to freely discuss and express their opinions on any matter. One such meeting was held, prior to the finalization of the financial statements.

The Audit Committee together with management reviewed and discussed the audit scope, approach & audit plan with Messrs. Ernst & Young, prior to the commencement of the audit for 2018/19.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed as the external auditors for the financial year ending 31st March 2020, subject to the approval of the shareholders at the next annual general meeting.

Whistleblowing Policy

The Committee ensures the Whistleblowing Policy of the Company is a current, live document to which all employees have access. All employees are encouraged to practice whistle blowing if they suspect any wrongdoing. Senior Management, time to time conducts awareness programs to encourage staff to raise genuine concerns.

The Compliance Officer reports on the whistleblowing incidents to the Audit Committee each quarter end. The Committee monitor the follow-up action taken on incidents of whistleblowing.

Audit Committee Effectiveness

As in the previous years, this year too, the effectiveness of the Committee was self-evaluated by its members and the results were presented to the Board.

LOOKING AHEAD

The Audit Committee will ensure that LB Finance will have an Internal Audit department conducting process audits and branch audits under the supervision of a Chief Internal Auditor.

Yogadinusha Bhaskaran
Chairperson

28 May 2019

Integrated Risk Managment Committee Report

Assessing the risks arising from internal and external factors on an ongoing basis and escalating those to the Board in a timely manner to minimize/mitigate their impact on the operations of the Company

Ashane Jayasekara
Chairman
Integrated Risk Management Committee

COMPOSITION OF THE COMMITTEE

Board members
Mr. Ashane Jayasekara - Chairman - Independent Non-Executive Director
Mrs. Anandhiy Gunawardhana - Independent Non-Executive Director
Mrs. Ashwini Natesan - Independent Non-Executive Director
Mr. Sumith Adhihetty - Executive Director
Mr. Niroshan Udage - Executive Director
Mr. B D A Perera - Executive Director
Mr. Ravindra Yatawara - Executive Director

Key management personnel supervising broad risk categories are also included in the composition of the Committee and their names appear on page 164.

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mr. Ashane Jayasekara - Chairman, Independent Non-Executive Director	4/4
Mrs. Anandhiy Gunawardhana- Independent Non-Executive Director	4/4
Mrs. Ashwini Natesan* - Independent Non-Executive Director	2/4
Mr. Sumith Adhihetty - Managing Director	4/4
Mr. Niroshan Udage - Executive Director	4/4
Mr. B D A Perera - Executive Director	4/4
Mr. Ravindra Yatawara - Executive Director	Excused

**Appointed w.e.f. 09/10/2018*

The Integrated Risk Management Committee (IRMC) is a Board appointed committee chaired by an Independent Non-Executive Director in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka.

The Company Secretary functions as the Secretary to the Committee

The proceedings of the Committee were reported regularly to the Board.

COMMITTEE RESPONSIBILITIES

The responsibilities of the Integrated Risk Management Committee as mandated by the Board of Directors are as follows:

1. Assess all risks i.e. credit, market, liquidity, operational and strategic risk including business continuity plans of the Company on a quarterly basis through appropriate risk indicators and management information.
2. Review the adequacy and effectiveness of all management level committees such as credit committee and the asset-liability committee to address specific risk and to manage those risks within quantitative and qualitative risk limits as specified by the Committee. The Committee shall:
   a. receive reports from management concerning capital adequacy, asset quality, credit, market, liquidity, operational, new and emerging risks etc in order to oversee these risks and assess their effect on capital levels.
   b. receive reports from management concerning resolution of significant risk exposures and risk events, in order to monitor them and, if thought fit, approve them.
3. Take prompt corrective action to mitigate the effects of specific risk in the case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and supervisor's requirements.
4. Take appropriate action against the officers for failure to identify specific risks and take prompt corrective action as recommended by the Committee.
5. Report and recommend to Board of Directors on Risk Management and Compliance related matters seeking the Board's view, concurrence and /or specific directions.

COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

Credit Risk

- Reviewed the credit quality of the asset backed advances portfolio with special focus on mortgage loans.
- Reviewed the activities of Credit Committee through the assessment of the loan performance of significant exposures against the Company and internal credit rating.
- Improvements were recommended to ensure the completeness of security documentation of large exposures.
- Reviewed the status of activities carried out to increase the repeat businesses generated from high creditworthy customers.

Liquidity and Market Risk

- Reviewed the adequacy and effectiveness of ALCO activities by assessing asset and liability limits, single borrower exposure / single group exposure, single depositor exposure / bulk depositor exposure, duration of deposits and optimal funding mix.
- Reviewed the liquidity position, funding pipeline and liquidity management strategies of the Company.
- Reviewed the compliance with loan covenants and the effectiveness the process in place to ensure continuing compliance to the loan covenants.

Operational Risk & Human Resources Risks

- Reviewed the measures taken to strengthen information security of ongoing and proposed IT involved projects.
- Reviewed the adequacy of existing control environment on protecting confidential / sensitive information of LBF customers and recommended further preventive measures to strengthen the process.
- Reviewed the control environment of operational risks with special focus on external frauds and work place safety including;
  o Adequacy of cash in transit / cash in safe
  - Adequacy of fire fighting equipment and fire training
  - Adequacy and effectiveness of CCTV network coverage and surveillance
  - proposed mechanisms to strengthen the security arrangements at branches

COMPLIANCE

- Assessed the Company's compliance with laws, regulations and regulatory guidelines, CBSL directions, internal policies in all areas of business operations with special focus to Money Laundering and Terrorist Financing (ML & TF) related regulations.
- Introduced a new procedure to the quarterly compliance update to IRMC and Board which covers all aspects of compliance including;
  - Companies Act and Listing Rules, and Finance Business Act, directions and other Statutes as applicable to secretarial duties
  - Finance and Tax and other applicable Statutes
  - Statutes as applicable to HR related matters
  - Provisions of insurance policies
  - Covenants as applicable to loans and securitizations, etc

GENERAL

- Monitored the effectiveness of risk communication framework in place to escalate the new risks faced by each department on a timely manner and improvements were recommended to streamline the process.
- Potential risks arising from recent changes in business environment were discussed with a view to identify the impact of such events on the achievement of Company's objectives and to initiate remedial actions in a proactive manner.
- Reviewed the KRIs used in FY2018/19 for their appropriateness for FY2019/20 in light of changing business, economic, industry and Company dynamics.
- Reviewed and approved the risk appetite statement of the Company for FY 2019/20.

Ashane Jayasekara
Chairman
Integrated Risk Management Committee

28 May 2019

Report of the Related Party Transactions Review Committee

Managing relationships with related parties to uphold good governance and the best interests of the Company.

Shirani Jayasekara
Chairperson
Related Party Transactions Review Committee

COMPOSITION OF THE COMMITTEE

Mrs. Shirani Jayasekara- Chairperson - Independent Non-Executive Director
Mr. Ashane Jayasekara - Independent Non Executive Director
Mrs. Ashwini Natesan - Independent Non Executive Director

[Mr. Thosapala Hewage, Independent Non-Executive Director, served as a member upto 31st January 2019]

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mrs. Shirani Jayasekara - Independent Non-Executive Director *Chairperson*	5/5
Mr. Thosapala Hewage - Independent Non-Executive Director (*upto 31.1.2019)*	4/5
Mr. Ashane Jayasekara - Independent Non-Executive Director	5/5
Mrs. Ashiwini Natesan - Independent Non-Executive Director (*from 1.2.2019)*	-
Mr. B D A Perera -Executive Director (*permanent invitee)*	5/5

The Company Secretary functions as the Secretary to the Related Party Transactions Review Committee.

The proceedings of the Committee were reported regularly to the Board.

The Related Party Transactions Review Committee (RPTRC) of the Company was established by the Board on 22nd September 2015 in accordance with Section 9 of the Listing Rules of the Colombo Stock Exchange to ensure compliance with those Rules thereby enhancing the Company's internal control mechanisms.

The Committee was reconstituted by the Board on 29th January 2019 considering that Mr Thosapala Hewage would cease office on 19th February 2019 on reaching the age of 70 years. Accordingly, Mrs Ashwini Natesan, an Independent Non Executive Director was appointed as a member, effective from 1st February 2019.

Pursuant to a decision taken by the Board on 24th April 2018, Mr B D A Perera, Executive Director who was a member of the Committee, ceased to be a member and was made a Permanent Invitee with effect from 24th April 2018. This decision was taken to ensure that the composition of the Committee is in conformity with the provisions of the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.

Scope of the Committee includes:

- To manage relationships with related parties to uphold good governance and the best interests of the Company
- To provide an independent review, approval and oversight of Related Party Transactions (RPTs) (except those expressly exempted by the Charter) on terms set forth in greater detail in the Policy
- To review the Charter and Policy annually and recommend amendments to the Charter and the Policy to the Board as and when determined to be appropriate by the Committee.
- Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company;
- Establishing guidelines in respect of Recurrent Related Party Transactions, for senior management to follow in its ongoing dealings with the relevant related parties
- Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner

POLICIES AND PROCEDURES

- The Charter of the Committee was adopted by the Board on 22nd September 2015. It includes a RPT Policy whereby the categories of persons/ entities who shall be considered as 'related parties' have been identified.
- In accordance with the RPT Policy, monthly self-declarations are obtained from each Director for the purpose of identifying parties related to them

and such declarations are filed with the Company Secretary. The Company Secretary communicates any changes in the Related Parties to the officer responsible for collation of information on related parties.

- The Company uses a RPT System that enables the Company to retrieve data on RPTs throughout the Company's network. Based on the information furnished in the declarations submitted by the Directors, the data base of related parties maintained in the RPT system is continuously updated and the system automatically generates a comprehensive report every quarter for Management's review, which is also tabled at RPTRC meetings and, where necessary, at Board Meetings held after the completion of the relevant quarter. The said report reflects all types of transactions with related parties including general payments, creditors, debtors, savings, fixed deposits and lending.
- In its review of RPTs, RPTRC considers the terms and conditions of the RPT, value, and the aggregate value of transactions with the said related party during the financial year, in order to determine whether they are carried out on an arms length basis, the disclosure requirements as per the Listing Rules of the Colombo Stock Exchange and the level of approval required for the respective RPTs are complied with.

The RPTRC ensures that all transactions with related parties are in the best interests of all stakeholders, adequate transparency is maintained and are in compliance with the Listing Rules.

The Committee reviewed, non recurrent RPTs during the year and made recommendations and communicated its observations to the Board.

The Committee has established guidelines in respect of Recurrent RPTs to be followed by the Management of the Company, in the Company's dealings with related parties.

During the year, the Committee reviewed the Charter and the Policy and noted that they did not require any amendments.

Reviewing and approval of RPTs are either at a meeting of a majority of the members who form the quorum or by circulation, approved by all the members.

RELATED PARTY TRANSACTIONS/ DISCLOSURES DURING THE YEAR

1. Information on all related parties, as extracted as at the end of each quarter, was presented to the RPTRC and the Board at their meetings held in the immediately following month.
2. All Directors made a monthly declaration, where any transactions entered/to be entered into by the respective Directors and/or any related parties of the said Director were disclosed, which were tabled at the RPTRC.
3. The value of non-recurrent RPTs during the year was below the threshold for immediate disclosure in terms of Rule 9.3.1 of the Listing Rules or disclosure in the Annual Report as per Rule 9.3.2 (a) of the Listing Rules.
4. The aggregate value of recurrent Related Party Transactions entered into during the year was below the threshold for disclosure in the Annual Report as per Rule 9.3.2(b) of the Listing Rules.
5. The aggregate value of all RPTs during the year is disclosed in Note 6.1 to the Financial Statements in terms of LKAS 24 – Related Party Disclosures.

MEETINGS

The Committee had Five (05) meetings during the year under review.

DECLARATION

A declaration by the Board of Directors as an affirmative statement of the compliance with the Listing Rules pertaining to related party transactions is given on page 163 of the Annual Report.

Shirani Jayasekara
Chairperson
Related Party Transactions Review Committee

28 May 2019

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RISK ENVIRONMENT

As a financial intermediary operating in an extremely competitive and volatile environment, it is imperative to be proactive in our business strategies in order to adopt quickly to changing risk dynamics. During the year under review, demand for new vehicle financing continued to be dampened by the lending restrictions imposed on certain vehicle classes. Adverse weather conditions and infestations that prevailed in most parts of the country hindered agricultural production causing a considerable negative impact to economic activities. Lower GDP growth naturally led to reducing demand for credit, poor loan recoveries and overall deterioration in asset quality in the industry.

During FY 2018/19 existing capital adequacy framework was revised and changes were implemented requiring a capital charge for operational risks. Adoption of SLFRS 9 which requires higher provisioning for expected loss and imposition of Debt Repayment Levy on the financial industry will further challenge the industry profitability.

Collapse of few LFCs in the recent past, brought in negative sentiments in the minds of the public on stability and this caused extra challenges to the sector as a whole.

Evolving trends in the business environment such as technological advancements, competition arising from technologically geared competitors offering innovative financial solutions, worldwide spread of ransomware/cyber-attacks, extended regulatory requirements by the regulators and attention towards sustainability have challenged the traditional business operations of the industry. (Refer page no. 66 for more information on material matters).

Further, unstable political conditions/ policies, volatility in LKR, restrictions imposed on vehicle imports, low economic growth than expected and increasing interest rates also created more complications to the industry.

GLOBAL AND LOCAL LANDSCAPE

Risk Event	Assessment	Trend	Impact to the Company
Global			
US Federal Reserve's approach towards key policy rates to increase the volatility in USD/ LKR exchange rate	● Low	▲ Increase	Limited due to insignificant exposure to USD denominated borrowings
Cyber threats	● Moderate	▲ Increase	Possibility of breaking down of critical information infrastructure and misuse of Company's customer database Possible reputational, legal and financial consequences and loss of customer confidence Heavy investments in preventive and detective cyber security systems increasing the cost to income ratio
Increase in Rupee interest rates to match up the US interest rates	● Moderate	▲ Increase	Increased cost of funds
High volatility in precious metal (gold) prices and volatility in exchange rate (USD/LKR)	● Moderate	▲ Increase	Increased defaults from gold loans Increase in expected loss from gold loans
Local			
Increase in Government taxes (introduction of Debt Repayment Levy of 7% for Banks and Finance Companies)	● High	▲ Increase	Increase in corporate tax rates reduces the profitability of the Company and discourage investments
Tight liquidity	● Moderate	▲ Increase	Increased cost of funds Having to rely on external borrowings
Low economic growth than expected	● Low	▲ Increase	Lower disposable income resulting in low savings Increase in credit default risk
Increase in cost of raising new deposits leading to disproportionate rise in borrowing rates compared to lending rates	● Moderate	▲ Increase	Pressurized net interest margins
Tight competition and emergence of technologically-geared financial products	● Low	▲ Increase	Risk of losing competitve edge over the tech-savvy players in the market
Rising trend in NPLs	● Moderate	▲ Increase	Increased impairment/credit cost impacting profitability

● - High ● - Moderate ● - Low ▲ Increase ▼ Decrease

RISK MANAGEMENT AT LBF

Risk is inherent in all business activities of a financial institution engaged in a varied offering of financial services. Sound risk management enables us to protect our depositors and investors whilst delivering an adequate risk adjusted return to our shareholders. At LBF we believe in aligning corporate strategy closely with risk strategy. Risk management efforts are aimed at risk steering, as opposed to mere risk prevention or minimisation. The Company takes a comprehensive approach to risk management with a defined Risk Framework and a clearly articulated Risk Appetite Statement sanctioned by the Board of Directors. The Company's risk management process is steered by the Board appointed Integrated Risk Management Committee (IRMC).

An appropriate and effective risk management system ensures that risks and their impacts are identified and evaluated at an early stage and the contingency plans and measures are in place where necessary, to handle risks and to prevent their accumulation.

Through proper implementation of an enterprise risk management system, the Company strives to achieve the following goals:

- Development of a risk culture that fosters awareness of risks and a common understanding of risks across functions and departments
- Capital protection, both for internal as well as regulatory purposes
- Limitation of earnings volatility
- Risk-based performance measurement and decision making
- Ability to act proactively or to respond quickly and effectively to adverse events
- Better understanding of risks for competitive advantage
- Increase transparency and optimise information flows between business functions, control functions, Management Committees and the Board of Directors

KEY INITIATIVES IN FY 2018/19

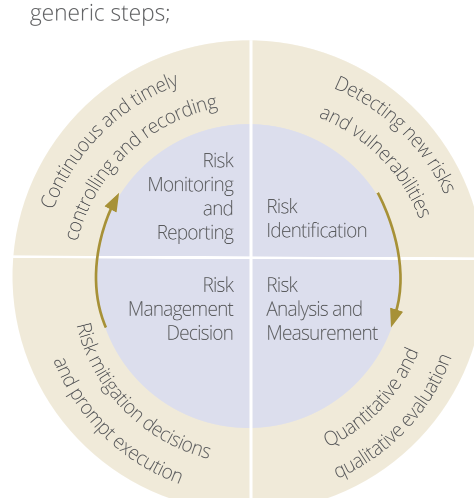
- Conducted Money Laundering and Terrorist Financing (ML & TF) risk assessment for the overall Company, customers, deposit products, lending products and processes
- Reviewed the internal audit scope of branches and Gold Loan Centres (GLCs) and introduced a risk based internal audit scope with a scoring methodology
- Guided the business units in successfully implementing the proposed Capital Adequacy Framework which required a new capital charge for operational risks
- Conducted a 100% reliability testing of the enhanced Disaster Recovery (DR) site and successfully executed the Business Continuity Plan (BCP)
- Conducted a comprehensive risk assessment for all the outsourcing arrangements of the Company
- Further improved the independent portfolio quality review by sharing the learnings with the Credit Committee for making necessary policy revisions
- Broadened the scope of fraud detection and prevention mechanisms using exception reports and data analytics

PRIORITIES FOR FY 2019/20

- Including business segments/ processes that are yet to be included into the Enterprise Risk Management (ERM) process
- Contribute towards the Company's profitability objectives by providing information on risk adjusted returns; facilitating for informed decision making
- Put in place a detective and reporting mechanisms for the early detection of internal/external frauds and exceptions
- Introducing Credit Rating Methodology to the Daily Loans, Micro Merchant Loans and Personal Loans
- Regular review of credit portfolio performance in order to validate the assumptions used in expected loss model
- Comprehensive assessment of the credit, operational and other risks arising from the proposed digitisation strategy of the Company

RISK MANAGEMENT PROCESS

Management of risks within the Company takes place in several steps. These apply in principle to all risk categories. The risk management process at its broadest level can be broken down into the following generic steps;



RISK IDENTIFICATION

In the context of risk identification, all existing risk categories, their sub-risks as well as their risk sources within the Company's business are determined and clearly distinguished from each other on an ongoing basis.

New risks can occur, given that the business environment is constantly changing and new products are being developed and brought into the market. Early and comprehensive identification of risks is an essential element for the early warning system.

Before commencing business with new products, types of business and in new markets, the risks inherent in them and the resultant effects on risk management must be identified.

RISK ANALYSIS AND MEASUREMENT

Following on from risk identification, risks are analysed and measured using quantitative as well as qualitative risk-appropriate methods and procedures. The methods used are verified continuously using sensitivity analysis, stress tests, gap analysis, risk rating, risk scoring and Value at Risk (VaR) analysis.

Interdependencies are to be taken into account and risk concentrations or accumulation risks are to be continuously analysed and evaluated.

RISK MANAGEMENT DECISION AND EXECUTION

The risk management function initiates suitable strategies and concepts aimed at the prevention, reduction, mitigation, transfer or diversification of all identified and analysed risks in accordance with defined objectives.

RISK MONITORING AND REPORTING

The quantifiable risks are restricted by risk limits. The development of risk limits for controlling and monitoring risk positions, risk exposure in particular to avoid risk concentrations for sectors, customers and security types form an essential part of the Company's risk approach.

All non-quantifiable risks are managed via appropriate methods or approaches that involve process improvement, modifications or re-engineering.

Monitoring ensures that the risk management decision is implemented appropriately and in a timely manner. It includes both monitoring of deviations from the prescribed risk limits and monitoring of methods, procedures and processes used for quantifiable and non-quantifiable risks.

RISK MANAGEMENT AND REPORTING PROCEDURE (RMR)

RMR procedure is the practical manifestation of the Company's risk management process. In line with the Risk Management Process, this mechanism is designed for managing and reporting risks within the entire organisation.

RMR procedure allows the Risk Management Department (RMD) and the Chief Risk Officer (CRO) to identify and assess risks affecting the entire business on a continuous basis.

a. Risk identification

↓

b. Assessment of qualitative/ quantitative risks and defining KRIs

↓

c. Formulation of risk mitigation plans for qualitative and quantitative risk

↓

d & e. Risk communication and escalation to executive leadership

↓

f. Risk monitoring

↓

g. Risk reporting to the IRMC & BOD

(a) RMR procedure starts with the initial identification of key risks concerning each business unit/function. Risk identification is a collective exercise carried out with the active participation and contribution of the respective Heads of Departments (Risk Owners) where RMD's role primarily is to facilitate the process.

(b) For quantifiable risks, Key Risk Indicators (KRIs) are defined and tolerance levels are set for monitoring purposes. KRIs should be evaluated on a regular basis for appropriateness and relevance. Any newly identified KRIs should be added to enhance effective risk monitoring.

(c) Formulation of risk mitigation plans for qualitative and quantitative risks, RMD should initiate and formulate risk mitigation plans together with the respective business divisions. For agreed mitigation actions clear timelines should be set for completion and responsibilities should be assigned.

(d) RMD is responsible for risk communication and escalation to the executive leadership of the Company (Managing Director and the Executive Directors) by providing an updated Corporate Risk Profile on a regular basis. The communication should include a status of compliance with the KRI tolerance levels and progress of the agreed mitigation plans for overcoming key vulnerabilities.

(e) CRO is also responsible for escalating any proposed mitigation strategy beyond the scope/authority of the business units/HODs or the RMD to the executive leadership and seek necessary approvals for the implementation.

(f) RMD should regularly communicate with the risk owners for the purpose of monitoring KRIs and ensuring the implementation of agreed mitigation strategies. Risk owners are responsible for providing all necessary information to the RMD and the CRO to facilitate independent supervision.

(g) CRO is responsible for submitting summarised version of the Corporate Risk Profile to the IRMC and to the Board of Directors at least on a quarterly basis.

RISK APPETITE

Risk appetite is the types of risks and the aggregate amount of risks that the Company is prepared to be exposed to at any given point in time which is approved by the Board of Directors. After a careful consideration of the regulatory requirements, capital, funding and liquidity position, strategic objectives and the Risk Management Framework, the Company has put in place a risk appetite statement which clearly defines the Company's risk appetite and the strategic risk objectives.

Risk appetite criteria	Appetite	Regulatory limit	Actual as at 31st March 2019	Actual as at 31st March 2018
Credit Risk				
Loans and Advances				
Nonperforming loans ratio - Gross	< 2.5%		2.7%	2.4%
Nonperforming loans ratio - Net	< 1.0%		-0.2%	-0.1%
Minimum safety margin for Gold Loans (<1 year products disbursements)	8.0%		13.8%	18.7%
Maximum exposure to single borrower - secured - Individual	5.0%	15% of capital funds	1.8%	2.3%
Maximum exposure to single borrower - secured - Group	10.0%	20% of capital funds	1.8%	2.3%
Maximum exposure to aggregate unsecured financing	4.0%	5% of capital funds	1.6%	2.1%
Maximum exposure to single borrower - unsecured - Individual	0.5%	1% of core capital	0.1%	0.2%
Liquidity Risk				
Liquid assets ratio	12.0%	10.2%	15.5%	14.7%
Deposits renewal ratio	75.0%		77.9%	74.4%
Maximum single depositor/group exposure	5.0% of total deposits		1.2%	1.0%
Maximum exposure to bulk deposits (over Rs. 50 Mn)	20.0% of total deposits		19.3%	14.9%
Capital Adequacy				
Core capital ratio	9.0%	6.0%	15.5%	17.3%
Total risk weighted capital ratio	15.0%	10.0%	17.7%	19.8%
Capital funds to deposits ratio	12.0%	10.0%	24.9%	24.0%
Market Risk (Increase in market interest rates on rate sensitive liabilities)				
% Impact on net interest income from 100 bps shock	5.0%		3.8%	4.4%
% Impact on net interest income from 200 bps shock	10.0%		7.7%	8.7%
% Impact on net interest income from 300 bps shock	15.0%		11.5%	13.1%
% Impact on net interest income from 400 bps shock	20.0%		15.3%	17.5%

RISK GOVERNANCE FRAMEWORK

The Risk Governance Framework of the Company adopts the 'three lines of defence' approach in managing the risks within the defined framework. The three lines of defence framework operates as follows:

Board of Directors

1st Line of Defence	2nd Line of Defence	3rd Line of Defence
HODs Management Committees	IRMC Audit Committee RMD	Internal Audit External Audit Compliance Function
Day-to-Day Management of Risks • First and direct responsibility for the assessment and control of the Company's risks • Embeds Risk Management Framework and sound risk management practices into standard operating procedures • Monitors risk management performance in operation • Accountable for effectiveness of risk management in operation	**Oversight of Risk Policies and Framework** • Develops and implements the framework, policies, systems, procedures and tools • Providing support to the business units, review and report key risks to the IRMC	**Independent Review & Assurance** • Reviews effectiveness of risk management practices • Confirms level of compliance • Recommends improvements and enforces corrective actions where necessary

1ST LINE OF DEFENCE

Asset and Liability Committee

The Asset and Liability Committee (ALCO) is chaired by the Managing Director and comprises of Executive Directors, Head of Treasury, Head of Deposits, the Chief Financial Officer and the Chief Risk Officer. The Committee meets regularly to monitor and manage the assets and liabilities of the Company and also the overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements.

Credit Committee

The Credit Committee comprises of the Managing Director, Executive Directors, the Chief Financial Officer and the Chief Risk Officer. Sanctioning of large exposures are primarily handled by the Credit Committee. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The Committee also periodically reviews the Company's credit policy and lending guidelines to different business segments in line with prevailing market conditions and industry dynamics.

Information Technology Steering Committee

The Information Technology Steering Committee (ITSC) is headed by the Executive Director – Asset Management and comprises of the Head of IT and representatives from relevant departments. The committee is responsible for providing leadership for the planning and management of IT investment on a company wide basis.

It is the responsibility of ITSC to ensure that the Company's Information Technology needs and objectives are being adequately addressed. The Committee helps to ensure that the IT strategy is aligned with the strategic goals of the Company whilst its topmost mandate is to find and align business solutions that may leverage technology. ITSC also looks in to information security related matters on a regular basis.

Sustainability Committee

The Sustainability Committee is responsible for the formulation and the review of the Company's CSR policy and ensuring that CSR activities are integrated into the Company's operations. Keeping in line with the Company's triple bottom line focus, the committee is tasked with the responsibility of steering the Company's CSR activities aimed at uplifting the communities we work with and preserving the environment. The committee is headed by the Head of Marketing, reflecting the close links of our social and environmental initiatives and brand visibility which demonstrates how the CSR strategy is integrated into our business strategy.

2ND LINE OF DEFENCE

Integrated Risk Management Committee (IRMC) - Board Sub Committee

The Board has delegated its authority to Integrated Risk Management Committee which is responsible for developing and monitoring the Company's risk management policies. The committee is headed by an Independent Non-Executive Director and comprises of Executive and Non-Executive Directors, Chief Financial Officer, Chief Risk Officer, Head of Treasury and the Compliance Officer. Meetings of IRMC are held quarterly and the Board of Directors is duly updated of its activities.

Audit Committee - Board Sub Committee

The Audit Committee is a formally constituted sub-committee of the main Board and comprises of three Board members who are Non-Executive Directors. The members of the Committee are appointed by the Board. The primary function of the Committee is to assist the Board to fulfil its stewardship responsibilities with regard to financial reporting requirements and information requirements of the Companies Act and other relevant financial reporting regulations and requirements. It also has oversight responsibility for reviewing the effectiveness of internal control and risk management systems. The Committee assesses the independence and performance of the Company's auditors, both internal and external.

Risk Management Department (RMD)

The Risk Management Department provides an independent oversight function, acting as a second line of defence within the organisation. RMD is tasked with the responsibility of assisting the business units and functional departments in identifying and managing the risks related to their respective operations and processes and independently monitoring the status and effectiveness of the mitigation action plans. RMD is headed by the CRO who directly reports to the Managing Director and has a functional reporting to the Board of Directors and the IRMC.

Risk and Control Self-Assessment (RCSA) Framework is adopted by the RMD to identify risks involved in business activities of the Company and to implement appropriate risk mitigation actions through a critical assessment of such risks. The RMD in collaboration with each department head carries out the RCSA process on a regulary basis to identify and evaluate risks and associated controls. This inculcates a risk management culture across the business units in achieving the organisational objectives. It also provides a framework and tools for management and employees to:

- Identify and prioritise their business objectives
- Assess and manage high risk areas of business processes
- Self-evaluate the adequacy of controls
- Develop risk treatment action plans
- Ensure that the identification, recognition and evaluation of business objectives and risks are consistent across all levels of the organisation

The RMD maintains a comprehensive database of risks that are being identified in collaboration with risk owners along with mitigation action plans and timelines. In addition to the risk database, the RMD maintains records of department wise risks which are being reviewd and updated on a regular basis.

3RD LINE OF DEFENCE

Internal Audit

Internal Audit provides an independent, objective assurance designed to add value and improve an organisation's operations. Company's internal audit function helps to bring a systematic, disciplined approach to evaluate and improve the effectiveness of operational controls, governance processes and risk management.

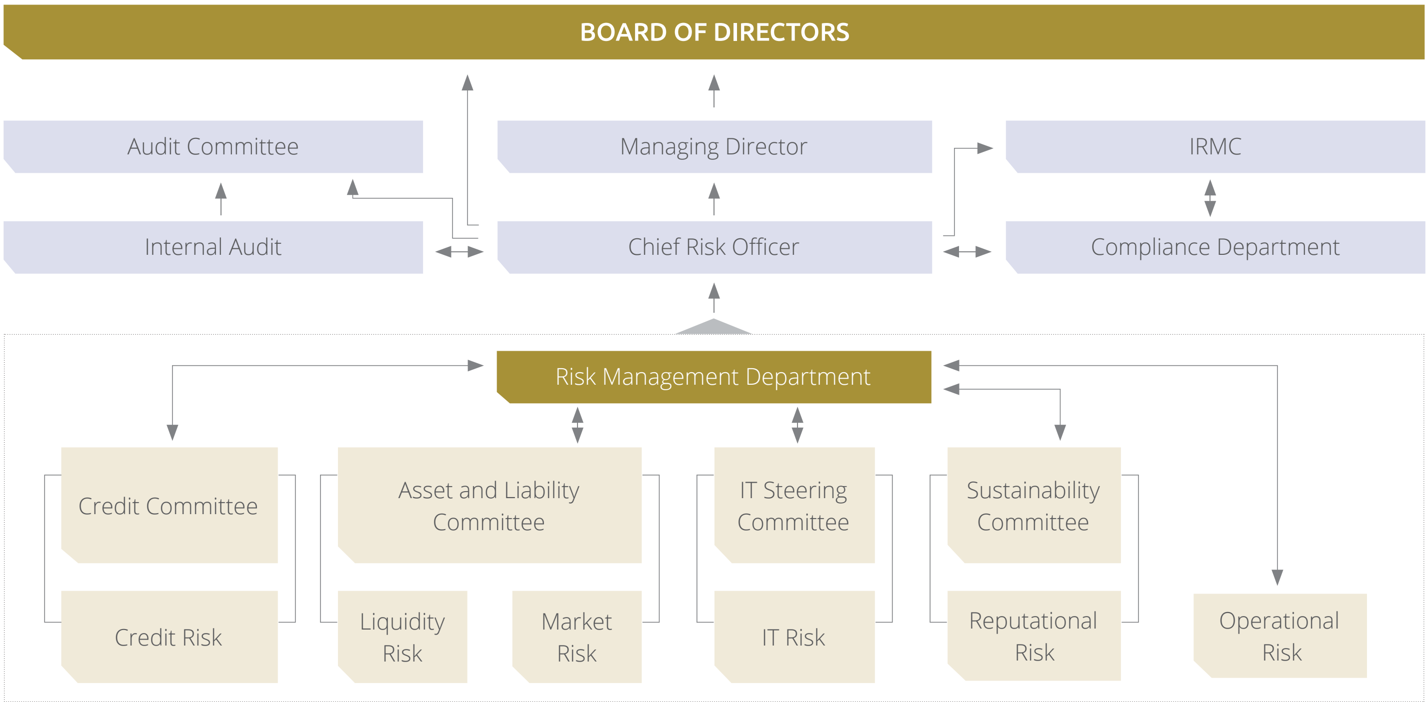
Compliance Function

Compliance function is responsible for ensuring that the Company is in compliance with all applicable laws, regulations and supervisory directions. It complements the RMD by providing necessary risk related information on legal and regulatory risk areas.

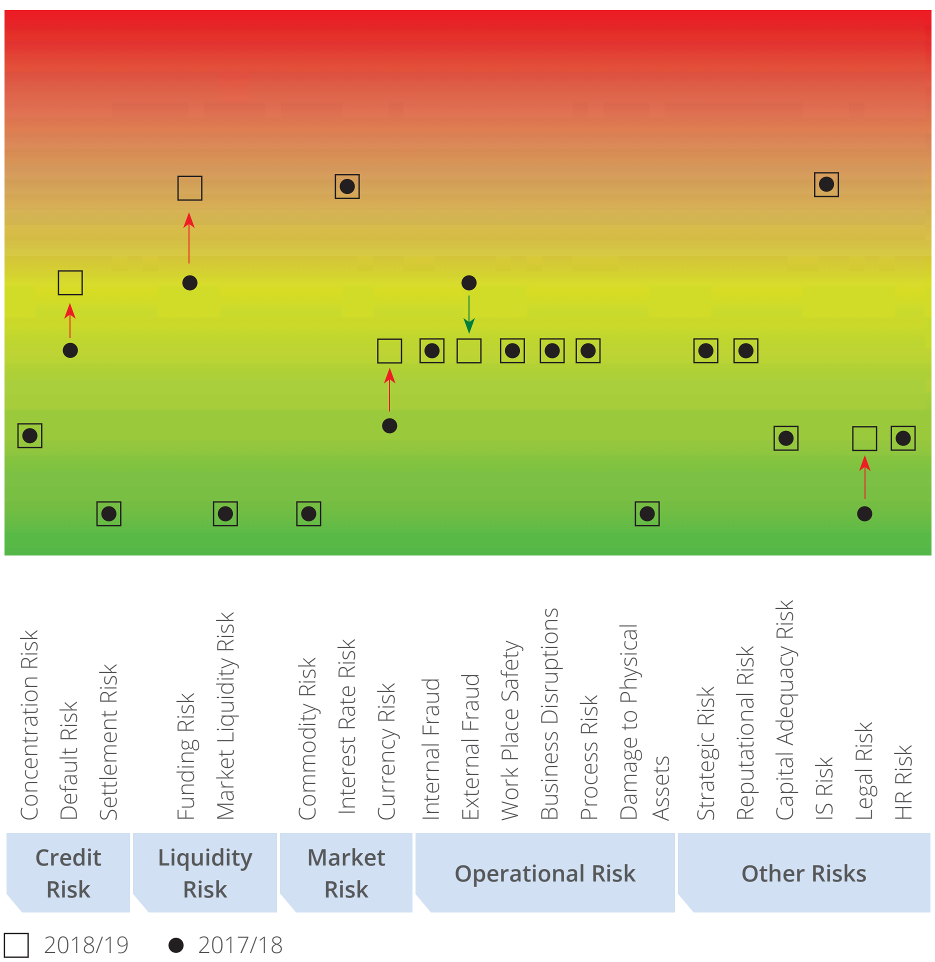
External Audit

External Audit is responsible for adding credibility and reliability to the Company's financial reports by giving an independent opinion on the report. In addition, as part of their annual audit exercise, external auditors also perform an audit on the Company's adequacy of risk management controls, corporate governance and compliance.

RISK GOVERNANCE FRAMEWORK



RISK HEAT MAP



CREDIT RISK

Risk Level -  Trend -

Objective

Safeguard the asset quality and reduce exposures to high risk segments

Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorised into three types; default, concentration and settlement risk.

Default risk is the risk of potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations. The Company's default risk arises principally from loans to customers and fixed income investments with the counterparties.

Concentration risk is the credit or counterparty exposure being concentrated as a result of excessive build up exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

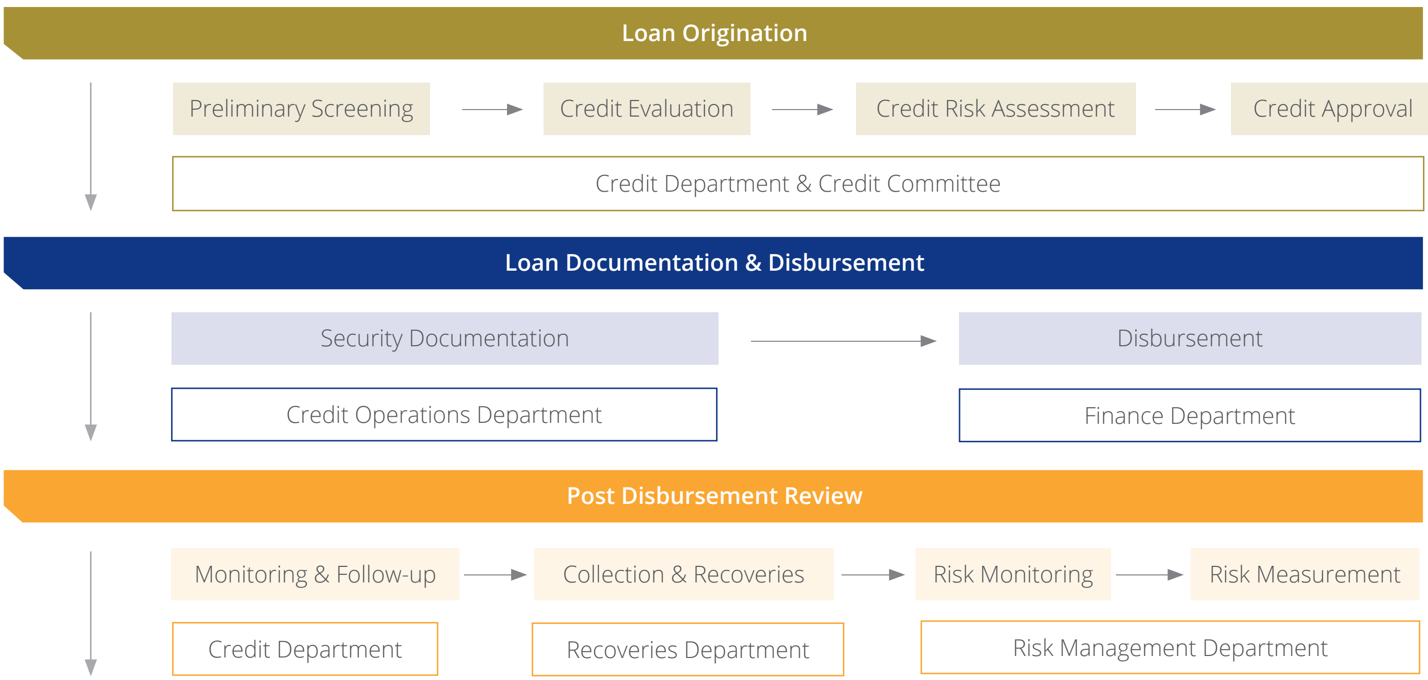
Settlement risk is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis.

The Company has a well-structured credit process that spells out the guidelines and parameters within which the Company's credit decision process takes place. For managing risks arising from counterparty investments, the Company has formulated a comprehensive policy for treasury investments.

The Company's credit approval process plays the most vital role in credit risk management on a day-to-day basis. The process defines the principles about delegation of lending authority, client selection, due diligence in line with the Company's risk appetite.

The Company uses various credit indicators to identify the emerging credit risks and analytical tools to manage such risks.

CREDIT PROCESS



Loan Origination

The credit process starts with the preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. An investigation procedure takes place to assess physical verification of moveable and immovable assets, documentary evidence, references, income sources and the past payment history. This enables the Company to assess the default risk of the borrower.

The Company has clearly defined guidelines for credit approvals. Approving authority has been delegated based on seniority and experience. Approval limits have been set taking into consideration factors such as maximum counterparty exposures, loan to value ratio and forced sale value of the collateralised asset.

Loan Documentation and Disbursement

Credit Operations Department is responsible for facilitating an efficient disbursement process by ensuring that approved procedures are adhered to.

Post Disbursement Review

Initial monitoring and follow up activities are carried out by the Credit Department. Once a loan is overdue for more than the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. RMD reviews asset quality performance regularly. Delinquencies are handled early with effective follow ups and reminders. Swift recovery actions are taken against critical exposures.

Management of Large Exposures

RMD takes an extra effort in closely monitoring large borrower exposures and aggregate exposure limits to manage the concentration risk whilst ensuring compliance to regulatory thresholds. RMD conducts an internal rating of significant exposures measured across 5 criteria listed below.

1. Individual / Group exposure against capital funds
2. Loan to value (LTV) ratio
3. Repayment history and performance
4. Liquidity and recoverability of pledged collaterals
5. Length of relationship with the Company

CREDIT RISK MANAGEMENT

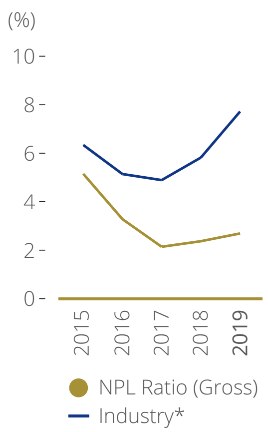
Default Risk - Moderate

Risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Company's loans and advances to customers.

Assessment

Nonperforming loans ratio is monitored on a regular basis at branch level, regional level and company level for different product categories. Company's NPL ratio is also compared with similar sized peers and the industry for benchmarking.

NPL RATIO

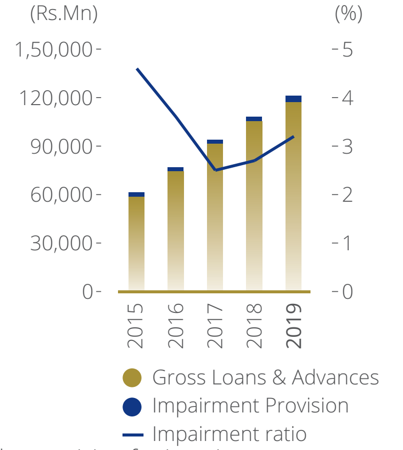


**Industry comprises of LFCs and SLCs-Source: CBSL*

*** Industry NPL 2019 figure is as at 31st December 2018*

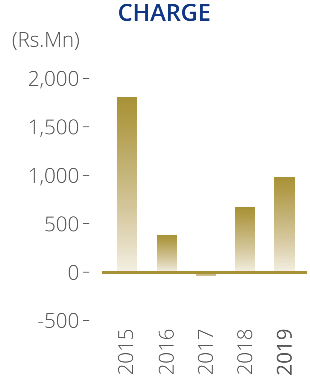
The asset quality of the industry as a whole deteriorated during the year under review. The Company has maintained its outperformance against the industry in terms of maintaining a much stronger overall asset quality. The Company's NPA ratio, expressed as a percentage of Industry NPA, declined to 35% from 41% the year before.

GROSS LOANS AND IMPAIRMENT PROVISION

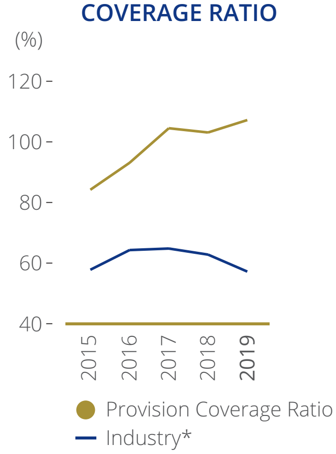


The provision for impairment as a percentage of gross loans and receivables has increased as a result of the marginal increase in the NPL ratio.

IMPAIRMENT CHARGE



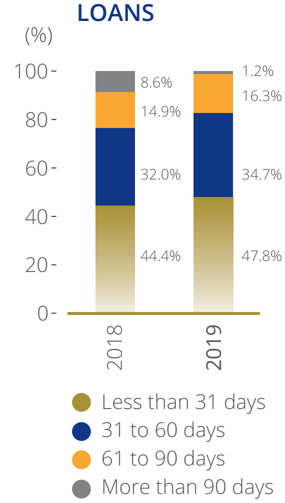
PROVISION COVERAGE RATIO



**Industry comprises of LFCs and SLCs-Source: CBSL*

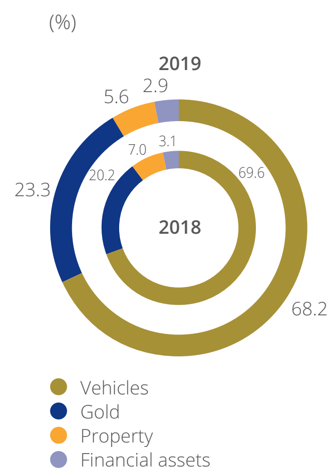
*** Industry NPL 2019 figure is as at 31st December 2018*

AGE ANALYSIS OF PAST DUE LOANS



The significant drop in more than 90 days past due loans ratio was due to the adoption of SLFRS 9 where a considerable portion of loans was transferred to individually impaired loan category.

MAIN TYPES OF COLLATERALS



From total loans and advances 97.5 percent is secured by either physical or financial collaterals as at 31st March 2019.

Impairment Stress Test

Stressed scenario- Impairment charge increasing by stressed amounts impacting the Company's capital adequacy ratio.

Current Total Capital Adequacy Ratio – 17.7%

Scenario	1	2	3
Magnitude of Shock	10%	25%	50%
Capital Adequacy Ratio	17.4%	17.0%	16.3%

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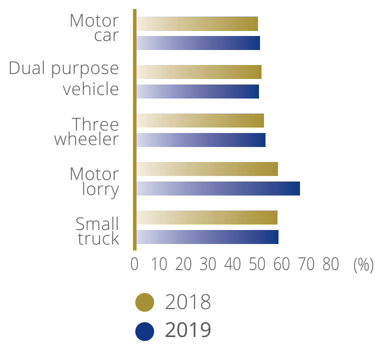
Top 20 Customers Stress Test

Stressed scenario - Top 20 customers falling into NPL category impacting the capital adequacy ratio.

Current Total Capital Adequacy Ratio – 17.7%

Scenario	1	2	3
Magnitude of Shock	Top 5	Top 10	Top 20
Capital Adequacy Ratio	17.0%	16.7%	16.3%

LTV OF MAIN VEHICLE TYPES



During FY2018/19 the Loan To Value ratio (LTV) of main vehicle classes decreased due to LTV caps imposed by the CBSL. The above classes of equipment represent 88.9% of vehicle backed portfolio.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Adherence to clearly defined credit procedures and guidelines	Prevention
Thorough investigation of the customers' background to assess creditworthiness	Prevention
Effective and timely recovery actions against delinquent borrowers	Reduction
Adherence to limits and guidelines defined in the Treasury Policy for Investments and Counterparty Limits	Prevention

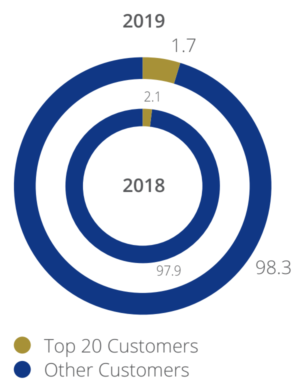
Concentration Risk – Low

Concentration risk arises from uneven distribution of counterparties, business sectors or geographical regions.

Assessment

CREDIT EXPOSURE TO TOP 20 CUSTOMERS

(%)

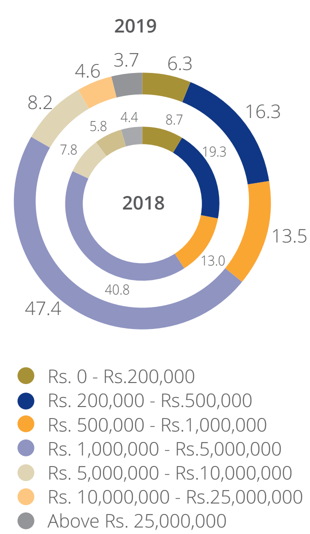


Size wise exposure

The graph below depicts an analysis of exposure by customer size (consolidated exposure) based on net outstanding before impairment. This excludes Gold Loans customers; represents 78.0% of the total portfolio.

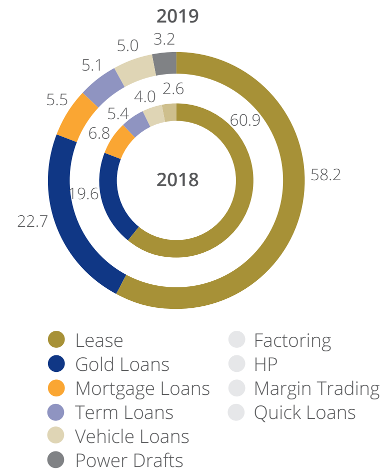
EXPOSURE BY CUSTOMER SIZE

(%)



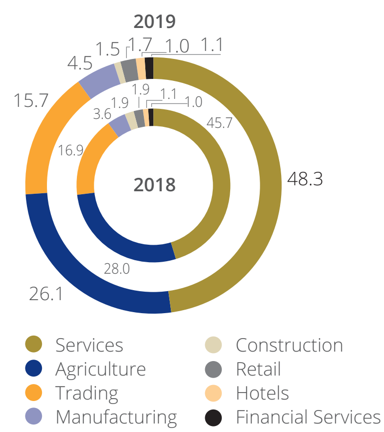
PRODUCT CONCENTRATION

(%)



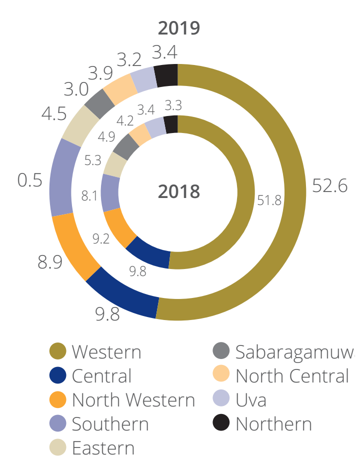
INDUSTRY CONCENTRATION

(%)



GEOGRAPHICAL CONCENTRATION

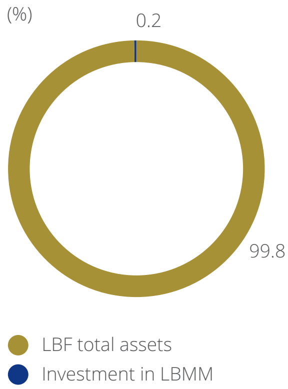
(%)



Cross-border Risk

The risk that the Group will be unable to obtain payments from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency is referred to as the cross-border risk. Group's cross-border assets comprise investment in L B Microfinance Myanmar Company Limited (LBMM).

EXPOSURE TO CROSS BORDER ASSETS



LBF has only 0.2% from its assets on Myanmar subsidiary.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Setting of prudential limits on maximum exposures which are reviewed periodically	Diversification
Strict adherence to single borrower limits defined by Finance Companies Direction No. 4 of 2006 issued by the Central Bank of Sri Lanka	Diversification
Board approved limits for maximum accommodations for a single counterparty	Diversification
Regular monitoring of exposure to single counterparty, single collateral type, industry and geographic area	Mitigation
Continuously monitoring macroeconomic and market developments of Myanmar while maintaining frequent dialogues	Mitigation

LIQUIDITY RISK

Risk Level - 

Trend -

Objective
Safeguard against funding constraints that prevent growth and meet demands of depositors/investors

In the context of a financial institution, liquidity risk arises primarily due to the mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; market liquidity and funding liquidity.

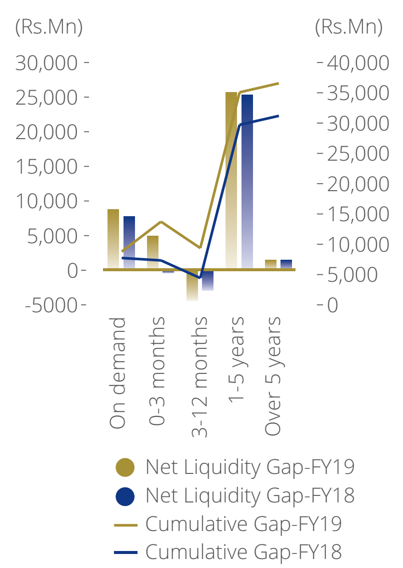
Market liquidity risk is the inability to easily exit a position. The Company's market liquidity risk is low if assets can be liquidated without moving the price too much.

Funding liquidity risk means the Company's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality is at least perceived to be deteriorating but also due to financial conditions as a whole are deteriorating.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the company regularly monitors liquidity position and maintains an adequate buffer of liquid assets. The Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management.

Assessment

NET LIQUIDITY GAP BASED ON CONTRACTUAL MATURITIES



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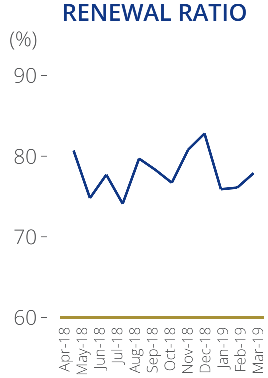
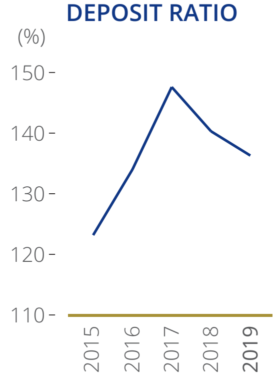
DEPOSIT RENEWAL RATIO

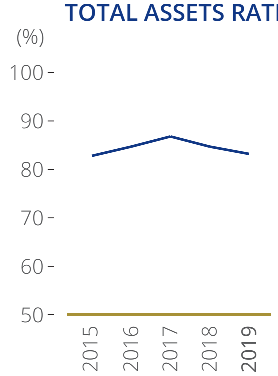


LOANS TO DEPOSIT RATIO



The Company's loan book is predominantly financed by deposits from customers. Loans to deposit ratio over 100% indicates that the Company is making the optimum use of deposit financing by transforming them into interest earning assets.

NET LOANS TO TOTAL ASSETS RATIO

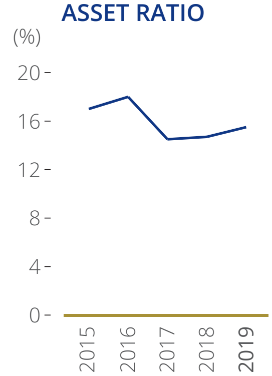


The consistency in the net loans to total assets ratio of the Company reflects that the Company has maintained the share of loans and advances in total asset base reflecting its focus on growing core business, i.e. loans and advances.

Statutory Liquid Asset Ratio

The Company strives to maintain an adequate liquid asset buffer to mitigate risk arising from a sudden liquidity shortage.

STATUTORY LIQUID ASSET RATIO



The statutory liquid assets ratio has been maintained above the regulatory requirement at all times.

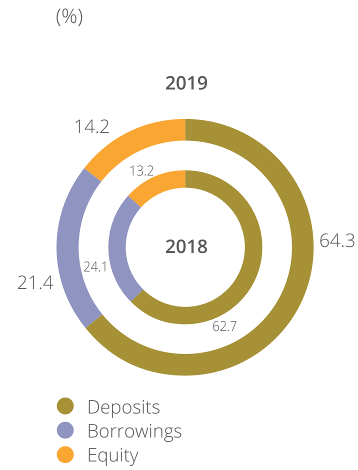
Stress Test on Liquid Asset Ratio

Stressed scenario - Sudden fall in deposit base impacting liquid asset ratio.

Statutory Liquid Assets Ratio - 15.5%

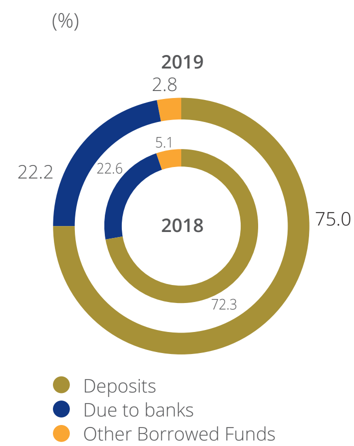
Scenario	1	2	3
Magnitude of Shock	2.5%	5.0%	10.0%
Stressed Statutory Liquid Asset Ratio	13.2%	11.3%	7.3%

FUNDING MIX



The above graph depicts as at 31st March 2019, 83.5% of the Company's total assets are funded by either borrowings or public deposits as opposed to 83.9% as at 31st March 2018.

INTEREST BEARING LIABILITIES MIX



Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Proper coordination of funding activities between the Treasury and the deposit mobilisation units for optimum liquidity management	Diversification
Strengthening the contingency funding arrangements using standby facilities	Mitigation
Increasing the exposure to shorter duration assets to minimise maturity mismatches. Eg. Gold backed Loans, Factoring, Daily Loans, Power Drafts	Mitigation
Maintaining deposit renewal ratio above the internal threshold of 75%	Prevention
Promoting long term deposits to improve asset liability matching	Diversification
Continuous analysis and monitoring of liquidity positions and maintaining an adequate buffer of liquid assets	Prevention

MARKET RISK

Risk Level - 

Trend -

Objective

Safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments, commodity prices

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk and commodity risk have been identified as the most critical risks given the Company's business profile.

In managing the market risk, the Company uses a variety of quantitative methods to assess the Company's market risk exposures, portfolio performance and impact on earnings. RMD in particular is responsible for quantifying the impact, advising the top management on acceptable tolerance levels and monitoring the set levels regularly.

INTEREST RATE RISK - MEDIUM

Interest rate risk is a key component of the market risk exposure of the Company arising from adverse and unanticipated movements in future interest rates that could impact core business activities; granting of credit facilities, accepting deposits and issuing debt instruments, leading to fluctuations in earnings.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios.

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

- **Re-pricing risk** arising from a fixed rate borrowing portfolio where re-pricing frequency is different to that of the lending portfolio.
- **Yield curve risk** arising from unanticipated shifts of the market yield curve.

Interest rate risk is managed principally through minimising interest rate sensitive asset and liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

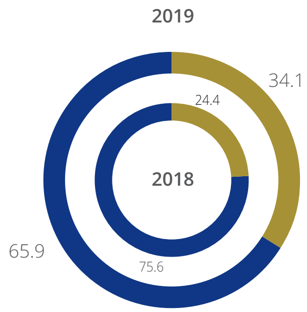
Assessment

Impact on Company's net interest income due to fluctuations in market interest rates is closely monitored on an on-going basis. The Company uses the interest rate sensitivity of its assets and liabilities for modelling the financial impact. The table below illustrates the impact on net interest income from different interest rate scenarios.

Stress Test on NII from Parallel Interest Rate Shocks

Annual Impact on NII	2019		2018	
	Parallel Increase Rs.'000	Parallel Decrease Rs.'000	Parallel Increase Rs.'000	Parallel Decrease Rs.'000
1%	45,046	(45,046)	(15,114)	15,114
2%	90,092	(90,092)	(30,227)	30,227
3%	135,138	(135,138)	(45,341)	45,341

BORROWINGS - FIXED TO FLOATING MIX
(%)



Mitigation Strategies

Risk Management Strategy	Risk Management Objective
ALCO closely monitors the interest rate movements and issues directions to lending and borrowing units on interest rate strategies	Prevention
Making timely adjustments to the proportion of fixed rate borrowings in the funding mix	Diversification
Promoting lending products with shorter re-pricing cycle to reduce interest rate sensitive gaps	Mitigation
Exploring opportunities to hedge the interest rate risk synthetically using interest rate swaps	Transfer
Negotiating interest rate caps on new borrowings	Mitigation
RMD closely monitors the impact on Net Interest Income (NII) caused by market interest rate shocks on rate sensitive liabilities	Mitigation

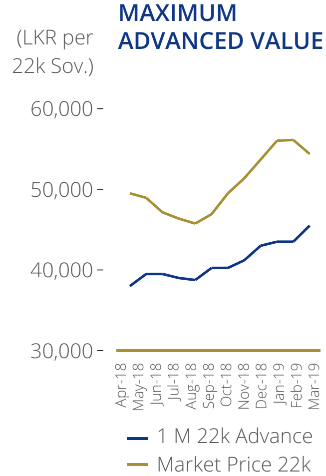
COMMODITY PRICE RISK - LOW

Commodity price risk refers to the uncertainties of future market values and of the size of the future income caused by the fluctuation in the prices of commodities. Given the significance of Gold Loans business to the Company's overall lending operation, fluctuations in the gold prices could have an adverse impact on earnings. Gold price risk could arise from either of adverse movements in the world prices, exchange rates, basis risk between local and world prices. Gold price fluctuations lead to market risk which is the primary source of credit risk associated with this product.

Assessment

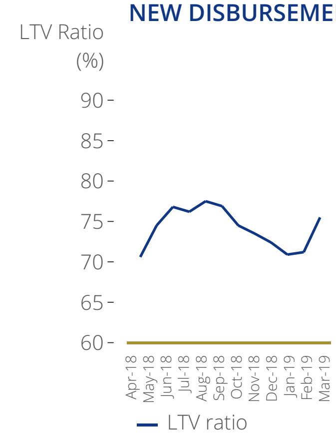
The Company has adopted a dynamic lending strategy to determine the loan to value ratio based on the global gold prices. Advance offered per gold sovereign is constantly adjusted in line with the gold market prices.

GOLD MARKET PRICE VS. MAXIMUM ADVANCED VALUE



During the year under review, the Company managed to maintain a prudent Loan to Value Ratio on new disbursements by dynamically adjusting the advance value.

LOAN TO VALUE RATIO OF GOLD BACKED LOANS - NEW DISBURSEMENTS



Value at Risk (VaR) Analysis

The Company uses the VaR statistical model approach to estimate the potential loss/ impairment provision arising from adverse price movements of gold under global market conditions. VaR is calculated based on Exponentially Weighted Moving Average (EWMA) method by assigning greater weight on the historical gold price data in the last 12 months. This method is used to place greater weight on recent price changes while diminishing the weight on older price changes.

VaR arising from global gold price fluctuations is calculated for both one day and one month periods, at a 99% confidence level and the increase in impairment charge over and above current impairment is shown below.

Stress Test on Impairment Charge from Scenarios of Gold Price Shocks Derived from VaR Model

EWMA VaR at Price USD 1,295 (as at 31st March 2019)				
Time Horizon	Confidence Level	Price at 99% VaR USD	Impairment	Impairment Increase
			(Rs. '000)	(Rs. '000)
Daily	99%	1,277	155	58
Monthly	99%	1,208	369	272

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Shorter product life: The Company, as a credit risk management strategy, lends for shorter periods allowing it to initiate its recovery process faster	Mitigation
Frequent revisions to the advance offered per gold sovereign: the Company practices a process of revising advance offered per sovereign to reflect market value fluctuations to maintain the desired Loan To Value ratio	Mitigation
The Company is in the process of exploring opportunities available for hedging the commodity price risk	Transfer

EXCHANGE RATE RISK – MODERATE

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Exchange rate risk could materialise as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk. The Company is exposed to two types of risks caused by currency volatility.

Transaction risk - This risk arises whenever the Company has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. This type of exposure is short-term to medium-term in nature.

Translation risk – This exposure arises from the effect of currency fluctuations on a company's consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term.

Assessment

Indirect impact intensifying the commodity price risk due to changes in local gold prices as a result of the fluctuations in the USD/LKR exchange rate even as the global gold prices remain steady.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Managing the risk arising from the USD/ LKR exchange rate volatility through maintaining an adequate safety margin on gold advances	Mitigation

EQUITY PRICE RISK – LOW

This is the risk of loss based on market changes in the value of equity investments. Although the Company's exposure to equity price risk is negligible, mark-to-market calculations are conducted monthly on Held for Trading (HFT) and Available for Sale (AFS) portfolios.

OPERATIONAL RISK

Risk Level - 

Trend -

Objective

Improve the reliability and effectiveness of business operations and enhance organisational capability in ensuring safety of staff

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (Basel II definition). Operational risk may result in a financial loss and a reputation risk to the Company. Company broadly identifies, assesses and aims to mitigate the following operational risk categories.

1. Internal fraud
2. External fraud
3. Work place safety
4. Business disruptions
5. Process risk
6. Damage to physical assets

Assessment

- Operational process reviews are conducted regularly to identify loopholes in the operation.
- Collating internal and external fraud event report.
- Independent IT system audits on all core applications and system security.
- Analysing the number of system break downs, telecommunication failures, malfunctions and hacking events.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Segregation of duties, well defined demarcated responsibilities for employees, use of procedural manuals, dual controls	Prevention
Periodic internal audits are conducted covering the entire branch network. The scope of the audit includes the review of adequacy and application of accounting, financial and operational controls	Prevention
Transferring insurable risk by obtaining insurance policies	Transfer
Installing access controls to identified high impact areas	Prevention
Staff training on technical aspects to comply with security regulations	Prevention
Assessing the adequacy and effectiveness of the insurance coverage periodically	Transfer

Risk Management Strategy	Risk Management Objective
Conducting post completion audits after a successful implementation of system change/ modification	Mitigation
Disaster Recovery (DR) planning and Business Continuity Planning (BCP)	Mitigation
Obtaining ISO 27001 certification to ensure information system security	Prevention
Use of exception reports and data analytics for detecting trends and unusual transactions	Prevention

BUSINESS CONTINUITY MANAGEMENT

LBF Business Continuity Management System (BCMS) is established to achieve operational resiliency for the Company. BCMS Framework of the Company encompasses business continuity, disaster recovery, crisis management, incident management, emergency management and contingency planning activities. This will ensure the Company's ability to serve its stakeholders with minimum disruptions in the event of an unforeseen disruption to its business activities arising from manmade, natural or technical disasters.

The BCM Steering Committee which is comprised of key staff members, plays an integral part of the BCM program. BCM Steering Committee enables the company-wide roll out of the BCM and ensures the alignment of business goals with the BCM goals.

The scope of the BCM includes programme initiation and management, risk evaluation and business impact analysis, developing business continuity strategies, emergency preparedness and response, developing and implementing business continuity plans, awareness building and training, business continuity plan exercise, audit and maintenance, crisis communications and coordination with external agencies.

A BCP exercise was successfully carried out in November 2018. During the BCP drill, the core and other critical systems were running from the Disaster Recovery (DR) systems.

OTHER RISKS

STRATEGIC RISK

Risk Level - 

Trend -

Objective

To minimise risks associated with the Company's business strategy, strategic objectives and strategy execution

Strategic risk can be seen as the impact on the Company's earnings or capital, due to poor business policy decisions, improper implementation of business strategies or lack of responsiveness to industry changes. Hence, strategic risk could arise due to internal or external factors.

Assessment

Conducting reviews of pre and post implementation financial performance for every product, project and investment.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Quarterly budget reviews	Mitigation
Monthly variance analysis on key income and expense items	Mitigation

REPUTATIONAL RISK

Risk Level - 

Trend -

Objective

To safeguard the Company's brand value/ goodwill against adverse internal and external events

Reputational risk arises from an event or behaviour that could adversely impact market 'perception' of the Company's goodwill. As reputation itself is a valuable business asset, the Company takes great care in managing its reputational risk. The exponential growth in channels of communication especially social media increases the risk of exposure to reputational risk given the extent of freedom allowed to a wider spectrum of stakeholders directly and indirectly associated with the Company's business. As all other types of risks impact reputational risk, efficient management of other risks also forms part of our management of reputational risk.

Assessment

- Evaluation of the effectiveness of CSR projects against the stated objectives
- 37 CSR events were carried out during the year, incurring a cost of Rs. 26.95 Mn.
- Evaluation of the number of customer complaints and types of complaints

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Sustainability Committee to play a key role in conceptualising and monitoring CSR initiatives	Mitigation
Close monitoring of any events which could lead to reputational risk by adopting an early warning system including media reports, social media content, inputs from frontline staff and market survey results	Mitigation
Training employees on work place professionalism, behaviour and educate them on business ethics	Prevention
Swift and efficient process of resolving customer complaints	Prevention

CAPITAL MANAGEMENT

Risk Level - LOW Trend -

Objective

Maintain adequate capital buffer to withstand unexpected losses

For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses which asserts the Company's ability to continue operations in to the foreseeable future. The more capital the Company has relative to the risks it takes, the more confident the stakeholders are that it will meet its obligations to them. The Company's capital management process is steered with the aim of holding sufficient capital to support the Company's risk appetite whilst maintaining adequate capital to meet minimum regulatory capital requirements.

New Capital Adequacy Framework

In June 2018, CBSL introduced a new Capital Adequacy Framework (CAF) revoking the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006. The new CAF is intended to foster a strong emphasis on risk management and to encourage improvements in LFC's risk assessment capabilities.

The existing Capital Adequacy direction was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements were applicable for market and operational risks.

Therefore the new CAF provides for maintenance of Capital Adequacy Ratios (CARs) on a more risk sensitive focus covering credit and operational risk under basic approach available in Basel II Accord.

The market risk is not considered at the moment as the sector exposure to market risks is considered to be minimal.

Further, a surcharge has been introduced for Domestic Systematically Important LFCs (D-SILFCs) in order to create higher capacity for greater loss absorbency in large institutions as per Basel III framework. Also D-SILFC must have a higher capacity for loss absorbance to cover the greater risks that they pose to the financial system.

LFCs with total assets equal or more than Rs.100 bn were defined as D-SILFC where the implementation of capital surcharge will be applicable on a staggered basis. Under this definition LB Finance is considered as a D-SILFC and the timeline for implementation of CARs is as follows.

Components of Capital	01/07/2018	01/07/2019	01/07/2020	01/07/2021
Tier 1 capital (%)	6.0	7.0	8.0	10.0
Total capital (%)	10.0	11.0	12.0	14.0

	01/07/2018	01/07/2019	01/07/2020	01/07/2021
Capital surcharge on D-SILFC (%)	-	0.5	1.0	1.5

The following key amendments have been included in the new framework.

- Introduction of operational risk charge
- Revised definition for retail claims (Residential Mortgages and Gold Loans)
- Amendments to risk weights and credit risk categories
- Introduction of Credit Risk Mitigation Techniques

As of 31st March 2019, the Company reported a Tier 1 ratio of 15.5% and a total of Tier I & II of 17.7% which remain comfortably above the CBSL's minimum capital requirements.

Item	FY 2018/19 (Rs.'000)	FY 2017/18 (Rs.'000)
Tier 1 capital	18,243,256	15,233,171
Total capital	20,752,197	18,417,009
Total risk weighted amount	117,447,290	105,459,498
Risk weighted amount for credit risk	96,323,785	87,515,016
Risk weighted amount for operational risk	21,123,505	17,944,483
Regulatory minimum tier 1 ratio %	6.0%	5.0%
Company's tier 1 capital ratio %	15.5%	14.4%
Regulatory minimum total capital ratio %	10.0%	10.0%
Company's total capital ratio %	17.7%	17.5%

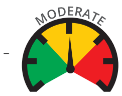
Computation of Total Capital

Item	FY 2018/19 (Rs.'000)	FY 2017/18 (Rs.'000)
Tier 1 capital	18,502,813	15,353,201
Stated capital	838,282	838,282
Non-cumulative, non-redeemable preference shares		
Reserve funds	5,285,759	4,274,827
Audited retained earnings/(losses)	12,378,772	10,240,092
(Less) revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit/(losses)	-	-
Adjustments to tier 1 capital	259,557	120,030
Goodwill (net)		
Other intangible assets (net)		
Other comprehensive income (losses)	75,662	4,305
Deferred tax assets (net)		
Shortfall of the cumulative impairment to total provisions and interest in suspense		
50% Of investment in banking and financial subsidiary companies	159,500	76,458
50% Of investment in other banking and financial institutions	24,396	39,268
Shortfall of capital in financial subsidiaries		
Tier 1 capital (after adjustments)	18,243,256	15,233,171
Tier 2 capital	2,692,836	3,299,563
Instruments qualified as tier 2 capital	1,600,000	2,400,000
Revaluation gains		
General provisions /collective impairment allowances	1,092,836	899,563
Eligible tier 2 capital	2,692,836	3,299,563
Total adjustments to eligible tier 2 capital	183,895	115,725
50% Of investment in banking and financial subsidiary companies	159,500	76,458
50% Of investment in other banking and financial institutions	24,396	39,268
Eligible tier 2 capital (after adjustments)	2,508,941	3,183,838
Total capital	20,752,197	18,417,009

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Periodic review of the impact from different lending products on the Risk Weighted Assets and in turn on the capital adequacy ratio for necessary remedial actions using projected balance sheet scenarios	Mitigation

INFORMATION SECURITY RISK

Risk Level - 

Trend -

Objective
Safeguard information asset and ensure business continuity

The Company has identified information as a vital business resource and a key asset to the organisation. Hence, any threat exploiting the vulnerabilities of this valuable and important asset can cause adverse impact to the business operation ranging from simple inconvenience to catastrophic in scale. This includes but not limited to events such as cyber-attacks, breakdowns, failures or interruptions which result in a system down time, frauds and malpractices through errors and manipulations, technological obsolescence and insufficient or ineffective infrastructure to support evolving business needs, falling behind the competitors in terms of the information technology.

Since every aspect of the business relies heavily on Information Technology, it has emerged as the backbone and the live wire of the organisation's operations and innovations. As a result, information security risk is recognised as a significant portion of the potential operational risk.

In this context, the Company has recognised information, information systems and technical infrastructure as assets of paramount importance and value to the organisation. Therefore, with the objective of identifying and managing all IT-related risks effectively and efficiently in a consistent manner across the organisation, the Company has rolled out a comprehensive Information Technology Risk Management Framework.

IT risk mitigation methodology involves prioritising, evaluating and implementing the appropriate risk treatment techniques such as technical, operational and management controls to prevent identified risks exploiting the vulnerabilities. This process is strengthened by the implementation of the Company's Information Security Management System (ISMS), which was established according to the ISO/IEC 27001:2013 standard.

With the implementation of ISMS, the following information security objectives have been identified:

ISMS Objectives

- Establish safeguards to protect the Company's information/information systems from theft, abuse, misuse and any form of damages.
- Assess and evaluate the established control mechanism and implement corrective and preventive actions.
- Maintain the confidentiality, integrity and availability of information.

The Company first obtained the ISO/IEC 27001 Information Security Standard in 2014 and received recertification in 2017. The Company has continued to demonstrate its commitment towards information security by maintaining certification throughout the years.

As part of the IS risk assessment and mitigation methodology, IS Audit and Compliance Division conducts independent IS risk reviews and audits of new IS developments/modifications whilst carrying out regular system and security audits for each system related functions.

Cyber risk management is one of the key focus areas of the IS Risk Management function in light of heightening threats of cyber-attacks which are continuously escalating in scale and sophistication. The Company obtained the service from an independent service provider to conduct cyber security related vulnerability assessments and surveys periodically. In addition, as a proactive measure to combat growing external threats, the Company obtained Information Security Operations Center service from an external service provider with Online Monitoring System capability.

At present the Company's Cyber Security Strategies include but not limited to evaluating vulnerabilities by conducting regular network vulnerability assessments covering external and internal security vulnerabilities, comprehensive web application security vulnerability assessment, comprehensive firewall security assessment and wireless network security assessment.

Assessment

- Conducting information security review meeting with key functional heads.
- Monitoring of system audit trails to identify patterns and anomalies.
- Performing systems audit for every core system module before deploying into production environment.
- Thorough post implementation review following the changes to IT systems or technical infrastructure, to ensure no unintended repercussions have occurred.
- Analysis of information security related incidents to identify the gaps and loopholes in the information system and infrastructure.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Regular companywide awareness of information security risk management measures currently in place	Prevention
Strict adherence to documented IT change management process	Prevention
Strengthening of NDAs with vendors by inclusion of information security clause	Prevention
Implementation of disciplinary action procedure for information security violations	Prevention
Promoting clear desk and clear screen policy	Prevention

LEGAL / REGULATORY RISK

Risk Level - 

Trend - 

Objective
To minimise the cost of non-compliance and litigation

Legal/Regulatory risk is the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations. Furthermore, legal risk includes losses due to ambiguity of laws or unfavourable contract clauses and loose contracts.

The Company conducts its business in accordance with the Company's code of conduct, laws and regulations imposed by the regulatory authorities with zero tolerance for failure or breach of such obligations.

Assessment

- Internal audit reviews are carried out to assess the extent of compliance at branch and departmental level.
- Regular monitoring of compliance with the directions issued by the regulator.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Compliance function regularly reviews the Company's compliance with rules, directions and determinations of regulatory bodies	Prevention

HUMAN RESOURCE RISK

Risk Level - 

Trend -

Objective
To ensure the availability of skilled and competent human resources to successfully conduct business operations

Human Resource risks are events that prevent employees from fulfilling their responsibilities and thus keep the business from operating at full efficiency. Human resource risks include but are not limited to;

- High employee turnover
- Poor employee management practices
- Unexpected temporary leave
- Management error/incompetence
- Disability (temporary or permanent) death of employee/s

Assessment

- Conducting employee engagement surveys to assess the level of motivation, engagement and loyalty.
- Analysis of employee turnover ratios across different employee job categories.
- Analysis of skill gaps among operational and front office staff.
- Review of causes for resignations through exit interview data.

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Training and development to help employees to improve their skills to be better at their current job and prepare for future challenges	Mitigation
Strengthen the process for grievance handling and offer work place counselling	Prevention

WE'RE INVESTED

IN GROWING OUR BUSINESS

We are invested in expanding and developing our wide range of products and services ensuring we remain relevant and progressive amid a constantly evolving business environment.

Performance of Business Units

INVESTING

Safe place to save and invest money

OUR STRATEGY

Our journey to reorientation the business to center on our customers, while at the same time meeting the expectations of our other stakeholders, is well underway. We seek to achieve continuous improvement in the execution of our strategy, will set us apart from our competitors.

MANAGEMENT APPROACH

We focused on educating our customers to choose institutions with financial strength and stability. This was the selling proposition to increase our deposit base at a lower cost. Deposit products form the primary funding source of our Company. Fixed deposits and savings deposits constitute our deposit base. Mobilising and maintaining a healthy deposit base is critical for further expansion and growth. The strength of our brand and market confidence has enabled us to achieve one of the largest deposit base among the LFCs in Sri Lanka. Our diversified branch network and strong corporate image are key drivers of customer confidence in our Company. In addition to that a strategic decision was taken by us to change the deposit mix by promoting the savings base.

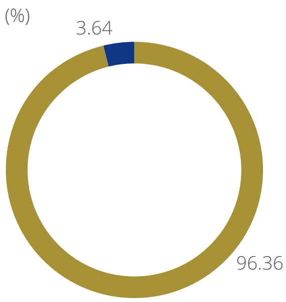
OUR PRODUCT OFFERINGS

DEPOSITS

Offering competitive interest rates and a broad range of tenure options, LBF's term deposits cater to all segments of the market. Similarly LBF's savings proposition too serves all main segments of the market.

DEPOSIT MIX

(%)

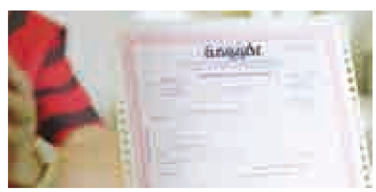


- FD
- Savings

Total deposit customer base grew by **13.48%**

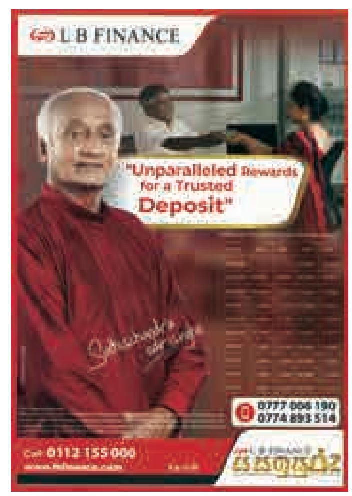
FD customer base grew by **10.17%**

FD base grew by **15.26%**



Watch video

https://www.youtube.com/watch?v=VCjL4jgSFVc



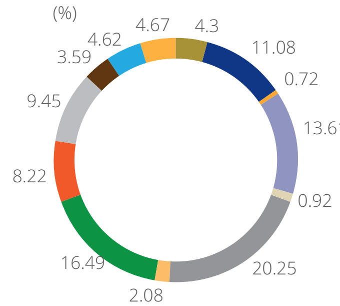
Outlook and strategy

Fixed deposit

Leveraging on the relative stability of the interest rate, LBF's deposit unit embarked on a broad ranging strategy to grow term deposit volumes, with equal emphasis placed on new customer acquisition as well as retention of existing customers. Accordingly, all internal objectives and KPI's were revised to encourage staff to focus not just on volume growth, but rather on net growth, which would ensure both objectives - customer acquisition and retention are met. This was accompanied by extensive training activities for the field force.

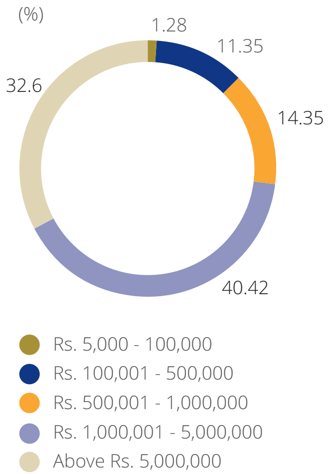
TENURE WISE FIXED DEPOSIT MIX 2018/19

(%)



- 01 Month
- 03 Months
- 04 Months
- 06 Months
- 07 Months
- 12 Months
- 13 Months
- 15 Months
- 18 Months
- 24 Months
- 36 Months
- 48 Months
- 60 Months

AMOUNT WISE FIXED DEPOSIT MIX 2018/19

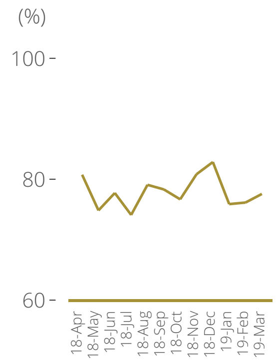


Meanwhile a strong demand in the market for shorter tenure products especially the six month offering, prompted widespread efforts to increase LBF's market share in this space. As a first step, a special seasonal promotion was rolled out in April 2018 offering special rates coupled with an attractive gift scheme to coincide with the Sinhala and Tamil New Year. Then in June 2018 LBF's FD suite was further strengthened with the introduction of 4 month and 7 month tenures. To further support these efforts, LBF's flagship "Yasaisuru" publicity campaign was expanded, while BTL activities were carried out in all major cities and towns with the aim of growing the number of smaller quantum deposits. Efforts to improve the service delivery model also were continued throughout the year. Direct transfer facility which enables the customer to immediately receive uplifted funds directly to his / her bank account through the CEFT platform, thereby eliminating the delay associated with clearing cheques.

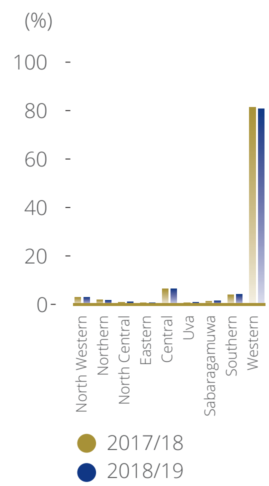
The interest rate hike January 2019 provided a further opportunity to increase LBF's leverage in this area, leading to competitive repricing strategies being adopted in the last quarter of the current financial year.

In a significant development the Company partnered with the Thuru App, to undertake to offer a bonus interest rate for customers registered on the platform. The Thuru App is a dedicated platform that aims to promote tree planting among the general population.

FD RENEWAL RATIO



PROVINCE WISE FIXED DEPOSIT BASE

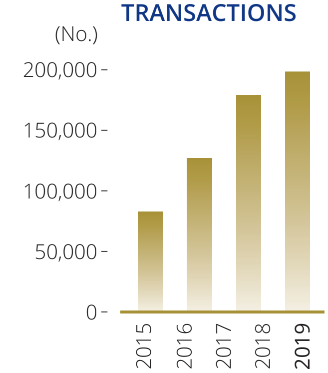


Savings deposits

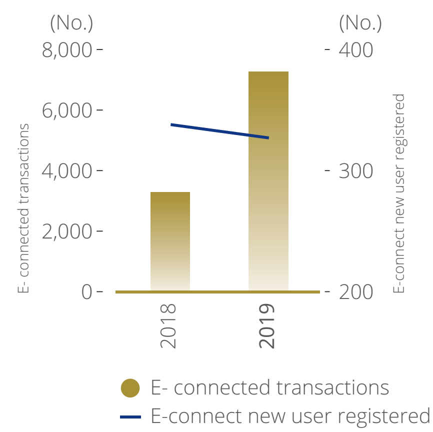
In contrast to the robust demand for FD's, the demand for savings stayed flat for the most part of the year. Amidst this environment, LBF looked to promote the general savings proposition as a secure way to build our savings. Accordingly, a new slab-based rate structure was introduced, enabling the customer to benefit from higher rates for maintaining a progressively higher balance in their savings account. Several accompanying benefits were also attached to this new scheme.

Ongoing efforts to promote the Minor saving account also continued. The main campaign for the year was the much sought-after "L B Little Heroes" art competition launched in January 2019. Part of a broader effort to increase the minor saving customer base, the competition was opened to all children irrespective of whether they have a LBF Little Hero minor savings account or not. However if winners already have a minor savings account they are at an advantage since they become eligible to receive additional gifts and rewards.

ATM TRANSACTIONS



E-CONNECT TRANSACITONS



Future plans

Going forward the main priority would be to strengthen the savings base and develop it into a more versatile value proposition for the mainstream market. Achieving this would require increased investment in digital technology to create a mobile based savings application that will serve a multifunctional tool designed to meet the needs of the future customer. Another area of focus would be to use machine learning AI technology to pave the way for the development of new more customized savings products that are well attuned to the requirements of the target market.

FINANCING

Best place to obtain financing facilities

OUR STRATEGY

LBF's financing strategy is aligned to the Company strategy. The consistent execution of our strategy is moving us closer to our long term, medium term and short term aspiration to be the leading lending solutions provider in Sri Lanka. We always focus our strategy to enhance lending portfolio targeting both personal and business segments. Our combined operations are delivering profits, and we believe that our focus on the larger high-growth markets and high-growth segments will continue to drive good revenue generation across our portfolio.

MANAGEMENT APPROACH

Our lending expansion strategy was focused on increasing volumes while ensuring the quality of the portfolio through a risk based pricing mechanism based on the credit-worthiness of customers. The lending strategy went beyond income generation for our Company to be an engine for developing and creating wealth for individuals and uplift the community. Several promotional campaigns were launched to promote our lending products and to attract new customers. For the benefit of our lending customers, we entered into strategic partnerships with motor vehicle agents and dealers as well. Internal structural changes were effected to offer an enhanced customer service by geographical segmenting our sales teams and appointing new area managers. We have made our 'responsible lending' policy a cornerstone of our corporate strategy to support sustainable growth. Responsible lending practices are applied at each stage of the customer relationship, from making a loan offer to setting up and monitoring the loan. These practices are built on customer needs and customer satisfaction, which are measured regularly. Several training programs were conducted to hone the marketing skills of our marketing staff. This has helped us to reduce the lead times and improve customer service.

OUR PRODUCT OFFERINGS

Loan value growth (%)

Product	2018/19	2017/18	2016/17	2015/16
Lease and Hire Purchase	5.70	12.27	23.41	33.86
Gold Loan	27.89	23.61	23.84	26.55
Vehicle Loan	40.91	-3.10	-17.95	-29.13
Power Draft	38.50	25.54	45.52	158.07
FD Loan	10.69	34.94	37.56	30.99
Personal Loan	38.76	190.57	173.24	218.36
Other	14.45	3.31	15.90	-39.79

LEASING AND AUTO FINANCE

Leasing and auto finance is LBF's core business, accounting for over 66.50% of the Company's total lending portfolio. Marketed under the banner "LB Leasing" the Company's leasing and auto finance proposition is competitively priced and offered an unmatched range of service enhancements making it one of the most versatile offerings in its space.

Outlook and strategy

With the culmination of several macroeconomic factors continuing to affect the demand for leasing facilities for unregistered vehicles, it was felt that, a more market responsive strategy was needed in order to sustain LBF's growth momentum amidst these challenges. Taking action to realign the leasing and auto finance model in cognizance with the market, a board-based marketing strategy was launched in order to retain LBF's commanding lead in this space.

Watch video

https://www.youtube.com/watch?v=0hhFp_m3GCA

Accordingly the focus of the registered (three wheeler) segment was further intensified as LBF's traditional stronghold - the un-registered vehicles segment remained under pressure due to the ongoing LTV restrictions.

A concerted effort was also made to explore new opportunities in the market, mainly to tap into the demand for lower capacity hybrid vehicles which fall under a lesser duty bracket, thus making it more affordable to the mainstream market. Driving the effort was a widespread ATL campaign carried out across all mediums. To further support this, the field sales force was increased across the network, coupled with aggressive branch-led BTL campaigns to widen LBF's island-wide coverage. Steps were also taken to strengthen ties with vehicle dealers, mainly with the intention of positioning LBF as their preferred leasing partner.

Key macroeconomic challenges

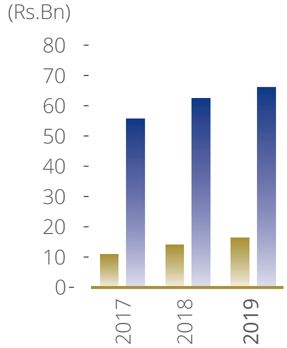
- Ongoing tightening of LTV rules
- Rising trend in interest rates
- Upward revision in the vehicle import duty structure
- Additional regulatory controls to restrict the import of vehicles
- Currency depreciation
- Poor performance of certain key sectors leading to weak economic conditions

At the same time given the rising interest rate environment, strong emphasis was placed on yield management, with new guidelines introduced to maintain stricter control over the pricing strategy and ensure appropriate risk premiums are factored in as needed.

Meanwhile amidst deteriorating economic conditions, the issue of NPL's became cause for concern, leading LBF to redouble its recovery efforts with even greater emphasis being placed on proactive monitoring. The conventional recoveries model was strengthened, with early warning signals strictly monitored in order to curb the volume of new entrants to the NPA bracket. Moreover a new oversight structure was put in place in a bid to tighten branch level monitoring, while at a ground level field staff were assigned to make additional site visits and maintain strong ties with their customers in order to quickly identify potential defaulters.

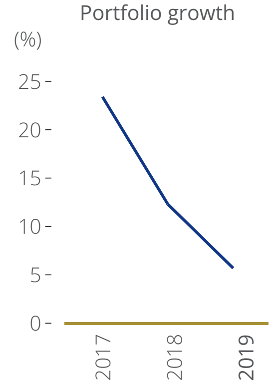
Performance against strategy

LEASING AND HIRE PURCHASE



LEASING AND HIRE PURCHASE

Portfolio growth



Strategic objectives for which we are accountable

- Continuously improve the credit quality of the lease customer base
- Strengthening the business relationship with the vehicle dealers

Future plans

Given the market uncertainties, LBF would likely maintain a cautious approach towards growing the leasing and auto finance business. The focus for the future would therefore depend not only on growing the portfolio but doing so through good quality lending activities. In this context, it is likely a selective lending strategy will be adopted to ensure a consistent margin with minimum risk of default.

MICRO LEASING

Over the years, LBF's Micro Leasing arm has continued to make a consistent contribution to the Company's bottom line through its three wheeler and two wheeler leasing model that targets micro entrepreneurs and self-employed individuals across Sri Lanka.

Key macroeconomic challenges

- Pursue alternative lending strategies as a counter measure for the LTV challenge
- Proactive NIM management
- Strict NPL Management

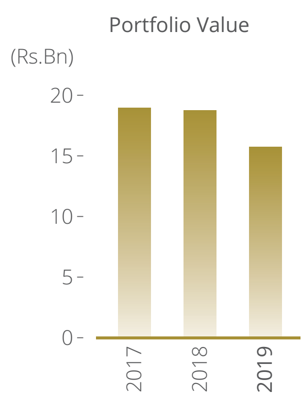
Outlook and strategy

With the demand for unregistered three wheelers continuing to shrink on the back of the ever tighter loan to value ratio, the Micro Leasing unit continued to focus on promoting registered three wheelers throughout the current financial year. Measures taken in this regard saw several dealer promotions being rolled out, while company representatives were stationed at selected dealer points especially in areas where LBF did not have branch presence. A number of focused campaigns were also carried out targeting hitherto untapped customer segments. This was accompanied by a strong push to tap into captive markets mainly to generate repeat business from existing customers with a solid repayment record. To complement these initiatives, a number of back office processes were automated while the RMV clearance mechanism was further streamlined in order to speed up service delivery timelines, which has enabled existing customers to obtain a facility from their branch itself within 2 -3 hours of submitting their documentation. The fund transfer option was also activated giving customers the added convenience of receiving funds directly to their LBF savings account, immediately upon approval.

Meanwhile, with weak economic conditions affecting the customers' repayment capacity, and tight credit policy followed on three wheeler and motor bikes recovery efforts were stepped up. Recovery officers were assigned strict targets, while recovery oversight procedures at branch level were also further streamlined in order to exercise greater control over ground level recovery efforts. In parallel, central monitoring activities were further tightened in a bid to curtail new entrants to the NPL bracket.

As part of broader strategy to improve loan quality in the long term, the existing credit screening program was revamped with a new credit appraisal mechanism rolled out in the third quarter. The new mechanism includes a stringent credit screening procedures along with several multi layered investigation protocols to determine the credibility of the customer information. Preceding the launch of the new mechanism, extensive training was conducted to improve staff capacity regarding its practical application in the field.

Performance against strategy



Key macroeconomic challenges

- Focused campaigns were also carried out in untapped customer segments
- Existing credit screening program was revamped

Future plans

With the demand for the traditional unregistered three wheelers hinged on the LTV restrictions, the ability to grow this market remains in doubt for the foreseeable future. The prospects of the Micro Leasing business would therefore largely depend on increasing captive market share in the registered three wheeler segment. However, reducing the dependency on a single market will be the key ensuring the business continues to grow sustainably in the years ahead. This would mean exploring to other avenues for growth, in particular the emerging market for the mini vehicle range which is seen as the natural next step for three wheeler owners.

GOLD LOAN

Since the inception, LBF's Gold Loan proposition has continued to gain attraction as the most reliable and trusted offering in the market, elevating LBF as the market leader in the span of just 18 years. Today LBF dominates the Gold Loan space accounting for dominant market share, remaining well ahead of peers in the NBFI sector.

Outlook and strategy

In the year under review, all efforts were centered on further consolidating LBF's leadership position within the NBFI sector, which prompted a broad-based approach to sharpen every aspect of the business.

Key macroeconomic challenges

- Movements in world gold prices
- Tough competition in the market

The core product proposition was made more dynamic, with the advance component being revised to match movements in world gold prices. Capitalising on the higher world gold prices in 2018.

Moreover, with the new dedicated Gold Loan ERP fully operationalised by early May 2018, a series of new service enhancements were also rolled out thereafter. The advanced technology infrastructure of the new system also made it possible to offer customers the option to make settlements through cash deposit machines located at branches.

These new developments give LBF a strong competitive advantage and thereby creates a platform not only to deepen the penetration among existing customer segments, but also the leverage to tap into a wider range of potential customers.

From a marketing perspective several BTL campaigns were carried out at high footfall locations across the country, such as at major train stations, bus stops, weekly town fairs etc and were followed up with smaller more focused pocket campaigns. A highly publicised special promotional campaign entitled "Rankasi Nidhanaya" was also run between the months of May - July 2018. This was accompanied by an increasing number of routine inserts in local newspapers. Meanwhile, in a bid to create more visibility across a wider audience, the activities conducted by the propaganda vehicle were intensified, while the Mega campaign was made an ongoing country-wide initiative.

Hand in hand with the marketing drive, staff training activities were also revamped with renewed emphasis on improving the product knowledge of the the counter staff at branches and gold loan centres.

Performance against strategy

Strategic objectives for which we are accountable

- Dedicated Gold Loan ERP fully operationalised
- Staff training activities were also revamped with improving the product knowledge

Portfolio grew by **28%**

Training conducted to **665** employees

Future plans

Going forward, the focus would to grow market share in existing customer strongholds, while taking measured steps to break into segments that have traditionally not been serviced by the NBFI sector. While LBF's superior service model provides a considerable advantage in this regard, it would need to be combined with a more versatile product proposition and focused marketing to attract the right customers.

MORTGAGE LOANS

Mortgage Loans are yet another personalised product under LBF's lending portfolio. Mortgage loans help facilitate the customer's need to purchase, refinance, effect improvements to properties, meet either business or personal needs, LBF's Mortgage Loans targets the Country's housing loan market, marketed under the "Mul Gala" banner, designed to offer facilities for the mid to high segments of the market.

Outlook and strategy

Key macroeconomic challenges

- Rising trend in interest rates
- Regulatory controls
- Poor performance of certain key sectors leading to weak economic conditions

Meanwhile to capitalise on the strong demand for housing in smaller cities around the Country, a new product was launched targeting the lower end of the market. Following the launch of the new product ongoing improvements to internal processes also continued with special emphasis on maintaining tight control over the initial credit investigation procedures.

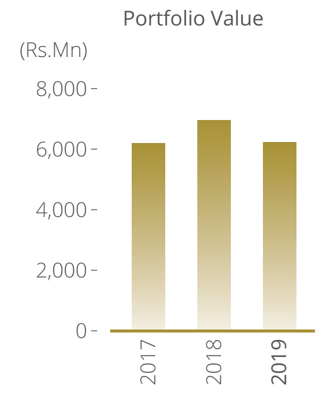
Recoveries remained another key area of focus for the year, especially given the higher risk of defaults amidst weakening economic conditions. Consequently new proactive monitoring mechanisms were introduced including strict oversight over ground level collection activities while legal frameworks were also further strengthened.

As part of a broader effort to increase the customer reach, a digital marketing campaign was launched to tap into Sri Lankan migrant worker communities in the Middle East and Europe.

Other notable developments included the launch of a special mortgage backed education loan.

In order to differentiate from peers, LBF's Mortgage Loan proposition focuses on speedy service, flexibility, convenience, along with tailor made solutions in line with the specific financial needs of customers based on their repayment capability.

Performance against strategy



Future plans

Being an ever growing market, the housing loan market will remain the primary focus in the coming years. This would mean a more focused effort would have to be put in to widen the island wide customer base in the years ahead.

- Emphasise on deploying credit officers to all branches to execute mortgage loans
- Providing mortgage business oriented training to existing business staff
- To become the market leader for housing loan in NBFI sector

PERSONAL LOANS

LBF's personal loan scheme is a unique offering specially designed to meet the changing lifestyle needs of upwardly mobile individuals with a stable monthly income. The personal loan facility is specially designed for salaried employees in state and private sector organisations. From the Company's perspective, personal loans are considered a secured product as they are granted on condition that the applicant assigns his / her salary to LBF.

Given its flexibility and hassle-free documentation requirements, the product has proven to be immensely popular among all segments of the target market and continues to gather momentum across all regions in the country.

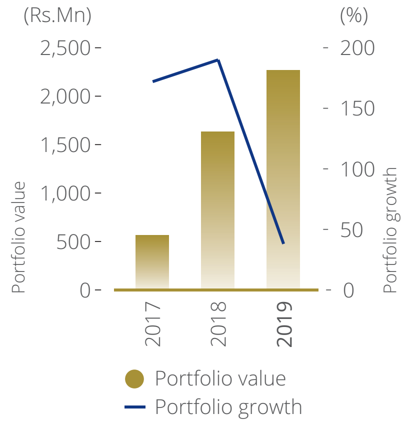
Outlook and strategy

The slow uptake for Personal Loans from traditional customer segments, saw the focus for the year shift towards promoting the "KruthaHastha" product for pensioners.

The effort was led by a series of BTL campaigns carried out in key cities across the island and followed up with electronic and social media marketing activities. Internally a special target driven reward structure was put in place to motivate staff to grow volumes. In parallel, the investment in training was increased specifically to enhance product knowledge among sales teams.

Performance against strategy

For the Personal Loan division, the main strategic thrust for the year was to reach out to as many prospective customers as possible and thereby boost the number of loans granted. Efforts in this regard were led by a dedicated marketing team, set up specifically for the purpose of promoting the product to the various segments of the target market.



Future plans

Given that the demand for Personal Loans is largely market driven, the focus for the forthcoming year would be to stimulate demand through a combination of market development and market penetration activities. However, operating in a highly competitive space, a stronger focus will need to be maintained on service levels in order to differentiate LBF's value proposition from that offered by peers.

FACTORING

LBF offers flexible, tailor-made factoring solutions catering mainly to the SME sector by offering cheque and invoice discounting facility at very competitive rates.

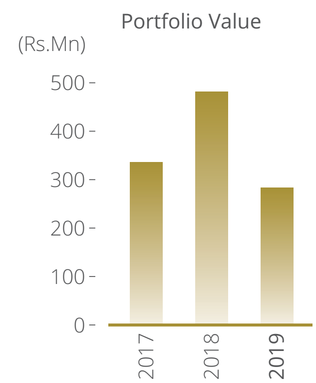
The key differentiator that sets apart LBF's factoring solution is the Company's undertaking to follow up debtor collections, thereby freeing the customer to focus entirely on executing their business plans. Despite stiff competition from the banking sector, LBF's factoring solutions continue to experience a strong market uptake especially in the Western Province.

Outlook and strategy

Given the challenging economic environment, no aggressive promotional activities were carried out in the year under review. Instead all efforts were focused on managing the existing portfolio, with specific control policies being implemented to minimise LBF's risk exposure in the cheque discounting operation. Accordingly cheque discounting was only undertaken on condition that the customer maintains a lien over savings account balance with LBF, with a stipulated monthly amount assigned to the lien account from their savings account. In addition discounting of higher value cheques was undertaken only on the strength of an asset mortgaged to LBF.

Continuing with the strategy adopted for the past few years, the main thrust for this year too was to improve the quality of the portfolio.

Performance against strategy



Future Plans

The focus for the immediate future would be to consolidate the Cheque discounting portfolio in order to minimise potential default risk to the Company. Meanwhile should there be an improvement in the macroeconomic conditions, LBF would also likely recommence Invoice discounting on a selective basis.

- Maintain a quality portfolio
- Actively promote the product in other regions of the country

MICRO LOAN

The Micro Loan concept was first introduced to the market with the intention supporting the daily working capital needs of small scale entrepreneurs and self-employed individuals. The product is typically offered to existing customers with a proven track record with the Company.

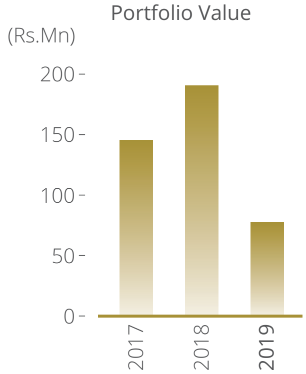
Outlook and strategy

As tough economic conditions in the year under review began to hamper the business prospects in many sectors, a strategic decision was made to curtail Micro Loan disbursements with the main focus then shifting towards recoveries.

In a bid to minimise new entrants to the NPL bracket a dedicated team was appointed to enhance followup procedures, while the field sales force was assigned recovery targets. The internal legal framework was also further strengthened along with strict monitoring of Mediation Board proceedings.

Performance against strategy

DAILY LOAN
Portfolio Value



Future plans

- Promoting the budding entrepreneurs to the system
- Regular monitoring the micro entrepreneurs to develop to the next level

POWER DRAFT

The Power Draft was introduced in April 2011 to enable individuals and SME's to obtain an overdraft facility against asset-backed collateral, with the value of the facility being used to determine the duration, usually up to maximum 12 months.

Performance against strategy

The Power draft portfolio grew from Rs. 2,658 million in 2017/18 to Rs. 3,682 million in 2018/19.

Future plans

- Portfolio growth of 30% in 2018/19
- Increase market share to achieve market leadership

POWER PLUS

Power Plus is a unique tailor-made financial solution offered by LBF aimed at providing much needed financial support to underserved communities, mainly self-employed individuals or existing SME's who do not possess the credentials or are unable to provide necessary collateral to support their borrowing requirements Such customers can avail themselves of credit facilities under Power Plus by providing LBF with postdated cheques covering the value of the facility.

Performance for the year

In the year under review, the Power Plus portfolio recorded at Rs. 348 million. Largely responsible for the results were the targeted lending initiatives to promote the Power Plus product to SME's in commercial hub towns across the country.

Future plans

- Targeting the emerging commercial hubs in western province
- Improve the business focus to the construction sector

VALUE ADDED SERVICES

Convenient place for non-financial services

OUR PRODUCT OFFERINGS

We transform the way people think and act, we are providing our customers with a simpler, more efficient payment system through integrated channels.

OUR STRATEGY

The ultimate test of the Company's strategy is whether it will enable us to deliver superior extra services and sustainable other business lines be the major income source either immediately or in the very near future, and other services will reduce the risk of income generate from the main income source of lending. We refreshed our strategy during the year to express this goal more explicitly, and to provide a strategic construct to guide the execution of the company strategy within our business units and enabling functions. Each of them are responsible for ensuring that their plans are aligned with the company strategy and values.

MANAGEMENT APPROACH

As the busy work schedule transforms the way people think and act, we are providing our customers with simpler, more efficient payment system through integrated channels, including value added services. We have introduced a range of utility bill payment solutions and value added financial services apart from the core business to provide customer with control of all aspects of their financial needs, and improved the speed and efficiency of delivery on our value added platforms. There has been steady growth in our customers' adoption of LBF's other services, with millions of transactions generate significant amount process on our value added service platforms. This service was added to the product portfolio with the intention of making our customers' lives easy. All utility bills, money exchanges, money transfers of customers are accepted through our wider spread branch network, move beyond traditional boundaries to satisfy all our customer requirements.

WESTERN UNION

As a sub agent of the global Western Union network LBF offers money transfer services to the mainstream market.

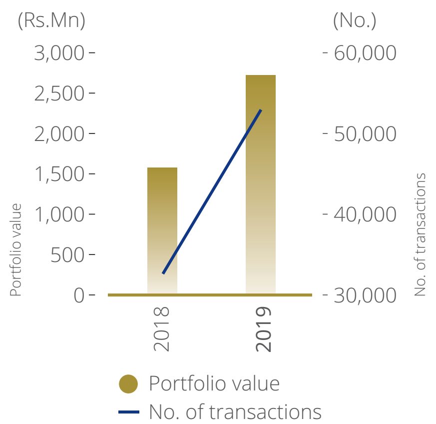
Outlook and strategy

Given the stiff competition in the money transfer business, strong emphasis was placed on differentiating LBF's offering from others in the market, leading to a series of value additions being coupled into the core product.

Moreover several alternative channels were pursued in order to gain access to migrant workers before they leave the country. Alongside these efforts local promotional activities were further intensified to provide more market visibility around the country. Branch led grass root level BTL activities were stepped up especially in high potential areas. Aside from the promotional information, these programs also include an educational component that aims to inculcate the savings habit among the grass root level customers who are generally recipients through the money transfer mechanism. Social media and direct call out campaigns also continued throughout the year for other customer segment.

Performance against strategy

WESTERN UNION



Future plans

The overarching priority for the forthcoming year would be to grow the customer base, which would mean improving the reach;

- Building a loyal base of repeat customers is also deemed equally important in order to ensure the sustainability of the business in the long term.
- Increase the business volume by 50% and strive to become the market leader in the WU transactions

FOREIGN CURRENCY OPERATION

LBF's Foreign Currency Operation specializes in offering currency exchange services for over 19 currencies. Combined with very competitive rates and no additional commission charge, the currency exchange operation is made available at all LBF branches.

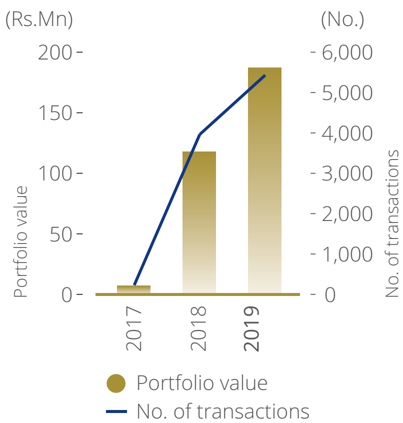
Outlook and strategy

Capitalising on the strong demand was main objective for the year, which led the unit to couple its BTL efforts with the door to door campaigns carried out by the gold loan segment. Several social media campaigns, SMS announcements and emails were also run, while a special personal call out awareness campaign was conducted with the assistance of the outbound call center.

At the same time a number of key internal processes were further streamlined, while additional staff training was provided, all with the intention of enhancing overall service delivery to the customer. Strengthen the capacity of branch staff and ensure compliance with CBSL sanctioned procedures when buying and selling of currencies.

Performance against strategy

Bolstered by these efforts, Foreign Currency operation volumes grew by a staggering rate in the year under review.



Future plans

Building a loyal customer base will remain the key priority for the future. This would mean developing a suitable reward mechanism to recognise the loyalty of repeat customers.

PAYHUB

LBF's Pay Hub was introduced with the primary intention of providing a value-added service to the Company's customers. Launched in 2012, the Pay Hub facility enables customers to pay their utility bills either at any of the LBF branches island-wide. Pay Hub is also available on LB e-connect, the Company's online financial tool, giving customers the added convenience of paying their utility bills at any time, from anywhere. Pay Hub is connected to the full gamut of utility service providers including all telecommunication companies, National Water Supply and Drainage Board, Ceylon Electricity Board and Lanka Electricity Company (LECO).

Performance against strategy

Utility payments collected through the Pay Hub was of Rs. 452.45 million in the year under review, up by 16%. Since its launch seven years ago, the Pay Hub product has gained considerable traction among LBF's customers with the increase in foot traffic at branches providing an opportunity to promote the Company's products to these potential customers.

Future plans

- Expand the Pay Hub service to cover credit card settlements and insurance payments.
- Increase utility payment income by 25% in 2018/19.
- Creating Payhub App

RENT A CAR

While LBF's rent-a-car business was initially launched as part of a broad based diversification strategy aimed at expanding fee-based income, it is now maintained more as a value added service for customers. The service is operationalised through fleet of vehicles, maintained by the Company, with customers being offered rent-a-car facilities at a special concessionary rate.

Performance against strategy

During the year, income from the rent-a-car service decreased to Rs. 11.98 million, from Rs. 13.46 million in the previous year.

Future plans

- Stringent fleet management to optimise returns from existing vehicle fleet

SUPPORT SERVICES

Smoothing the business process

INFORMATION TECHNOLOGY

LBF's IT function is a key custodian of the Company's competitive position in the market. IT plays a crucial role in LBF's goal to become the number one technology-driven finance company in Sri Lanka, by contributing towards improving employee efficiency and focusing on transforming business operations towards a paperless environment. The main purpose of the IT function is to maintain and support the Company's core business applications through the introduction of new systems and processes that would safeguard the integrity and confidentiality of LBF's assets. In addition to providing and maintaining the Company's network infrastructure, telecommunication, general office applications and equipment, and providing support for bespoke applications, the IT function also provides user support and training, information security, business continuity and disaster management.

ADMINISTRATION

The main task of the administration function is to facilitate the smooth functioning of operations with the highest priority given for safety and security for all assets whilst embedding green practices to achieve operational efficiencies at all levels of the business. The responsibilities of the administration function include general office management and transportation, procurement, security, safety and janitorial services, insurance and branch infrastructure development.

General office management and running

The division is tasked with ensuring a clean and secure office environment, monitoring the availability of adequate utility facilities and setting of internal operating rules to ensure a safe and secure work environment. The division oversees general day-to-day maintenance activities including the installation of furniture and equipment, inventory management of office supplies and stationery, disposal of unserviceable items within the stipulated rules and the management of mail delivery.

Property management

The division manages all LBF properties including building installations, maintenance of freehold and leasehold property, maintenance of the vehicle fleet and repossessed assets.

MARKETING

The marketing function of the Company plays an integral role in the development and delivery of all lending, deposit and value added products and services whilst enhancing stakeholder relationships. The scope of activities covered by the marketing function include; ensuring customer satisfaction, supporting business objectives, building and maintaining the brand image, discovering new opportunities and analysing the operating environment to strength the future decision-making process.

ADVERTISING

LBF's advertising model seeks to increase brand visibility and promote the Company's products and services. LBF's advertising model relies on both Above the Line (ATL) and Below the Line (BTL) to enhance the brand and reach target customers. All advertising and promotions related to products complied with the Central Bank mandated requirements and are monitored by the senior management of the Company. Accordingly the Company's advertisements, leaflets and promotional activities contain information pertaining to all our products in English, Sinhala and Tamil. Further, we have not been notified of any significant cases of non-compliance with any regulations or voluntary codes.

RECOVERIES

The recoveries function plays an important role in contributing towards the achievement of the Company's objectives. Working in collaboration with the regional and branch network as well as the credit and legal divisions the recovery function oversees the collection of customer dues. With the higher credit growth seen in recent years, the role of the recoveries function has been assigned the responsibility of building a good rapport with customers and ensuring customer retention, throughout the recovery effort. As such the current recovery model seeks to increase debt recovery through a more focused collection process supported by continuous monitoring of the portfolio while analysing industry trends.

TREASURY

The Treasury function is responsible for five interlinked areas: funding, liquidity management, investments, compliance and investor relations. Within the scope of these activities, the Treasury function undertakes a range of tasks to ensure the business functions smoothly and continues to generate value for stakeholders. Accordingly, the key responsibilities of the Treasury function are; the cost-effective management cash flows order to facilitate the Company's funding requirements, maintaining the optimum funding mix and managing LBF's investment portfolio taking cognisance of relevant risk.

WE'RE INVESTED

IN DELIVERING RESULTS

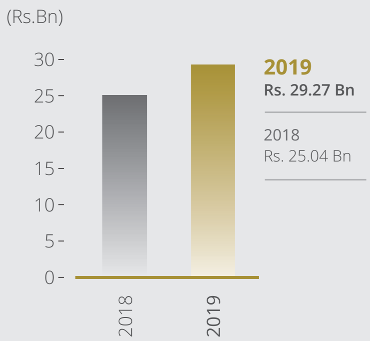
We remain invested in recording a steadfast, commendable performance year on year – focusing our every effort to deliver consistent results for our valued investors.

Financial Reports

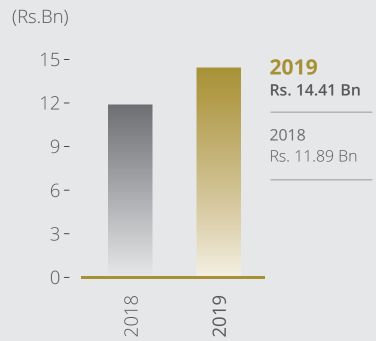
Financial Statement Highlights

Operating Results

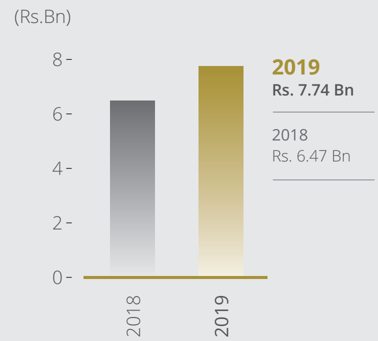
INCOME



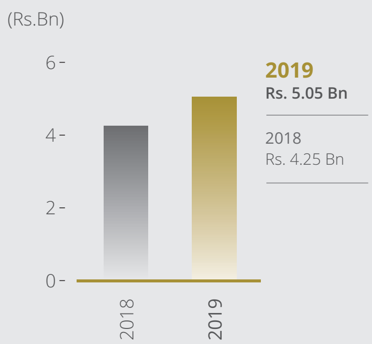
NET INTEREST INCOME



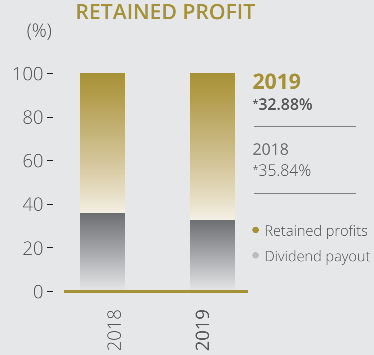
PROFIT BEFORE TAX (PBT)



PROFIT AFTER TAX (PAT)



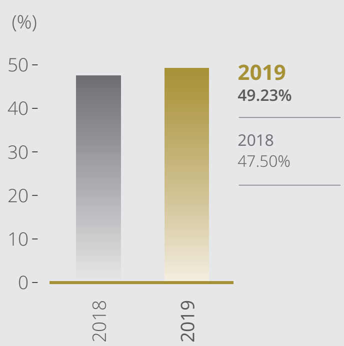
DIVIDEND PAYMENT VS RETAINED PROFIT



*Dividend payout ratio

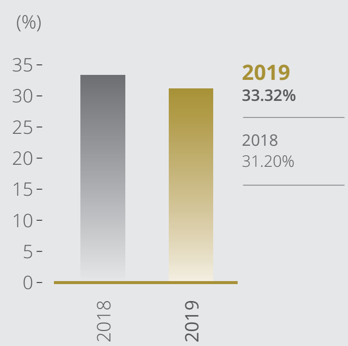
Profitability Ratios

GROSS PROFIT MARGIN*



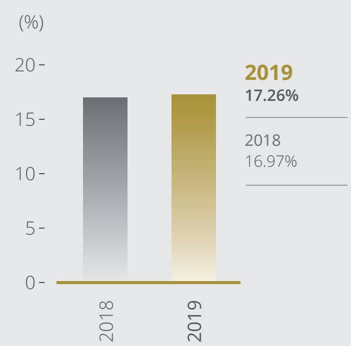
*Net interest income as a % of income

OPERATING PROFIT MARGIN*



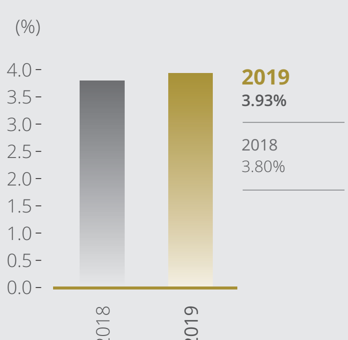
*Operating profit before tax as a % of Income

NET PROFIT MARGIN*

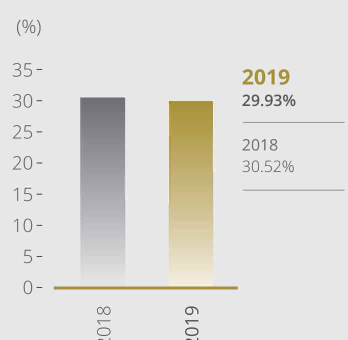


*Profit after tax as a % of income

RETURN ON ASSETS (ROA)

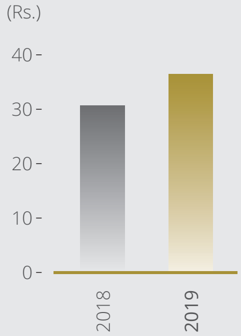


RETURN ON EQUITY (ROE)



Equity Ratios

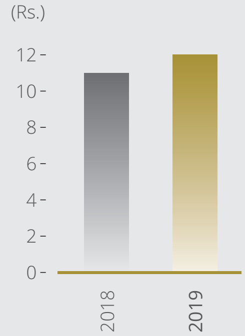
EARNINGS PER SHARE (EPS)



2019
Rs. 36.49

2018
Rs. 30.69

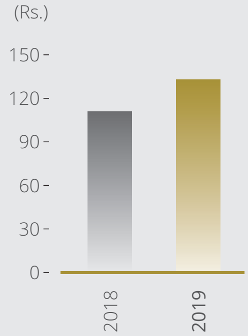
DIVIDEND PER SHARE (DPS)



2019
Rs. 12.00

2018
Rs. 11.00

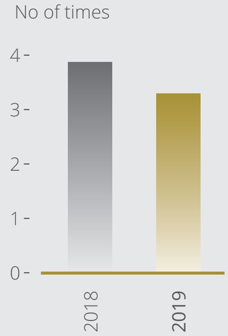
NET ASSETS VALUE PER SHARE



2019
Rs. 133.03

2018
Rs. 110.81

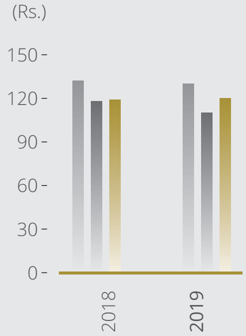
PRICE EARNINGS RATIO



2019
3.29 Times

2018
3.87 Times

MARKET VALUE PER SHARE



2019
***Rs. 120.10**

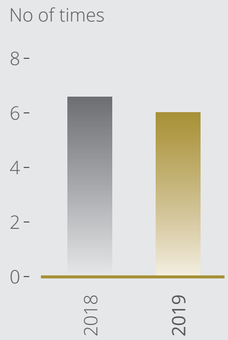
2018
*Rs. 118.90

Highest
Lowest
Closing

*Closing share price

Debt Ratios

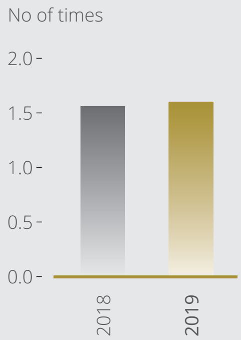
DEBT TO EQUITY RATIO



2019
6.02 Times

2018
6.58 Times

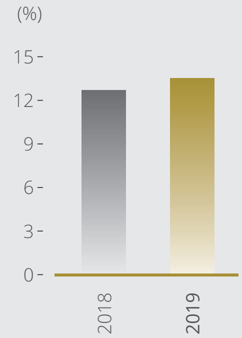
INTEREST COVER



2019
1.60 Times

2018
1.56 Times

EQUITY ASSETS RATIO



2019
13.51%

2018
12.70%

We are INVESTED in Delivering Results

Financial Calendar

2018/19	
Publication of interim financial statements for the quarter ended 31 March 2018	11 May 2018
Authorisation for issue of audited financial statements for 2017/18	22 May 2018
Publication of Annual report for the financial year ended 31 March 2018	5 June 2018
Held 45th Annual General Meeting of the company	29 June 2018
Payment of final dividend of Rs. 4.00 per share for the financial year ended 31 March 2018	10 July 2018
Publication of interim Financial Statements for the quarter ended 30 June 2018	31 July 2018
Publication of interim Financial Statements for the quarter ended 30 September 2018	29 October 2018
Publication of interim Financial Statements for the quarter ended 31 December 2018	29 January 2019

2019/20	
Payment of interim dividend of Rs. 8.00 per share for the financial year ended 31 March 2019	18 April 2019
Publication of interim financial statements for the quarter ended 31 March 2019	13 May 2019
Publication of Annual report for the financial year ended 31 March 2019	3 June 2019
46th Annual General Meeting of the company	27 June 2019
Payment of final dividend of Rs. 4.00 per share for the financial year ended 31 March 2019	* 8 July 2019

Submission of the Interim Financial Statements in terms of the Rule 7.4 of the Colombo Stock Exchange (CSE)	2018/19 Submitted on	2019/20 to be Submitted on or before
For the 3 months ended 30 June (unaudited)	31 July 2018	15 August 2019
For the 3 and 6 months ended 30 September (unaudited)	29 October 2018	15 November 2019
For the 3 and 9 months ended 31 December (unaudited)	29 January 2019	15 February 2020
For the 3 months and year ended 31 March (unaudited)	13 May 2019	30 May 2020

Publication of the six month Financial Statements as per requirements of the Central Bank of Sri Lanka	2018/19 Published in News Papers on			2019/20 to be Published on or before
	English	Sinhala	Tamil	
For the year ended 31 March (audited)	28 June 2018	28 June 2018	28 June 2018	30 June 2019
For the 6 months ended 30 September (unaudited)	15 November 2018	15 November 2018	15 November 2018	30 November 2019

* Subject to confirmation by Shareholders

Independent Assurance Report to the Board of Directors of L B Finance PLC

Building a better working world

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INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF L B FINANCE PLC

Report on the Directors' Statement on Internal Control

We were engaged by the Board of Directors of L B Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 March 2019.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

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

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

21 May 2019
Colombo

Directors' Responsibility Statement on Internal Control Over Financial Reporting

Responsibility

In line with the section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on internal control over financial reporting.

The Board of Directors ("Board") has overall responsibility for L B Finance PLC's ("Company") internal control over financial reporting and for reviewing its adequacy and effectiveness.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. This process is regularly reviewed by the Board.

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

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

Internal controls over financial reporting are checked by the Internal Auditors of the Company for suitability of design and effectiveness on an ongoing basis. The scope, quality and reports of internal audits are reviewed by the Board Audit Committee at its monthly meetings & improvements recommended wherever necessary.

The Company adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will take in its financial reporting and management information.

Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which was applicable for financial reporting periods beginning from 1 April 2018. The Board will continuously take steps to strengthen the processes and controls around management information systems and information required for validation and compliance in line with SLFRS 9.

Confirmation

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

Review of the statement by external auditors

The external auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

By order of the Board,

Mrs. Yogadinusha Bhaskaran
Non-Executive Director

J A S Sumith Adhihetty
Managing Director

21 May 2019

Directors' Responsibility for Financial Reporting

The following statement sets out responsibility of the Directors in relation to the Financial Statements of the Company and its Subsidiary prepared in accordance with the provisions of the Companies Act No. 7 of 2007.

The responsibility of the Independent Auditor in relation to the Financial Statements is set out in the Report of the Auditors given on pages 216 to 218 of the Annual Report.

As per the provisions of sections 151, 152(1) and (2), 153(1) and (2) and 150 (1) of the Companies Act No. 7 of 2007, the Directors are required to prepare Financial Statements for each financial year, which should give a true and fair view of the state of affairs of the Company and its Subsidiary as at the reporting date and its profit or loss for the financial year then ended, ensure that they are completed within six months or such extended period as may be determined by the Registrar General of Companies, certified by the person responsible for the preparation of the Financial Statements that it is in compliance with the said Companies Act and dated and signed on behalf of the Board by two Directors of the Company.

In terms of section 166(1) read together with sections 168(1)(b) and (c) and section 167(1) of the Companies Act, the Directors shall cause a copy of the aforesaid Financial Statements together with the annual report of the Board of Directors of the Company prepared as per section 166(1) of the Companies Act to be sent to every shareholder not less than fifteen working days before the date fixed for holding the Annual General Meeting.

In preparing the Financial Statements, the Directors are responsible to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and all applicable accounting standards have been complied with.

The Directors are also required to ensure that the Company and its Subsidiary have adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Companies within the Group maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and the Subsidiary.

Financial Statements prepared and presented in this report have been prepared based on Sri Lanka Accounting Standards (SLFRS/LKAS) and are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year, which is primarily handled through the Audit Committee and the Integrated Risk Management Committee as set out in their Reports that appear on pages 171 to 172 and 173 to 174 respectively.

The Directors have taken appropriate steps to ensure that the Company and its Subsidiary maintain proper books of accounts and the financial reporting system is directly reviewed by the Directors at their regular meetings and also through the Board Audit Committee.

The Board of Directors also approves the interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

The Financial Statements of the Company and the Subsidiary have been certified by the Chief Financial Officer of the Company, the officer responsible for their preparation as required by section 152(1)(b) and they have also been signed by two Directors of the Company as required by section 152(1)(c) of the Companies Act.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities, which were due and payable by the Company and the Subsidiary as at the reporting date have been paid or where relevant, provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board
L B Finance PLC

P W Corporate Secretarial (Pvt) Ltd
Company Secretaries

21 May 2019

Building a better working world

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Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

TO THE SHAREHOLDERS OF L B FINANCE PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of L B Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 2019, income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How our audit addressed the key audit matter
Impairment allowance for loans & receivables and lease rentals receivable & stock out on hire including Group's transition to SLFRS 9: We considered the impairment allowance for loans & receivables and lease rentals receivable & stock out on hire as a key audit matter. Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. The higher level of estimation uncertainty involved, materiality of the amounts reported in the Group's financial statements, and impact of transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter.	We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; these included the following procedures • Focusing on the oversight, review and approval of impairment policies by the board audit committee and management, we evaluated the design effectiveness of controls over impairment allowance, in the light of the requirements in SLFRS 9. • We understood and evaluated the model used to calculate impairment allowance to assess its appropriateness. • We assessed the completeness and relevance of the underlying information used in the impairment calculations by agreeing details to source documents and information in IT systems; underlying calculations were also re-checked.

Key Audit Matter	How our audit addressed the key audit matter
Loans & receivables and lease rentals receivable & stock out on hire amounted to Rs. 47,773,705 (Rs. '000) and Rs. 66,050,429 (Rs. '000) after deducting an impairment allowance of Rs. 1,325,326 (Rs. '000) and 2,425,788 (Rs. '000) respectively. The Note 4.18 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation. The impact on transition to SLFRS 9 on the Group's financial statements has been quantified and presented in Note 2.17 of the financial statements.	• We also considered reasonableness of macro-economic factors used, by comparing them with publicly available data and information sources. • By using a set of procedures similar to those enumerated above, we validated the quantitative impact of transition. • We assessed the adequacy of the related financial statement disclosures as set out in note(s) 2.17, 4.16 and 4.17 of the financial statements

Other information included in the Group's 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.

Building a better working world

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is 1884.

21 May 2019

Colombo

SECTION 01
Income Statement

Year ended 31 March	Note	Page No.	Company			Group		
			2019	2018	Change	2019	2018	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Income	4.1.1	237	29,278,024	25,046,202	17	29,342,212	25,046,339	17
Interest Income	4.1.2	237	27,363,768	23,394,115	17	27,420,842	23,395,887	17
Less: Interest Expenses	4.1.6	238	12,951,323	11,498,408	13	12,953,155	11,498,460	13
Net Interest Income	4.1.8	238	14,412,445	11,895,707	21	14,467,687	11,897,427	22
Fee and Commission Income	4.2	239	1,782,072	1,504,188	18	1,786,919	1,504,599	19
Net Trading Income	4.3	239	(2,558)	(299)	>100	(2,558)	(299)	>100
Other Operating Income	4.4	240	134,742	148,198	(9)	137,009	146,152	(6)
Total Operating Income			16,326,701	13,547,794	21	16,389,057	13,547,879	21
Less: Impairment Charges and Other Losses	4.5	240	982,111	667,628	47	985,849	668,005	48
Less: Gold Loan Auction Losses			1,043	2,995	(65)	1,043	2,995	(65)
Net Operating Income			15,343,547	12,877,171	19	15,402,165	12,876,879	20
Less: Operating Expenses								
Personnel Expenses	4.6	243	2,693,563	2,397,919	12	2,707,937	2,400,735	13
Depreciation of Property, Plant and Equipment	4.23	288	417,889	365,599	14	418,438	365,684	14
Amortisation of Intangible Assets	4.24	295	17,487	18,636	(6)	18,492	19,053	(3)
Other Operating Expenses	4.7	244	2,458,340	2,280,634	8	2,468,485	2,282,693	8
Total Operating Expenses			5,587,279	5,062,788	10	5,613,352	5,068,165	11
Operating Profit Before Tax on Financial Services			9,756,268	7,814,383	25	9,788,813	7,808,714	25
Less: Tax on Financial Services	4.8	244	2,015,619	1,336,693	51	2,015,619	1,336,693	51
Profit Before Taxation			7,740,649	6,477,690	19	7,773,194	6,472,021	20
Less: Income Tax Expense	4.9.1 (a)	246	2,685,989	2,226,969	21	2,693,771	2,226,969	21
Profit for the Year			5,054,660	4,250,721	19	5,079,423	4,245,052	20
Profit Attributable to:								
Equity Holders of the Company			5,054,660	4,250,721	19	5,079,349	4,245,069	20
Non-Controlling Interest			-	-	-	74	(17)	>100
Profit for the Year			5,054,660	4,250,721	19	5,079,423	4,245,052	20
Earnings per Share: Basic/Diluted (Rs.)	4.10	248	36.49	30.69	19	36.67	30.65	20
Dividend per Share	4.11	248						
Dividend per Share: Gross (Rs.)			12.00*	11.00	9			
Dividend per Share: Net (Rs.)			10.32*	9.74	6			

* Calculated based on interim dividend payable and proposed final dividend, which is to be approved at the Annual General Meeting.

Accounting Policies and Notes from pages 226 to 337 form an integral part of these Financial Statements.

Statement of Comprehensive Income

Year ended 31 March	Note	Page No.	Company			Group		
			2019	2018	Change	2019	2018	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
Profit for the Year			5,054,660	4,250,721	19	5,079,423	4,245,052	20
Other Comprehensive Income that will be Reclassified to Income Statement								
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations			-	-		15,594	5,247	>100
Fair Value Gains and Losses arising on Re-measuring Available for Sale Financial Assets								
Equity Securities								
Fair Value Gains/(Losses) on Re-measuring Equity Securities			-	3,604		-	3,604	
Reclassification Adjustment for Impairment on Equity Securities			-	4,456		-	4,456	
Net Fair Value Gains/(Losses) on Re-measuring Equity Securities			-	8,060		-	8,060	
Other Comprehensive Income that will be Reclassified to Income Statement			-	8,060		15,594	13,307	
Less: Deferred Tax Charge/(Reversal) on above Items			-	-		-	-	
Net Other Comprehensive Income that will be Reclassified to Income Statement			-	8,060		15,594	13,307	
Other Comprehensive Income that will never be Reclassified to Income Statement								
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income			(31,913)	-		(31,913)	-	
Actuarial Gains/(Losses) on Defined Benefit Plans	4.32.3	305	23,969	(47,807)	>100	23,969	(47,807)	>100
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	4.9.1 (b)	246	6,712	(13,386)	>100	6,712	(13,386)	>100
Net Actuarial Gains/(Losses) on Defined Benefit Plans			17,257	(34,421)	>100	17,257	(34,421)	
Net Other Comprehensive Income that will never be Reclassified to Income Statement			(14,656)	(34,421)	>100	(14,656)	(34,421)	>100
Other Comprehensive Income for the Year, Net of Tax			(14,656)	(26,361)	(44)	938	(21,114)	>(100)
Total Comprehensive Income for the Year, Net of Tax			5,040,004	4,224,360	19	5,080,361	4,223,938	20
Attributable to:								
Equity Holders of the Company			5,040,004	4,224,360	19	5,080,240	4,223,939	20
Non-Controlling Interest			-	-	-	121	(1)	>100
Total Comprehensive Income for the Year, Net of Tax			5,040,004	4,224,360	19	5,080,361	4,223,938	20

Accounting Policies and Notes from pages 226 to 337 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	Page No.	Company 2019 Rs. '000	Company 2018 Rs. '000	Company Change %	Group 2019 Rs. '000	Group 2018 Rs. '000	Group Change %
Assets								
Cash and Cash Equivalents	4.14	267	**4,040,586**	5,874,375	(31)	**4,058,610**	5,990,295	(32)
Financial Assets Recognised Through Profit or Loss/ Financial Investments - Held for Trading	4.15	268	**6,866**	9,682	(29)	**6,866**	9,682	(29)
Financial Assets at Amortised Cost/Loans and Receivables	4.16	270	**47,395,025**	39,855,398	19	**47,773,705**	39,894,276	20
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire	4.17	274	**66,050,429**	62,489,686	6	**66,050,429**	62,489,686	6
Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	4.19	283	**89,710**	121,624	(26)	**89,710**	121,624	(26)
Other Financial Assets	4.20	286	**10,804,517**	6,772,554	60	**10,794,673**	6,766,710	60
Other Non Financial Assets	4.21	287	**1,067,360**	815,808	31	**1,073,065**	816,463	31
Investment in Subsidiary	4.22	288	**318,999**	152,915	>100	**-**	-	
Property, Plant and Equipment	4.23	288	**6,577,379**	4,680,619	41	**6,580,725**	4,681,849	41
Intangible Assets	4.24	295	**39,847**	48,119	(17)	**43,523**	52,861	(18)
Total Assets			136,390,718	120,820,780	13	136,471,306	120,823,446	13
Liabilities								
Due to Banks	4.25	296	**24,633,508**	22,838,038	8	**24,633,508**	22,838,038	8
Financial Liabilities at Amortised Cost - Due to Depositors	4.26	298	**83,214,949**	72,943,833	14	**83,242,617**	72,946,011	14
Debt Instruments Issued and Other Borrowed Funds	4.27	300	**3,107,783**	5,152,832	(40)	**3,107,783**	5,152,832	(40)
Other Financial Liabilities	4.28	301	**1,974,490**	1,761,418	12	**1,974,490**	1,761,418	12
Other Non Financial Liabilities	4.29	301	**2,070,632**	852,715	>100	**2,075,791**	853,165	>100
Current Tax Liabilities	4.30	301	**1,395,971**	633,058	>100	**1,403,916**	633,058	>100
Deferred Tax Liabilities	4.31	302	**1,309,722**	1,058,750	24	**1,309,722**	1,058,750	24
Post Employment Benefit Liability	4.32	304	**256,512**	231,240	11	**256,512**	231,240	11
Total Liabilities			117,963,567	105,471,884	12	118,004,339	105,474,512	12
Equity								
Stated Capital	4.33	306	**838,282**	838,282	-	**838,282**	838,282	-
Reserves	4.34	307	**5,210,097**	4,270,522	22	**5,230,876**	4,275,753	22
Retained Earnings	4.35	308	**12,378,772**	10,240,092	21	**12,397,809**	10,234,440	21
Total Equity Attributable to Equity Holders of the Company			**18,427,151**	15,348,896	20	**18,466,967**	15,348,475	20
Non-Controlling Interest	4.36	309	**-**	-	-	**-**	459	(100)
Total Equity			18,427,151	15,348,896	20	18,466,967	15,348,934	20
Total Liabilities and Equity			136,390,718	120,820,780	13	136,471,306	120,823,446	13
Commitments and Contingencies	6.5	334	**1,820,856**	1,261,981	44	**1,820,856**	1,261,981	44
Net Asset Value per Share (Rs.)	6.6	335	**133.03**	110.81	20	**133.32**	110.81	20

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No 07 of 2007.

T Hasitha Athapattu
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements. Approved and signed for and on behalf of the Board of Directors by,

J A S Sumith Adhihetty
Managing Director

Mrs. Yogadinusha Bhaskaran
Director

Accounting Policies and Notes from pages 226 to 337 form an integral part of these Financial Statements.

21 May 2019
Colombo

Statement of Changes in Equity - Company

	Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Available for Sale Reserve	Fair Value Reserve	Total Equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
			Note 4.33	Note 4.35	Note 4.34.1	Note 4.34.2	Note 4.34.3	
Balance as at 1 April 2017			838,282	8,259,079	3,424,683	(12,365)	-	12,509,679
Net Profit for the Year			-	4,250,721	-	-	-	4,250,721
Other Comprehensive Income, Net of Tax			-	(34,421)	-	8,060	-	(26,361)
Total Comprehensive Income for the Year, Net of Tax			-	4,216,300	-	8,060	-	4,224,360
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners								
Transfers During the Year			-	(850,144)	850,144	-	-	-
Final Dividend for 2016/17	4.11	249	-	(415,543)	-	-	-	(415,543)
Interim Dividend for 2017/18	4.11	249	-	(969,600)	-	-	-	(969,600)
Total Transactions with Equity Holders			-	(2,235,287)	850,144	-	-	(1,385,143)
Balance as at 31 March 2018			838,282	10,240,092	4,274,827	(4,305)	-	15,348,896
Impact of Adoption of SLFRS 09			-	(299,578)	-	-	-	(299,578)
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale			-	39,444	-	(39,444)	-	-
Transfer of Available for Sale Reserve to Fair Value Reserve			-	-	-	43,749	(43,749)	-
Restated Opening Balance as at 1 April 2018			838,282	9,979,958	4,274,827	-	(43,749)	15,049,318
Net Profit for the Year			-	5,054,660	-	-	-	5,054,660
Other Comprehensive Income, Net of Tax			-	17,257	-	-	(31,913)	(14,656)
Total Comprehensive Income for the Year, Net of Tax			-	5,071,917	-	-	(31,913)	5,040,004
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners								
Transfers During the Year	4.34	307	-	(1,010,932)	1,010,932	-	-	-
Final Dividend for 2017/18	4.11	249	-	(554,057)	-	-	-	(554,057)
Interim Dividend for 2018/19	4.11	249	-	(1,108,114)	-	-	-	(1,108,114)
Total Transactions with Equity Holders			-	(2,673,103)	1,010,932	-	-	(1,662,171)
Balance as at 31 March 2019			838,282	12,378,772	5,285,759	-	(75,662)	18,427,151

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 226 to 337 form an integral part of these Financial Statements.

Statement of Changes in Equity - Group

	Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Available for Sale Reserve	Fair Value Reserve	Foreign Currency Translation Reserve	Total Equity Attributable to Equity Holders of the Company	Non-Controlling Interest	Total Equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
			Note 4.33	Note 4.35	Note 4.34.1	Note 4.34.2	Note 4.34.3	Note 4.34.4		Note 4.36	
Balance as at 1 April 2017			838,282	8,259,079	3,424,683	(12,365)	-	-	12,509,679	-	12,509,679
Net Profit for the Year			-	4,245,069	-	-	-	-	4,245,069	(17)	4,245,052
Other Comprehensive Income, Net of Tax			-	(34,421)	-	8,060	-	5,231	(21,130)	16	(21,114)
Total Comprehensive Income for the Year, Net of Tax			-	4,210,648	-	8,060	-	5,231	4,223,939	(1)	4,223,938
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners											
Transfers During the Year			-	(850,144)	850,144	-	-	-	-	-	-
Final Dividend for 2016/17	4.11	249	-	(415,543)	-	-	-	-	(415,543)	-	(415,543)
Interim Dividend for 2017/18	4.11	249	-	(969,600)	-	-	-	-	(969,600)	-	(969,600)
Non-Controlling Interest contribution for subsidiary share issues	4.36	309	-	-	-	-	-	-	-	460	460
Total Transactions with Equity Holders			-	(2,235,287)	850,144	-	-	-	(1,385,143)	460	(1,384,683)
Balance as at 31 March 2018			838,282	10,234,440	4,274,827	(4,305)	-	5,231	15,348,475	459	15,348,934
Impact of Adoption of SLFRS 09			-	(299,578)	-	-	-	-	(299,578)	-	(299,578)
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale			-	39,444	-	(39,444)	-	-	-	-	-
Transfer of Available for Sale Reserve to Fair Value Reserve			-	-	-	43,749	(43,749)	-	-	-	-
Restated Opening Balance as at 1 April 2018			838,282	9,974,306	4,274,827	-	(43,749)	5,231	15,048,897	459	15,049,356
Net Profit for the Year			-	5,079,349	-	-	-	-	5,079,349	74	5,079,423
Other Comprehensive Income, Net of Tax			-	17,257	-	-	(31,913)	15,548	891	47	938
Total Comprehensive Income for the Year, Net of Tax			-	5,096,606	-	-	(31,913)	15,548	5,080,240	121	5,080,361
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners											
Transfers During the Year	4.34	307	-	(1,010,932)	1,010,932	-	-	-	-	-	-
Final Dividend for 2017/18	4.11	249	-	(554,057)	-	-	-	-	(554,057)	-	(554,057)
Interim Dividend for 2018/19	4.11	249	-	(1,108,114)	-	-	-	-	(1,108,114)	-	(1,108,114)
Disposal of Shares			-	-	-	-	-	-	-	(580)	(580)
Total Transactions with Equity Holders			-	(2,673,103)	1,010,932	-	-	-	(1,662,171)	(580)	(1,662,751)
Balance as at 31 March 2019			838,282	12,397,809	5,285,759	-	(75,662)	20,779	18,466,967	-	18,466,967

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 226 to 337 form an integral part of these Financial Statements.

Statement of Cash Flows

Accounting Policy

The cash flow statement has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard - LKAS 07 (Statement of Cash Flows), whereby operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents consist of cash in hand, balances with banks, placements with banks, money at call and short notice.

Year ended 31 March	Note	Page No.	Company		Group	
			2019	2018	2019	2018
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash Flows From/(Used in) Operating Activities						
Profit and Other Comprehensive Income before Taxation			7,732,705	6,437,944	7,780,844	6,437,522
Adjustments for -						
Depreciation of Property, Plant and Equipment	4.23	288	417,889	365,599	418,438	365,684
Amortisation of Intangible Assets	4.24	295	17,487	18,636	18,492	19,053
Impairment Charges and Other Losses	4.5	240	982,111	667,628	985,849	668,005
Gold Loan Auction Losses			1,043	2,995	1,043	2,995
Diminution/(Appreciation) in Value of Investments			34,730	(3,219)	34,730	(3,219)
Loss/(Profit) on Disposal of Property, Plant and Equipment	4.4	240	(4,664)	(4,334)	(4,664)	(4,334)
Provision/(Reversal) for Defined Benefit Plans	4.32.1	304	39,129	92,496	39,129	92,496
Foreign Currency Exchange (Gain)/Loss			-	-	284	2,046
Dividend Received			(9,831)	(1,972)	(9,831)	(1,972)
Interest Income on Investing Activities			(1,140,937)	(955,142)	(1,140,937)	(955,142)
Notional Tax Credit on Interest on Treasury Bills and Bonds	4.1.9	239	-	(56,809)	-	(56,809)
Withholding Tax Attributed to Fixed Deposits			(25,181)	(47,398)	(25,181)	(47,398)
Net Unrealised Gains/(losses) Arising from Translating the Financial Statements of Foreign Operations			-	-	(15,594)	(5,247)
Operating Profit before Changes in Operating Assets and Liabilities			8,044,481	6,516,424	8,082,602	6,513,680
(Increase)/Decrease in Operating Assets						
(Increase)/Decrease in Financial Assets at Amortised Cost/Loans and Receivables			(8,207,246)	(6,768,837)	(8,550,784)	(6,808,092)
(Increase)/Decrease in Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire			(4,167,949)	(7,094,809)	(4,167,949)	(7,094,809)
(Increase)/Decrease in Other Financial Assets			(4,124,208)	131,507	(4,124,208)	137,351
(Increase)/Decrease in Other Non Financial Assets			(226,370)	(724,702)	(216,030)	(722,153)
			(16,725,773)	(14,456,841)	(17,058,971)	(14,487,703)
Increase/(Decrease) in Operating Liabilities						
Increase/(Decrease) in Financial Liabilities at Amortised Cost - Due to Depositors			10,271,116	12,541,878	10,296,606	12,544,056
Increase/(Decrease) in Other Financial Liabilities			213,072	(245,984)	213,072	(245,984)
Increase/(Decrease) in Other Non Financial Liabilities			11,949	179,279	20,242	179,743
			10,496,137	12,475,173	10,529,920	12,477,815
Cash Generated From Operations			1,814,845	4,534,756	1,553,550	4,503,792
Retirement Benefit Liabilities Paid	4.32.1	304	(13,857)	(14,877)	(13,857)	(14,877)
Income Tax Paid			(1,588,320)	(1,400,524)	(1,588,320)	(1,400,524)
Net Cash From/(Used in) Operating Activities			212,668	3,119,355	(48,627)	3,088,391

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 226 to 337 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31 March	Note	Page No.	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Cash Flows From/(Used in) Investing Activities						
Acquisition of Property, Plant and Equipment	4.23	288	(2,317,320)	(1,537,335)	(2,320,005)	(1,538,653)
Acquisition of Intangible Assets	4.24	295	(9,215)	(17,566)	(9,215)	(22,739)
Proceeds from Sale of Property, Plant and Equipment			7,335	9,807	7,335	9,807
Sale/(Purchase) of Financial Investments - Available for Sale			-	2	-	2
Investment in Subsidiary	4.22	288	(166,084)	(152,915)	-	-
Interest Received			1,232,632	772,607	1,232,632	772,607
Dividend Received			9,831	1,972	9,831	1,972
Net Cash Flows From/(Used in) Investing Activities			(1,242,821)	(923,428)	(1,079,422)	(777,004)
Cash Flows From/(Used in) Financing Activities						
Net Cash Flow from Syndicated Loans and Other Bank Facilities			2,012,464	(1,190,197)	2,012,464	(1,190,197)
Net Cash Flow from Debt Issued and Other Borrowings			(2,045,049)	3,108,615	(2,045,049)	3,108,615
Capital Contribution from Non-Controlling Interest of a Newly Incorporated Subsidiary			-	-	-	460
Dividends Paid	4.11.1	249	(554,057)	(1,385,143)	(554,057)	(1,385,143)
Net Cash Flows From/(Used in) Financing Activities			(586,642)	533,275	(586,642)	533,735
Net Increase/(Decrease) in Cash and Cash Equivalents			(1,616,795)	2,729,202	(1,714,691)	2,845,122
Cash and Cash Equivalents at the Beginning of the Year			4,589,019	1,859,817	4,704,939	1,859,817
Cash and Cash Equivalents at the End of the Year	4.14.3	267	2,972,224	4,589,019	2,990,248	4,704,939
Operational Cash Flows from Interest						
Interest Received			27,455,462	23,211,581	27,512,536	23,213,352
Interest Paid			12,289,298	10,454,626	12,291,130	10,454,677

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 226 to 337 form an integral part of these Financial Statements.

We are INVESTED in Delivering Results

SECTION 02

Corporate Information

2.1 REPORTING ENTITY

L B Finance PLC, is a domiciled, public limited liability company incorporated in Sri Lanka on 30 May 1971 under the Companies Act No 51 of 1938. The Company was re-registered under the Companies Act No 07 of 2007. It is a Licensed Finance Company registered under the Finance Business Act No 42 of 2011 and amendments thereto. The registered office of the Company is located at No 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07. The shares of the Company have a primary listing on the Colombo Stock Exchange. The staff strength of the Company as at 31 March 2019 was 3,618 (2018 - 3,441).

Corporate information is presented in page 402 of this Annual Report.

For purposes of this report, "L B Finance", the "Company", "we", "our", "us" or similar references mean L B Finance PLC.

2.2 CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements as at and for the year ended 31 March 2019, comprise the L B Finance PLC (Parent Company) and its Subsidiary (together referred to as the "Group" and individually as "Group entities").

The Company's parent undertaking is Vallibel One PLC. The Company's ultimate parent undertaking is Vallibel One PLC, which is incorporated in Sri Lanka. The Company's ultimate controlling party is Mr. Dhammika Perera.

2.3 PRINCIPAL BUSINESS ACTIVITIES, NATURE OF OPERATIONS OF THE GROUP AND OWNERSHIP BY THE COMPANY IN ITS SUBSIDIARY

L B Finance PLC → L B Microfinance Myanmar Company Limited → 100.00%

L B Finance PLC

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Maintenance of Savings Accounts, Providing Finance Lease, Hire Purchase, Mortgage Loans, Gold Loans, Margin Trading Facilities, Personnel Loans, Factoring and Trade Finance Loans, Other Credit Facilities and Value Added Services.

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

L B Microfinance Myanmar Company Limited

L B Microfinance Myanmar Company Limited was incorporated in Myanmar on 22 May 2017 as a 99% (31 March 2019 - 100%) owned subsidiary of L B Finance PLC. The principal business activities include engaging in microfinance lending. A licence was issued by the Myanmar Microfinance Supervisory Committee to operate as a microfinance organisation during the financial year. L B Microfinance Myanmar Company Limited commenced its commercial operations in December 2017.

2.4 APPROVAL OF FINANCIAL STATEMENTS BY DIRECTORS

The Financial Statements of the Group and the Company for the year ended 31 March 2019 (including comparatives for 31 March 2018) were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 21 May 2019.

Basis of Preparation

2.5 STATEMENT OF COMPLIANCE

Financial Statements of the Group and the separate Financial Statements of the Company which comprise the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Accounting Policies and Notes, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No 07 of 2007. The presentation of these Financial Statements is also in compliance with the requirements of Finance Business Act No 42 of 2011, Listing Rules of the Colombo Stock Exchange and the CBSL guidelines.

These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements.

2.6 RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board of Directors of the Company is responsible for these Financial Statements of the Group and the Company as per the provisions of the Companies Act No 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges the responsibility in relation to the Financial Statements, as set out in the 'Directors' Responsibility for Financial Reporting', 'Annual Report of the Board of Directors' and in the statement appearing with the Statement of Financial Position of the Annual Report.

2.7 APPLICATION OF SRI LANKA ACCOUNTING STANDARD – SLFRS 09 (FINANCIAL INSTRUMENTS)

The Group adopted Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments) effective from 1 April 2018. This Standard replaces Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). The resulting impact on the adoption of SLFRS 09 is disclosed in the table of Transition Disclosures (Note 2.17) and impact on the adoption of SLFRS 09 on the comparative financial information is incorporated to Equity as at 1 April 2018 in the presentation of these Financial Statements. The comparative figures for the year ended 31 March 2018 remains as audited and published as per the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement) and the figures and phrases have been rearranged wherever necessary to conform to the current financial year's presentation.

Sri Lanka Accounting Standard - SLFRS 15 (Revenue from Contract with Customers)

Sri Lanka Accounting Standard - SLFRS 15 (Revenue from Contract with Customers) became effective for the financial periods beginning on or after 1 January 2018. The Company and the Group did not recognise any material impact on its fee and commission income with the adoption of SLFRS 15 at the transition date, 1 April 2018.

2.8 BASIS OF MEASUREMENT

The Financial Statements of the Group have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position;

- Financial assets recognised through profit or loss - measured at fair value
- Financial assets measured at fair value through other comprehensive income
- Liabilities for defined benefit obligations are recognised using an actuarial technique (projected unit credit method).

2.9 GOING CONCERN

The Directors have made an assessment of its ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.10 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is the currency of the primary economic environment in which L B Finance PLC operates.

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

The information presented in US Dollars in the Section on 'Supplementary Information' on pages from 372 to 374 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

2.11 PRESENTATION OF FINANCIAL STATEMENTS

Assets and Liabilities of the Group presented in their Statements of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 6.3 on 'Current and Non Current Analysis of Assets and Liabilities' to these Financial Statements.

2.12 USE OF MATERIALITY, AGGREGATION, OFFSETTING AND ROUNDING

Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard.

Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements).

2.13 COMPARATIVE INFORMATION

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The Company/Group has not restated the comparative information for 2017/18 for financial instruments within the scope of Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments). Therefore, the comparative information for 2017/18 is reported under Sri Lanka Accounting Standard – LKAS 39 (Financial Instruments: Recognition and Measurement) and is not comparable to the information presented for 2018/19. Differences arising from adoption of Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) have been recognised directly in equity as of 1 April 2018 and are disclosed in Note 2.17 to these Financial Statements.

2.14 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 MARCH 2019

The following new accounting standards/amendments have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those accounting standards will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements. None of those have been early adopted by the Group.

Sri Lanka Accounting Standard – SLFRS 16 (Leases)

Sri Lanka Accounting Standard – SLFRS 16 (Leases) provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. Those currently classified as operating leases will create on balance sheet long term asset and lease creditor. This supersedes: Sri Lanka Accounting Standard – LKAS 17 (Leases), IFRIC 4 (Determining whether an Arrangement Contains a Lease), SIC 15 (Operating Leases - Incentives); and SIC 27 (Evaluating the substance of Transactions Involving the Legal form of a Lease).

Sri Lanka Accounting Standard – SLFRS 16 (Leases) is effective for annual reporting periods beginning on or after 1 January 2019.

The Group and the Company are assessing the potential financial impact on its financial statements from Sri Lanka Accounting Standard – SLFRS 16 (Leases). We expect to have the main impact from the properties which has taken (as a lessee) on long term rent basis.

IFRIC Interpretation 23 (Uncertainty over Income Tax Treatment)

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard - LKAS 12 (Income tax) and does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following;

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

- How an entity considers changes in facts and circumstances. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

2.15 CHANGES IN ACCOUNTING POLICIES

In these Financial Statements, the Company and the Group applied the Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments) and Sri Lanka Accounting Standard - SLFRS 07 (Financial Instruments: Disclosures), effective for annual periods beginning on or after 1 January 2018, for the first time. Changes included transition disclosures are shown in Note 2.17 to these Financial Statements

To reflect the difference between SLFRS 09 and LKAS 39, Sri Lanka Accounting Standard - SLFRS 07 (Financial Instruments : Disclosures) was updated and the Company has adopted it, together with SLFRS 09, for the financial year beginning 1 April 2018.

The accounting policies adopted by the Group are consistent with those used in the previous financial year other than the above.

2.16 SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTIES

The preparation of Financial Statements of the Group in conformity with Sri Lanka Accounting Standards requires the management to make assumptions, judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty involved with estimates, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation uncertainties, critical judgments and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Group are as follows;

3.8 Impairment of Non Financial Assets

4.9 Taxation

4.12 Classification of Financial Assets and Liabilities

4.13 Fair Value of Financial Instruments

4.18 Allowance for Impairment Losses

4.22 Investment in Subsidiary

4.23 Useful lifetime of the Property, Plant and Equipment

4.24 Useful lifetime of the Intangible Assets

4.31 Deferred Taxation

4.32 Post Employment Benefit Liability

6.5 Commitments and Contingencies

6.9 Events Occurring after the Reporting Date

2.17 TRANSITION DISCLOSURES

The following tables set out the transition impact of adoption of Sri Lanka Accounting Standard – SLFRS 09 (Financial Instruments) on the Statement of Financial Position, and the retained earnings including the effect of replacing Sri Lanka Accounting Standard – LKAS 39 (Financial Instruments: Recognition and Measurement) incurred credit loss calculations with SLFRS 09's Expected Credit Losses (ECLs). The reconciliation between the carrying amount under LKAS 39 to the balances reported under SLFRS 09 as at 1 April 2018 is as follows;

2.17.1 Reconciliation Between the Carrying Amounts Under LKAS 39 to the Balances Reported Under SLFRS 09 as at 1 April 2018

2.17.1 (a) Company

Description	LKAS 39 Measurement as at 31 March 2018			Remeasurement		SLFRS 9 Measurement as at 1 April 2018	
	Category	Rs. '000	Reclassification	ECL	Other	Rs. '000	Category
Assets							
Cash and Cash Equivalents	Loans and Receivables	5,874,375	-	-	-	5,874,375	Financial Assets at Amortised Cost
Loans and Receivables	Loans and Receivables	39,855,398	-	(139,955)	-	39,715,444	Financial Assets at Amortised Cost
Lease Rentals Receivable and Stock out on Hire	Loans and Receivables	62,489,686	-	(151,713)	-	62,337,973	Financial Assets at Amortised Cost
Other Financial Assets	Loans and Receivables	6,772,554	-	(552)	-	6,772,002	Financial Assets at Amortised Cost
Financial Investments - Held for Trading	Fair Value Through Profit or Loss	9,682	-	-	-	9,682	Fair Value through Profit or Loss
Financial Investments - Available for Sale	Available for Sale	121,624	-	-	-	121,624	Financial Assets Measured at Fair Value through Other Comprehensive Income
Total Financial Assets		115,123,319	-	(292,220)	-	114,831,099	
Total Assets Subject to Transition Impact		115,123,319	-	(292,220)	-	114,831,099	
Liabilities							
Due to Banks	Financial Liabilities at Amortised Cost	22,838,038	-	-	-	22,838,038	Financial Liabilities at Amortised Cost
Due to Customers	Financial Liabilities at Amortised Cost	72,943,833	-	-	-	72,943,833	Financial Liabilities at Amortised Cost
Debt Instruments Issued and Other Borrowed Funds	Financial Liabilities at Amortised Cost	5,152,832	-	-	-	5,152,832	Financial Liabilities at Amortised Cost
Other Financial Liabilities	Financial Liabilities at Amortised Cost	1,761,418	-	-	-	1,761,418	Financial Liabilities at Amortised Cost
Total Financial Liabillities		102,696,121	-	-	-	102,696,121	
Other Non Financial Liabilities		852,715	-	7,358	-	860,073	
Total Non Financial Liabillities		852,715	-	7,358	-	860,073	
Total Liabillities Subject to Transition Impact		103,548,836	-	7,358	-	103,556,194	

2.17.1 (b) Group

Description	LKAS 39 Measurement as at 31 March 2018			Remeasurement		SLFRS 9 Measurement as at 1 April 2018	
	Category	Rs. '000	Reclassification	ECL	Other	Rs. '000	Category
Assets							
Cash and Cash Equivalents	Loans and Receivables	5,990,295	-	-	-	5,990,295	Financial Assets at Amortised Cost
Loans and Receivables	Loans and Receivables	39,894,276	-	(139,955)	-	39,754,321	Financial Assets at Amortised Cost
Lease Rentals Receivable and Stock out on Hire	Loans and Receivables	62,489,686	-	(151,713)	-	62,337,973	Financial Assets at Amortised Cost
Other Financial Assets	Loans and Receivables	6,766,710	-	(552)	-	6,766,158	Financial Assets at Amortised Cost
Financial Investments - Held for Trading	Fair Value Through Profit or Loss	9,682	-	-	-	9,682	Fair Value through Profit or Loss
Financial Investments - Available for Sale	Available for Sale	121,624	-	-	-	121,624	Financial Assets Measured at Fair Value through Other Comprehensive Income
Total Financial Assets		115,272,273	-	(292,220)	-	114,980,053	
Total Assets Subject to Transition Impact		115,272,273	-	(292,220)	-	114,980,053	
Liabilities							
Due to Banks	Financial Liabilities at Amortised Cost	22,838,038	-	-	-	22,838,038	Financial Liabilities at Amortised Cost
Due to Customers	Financial Liabilities at Amortised Cost	72,946,011	-	-	-	72,946,011	Financial Liabilities at Amortised Cost
Debt Instruments Issued and Other Borrowed Funds	Financial Liabilities at Amortised Cost	5,152,832	-	-	-	5,152,832	Financial Liabilities at Amortised Cost
Other Financial Liabilities	Financial Liabilities at Amortised Cost	1,761,418	-	-	-	1,761,418	Financial Liabilities at Amortised Cost
Total Financial Liabillities		102,698,299	-	-	-	102,698,299	
Other Non Financial Liabilities		853,165	-	7,358	-	860,523	
Total Non Financial Liabilities		853,165	-	7,358	-	860,523	
Total Liabilities Subject to Transition Impact		103,551,464	-	7,358	-	103,558,822	

2.17.2 Impact of Transition to SLFRS 09 on Reserves and Retained Earnings

	Company Rs. '000	Group Rs. '000
Fair Value Reserve		
Closing Balance under LKAS 39 as at 31 March 2018	-	-
Transfer of Available For Sale Reserve to Fair Value Reserve	(43,749)	(43,749)
Opening Balance under SLFRS 09 as at 1 April 2018	(43,749)	(43,749)
Impact of Adoption of SLFRS 09 on Fair Value Reserve (A)	(43,749)	(43,749)
Available for Sale Reserve		
Closing Balance under LKAS 39 as at 31 March 2018	(4,305)	(4,305)
Transfer of Available For Sale Reserve to Fair Value Reserve	43,749	43,749
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale	(39,444)	(39,444)
Opening Balance under SLFRS 09 as at 1 April 2018	-	-
Impact of Adoption of SLFRS 09 on Available for Sale Reserve (B)	4,305	4,305
Retained Earnings		
Closing Balance under LKAS 39 as at 31 March 2018	10,240,092	10,234,440
Recognition of SLFRS 09 Expected Credit Losses (ECLs)	(299,578)	(299,578)
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale	39,444	39,444
Opening Balance under SLFRS 09 as at 1 April 2018	9,979,958	9,974,306
Impact of Adoption of SLFRS 09 on Retained Earnings (C)	(260,134)	(260,134)
Total Change in Equity due to Adopting SLFRS 09 (A+B+C)	(299,578)	(299,578)

2.17.3 Impact of Transition to SLFRS 09 on Impairment

	Company Rs. '000	Group Rs. '000
Impairment under LKAS 39 as at 31 March 2018	2,867,398	2,867,788
Re-measurement - Loans and Receivables, Lease Rentals Receivable and Stock out on Hire/Financial Assets at Amortised Cost under SLFRS 09	291,668	291,668
Re-measurement - Other Financial Assets/Financial Assets at Amortised Cost under SLFRS 09	552	552
	3,159,618	3,160,008
Re-measurement - Off-Balance Sheet Credit Exposures	7,358	7,358
Expected Credit Losses (ECLs) under SLFRS 09 as at 1 April 2018	3,166,976	3,167,366

SECTION 03

General Accounting Policies and Notes

Accounting policy relating to each accounting topic is given along with the relevant note to the Financial Statements. The other significant accounting policies are described below;

3.1 BASIS OF CONSOLIDATION

The Group's Financial Statements comprise, Consolidated Financial Statements of the Company and its Subsidiary in terms of the Sri Lanka Accounting Standard - SLFRS 10 (Consolidated Financial Statements).

3.1.2 Non-Controlling Interest

Details of Non-Controlling Interest are given in Note 4.36 to these Financial Statements.

3.1.3 Subsidiary

Details of the Company's subsidiary are set out in Note 4.22 to these Financial Statements.

3.1.4 Loss of Control

When the Group losess control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interest and other components of equity. Any resulting gain or loss is recognised in Income Statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

3.1.5 Transactions Eliminated on Consolidation

Intra-group balances, transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 FOREIGN CURRENCY

3.2.1 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Company's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the Reporting date are translated into the functional currency at the middle exchange rate of the functional currency ruling as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency as at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate as at the reporting date.

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

Foreign currency differences arising on translation are generally recognised in Income Statement. However, foreign currency differences arising from the translation of available for sale equity instruments are recognised in Other Comprehensive Income.

3.2.2 Foreign Currency Translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Company's functional currency. The Financial Statements of the foreign operations of the Company have been translated into the Group's presentation currency as explained under Note 3.2.3 below;

3.2.3 Foreign Operations

The results and financial position of overseas operations that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows;

Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling as at the reporting date.

Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.

All resulting exchange differences are recognised in the Other Comprehensive Income and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of equity, except to the extent that the translation difference is allocated to the Non-Controlling Interest.

When a foreign operation is disposed of such that the control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to Income Statement as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount of the translation reserve is reattributed to Non-Controlling Interest.

3.3 PROVISIONS

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

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.4 OPERATIONAL RISK EVENTS

Provisions for operational risk events are recognised for losses incurred by the Company which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

3.5 OTHER TAXES

3.5.1 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and subsequent amendments thereto, ESC was payable on Company's liable turnover at 0.5% and was deductible from income tax payable.

3.5.2 Withholding Tax on Dividends (WHT)

Withholding Tax arises from the distribution of dividends by the Company and is recognised at the time the liability to pay the related dividend is recognised.

3.6 BORROWING COSTS

As per the Sri Lanka Accounting Standard – LKAS 23 (Borrowing Costs), the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the Income Statement in the period in which they occur.

3.7 FINANCIAL GUARANTEES AND LOAN COMMITMENTS

Financial Guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Loan commitments at below market interest rates drawdown are initially measured at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts, letters of credit and undrawn loan commitments, a provision was made if they were an onerous contract under LKAS 39, but from 1 April 2018, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statement of Financial Position.

Loan types with undrawn limits are expected to change the exposure over a period due to the available portion in the unutilised limit. The drawdowns for unutilised portions (only for Stage 1 and 2) is considered by applying the behavioural (average) use of the facility over the given period and current excess over the average (positive net exposure). Then the positive net exposure is classified as 12 month or lifetime expected credit loss.

Details of Commitments and Contingencies are presented in Note 6.5 to these Financial Statements.

3.8 IMPAIRMENT OF NON FINANCIAL ASSETS

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

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

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

SECTION 04

Specific Accounting Policies and Notes

4.1 NET INTEREST INCOME

Accounting Policy

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

The Group use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09 and the same method followed by the Group for the Financial Assets and Financial Liabilities classified as held for trading and as available for sale and financial Assets and Liabilities measured at amortised cost under LKAS 39 in the comparative financial year. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability.

The calculation of EIR takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as an impairment charge or reversal to the Income Statement.

Interest income on impaired financial instruments continues to be recognised at original EIR to the unadjusted carrying amount until the financial asset has been classified as fully impaired. Until such the accrued interest added to the unadjusted carrying amount has been impaired to the estimated Loss Given Default (LGD). Discontinuation of interest accrual is discussed in Note 4.18 to these Financial Statements. Interest from overdue rentals have been accounted for on a cash received basis.

4.1.1 Income

	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Interest Income	27,363,768	23,394,115	27,420,842	23,395,887
Fee and Commission Income	1,782,072	1,504,188	1,786,919	1,504,599
Net Trading Income	(2,558)	(299)	(2,558)	(299)
Other Operating Income	134,742	148,198	137,009	146,152
	29,278,024	25,046,202	29,342,212	25,046,339

4.1.2 Interest Income

	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Loans and Receivables (Note 4.1.3)	9,822,945	8,251,407	9,880,019	8,253,179
Lease Rentals Receivable and Stock Out on Hire (Note 4.1.4)	16,374,704	14,083,358	16,374,704	14,083,358
Other Financial Assets	1,166,119	1,059,350	1,166,119	1,059,350
	27,363,768	23,394,115	27,420,842	23,395,887

4.1.3 Interest Income - Loans and Receivables

	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Gold Loans	5,566,077	4,319,109	5,566,077	4,319,109
Vehicle Loans	898,082	909,041	898,082	909,041
Medium and Short-Term Loans	1,119,726	989,088	1,176,800	990,860
Mortgage Loans	1,407,599	1,376,270	1,407,599	1,376,270
Quick Loans	2,690	6,113	2,690	6,113
Power Drafts	709,586	540,318	709,586	540,318
Margin Trading	2,920	4,518	2,920	4,518
Factoring Receivable	116,121	106,411	116,121	106,411
Real Estate Loans	144	539	144	539
	9,822,945	8,251,407	9,880,019	8,253,179

4.1.4 Interest Income - Lease Rentals Receivable and Stock Out on Hire

	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Lease Rentals Receivable	16,340,276	13,953,681	16,340,276	13,953,681
Stock Out on Hire	34,428	129,677	34,428	129,677
	16,374,704	14,083,358	16,374,704	14,083,358

		Company		Group	
		2019	2018	2019	2018
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
4.1.5	Interest Income from Sri Lanka Government Securities	521,651	568,092	521,651	568,092

4.1.6 Interest Expenses

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to Banks	2,796,264	2,589,652	2,796,264	2,589,652
Financial Liabilities at Amortised Cost - Due to Depositors	9,565,400	8,487,449	9,567,232	8,487,501
Debt Issued and Other Borrowed Funds	589,659	421,307	589,659	421,307
	12,951,323	11,498,408	12,953,155	11,498,460

4.1.7 Interest Expenses (Product-wise Breakdown)

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank Overdrafts	1,702	663	1,702	663
Syndicated Loans, Securitised Borrowings and Other Bank Facilities	2,794,562	2,588,989	2,794,562	2,588,989
Fixed Deposits	9,330,640	8,268,964	9,330,640	8,268,964
Certificates of Deposit	9,580	10,990	9,580	10,990
Savings Deposits	225,180	207,495	227,012	207,547
Unsecured Debentures	589,659	421,307	589,659	421,307
	12,951,323	11,498,408	12,953,155	11,498,460

		Company		Group	
		2019	2018	2019	2018
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
4.1.8	Net Interest Income	14,412,445	11,895,707	14,467,687	11,897,427

4.1.9 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions - Company

The Inland Revenue Act No10 of 2006, effective up to 31 March 2018, provided that a company which derives interest income from the secondary market transactions in Government Securities 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.

However, as per the provision of the Inland Revenue Act No 24 of 2017 effective from 1 April 2018, interest income from Government Securities are excluded from withholding tax. Hence, notional tax credit claimed by the Company was discontinued from 1 April 2018 with implementation of Inland Revenue Act No 24 of 2017.

Accordingly, the net interest income earned from the secondary market transactions in Government Securities for the previous financial year, has been grossed up in these Financial Statements with the resulting notional tax credit amounted to Rs. 56,809,154/-. There is no notional tax credit recognised for the current financial year.

4.2 FEE AND COMMISSION INCOME

Accounting Policy

The Group earns fee and commission income from a diverse range of services it provides to its customers. These fees include credit-related fees and commission income. All fees and commissions are recognised to the Income Statement on an accrual basis. Fee and commission income that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Credit-Related Fees and Commissions	1,063,356	924,436	1,068,203	924,847
Service Charge	718,716	579,752	718,716	579,752
	1,782,072	1,504,188	1,786,919	1,504,599

4.3 NET TRADING INCOME

Accounting Policy

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities 'held for trading' other than interest income.

Dividend income received from Financial Assets Recognised Through Profit or Loss is recognised when the Group's right to receive the payment is established.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Income from Financial Assets Recognised Through Profit or Loss	259	86	259	86
Appreciation/(Depreciation) in Market Value of Financial Assets Recognised Through Profit or Loss	(2,817)	(385)	(2,817)	(385)
	(2,558)	(299)	(2,558)	(299)

4.4 OTHER OPERATING INCOME

Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Group is recognised as Other Operating Income on an accrual basis.

Dividend income received from Financial Assets Measured at Fair Value Through Other Comprehensive Income is recognised when the Group's right to receive the payment is established.

The Profit/(Loss) on Disposal of Property, Plant and Equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of Other Operating Income in the year in which significant risks and rewards of ownership are transferred to the buyer.

Income on operating leases are accounted for on a straight-line basis over the periods of the leases.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Income from Financial Assets Measured at Fair Value Through Other Comprehensive Income	9,572	1,886	9,572	1,886
Reclassification Adjustment for Impairment on Equity Securities	-	(4,456)	-	(4,456)
Profit/(Loss) on Disposal of Property, Plant and Equipment	4,664	4,334	4,664	4,334
Real Estate Income (Net of Cost)	-	3,291	-	3,291
Income on Operating Lease	111,121	122,422	111,121	122,422
Sundry Income*	9,385	20,721	11,652	18,675
	134,742	148,198	137,009	146,152

* Negative goodwill amounted to Rs. 51,625/- generated from the acquisition of remaining 3,000 shares of the L B Microfinance Myanmar Company Limited has been included in the Sundry Income.

4.5 IMPAIRMENT CHARGES AND OTHER LOSSES

Accounting Policy (Applicable from 1 April 2018)

The Group recognises the changes to the impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments). The methodology adopted by the Group is explained in the Note 4.18 to these Financial Statements. Recovery of amounts written-off as bad and doubtful debts is credited to impairment charges and other losses.

Accounting Policy (Applicable up to 31 March 2018)

The Group recognises the changes to the impairment provision which are assessed based on the incurred loss method in accordance with Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement) up to 31 March 2018. The methodology adopted by the Group is explained in the Note 4.18 to these Financial Statements. Recovery of amounts written-off as bad and doubtful debts is credited to impairment charges and other losses.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Note 4.18.1)	366,598	415,476	370,336	415,853
Lease Rentals Receivable and Stock out on Hire (Note 4.18.1)	706,298	364,809	706,298	364,809
Other Losses	-	2,318	-	2,318
Recovery of Written-off Debts	(93,460)	(114,975)	(93,460)	(114,975)
Impairment on Investment in Fixed Deposits	251	-	251	-
Impairment on Off-Balance Sheet Credit Exposures	2,424	-	2,424	-
	982,111	667,628	985,849	668,005

4.5.1 Impairment Charges and Other Losses (Detailed Breakdown) - Company

	2019			2018		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount
Loans and Receivables	23,057	343,541	366,598	19,947	395,529	415,476
Lease Rentals Receivable and Stock out on Hire	127,149	579,149	706,298	5,124	359,684	364,809
Other Losses	-	-	-	-	2,318	2,318
	150,206	922,690	1,072,896	25,071	757,532	782,603
Recovery of Written-off Debts			(93,460)			(114,975)
Impairment on Investment in Fixed Deposits			251			-
Impairment on Off-Balance Sheet Credit Exposures			2,424			-
			982,111			667,628

4.5.2 Impairment Charges and Other Losses (Detailed Breakdown) - Group

	2019			2018		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount
Loans and Receivables	23,057	347,279	370,336	19,947	395,906	415,853
Lease Rentals Receivable and Stock out on Hire	127,149	579,149	706,298	5,124	359,684	364,809
Other Losses	-	-	-	-	2,318	2,318
	150,206	926,428	1,076,634	25,071	757,909	782,980
Recovery of Written-off Debts			(93,460)			(114,975)
Impairment on Investment in Fixed Deposits			251			-
Impairment on Off-Balance Sheet Credit Exposures			2,424			-
			985,849			668,005

4.5.3 Analysis of Impairment Charges and Other Losses

Company	2019			
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 01	Stage 02	Stage 03	Total
Gold Loans	4,054	-	5,783	9,837
Vehicle Loans	10,537	4,141	17,792	32,470
Medium and Short Term-Loans	20,683	7,311	118,928	146,922
Mortgage Loans	2,048	(2,841)	98,499	97,706
Quick Loans	(11)	(3)	2,338	2,324
Power Drafts	3,362	1,843	44,531	49,736
Margin Trading	-	-	-	-
Factoring Receivable	-	-	27,669	27,669
Real Estate Loans	-	-	(66)	(66)
Loans and Receivables	40,673	10,451	315,474	366,598
Leases	37,369	54,921	629,693	721,983
Hire Purchase	(1,248)	(697)	(13,740)	(15,685)
Lease Rentals Receivable and Stock Out on Hire	36,121	54,224	615,953	706,298
Recovery of Written-off Debts				(93,460)
Impairment on Investment in Fixed Deposits				251
Impairment on Off-Balance Sheet Credit Exposures				2,424
Total Allowance for Impairment Losses				982,111

Group	2019			
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 01	Stage 02	Stage 03	Total
Gold Loans	4,054	-	5,783	9,837
Vehicle Loans	10,537	4,141	17,792	32,470
Medium and Short Term-Loans	24,421	7,311	118,928	150,660
Mortgage Loans	2,048	(2,841)	98,499	97,706
Quick Loans	(11)	(3)	2,338	2,324
Power Drafts	3,362	1,843	44,531	49,736
Margin Trading	-	-	-	-
Factoring Receivable	-	-	27,669	27,669
Real Estate Loans	-	-	(66)	(66)
Loans and Receivables	44,411	10,451	315,474	370,336
Leases	37,369	54,921	629,693	721,983
Hire Purchase	(1,248)	(697)	(13,740)	(15,685)
Lease Rentals Receivable and Stock Out on Hire	36,121	54,224	615,953	706,298
Recovery of Written-off Debts				(93,460)
Impairment on Investment in Fixed Deposits				251
Impairment on Off-Balance Sheet Credit Exposures				2,424
Total Allowance for Impairment Losses				985,849

4.6 PERSONNEL EXPENSES

Accounting Policy

Personnel Expenses include salaries and bonus, terminal benefits and other staff-related expenses. The provision for bonus is recognised when it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund - Company

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The Company and the employees contribute 15% and 10% respectively on the salary of each employee to the Employees' Provident Fund.

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

Defined Benefit Plans - Company

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, staff gratuity was considered as defined benefit plan as per Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salaries and Other Related Expenses	2,289,613	2,034,887	2,303,987	2,037,703
Employer's Contribution to Employees' Provident Fund	214,908	188,583	214,908	188,583
Employer's Contribution to Employees' Trust Fund	42,982	37,717	42,982	37,717
Gratuity Charge/(Reversal) for the Year	63,099	44,689	63,099	44,689
Staff Training	10,950	8,565	10,950	8,565
Staff Welfare Expenses	65,650	78,817	65,650	78,817
Amortisation of Staff Loan Day 01 Difference	6,361	4,661	6,361	4,661
	2,693,563	2,397,919	2,707,937	2,400,735

4.7 OTHER OPERATING EXPENSES

Accounting Policy

Other operating expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earnings of the specific items of the income. All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit for the year.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' Emoluments	15,149	16,399	15,149	16,399
Auditors' Remuneration	3,137	2,950	4,642	2,950
Audit-Related Expenses	2,734	2,597	2,734	3,605
Non-Audit Fees to Auditors	486	1,045	486	1,045
Professional and Legal Expenses	55,608	46,025	55,608	46,025
Deposit Insurance Premium	106,064	93,017	106,064	93,017
General Insurance Expenses	153,447	152,248	153,447	152,248
Office Administration and Establishment Expenses	1,531,540	1,344,162	1,540,180	1,345,566
Advertising and Business Promotional Expenses	539,173	579,039	539,173	579,039
Crop Insurance Levy Expenses	51,002	43,152	51,002	43,152
	2,458,340	2,280,634	2,468,485	2,282,693

Crop Insurance Levy

As per provisions of the section 14 of the Finance Act No 12 of 2013, the Crop Insurance Levy was introduced with effect from 1 April 2013 and was payable to the National Insurance Trust Fund. Currently, the Crop Insurance Levy is payable at 1% of profit after tax.

Directors' Emoluments

Directors' Emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under Salaries and Other Related Expenses in Note 4.6 to these Financial Statements.

4.8 TAX ON FINANCIAL SERVICES

Accounting Policy

Tax on Financial Services include Value Added Tax on Financial Services and Nation Building Tax on Financial Services.

Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits.

VAT rate applied for the current financial year is 15% (2018-15%).

Nation Building Tax (NBT) on Financial Services

As per provisions of the Nation Building Tax (NBT) Act No 9 of 2009 and amendments thereto, NBT on Financial Services was payable at 2% on Company's value additions attributable to financial services with effect from 1 January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on Financial Services.

Debt Repayment Levy (DRL) on Financial Services

As per the Finance Act No 35 of 2018, with effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on Financial Services.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Value Added Tax on Financial Services	1,424,376	1,179,435	1,424,376	1,179,435
Nation Building Tax on Financial Services	189,712	157,258	189,712	157,258
Debt Repayment Levy on Financial Services	401,531	-	401,531	-
	2,015,619	1,336,693	2,015,619	1,336,693

4.9 TAXATION

Accounting Policy

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income (OCI)', in which case it is recognised in Equity or in OCI.

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 4.9.2 to these Financial Statements.

Accounting Estimates

Significant judgment was required to determine the total provision for current and deferred taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. The Company recognized assets and liabilities for current and deferred taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 4.31 to these Financial Statements.

4.9.1 The Major Components of Income Tax Expense for the Years Ended 31 March are as Follows;

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4.9.1 (a) Income Statement				
Current Income Tax				
Income Tax for the Year	2,457,981	1,633,990	2,465,763	1,633,990
Under/(Over) Provision of Current Taxes in respect of Previous Years	(16,252)	24,331	(16,252)	24,331
Deferred Tax				
Deferred Taxation Charge/(Reversal) (Note 4.31)	244,260	568,648	244,260	568,648
	2,685,989	2,226,969	2,693,771	2,226,969
4.9.1 (b) Other Comprehensive Income				
Deferred Tax				
Deferred Taxation Charge/(Reversal) (Note 4.31)	6,712	(13,386)	6,712	(13,386)
	6,712	(13,386)	6,712	(13,386)
4.9.1 (c) Total Tax Expense for the Financial Year	2,692,701	2,213,583	2,700,483	2,213,583

4.9.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by relevant tax rate for the years ended 31 March is as follows;

		Company		Group	
		2019	2018	2019	2018
	Tax Rate	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Accounting Profit Before Income Taxation		7,740,649	6,477,690	7,773,194	6,472,021
Income Tax Expense at the Statutory Income					
L B Finance PLC	28%	2,167,382	1,813,753	2,167,382	1,813,753
L B Microfinance Myanmar Company Limited	25%	-	-	8,136	-
Tax Effect of Non-Deductible Expenses		538,917	391,012	545,629	391,012
Tax Effect of Allowable Credits		(1,306)	(1,575)	(1,306)	(1,575)
Tax Effect of Exempt Income		(2,753)	(552)	(2,753)	(552)
Under/(Over) Provision of Current Taxes in respect of Previous Years		(16,251)	24,331	(16,605)	24,331
		2,685,989	2,226,969	2,700,483	2,226,969
Charge/(Reversal) for Deferred Tax		244,260	568,648	244,260	568,648
Effective Tax Rate		34.70%	34.38%	34.74%	34.41%
Effective Tax Rate (Excluding Deferred Tax)		31.54%	25.60%	31.60%	25.62%
Accounting Profit Before Tax on Financial Services		9,756,268	7,814,383	9,788,813	7,808,714
Effective Tax Rate (Excluding Tax on Financial Services)		27.53%	28.50%	27.59%	28.52%

4.9.3 Income Tax expense/refund of the Company and its subsidiary have been recorded for on the taxable income at rates shown below;

	2019	2018
L B Finance PLC	28%	28%
L B Microfinance Myanmar Company Limited	25%	-

4.9.4 Summary of the Taxes Paid During the Year

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Direct Taxes				
Income Tax	1,588,320	1,400,524	1,588,320	1,400,524
Value Added Tax on Financial Services	1,402,281	1,199,539	1,402,281	1,199,539
Nation Building Tax on Financial Services	186,500	156,343	186,500	156,343
Debt Repayment Levy on Financial Services	337,061	-	337,061	-
Crop Insurance Levy	47,320	40,422	47,320	40,422
Economic Service Charge	142,410	118,364	142,410	118,364
	3,703,892	2,915,192	3,703,892	2,915,192
Indirect Taxes (Collected and Paid)				
Value Added Tax	292,987	330,323	292,987	330,323
Nation Building Tax	36,502	32,017	36,502	32,017
Stamp Duty	411,308	315,992	411,308	315,992
Withholding Tax on Dividend and Interest	360,324	329,024	360,324	329,024
PAYE Tax	106,619	77,908	106,619	77,908
	1,207,740	1,085,264	1,207,740	1,085,264
Total Taxes Paid during the Financial Year	4,911,632	4,000,456	4,911,632	4,000,456

4.10 EARNINGS PER ORDINARY SHARE

Accounting Policy

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per the Sri Lanka Accounting Standard - LKAS 33 (Earnings per Share).

Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees. The Group does not have any potentially dilutive shares.

4.10.1 Income and Shares Details Used in the Basic Earning per Share Computation

	Company		Group	
	2019	**2018**	**2019**	**2018**
Amounts Used as the Numerators:				
Profit after Tax for the Year Attributable to Equity Holders (Rs. '000)	**5,054,660**	4,250,721	**5,079,349**	4,245,069
Number of Ordinary Shares Used as Denominators for Basic Earnings per Share				
Weighted Average Number of Ordinary Shares in Issue	**138,514,284**	138,514,284	**138,514,284**	138,514,284
Basic/Diluted Earnings per Ordinary Share (Rs.)	**36.49**	30.69	**36.67**	30.65

4.10.2 The Diluted earnings per ordinary share is equal to the basic earnings per ordinary share since the Company and the Group does not have any convertible securities as at the reporting date.

4.10.3 There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

4.11 DIVIDEND PAID AND PROPOSED

Accounting Policy

Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No 7 of 2007.

Dividends for the year that are declared after the reporting date are disclosed in Note 6.9.1 to these Financial Statements as an event after the reporting period in accordance with the Sri Lanka Accounting Standard - LKAS 10 (Events after the Reporting Period).

	Company 2019 Rs. '000	Company 2018 Rs. '000
4.11.1 Declared and Paid During the Year		
Dividends on Ordinary Shares;		
Final Dividend for 2018 - Rs. 4.00 per Share (Final Dividend for 2017 - Rs. 3.00 per Share)	554,057	415,543
(Interim Dividend for 2018 - Rs. 7.00 per Share)	-	969,600
	554,057	1,385,143
4.11.2 Declared During the Year and Paid after the Reporting Date		
(recognised as a liability as at 31 March)		
Dividends on Ordinary Shares;		
Interim Dividend for 2019 - Rs. 8.00 per Share	1,108,114	-
4.11.3 Proposed for Approval at Annual General Meeting		
(not recognised as a liability as at 31 March)		
Dividends on Ordinary Shares;		
Final Dividend for 2019 - Rs. 4.00 per Share (Final Dividend for 2018 - Rs. 4.00 per Share)	554,057	554,057

4.12 FINANCIAL INSTRUMENTS

Accounting Policy (Applicable from 1 April 2018)

Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to depositors, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to depositors when funds are transferred to the Group.

Classification and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables of subsidiaries are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1' profit or loss.

Day 1' Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and the fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Classification and Subsequent Measurement of Financial Assets

From 1 April 2018 as per SLFRS 09, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through Other Comprehensive Income (FVOCI)
- Fair value through Profit or Loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

Details of the impact on reclassification and measurement from LKAS 39 to SLFRS 09 are disclosed in transition disclosures given in Note 2.17 to these Financial Statements.

Business Model Assessment

Group determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Group's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as;

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)
- The expected frequency, value and timing of sales

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios in to account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectation, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cash flow Characteristic Test (The SPPI Test)

As the second test of the classification process the Group assesses the contractual terms of the financial asset to identify whether those meet 'Solely the Payment of Principle and Interest' (SPPI) criteria.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Group applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

Classification and subsequent measurement of financial liabilities

As per SLFRS 09, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories;

- Financial liabilities at fair value through profit or loss, and within this category as;
  - Held for trading; or
  - Designated at fair value through profit or loss
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

SLFRS 09 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities.

Reclassification of Financial Assets and Financial Liabilities

As per SLFRS 09, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 09.

Derecognition of Financial Assets and Financial Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Accounting Policy (Applicable up to 31 March 2018)

Date of Recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades'. Regular way trades means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Classification and Initial Measurement of Financial Instruments

The classification of financial instruments at the initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities at fair value through profit and loss as per the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). Transaction costs in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through Income Statement.

Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'net trading income'.

Classification and Subsequent Measurement of Financial Assets

Financial assets held for trading and available for sale financial investments are subsequently measured at fair value. Changes in fair value of financial assets held for trading are recognized in 'net trading income'. Unrealised gains and losses from available for sale financial investments are recognised directly in equity through 'other comprehensive income / expense' in the 'available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average basis. Interest earned whilst holding 'available for sale financial investments' is reported as 'interest income' using the effective interest rate (EIR).

Financial assets classified under loans and advances are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest income' in the Income Statement.

Classification and Subsequent Measurement of Financial Liabilities

At the inception the Group determines the classification of its financial liabilities. Accordingly, all financial liabilities are classified as financial liabilities at amortised cost.

Financial Instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under 'due to banks', 'due to customers', 'debt issued and other borrowed funds' and other financial liabilities as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

Reclassification of Financial Instruments

The Group does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

The Group reclassifies non-derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). In certain circumstances the Group is also permitted to reclassify financial assets out of the 'available for sale' category and into the 'loans and receivables', 'held for trading' or 'held-to-maturity' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group has not reclassified any financial assets during the year.

Derecognition of Financial Instruments

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Income Statement.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKASs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

During the year Group has not offset any financial assets and financial liabilities in the Statement of Financial Position.

Offsetting of Financial Instruments

Offsetting of financial instruments based on the rights of set off relating to the financial instruments and cash collateral is as follows;

Company & Group

As at 31 March 2019	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Lease Rentals Receivable and Stock out on Hire	66,050,429	-	66,050,429	-	28,094,634	37,955,795
Financial Liabilities						
Due to Depositors	83,214,949	-	83,214,949	-	2,855,607	80,359,342

Company & Group

As at 31 March 2018	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Lease Rentals Receivable and Stock out on Hire	62,489,686	-	62,489,686	-	26,511,882	35,977,804
Financial Liabilities						
Due to Depositors	72,943,833	-	72,943,833	-	2,579,869	70,363,964

The financial instruments and cash collateral amounts have been recorded at amortised cost. The rights of set off relating to the financial instruments and cash collateral are conditional upon the default of the counterparty.

4.13 FAIR VALUE MEASUREMENT

Accounting Policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

01. In the principal market for the asset or liability; or
02. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses various valuation methodologies that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

Level 1: Inputs include quoted prices for identical instruments.

Level 2: Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.

Level 3: Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments.

Valuation framework

The Company has an established control framework for the measurement of fair values. Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department.

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

4.13.1 Fair Value Measurement Hierarchy - Financial Assets Measured at Fair Value - Company & Group

As at 31 March		2019				2018			
		Fair Value Measurement Using				Fair Value Measurement Using			
	Notes	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets Recognised Through Profit or Loss/ Financial Investments - Held for Trading	4.15								
Quoted Equities		6,866	-	-	6,866	9,682	-	-	9,682
Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	4.19								
Quoted Equities		89,405	-	-	89,405	121,319	-	-	121,319
Unquoted Equities		-	-	305	305	-	-	305	305
		89,405	-	305	89,710	121,319	-	305	121,624

There were no transfers into and transfers out of the hierarchy levels during 2018 and 2019.

Details of valuation methodologies and assumptions are disclosed in note 4.15 and note 4.19 to these Financial Statements.

4.13.2 Fair Value Measurement Hierarchy - Financial Assets and Liabilities Measured at Amortised Cost

4.13.2 (a) Financial Assets Measured at Amortised Cost - Company

As at 31 March	Notes	2019				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4.14					
Notes and Coins Held		873,072	-	-	873,072	873,072
Balances with Banks		1,403,820	-	-	1,403,820	1,403,820
Treasury Bills Repurchase Agreements		-	1,763,694	-	1,763,694	1,763,694
		2,276,892	1,763,694	-	4,040,586	4,040,586
Financial Assets at Amortised Cost/Loans and Receivables (Net of Allowance for Impairment Losses)	4.16					
Gold Loans		-	-	25,717,165	25,717,165	25,717,165
Vehicle Loans		-	-	5,671,597	5,671,597	5,713,384
Medium and Short-Term Loans		-	-	5,778,043	5,778,043	5,743,814
Mortgage Loans		-	-	6,438,755	6,438,755	6,227,649
Quick Loans		-	-	2,472	2,472	2,472
Power Drafts		-	-	3,682,897	3,682,897	3,682,058
Margin Trading		-	-	17,141	17,141	17,141
Real Estate Loans		-	-	-	-	-
Factoring Receivable		-	-	291,342	291,342	291,342
		-	-	47,599,412	47,599,412	47,395,025
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)	4.17					
Lease Rentals Receivable		-	-	67,385,922	67,385,922	66,022,581
Stock out on Hire		-	-	31,164	31,164	27,848
		-	-	67,417,086	67,417,086	66,050,429
Other Financial Assets	4.20					
Treasury Bills Repurchase Agreements		-	5,138,730	-	5,138,730	5,138,730
Investment in Fixed Deposits		-	5,281,468	-	5,281,468	5,281,468
Insurance Premium Receivable		-	349,425	-	349,425	349,425
Due from Subsidiary		-	9,844	-	9,844	9,844
Sundry Debtors		-	25,050	-	25,050	25,050
		-	10,804,517	-	10,804,517	10,804,517

	2018				
	Fair Value Measurement Using				
	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
	Level 1	Level 2	Level 3		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	793,796	-	-	793,796	793,796
	1,861,273	-	-	1,861,273	1,861,273
	-	3,219,306	-	3,219,306	3,219,306
	2,655,069	3,219,306	-	5,874,375	5,874,375
	-	-	20,108,243	20,108,243	20,108,243
	-	-	4,017,216	4,017,216	4,054,552
	-	-	5,522,094	5,522,094	5,558,771
	-	-	7,004,345	7,004,345	6,962,770
	-	-	7,673	7,673	9,624
	-	-	2,599,730	2,599,730	2,658,607
	-	-	20,963	20,963	20,963
	-	-	-	-	-
	-	-	481,868	481,868	481,868
	-	-	39,762,132	39,762,132	39,855,398
	-	-	63,287,175	63,287,175	62,279,090
	-	-	211,085	211,085	210,596
	-	-	63,498,260	63,498,260	62,489,686
	-	3,532,441	-	3,532,441	3,532,441
	-	2,879,390	-	2,879,390	2,879,390
	-	326,628	-	326,628	326,628
	-	5,844	-	5,844	5,844
	-	28,251	-	28,251	28,251
	-	6,772,554	-	6,772,554	6,772,554

4.13.2 (b) Financial Assets Measured at Amortised Cost - Group

As at 31 March	Notes	2019				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4.14					
Notes and Coins Held		873,251	-	-	873,251	873,251
Balances with Banks		1,421,665	-	-	1,421,665	1,421,665
Treasury Bills Repurchase Agreements		-	1,763,694	-	1,763,694	1,763,694
		2,294,916	1,763,694	-	4,058,610	4,058,610
Financial Assets at Amortised Cost/Loans and Receivables (Net of Allowance for Impairment Losses)	4.16					
Gold Loans		-	-	25,717,165	25,717,165	25,717,165
Vehicle Loans		-	-	5,671,597	5,671,597	5,713,384
Medium and Short-Term Loans		-	-	6,156,723	6,156,723	6,122,494
Mortgage Loans		-	-	6,438,755	6,438,755	6,227,649
Quick Loans		-	-	2,472	2,472	2,472
Power Drafts		-	-	3,682,897	3,682,897	3,682,058
Margin Trading		-	-	17,141	17,141	17,141
Real Estate Loans		-	-	-	-	-
Factoring Receivable		-	-	291,342	291,342	291,342
		-	-	47,978,092	47,978,092	47,773,705
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)	4.17					
Lease Rentals Receivable		-	-	67,385,922	67,385,922	66,022,581
Stock out on Hire		-	-	31,164	31,164	27,848
		-	-	67,417,086	67,417,086	66,050,429
Other Financial Assets	4.20					
Treasury Bills Repurchase Agreements		-	5,138,730	-	5,138,730	5,138,730
Investment in Fixed Deposits		-	5,281,468	-	5,281,468	5,281,468
Insurance Premium Receivable		-	349,425	-	349,425	349,425
Sundry Debtors		-	25,050	-	25,050	25,050
		-	10,794,673	-	10,794,673	10,794,673

2018				
Fair Value Measurement Using				
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
Level 1	Level 2	Level 3		
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
793,847	-	-	793,847	793,847
1,977,142	-	-	1,977,142	1,977,142
-	3,219,306	-	3,219,306	3,219,306
2,770,989	3,219,306	-	5,990,295	5,990,295
-	-	20,108,243	20,108,243	20,108,243
-	-	4,017,216	4,017,216	4,054,552
-	-	5,560,972	5,560,972	5,597,649
-	-	7,004,345	7,004,345	6,962,770
-	-	7,673	7,673	9,624
-	-	2,599,730	2,599,730	2,658,607
-	-	20,963	20,963	20,963
-	-	-	-	-
-	-	481,868	481,868	481,868
-	-	39,801,010	39,801,010	39,894,276
-	-	63,287,175	63,287,175	62,279,090
-	-	211,085	211,085	210,596
-	-	63,498,260	63,498,260	62,489,686
-	3,532,441	-	3,532,441	3,532,441
-	2,879,390	-	2,879,390	2,879,390
-	326,628	-	326,628	326,628
-	28,251	-	28,251	28,251
-	6,766,710	-	6,766,710	6,766,710

Sensitivity Analysis of Financial Assets Measured at Amortised Cost under Level 3 Category

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Increase/(Decrease) in Interest Rate				
1bp Up	**(9,418)**	(9,119)	**(9,418)**	(9,119)
1bp Down	**9,419**	9,120	**9,419**	9,120

Unobservable Inputs Used in Measuring Fair Value under Level 3 Category

The following table sets out information about significant unobservable inputs used as at 31 March 2019 and 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair Values as at 31 March 2019	Fair Values as at 31 March 2019	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Company	Group				
	Rs. '000	Rs. '000				
Financial Assets at Amortised Cost/Loans and Receivables (Net of Allowance for Impairment Losses)	**47,599,412** (2018) 39,762,132	**47,978,092** (2018) 39,801,010	Discounted cash flow	Spread	**2-12.5%** (2018 : 2-13%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	**2-7%** (2018 : 2-6%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	**5-100%** (2018 : 25-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	**0.03-3.4%** (2018 : 0.03-3.4%)	Correlates with the current interest rates
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)	**67,417,086** (2018) 63,498,260	**67,417,086** (2018) 63,498,260	Discounted cash flow	Spread	**4-10%** (2018 : 7.5-10.5%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	**2-7%** (2018 : 2-6%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	**5-100%** (2018 : 25-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	**0.5-3.85%** (2018: 0.5-3.85%)	Correlates with the current interest rates

There were no transfers into and transfers out of the hierarchy levels during 2019 and 2018.

Valuation Methodologies and Assumptions

Cash and Cash Equivalents

Included in cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as cash and cash equivalents. Time deposits, certificates of deposit and money market accounts that meet the above criteria are reported at par value on our Statement of Financial Position.

Finance Receivables (Loans, Lease Rentals Receivable and Stock out on Hire)

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, pre-payment speed, and applicable spreads to approximate current rates. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. We use the fair value of collateral to determine the fair value of non-performing finance receivables. The collateral for finance receivable is the vehicle financed, real estate, gold or other property. The fair value of finance receivables is categorized within Level 3 of the fair value measurement hierarchy. Loans and advances granted to customers with a variable rate are considered to be carried at fair value in the books net of credit losses.

Other Financial Assets

Since all the balances which are under other financial assets have short-term maturities, it is assumed that the carrying amounts of those balances approximate their fair values.

4.13.2 (c) Financial Liabilities Measured at Amortised Cost - Company

As at 31 March	Notes	2019				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to Banks	4.25					
Bank Overdrafts		-	1,068,362	-	1,068,362	1,068,362
Syndicated Loans and Other Bank Facilities		-	23,788,928	-	23,788,928	23,565,146
		-	24,857,290	-	24,857,290	24,633,508
Financial Liabilities at Amortised Cost - Due to Depositors	4.26					
Fixed Deposits		-	-	81,096,420	81,096,420	80,250,164
Certificates of Deposit		-	-	88,737	88,737	88,737
Savings Deposits		-	-	2,876,048	2,876,048	2,876,048
		-	-	84,061,205	84,061,205	83,214,949
Debt Instruments Issued and Other Borrowed Funds	4.27					
Unsecured Debentures		-	3,026,629	-	3,026,629	3,107,783
		-	3,026,629	-	3,026,629	3,107,783
Other Financial Liabilities	4.28					
Trade Payables		-	620,323	-	620,323	620,323
Insurance Premium Payable		-	657,018	-	657,018	657,018
Unclaimed Balances		-	573,891	-	573,891	573,891
Advances Collected from Customers		-	27,862	-	27,862	27,862
Sundry Creditors		-	95,396	-	95,396	95,396
		-	1,974,490	-	1,974,490	1,974,490

2018				
Fair Value Measurement Using				
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
Level 1	Level 2	Level 3		
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
-	1,285,356	-	1,285,356	1,285,356
-	21,520,515	-	21,520,515	21,552,682
-	22,805,871	-	22,805,871	22,838,038
-	-	70,561,713	70,561,713	69,888,343
-	-	100,772	100,772	100,772
-	-	2,954,718	2,954,718	2,954,718
-	-	73,617,203	73,617,203	72,943,833
-	5,270,741	-	5,270,741	5,152,832
-	5,270,741	-	5,270,741	5,152,832
-	462,654	-	462,654	462,654
-	632,727	-	632,727	632,727
-	529,475	-	529,475	529,475
-	38,889	-	38,889	38,889
-	97,673	-	97,673	97,673
-	1,761,418	-	1,761,418	1,761,418

4.13.2 (d) Financial Liabilities Measured at Amortised Cost - Group

As at 31 March	Notes	2019				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to Banks	4.25					
Bank Overdrafts		-	1,068,362	-	1,068,362	1,068,362
Syndicated Loans and Other Bank Facilities		-	23,788,928	-	23,788,928	23,565,146
		-	24,857,290	-	24,857,290	24,633,508
Financial Liabilities at Amortised Cost - Due to Depositors	4.26					
Fixed Deposits		-	-	81,096,420	81,096,420	80,250,164
Certificates of Deposit		-	-	88,737	88,737	88,737
Savings Deposits		-	-	2,903,716	2,903,716	2,903,716
		-	-	84,088,873	84,088,873	83,242,617
Debt Instruments Issued and Other Borrowed Funds	4.27					
Unsecured Debentures		-	3,026,629	-	3,026,629	3,107,783
		-	3,026,629	-	3,026,629	3,107,783
Other Financial Liabilities	4.28					
Trade Payables		-	620,323	-	620,323	620,323
Insurance Premium Payable		-	657,018	-	657,018	657,018
Unclaimed Balances		-	573,891	-	573,891	573,891
Advances Collected from Customers		-	27,862	-	27,862	27,862
Sundry Creditors		-	95,396	-	95,396	95,396
		-	1,974,490	-	1,974,490	1,974,490

2018				
Fair Value Measurement Using				
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
Level 1	Level 2	Level 3		
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
-	1,285,356	-	1,285,356	1,285,356
-	21,520,515	-	21,520,515	21,552,682
-	22,805,871	-	22,805,871	22,838,038
-	-	70,561,713	70,561,713	69,888,343
-	-	100,772	100,772	100,772
-	-	2,956,896	2,956,896	2,956,896
-	-	73,619,381	73,619,381	72,946,011
-	5,270,741	-	5,270,741	5,152,832
-	5,270,741	-	5,270,741	5,152,832
-	462,654	-	462,654	462,654
-	632,727	-	632,727	632,727
-	529,475	-	529,475	529,475
-	38,889	-	38,889	38,889
-	97,673	-	97,673	97,673
-	1,761,418	-	1,761,418	1,761,418

Sensitivity Analysis of Financial liablities Measured at Amortised Cost under Level 3 Category

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Increase/(Decrease) in Interest Rate				
1bp Up	(9,888)	(6,329)	(9,888)	(6,329)
1bp Down	9,890	6,303	9,890	6,303

Unobservable Inputs Used in Measuring Fair Value under Level 3 Category

The following table sets out information about significant unobservable inputs used as at 31 March 2019 and 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair Values as at 31 March 2019	Fair Values as at 31 March 2019	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Company	Group				
	Rs. '000	Rs. '000				
Financial Liabilities at Amortised Cost - Due to Depositors	84,061,205 (2018) 73,617,203	84,088,873 (2018) 73,619,381	Discounted cash flow	Spread	0-2.1% (2018 : 0-2.8%)	A significant increase in the spread would result in a lower fair value.
				Expected premature rate	0.31-1.02% (2018 : 0.13-0.52%)	Correlates with the current interest rates

There were no financial liabilities recorded at fair value as at 31 March 2019 and 2018

There were no transfers into and transfers out of the hierarchy levels during 2019 and 2018.

Valuation Methodologies and Assumptions

Due to Depositors

We measure the fair value using internal valuation models. These models project future cash flows of fixed deposits based on scheduled maturities (including principal and interest) and pre-maturities of deposits. The projected cash flows are discounted to present value based on applicable spreads to approximate current deposit rates for each tenor. Our assumptions regarding pre-maturity speed and spreads are based on historical performance. Certificate of deposits that have a maturity less than one year and savings deposits without a specific maturity are assumed that the carrying amounts approximate their fair values. The fair value of Due to Depositors is categorized within Level 3 of the hierarchy.

Listed and Unlisted Debentures, Bank Borrowings ,Securitised Notes and Debt Instruments

We measure fair value for listed debentures using quoted prices for our own debentures with approximately the same remaining maturities, where possible. If the particular debenture is off the run, we estimate the fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debenture. Comparable on the run debenture yield to maturity (YTM) assumed to be a good approximation for the fair value estimation of off the run debentures. We estimate the fair value of Bank borrowings and debt instruments using discounted cash flows and use the most recent transacted rate and/or unexpired offered rate of a similar instrument or borrowing. Debt instrument and bank borrowing do not carry prepayment or embedded options. The fair value of debt is categorised within Level 2 of the hierarchy.

Other Financial Liabilities

Since all the liabilities which are under other financial liabilities have short-term maturities, it is assumed that the carrying amounts of those liabilities approximate their fair values.

4.14 CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents includes cash and bank balances and money at call and short notice. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Notes and Coins Held	873,072	793,796	873,251	793,847
Balances with Banks	1,403,820	1,861,273	1,421,665	1,977,142
Treasury Bills Repurchase Agreements (Less than 03 Months)	1,763,694	3,219,306	1,763,694	3,219,306
	4,040,586	5,874,375	4,058,610	5,990,295
Fair Value	4,040,586	5,874,375	4,058,610	5,990,295

4.14.1 The collateral value of repurchase agreements reflected on the Statement of Financial Position under cash and cash equivalents as at 31 March 2019 and 31 March 2018 was Rs. 1,957,585,303/- and Rs. 3,538,494,000/-, respectively.

4.14.2 Cash and Cash Equivalents Allocated for the Liquidity Requirement

Accounting Policy

Our cash and cash equivalents allocated for the liquidity requirement primarily include cash held to meet certain local governmental and regulatory reserve requirement and cash held under the terms of certain contractual agreements. This does not include required minimum balances or cash securing debt issued through securitization transactions. Cash and cash equivalents allocated for the liquidity requirement were as follows;

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents Allocated for the Liquidity Requirement	-	1,467,546	-	1,467,546

4.14.3 Net Cash and Cash Equivalents for the Purpose of the Cash Flow Statement

Accounting Policy

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.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4,040,586	5,874,375	4,058,610	5,990,295
Bank Overdrafts (Note 4.25)	(1,068,362)	(1,285,356)	(1,068,362)	(1,285,356)
Net Cash and Cash Equivalents	2,972,224	4,589,019	2,990,248	4,704,939

4.15 FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS/FINANCIAL INVESTMENTS - HELD FOR TRADING

Accounting Policy (Applicable from 1 April 2018)

The Group classifies financial assets as financial assets recognised through profit or loss when they have been purchased primarily for short-term profit making through trading activities. Financial assets recognised through profit or loss are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value are recognised in Net Trading Income.

Financial assets recognised through profit or loss include quoted equity securities that have been acquired principally for the purpose of selling in the near term, and are recorded at fair values. The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange.

LKAS 39 required held for trading financial instruments to be measured at fair value through profit or loss. SLFRS 09 requires financial instruments to be classified based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. For financial assets that are debt instruments, held for trading is a business model objective that results in measurement at Fair value through profit or loss. The criteria for classifying financial assets as recognised through profit or loss of SLFRS 09 are similar to those under LKAS 39.

Accounting Policy (Applicable upto 31 March 2018)

Financial investments are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Financial investments held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the payment has been established.

The Group evaluates its held for trading asset portfolio, to determine whether the intention to sell them in the near future is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may select to reclassify these financial assets. Financial assets held for trading include equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term. We generally measure fair value using prices obtained from pricing services, stock exchanges, Central Banks and other authenticated public sources. We use the last traded price to value our quoted equities.

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
Equity Securities-Quoted (Note 4.15.1)	6,866	9,682

4.15.1 Equity Securities-Quoted

As at 31 March	Company & Group			Company & Group		
	Number of Shares 2019	Cost as at 2019	Market Value as at 2019	Number of Shares 2018	Cost as at 2018	Market Value as at 2018
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Bank Finance and Insurance						
Seylan Bank PLC (Non-Voting)	96,257	1,685	3,457	93,032	1,685	5,126
		1,685	3,457		1,685	5,126
Beverages, Food and Tobacco						
Bairaha Farms PLC	17,600	425	2,020	17,600	425	2,369
		425	2,020		425	2,369
Manufacturing						
Lanka Walltiles PLC*	19,740	790	1,184	19,740	790	1,942
		790	1,184		790	1,942
Trading						
Hayleys PLC*	1,222	207	205	1,222	207	245
		207	205		207	245
Total		3,107	6,866		3,107	9,682

* Investments made in related parties

We are INVESTED in Delivering Results

4.16 FINANCIAL ASSETS AT AMORTISED COST/LOANS AND RECEIVABLES

Accounting Policy

Loans and receivables include financial assets with fixed or determinable payments that are not quoted in an active market, other than;

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

After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charge and other losses' in the Income Statement.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	25,766,906	20,139,332	25,766,906	20,139,332
Vehicle Loans	5,899,422	4,208,804	5,899,422	4,208,804
Medium and Short-Term Loans	6,041,682	5,703,635	6,424,565	5,742,903
Mortgage Loans	6,810,784	7,365,157	6,810,784	7,365,157
Quick Loans	6,474	11,336	6,474	11,336
Power Drafts	3,805,755	2,734,171	3,805,755	2,734,171
Margin Trading	17,142	20,964	17,142	20,964
Factoring Receivable	367,073	537,288	367,073	537,288
Real Estate Loans	910	976	910	976
Gross Loans and Receivables	48,716,148	40,721,663	49,099,031	40,760,931
Allowance for Impairment Losses (Note 4.18)	(1,321,123)	(866,265)	(1,325,326)	(866,655)
Net Loans and Receivables subject to Fair Value (Note 4.16.2)	47,395,025	39,855,398	47,773,705	39,894,276
Fair Value	47,599,412	39,762,132	47,978,092	39,801,010

4.16.1 Loans and Receivables Include Loans Granted to Employees, the Movement of which is as Follows;

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
As at the Beginning of the Year	356,942	324,475
Loans Granted During the Year	393,286	244,225
Repayments During the Year	(241,826)	(211,758)
As at the End of the Year	508,402	356,942

4.16.2 Contractual Maturity Analysis of Loans and Receivables

As at 31 March 2019 - Company	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	25,766,906	-	-	25,766,906
Vehicle Loans	2,165,139	3,661,443	72,840	5,899,422
Medium and Short Term-Loans	3,634,984	2,406,698	-	6,041,682
Mortgage Loans	1,892,927	4,207,953	709,904	6,810,784
Quick Loans	6,474	-	-	6,474
Power Drafts	2,549,431	1,256,324	-	3,805,755
Margin Trading	17,142	-	-	17,142
Factoring Receivable	363,279	3,794	-	367,073
Real Estate Loans	910	-	-	910
Gross Loans and Receivables	36,397,192	11,536,212	782,744	48,716,148
Allowance for Impairment Losses (Note 4.18)				(1,321,123)
Net Loans and Receivables				47,395,025

As at 31 March 2018 - Company	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	20,139,332	-	-	20,139,332
Vehicle Loans	1,826,854	2,332,233	49,717	4,208,804
Medium and Short Term-Loans	3,910,717	1,792,919	-	5,703,636
Mortgage Loans	1,903,820	4,471,593	989,744	7,365,157
Quick Loans	11,310	25	-	11,335
Power Drafts	1,619,246	1,114,925	-	2,734,171
Margin Trading	20,964	-	-	20,964
Factoring Receivable	537,288	-	-	537,288
Real Estate Loans	976	-	-	976
Gross Loans and Receivables	29,970,507	9,711,695	1,039,461	40,721,663
Allowance for Impairment Losses (Note 4.18)				(866,265)
Net Loans and Receivables				39,855,398

As at 31 March 2019 - Group	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	25,766,906	-	-	25,766,906
Vehicle Loans	2,165,139	3,661,443	72,840	5,899,422
Medium and Short Term-Loans	3,957,942	2,466,623	-	6,424,565
Mortgage Loans	1,892,927	4,207,953	709,904	6,810,784
Quick Loans	6,474	-	-	6,474
Power Drafts	2,549,431	1,256,324	-	3,805,755
Margin Trading	17,142	-	-	17,142
Factoring Receivable	363,279	3,794	-	367,073
Real Estate Loans	910	-	-	910
Gross Loans and Receivables	36,720,150	11,596,137	782,744	49,099,031
Allowance for Impairment Losses (Note 4.18)				(1,325,326)
Net Loans and Receivables				47,773,705

As at 31 March 2018 - Group	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	20,139,332	-	-	20,139,332
Vehicle Loans	1,826,854	2,332,233	49,717	4,208,804
Medium and Short Term-Loans	3,940,453	1,802,451	-	5,742,904
Mortgage Loans	1,903,820	4,471,593	989,744	7,365,157
Quick Loans	11,310	25	-	11,335
Power Drafts	1,619,246	1,114,925	-	2,734,171
Margin Trading	20,964	-	-	20,964
Factoring Receivable	537,288	-	-	537,288
Real Estate Loans	976	-	-	976
Gross Loans and Receivables	30,000,243	9,721,227	1,039,461	40,760,931
Allowance for Impairment Losses (Note 4.18)				(866,655)
Net Loans and Receivables				39,894,276

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

4.16.3 Credit Exposure Movement - ECL Stage-wise

Loans and Receivables	Company			
	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2018	34,308,332	3,991,280	2,422,051	40,721,663
Transfer to Stage 01	791,071	(607,195)	(183,876)	-
Transfer to Stage 02	(1,550,690)	1,670,294	(119,604)	-
Transfer to Stage 03	(769,259)	(503,377)	1,272,636	-
New Assets Originated or Purchased	19,017,672	3,128,837	1,422,952	23,569,461
Financial Assets Derecognised or Repaid	(9,940,652)	(3,349,786)	(2,232,476)	(15,522,914)
Write-offs	(9)	(81)	(51,972)	(52,062)
As at 31 March 2019	41,856,465	4,329,972	2,529,711	48,716,148

Loans and Receivables	Group			
	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2018	34,347,600	3,991,280	2,422,051	40,760,931
Transfer to Stage 01	791,071	(607,195)	(183,876)	-
Transfer to Stage 02	(1,550,690)	1,670,294	(119,604)	-
Transfer to Stage 03	(769,259)	(503,377)	1,272,636	-
New Assets Originated or Purchased	19,361,626	3,128,837	1,422,952	23,913,415
Financial Assets Derecognised or Repaid	(9,940,652)	(3,349,786)	(2,232,476)	(15,522,914)
Write-offs	(9)	(81)	(51,972)	(52,062)
Exchange Rate Variance on Foreign Currency Provisions	(339)	-	-	(339)
As at 31 March 2019	42,239,348	4,329,972	2,529,711	49,099,031

4.17 FINANCIAL ASSETS AT AMORTISED COST/LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

Accounting Policy

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the Statement of Financial Position. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Lease and stock out on hire include financial assets with fixed or determinable payments that are not quoted in an active market, other than;

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

After initial measurement, lease receivable and stock out on hire are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charges and other losses' in the Income Statement.

As at 31 March	Company & Group			Company & Group		
	2019 Lease	2019 Hire Purchase	2019 Total	2018 Lease	2018 Hire Purchase	2018 Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivables	91,216,889	216,907	91,433,796	85,706,799	455,939	86,162,738
Unearned Income	(22,949,287)	(1,013)	(22,950,300)	(21,644,208)	(18,617)	(21,662,825)
Net Rentals Receivables	68,267,602	215,894	68,483,496	64,062,591	437,322	64,499,913
Rentals Received in Advance	(7,279)	-	(7,279)	(9,094)	-	(9,094)
Allowance for Impairment Losses (Note 4.18)	(2,237,742)	(188,046)	(2,425,788)	(1,774,407)	(226,726)	(2,001,133)
Total Net Rentals Receivable subject to Fair Value (Note 4.17.2)	66,022,581	27,848	66,050,429	62,279,090	210,596	62,489,686
Fair Value			67,417,086			63,498,260

Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

When the Group is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals receivable under operating leases are accounted for on a straight-line basis over the periods of the leases to reduce the asset to its estimated residual value and are included in 'other operating income'. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

4.17.1 Lease and Hire Purchase Facilities Granted to Employees, the Movement of which is as Follows;

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
As at the Beginning of the Year	64,172	70,833
Lease and Hire Purchase Facilities Granted During the Year	26,745	47,754
Repayments During the Year	(41,960)	(54,415)
As at the End of the Year	48,957	64,172

4.17.2 Contractual Maturity Analysis of Lease Rentals Receivable and Stock Out on Hire

As at 31 March 2019 - Company & Group

	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivables	37,888,372	53,263,612	64,905	91,216,889	215,036	1,871	-	216,907
Unearned Income	(11,429,758)	(11,514,781)	(4,748)	(22,949,287)	(916)	(97)	-	(1,013)
Net Rentals Receivables	26,458,614	41,748,831	60,157	68,267,602	214,120	1,774	-	215,894
Rentals Received in Advance				(7,279)				-
Allowance for Impairment Losses				(2,237,742)				(188,046)
Total Net Rentals Receivable				66,022,581				27,848

As at 31 March 2018 - Company & Group

	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivables	35,693,565	49,960,849	52,385	85,706,799	415,441	40,498	-	455,939
Unearned Income	(10,956,306)	(10,683,825)	(4,077)	(21,644,208)	(16,643)	(1,974)	-	(18,617)
Net Rentals Receivables	24,737,259	39,277,024	48,308	64,062,591	398,798	38,524	-	437,322
Rentals Received in Advance				(9,094)				-
Allowance for Impairment Losses				(1,774,407)				(226,726)
Total Net Rentals Receivable				62,279,090				210,596

Our lease rentals receivable and stock out on hire are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

4.17.3 Credit Exposure Movement - ECL Stage-wise

Lease Rentals Receivable and Stock Out on Hire	Company & Group			
	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2018	43,008,567	17,130,475	4,351,777	64,490,819
Transfer to Stage 01	3,734,909	(3,470,004)	(264,905)	-
Transfer to Stage 02	(8,899,518)	9,409,933	(510,415)	-
Transfer to Stage 03	(1,246,415)	(1,981,043)	3,227,458	-
New Assets Originated or Purchased	34,341,787	14,049,525	3,513,503	51,904,815
Financial Assets Derecognised or Repaid	(26,266,745)	(16,434,171)	(4,785,512)	(47,486,428)
Write-offs	(521)	(4,129)	(428,340)	(432,990)
As at 31 March 2019	44,672,064	18,700,586	5,103,566	68,476,216

4.18 ALLOWANCE FOR IMPAIRMENT LOSSES

Accounting Policy (Applicable from 1 April 2018)

Overview of the Expected Credit Loss (ECL) Principles

The adoption of SLFRS 09 has fundamentally changed the Group's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1 April 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 09.

The ECL allowance is based on the credit losses expected to arise over the life of the asset.

The 12 months ECL is the portion of Life time ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both Lifetime ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on such process Group allocates loans in to Stage 1, Stage 2, Stage 3 as described below;

Stage 01

When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 02

When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the Lifetime ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 03

When a loan is considered to be credit impaired/contain objective evidences of incurred loss, the Group records an allowance for the Lifetime ECLs.

Significant Increase in Credit Risk

The Group continuously monitors all assets subject to ECL, in order to determine whether there has been a significant increase in credit risk since initial recognition and whether the instrument or a portfolio of instruments is subject to 12 months ECL or Lifetime ECL. The Group considers an exposure to have a significant increase in credit risk at 30 days past due.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Group will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Group will consider the following criteria;

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Group calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to Stage 3. All assets which belong to Stage 1 and 2 will be assessed collectively for Impairment.

The Group allocates smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The expected cash shortfalls are calculated by multiplying respective loan level PDs, EADs and LGDs. The cash shortfall is discounted to the Effective Interest Rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

PDs and LGDs are adjusted to the forward looking information using statistically quantified variance.

The mechanics of the ECL calculation are outlined below and the key elements are as follows;

- Probability of Default (PD) : PD is an estimate of the likelihood of default over a given time horizon. Hence majority of our client base being retail; we use internal information to estimate the PDs. The client has two credit statuses which can be identified as default or not default. We used Cohort method (CM) to compute the PDs.
- Exposure at Default (EAD) : EAD is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principal and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- Loss Given Default (LGD) : LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

The published global financial sector credit rating migration matrix Probability of Default used for fixed income (bank deposits) securities expected loss calculation, Value at Risk Methodology (VAR) is used for gold based loan expected loss calculation and bi-nominal distribution model is used for small number of obligors portfolio expected loss calculation. Any Financial Asset, fully secured through a cash collateral, has not taken into the expected loss calculation.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs in the Multiple economic factor model developed to forecast the expected Non-Performing Loans (NPL).

The model predicts the one year forward industry NPL levels and which has been used to adjust the Company PD curve using statistically quantified variance. The economic factor model is developed by the University of Colombo, Science and Technology CELL and consent to use with an annual review. The economic factor model predicts the NPL as an output and use some key economic factors as an input to the model. The key variables of the model is as follows;

- Industry NPL
- Real Interest Rates
- Rainfall
- Assets Recovery Ratio
- All Share Price Index(ASPI)
- Fuel Prices
- Exchange Rates
- Company Probability of Default Curve

Accounting Policy (Applicable up to 31March 2018)

The allowance for credit losses represents our estimate of the probable loss on the collection of finance receivables from customers as of the reporting date. The adequacy of the allowance for credit losses is assessed monthly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses may vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. The credit losses are attributable to lease, hire purchase, loans and receivables portfolio.

The uncollectible portion of finance receivables are charged to the provision for impairment when an account is deemed to be uncollectible taking into consideration the financial condition of the customer, borrower, or lessee, the value of the collateral, recourse to guarantors, and other factors. Recoveries on finance receivables previously taken as impaired are debited to the allowance for credit losses.

Individually Impaired Receivables

Finance receivables that are more than three months in arrears, related to repossessed collaterals, subjected to legal action/ongoing legal action, untraceable or unattainable collaterals, or are determined to be uncollectible, are identified as individually impaired. Impairment is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell. Loss severity/Loss Given Default (LGD) of each category of impaired receivable is assumed to be a vital factor for the allowance for impairment.

The LGD assumptions are based on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, we may adjust the estimate to reflect management judgment regarding observable changes in recent economic trends and conditions, portfolio composition, and other relevant factors.

Collectively Impaired Receivables

The collective impairment is evaluated primarily using rating migration matrixes and Loss severity models that based on historical experience, indicates credit losses have been incurred in the portfolio eventhough the particular accounts that are uncollectible cannot be specifically identified. In addition to the Loss Given Default (LGD), we make projections for Probability of Default (PD) to estimate the collective impairment for receivables. We have used the rating migration matrixes to compute the PD.

The rating migrating matrix models are based on the most recent years of history. Each PD is calculated by dividing default contracts of each age category by beginning-of-period total contracts of each age category (Cohort method). The loss emergence period is a key assumption within our models and represents the average amount of time between when a loss event first occurs and when it is incurred. This time period starts when the consumer begins to experience financial difficulty. It is evidenced, typically through observable data for above average company NPL, historically low collection ratio, historically high rental arrears, and unacceptable low level of business volumes which may result in a portfolio level impairment.

Reversals of Impairment*

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the Income Statement.

Write-off of Loans and Receivables*

Financial assets and the related impairment allowance accounts are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

Collateral Valuation*

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets .The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Collateral Repossessed*

Repossessed collateral will not be taken into books of accounts unless the Group has taken those collaterals into its business operations. However such additions from the repossessed collaterals to the business operations are not significant.

Non-Accrual Receivables*

The accrual of revenue is discontinued at the time of receivable is determined to be fully impaired. Fully impairment point is triggered out when the receivables are more than eleven months in arrears, receivables are subject to legal action/ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. For receivables in non-accrual status, subsequent financing revenue is recognized only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

* The policies mentioned above remain unchanged in both SLFRS 09 and LKAS 39.

4.18 ALLOWANCE FOR IMPAIRMENT LOSSES (Contd.)

		Company					Group				
		Stage 01	Stage 02	Stage 03	Total	Total	Stage 01	Stage 02	Stage 03	Total	Total
		2019	2019	2019	2019	2018	2019	2019	2019	2019	2018
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4.18.1	As at 1 April				2,867,398	2,330,302				2,867,788	2,330,302
	Transition Adjustment on Adoption of SLFRS 09				291,668	-				291,668	-
	Restated Opening Balance as at 1 April	503,436	416,582	2,239,048	3,159,066		503,826	416,582	2,239,048	3,159,456	
	Charge/(Reversal) for the Year	76,794	64,675	931,427	1,072,896	780,285	80,532	64,675	931,427	1,076,634	780,662
	Amounts Written-Off	(529)	(4,210)	(480,312)	(485,051)	(243,189)	(529)	(4,210)	(480,312)	(485,051)	(243,189)
	Exchange Rate Variance on Foreign Currency Provisions	-	-	-	-	-	76	-	-	76	13
	As at 31 March	579,701	477,047	2,690,163	3,746,911	2,867,398	583,905	477,047	2,690,163	3,751,115	2,867,788
4.18.2	Individual Impairment	-	-	2,690,163	2,690,163	2,104,369	-	-	2,690,163	2,690,163	2,104,369
	Collective Impairment	579,701	477,047	-	1,056,748	763,029	583,905	477,047	-	1,060,952	763,419
	Total	579,701	477,047	2,690,163	3,746,911	2,867,398	583,905	477,047	2,690,163	3,751,115	2,867,788
4.18.3	Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance	-	-	7,633,276	7,633,276	5,317,260	-	-	7,633,276	7,633,276	5,317,260
	Gross Amount of Loans Collectively Assessed for the Impairment	86,528,529	23,030,560	-	109,559,089	99,895,222	86,911,411	23,030,560	-	109,941,971	99,934,490
	Gross Receivables	86,528,529	23,030,560	7,633,276	117,192,365	105,212,482	86,911,411	23,030,560	7,633,276	117,575,247	105,251,750
	Gross Amount of Loans Individually Determined to be Impaired				6.51%	5.05%				6.49%	5.05%

4.18.4 Product-wise Analysis of the Allowance for Impairment Losses

	Company					Group				
	2019	2019	2019	2019	2018	2019	2019	2019	2019	2018
	Stage 01	Stage 02	Stage 03	Total	Total	Stage 01	Stage 02	Stage 03	Total	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	20,996	-	28,745	49,741	31,089	20,996	-	28,745	49,741	31,089
Vehicle Loans	34,333	20,823	130,882	186,038	154,252	34,333	20,823	130,882	186,038	154,252
Medium and Short Term-Loans	54,773	22,480	220,613	297,866	144,864	58,977	22,480	220,613	302,070	145,254
Mortgage Loans	43,107	73,314	466,714	583,135	402,387	43,107	73,314	466,714	583,135	402,387
Quick Loans	-	-	4,002	4,002	1,711	-	-	4,002	4,002	1,711
Power Drafts	10,478	8,220	105,000	123,698	75,564	10,478	8,220	105,000	123,698	75,564
Margin Trading	-	-	1	1	1	-	-	1	1	1
Factoring Receivable	19,107	-	56,625	75,732	55,421	19,107	-	56,625	75,732	55,421
Real Estate Loans	-	-	910	910	976	-	-	910	910	976
Loans and Receivables	182,794	124,837	1,013,492	1,321,123	866,265	186,998	124,837	1,013,492	1,325,327	866,655
Leases	396,773	352,130	1,488,839	2,237,742	1,774,407	396,773	352,130	1,488,839	2,237,742	1,774,407
Hire Purchase	134	80	187,832	188,046	226,726	134	80	187,832	188,046	226,726
Lease Rentals Receivable and Stock Out on Hire	396,907	352,210	1,676,671	2,425,788	2,001,133	396,907	352,210	1,676,671	2,425,788	2,001,133
Total Allowance for Impairment Losses	579,701	477,047	2,690,163	3,746,911	2,867,398	583,905	477,047	2,690,163	3,751,115	2,867,788

4.18.5 Stage Movements in Allowance for Impairment Losses

	Company				Group			
	2019	2019	2019	2019	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening Balance (ECL) as at 1 April 2018	503,436	416,582	2,239,048	3,159,066	503,826	416,582	2,239,048	3,159,456
Transfer to Stage 01	117,038	(88,719)	(28,319)	-	117,038	(88,719)	(28,319)	-
Transfer to Stage 02	(89,586)	128,242	(38,656)	-	(89,586)	128,242	(38,656)	-
Transfer to Stage 03	(17,436)	(53,158)	70,594	-	(17,436)	(53,158)	70,594	-
New Assets Originated or Purchased	348,448	374,799	1,352,922	2,076,169	352,186	374,799	1,352,922	2,079,907
Financial Assets Derecognised or Repaid	(281,670)	(296,489)	(425,114)	(1,003,273)	(281,670)	(296,489)	(425,114)	(1,003,273)
Write-offs	(529)	(4,210)	(480,312)	(485,051)	(529)	(4,210)	(480,312)	(485,051)
Exchange Rate Variance on Foreign Currency Provisions	-	-	-	-	76	-	-	76
As at 31 March 2019	579,701	477,047	2,690,163	3,746,911	583,905	477,047	2,690,163	3,751,115

4.18.6 Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2019

Changed Criteria	Changed Factor	Sensitivity Effect on Impairment Allowance Increase (Rs '000)
Loss Given Default (LGD)	Increase by 10%	211,772
Probability of Default (PD)	Increase by 1%	11,526

4.19 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

Accounting Policy (Applicable from 1 April 2018)

Equity Instruments at Fair Value through Other Comprehensive Income (FVOCI)

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under Sri Lanka Accounting Standard - LKAS 32 (Financial Instruments: Presentation) and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in the Statement of Profit or Loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in Other Comprehensive Income. Equity instruments at FVOCI are not subject to an impairment assessment.

Accounting Policy (Applicable up to 31 March 2018)

Financial investments available for sale are recorded in the Statement of Financial Position at fair value. These include debt and equity securities. Debt and equity securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group has not designated any loans or receivables as available for sale. We generally measure fair value using prices obtained from pricing services, stock exchanges, Central Banks and other authenticated public sources. We use the last traded price to value our quoted equities. Government debt securities are valued using discounted cash flows using same series Yield To Maturity (YTM) or interpolated (on the run and off the run) YTM adjusted for market based expectations for interest rates.

Impairment of Financial Investments - Available for Sale

The Group reviews their debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied on the individual assessment of loans and advances.

The Group also record impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Group generally treats 'significant' as 20% or more and 'prolonged' as greater than six months. In addition the Group evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
Equity Securities-Quoted (Note 4.19.1)	89,405	121,319
Equity Securities-Unquoted (Note 4.19.2)	305	305
	89,710	121,624

4.19.1 Equity Securities-Quoted

As at 31 March	Number of Shares 2019	Cost as at 2019	Market Value as at 2019	Number of Shares 2018	Cost as at 2018	Market Value as at 2018
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Manufacturing						
Central Industries PLC	8,184	150	231	8,184	150	322
Ceylon Grain Elevators PLC	44	5	2	44	5	3
Dankotuwa Porcelain PLC	32,512	1,012	172	32,512	1,012	224
Royal Ceramics Lanka PLC*	31,320	843	1,848	31,320	843	3,301
Samson International PLC	5,899	930	578	5,899	930	519
		2,940	2,831		2,940	4,369
Hotels and Travels						
The Fortress Resorts PLC*	4,051,100	81,990	40,511	4,051,100	81,990	42,537
Aitken Spence Hotel Holdings PLC	308	6	7	308	6	10
Hotel Sigiriya PLC	700	30	41	700	30	44
		82,026	40,559		82,026	42,591
Stores and Supplies						
Hunters & Company PLC	10	3	4	10	3	5
		3	4		3	5
Bank Finance and Insurance						
Commercial Bank of Ceylon PLC	278	15	27	275	15	37
Seylan Bank PLC	2,590	155	163	2,538	155	220
Sampath Bank PLC	5	-	1	5	-	2
Softlogic Finance PLC	2,090,000	79,656	45,144	2,090,000	79,656	73,150
		79,826	45,335		79,826	73,409
Beverages, Food and Tobacco						
Keells Food Products PLC	500	21	62	500	21	65
Lanka Milk Foods PLC	5,500	250	605	5,500	250	870
Convenience Foods (Lanka) PLC	22	1	9	22	1	10
		272	676		272	945
Total		165,067	89,405		165,067	121,319

* Investments made in related parties

4.19.2 Equity Securities-Unquoted

As at 31 March	Number of Shares 2019	Cost as at 2019	Market Value as at 2019	Number of Shares 2018	Cost as at 2018	Market Value as at 2018
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Credit Information Bureau of Sri Lanka	1,047	105	105	1,047	105	105
Finance House Association of Sri Lanka	20,000	200	200	20,000	200	200
Total		305	305		305	305

Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

Reconciliation of Fair Value Measurement for Unquoted Equity Securities under Level 3 Hierarchy

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
As at 1 April	305	305
Remeasurement Recognised in Other Comprehensive Income	-	-
Purchases	-	-
Sales	-	-
Transfers into or out of Level 3 Hierarchy	-	-
Remeasurement Recognised in Income Statement	-	-
As at 31 March	305	305

4.20 OTHER FINANCIAL ASSETS

Accounting Policy

These include treasury bills repurchase agreements, where we are the transferee and investments in fixed deposits with banks and other financial institutions. Treasury bills repurchase agreements allow us to offset our entire gross exposure in the event of default or breach of contract. Other financial assets are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the receivable amount (including interest income) is recognised in the Income Statement over the period of the assets using effective interest method.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury Bills Repurchase Agreements (Note 4.20.1)	5,138,730	3,532,441	5,138,730	3,532,441
Investment in Fixed Deposits (Note 4.20.2)	5,281,468	2,879,390	5,281,468	2,879,390
Insurance Premium Receivable	349,425	326,628	349,425	326,628
Due from Subsidiary	9,844	5,844	-	-
Sundry Debtors	25,050	28,251	25,050	28,251
	10,804,517	6,772,554	10,794,673	6,766,710
Fair Value	10,804,517	6,772,554	10,794,673	6,766,710

4.20.1 The collateral value of repurchase agreements reflected on the Statement of Financial Position under Other Financial Assets as at 31 March 2019 and 31 March 2018 was Rs. 6,058,900,000/- and Rs. 4,116,121,000/-, respectively.

4.20.2 Investment in Fixed Deposits

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Counterparty External Credit Rating*				
AA-	31,930	1,974,473	31,930	1,974,473
A+	3,219,653	164,849	3,219,653	164,849
A-	2,030,437	576,337	2,030,437	576,337
BB+	-	163,731	-	163,731
Investment in Fixed Deposits	5,282,020	2,879,390	5,282,020	2,879,390
Impairment Allowance	(552)	-	(552)	-
Total	5,281,468	2,879,390	5,281,468	2,879,390

* Fitch Ratings Lanka Ltd

4.21 OTHER NON FINANCIAL ASSETS

Accounting Policy

Group classifies all other non financial assets other than Intangible Assets and Property, Plant and Equipment under other non financial assets. Other non financial assets include real estate stock, vehicle stock, gold stock, deposits, advances and prepayments, etc. These assets are non-interest earning and recorded at the amounts that are expected to be received.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Real Estate Stock	31,650	31,650	31,650	31,650
Impairment Allowance	(31,650)	(31,650)	(31,650)	(31,650)
Vehicle Stock	22,041	18,574	22,041	18,574
Deposits, Advances and Prepayments	989,914	744,466	995,619	745,121
Gold Stock	1,514	1,514	1,514	1,514
Stationery Stock	10,626	8,769	10,626	8,769
Withholding Tax Receivable	5,633	16,599	5,633	16,599
Sundry Debtors	11,767	6,151	11,767	6,151
Pre-Paid Staff Cost (Note 4.21.1)	25,865	19,735	25,865	19,735
	1,067,360	815,808	1,073,066	816,463

Gold Stock

The gold inventory is valued at lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.21.1 The Movement in the Pre-Paid Staff Cost

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the Beginning of the Year	19,735	12,196	19,735	12,196
Adjustment for New Grants and Settlements	12,491	12,200	12,491	12,200
Charge to Personnel Expenses	(6,361)	(4,661)	(6,361)	(4,661)
As at the End of the Year	25,865	19,735	25,865	19,735

4.22 INVESTMENT IN SUBSIDIARY

Subsidiary is an investee controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the company continues to recognise the investments in Subsidiaries at cost.

The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of the Subsidiary in the Group has a common financial year which ends on 31 March. The Financial Statements of the Company's Subsidiary are prepared using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Parent (the Company) in the form of cash dividend or repayment of loans and advances.

As at 31 March		Company		Company	
		2019	2019	2018	2018
	Holding	Cost	Market Value	Cost	Market Value
	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
L B Microfinance Myanmar Company Limited	100	**318,999**	**318,999**	152,915	152,915

The L B Microfinance Myanmar Company Limited was incorporated as a 99% (100% - 31 March 2019) owned subsidiary in Myanmar. The Company obtained a licence from the Myanmar Microfinance Supervisory Enterprise to operate as a microfinance organisation.

Cost is assumed to be the best approximation for the market value of the investment due to the absence of most recent exit prices.

4.23 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets.

Accounting Policy

Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

Cost Model

The Group applies cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are charged to the Income Statement as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in the Income Statement when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated. Freehold land is not depreciated.

The estimated useful lives of the property, plant and equipment of the Company as at 31 March 2019 are as follows;

Asset Category	Period (Years)	Depreciation % per Annum
Freehold Buildings and Edifices	50	2%
Improvement of Leasehold Asset	6.67	15%
Computer Hardware and Equipment	5	20%
Motor Vehicles	5-8	12.50-20%
Equipment	5	20%
Furniture and Fittings	6.67	15-20%
Fixtures and Fittings	5	20%

The above rates are compatible with the rates used by all Group entities.

Accounting Estimates

Useful Lifetime of the Property, Plant and Equipment

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

4.23.1 Company - 2019

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost									
Balance as at 1 April 2018	2,734,972	788,381	288,287	789,889	404,377	640,380	930,808	84,364	6,661,458
Additions	1,763,292	131,516	30,111	127,613	36,650	141,308	32,811	54,019	2,317,320
Transfers	-	-	3,098	(126,994)	-	77,609	(340,165)	386,452	-
Disposals/Write-offs	-	-	(11,055)	(12,846)	(5,772)	(80)	(17,153)	(3,041)	(49,947)
Balance as at 31 March 2019	4,498,264	919,897	310,441	777,662	435,255	859,217	606,301	521,794	8,928,831
Accumulated Depreciation and Impairment Losses									
Balance as at 1 April 2018	-	82,835	185,187	516,477	181,564	410,794	559,250	44,732	1,980,839
Charge for the Year	-	17,094	31,368	86,847	46,988	92,411	57,598	85,583	417,889
Impairment Loss	-	-	-	-	-	-	-	-	-
Transfers	-	-	(1,661)	(91,016)	-	52,234	(157,766)	198,209	-
Disposals/Write-offs	-	-	(9,751)	(12,572)	(5,381)	(115)	(16,869)	(2,588)	(47,276)
Balance as at 31 March 2019	-	99,929	205,143	499,736	223,171	555,324	442,213	325,936	2,351,452
Net Book Value as at 31 March 2019	4,498,264	819,968	105,298	277,926	212,085	303,893	164,088	195,858	6,577,379

4.23.2 Company - 2018

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost									
Balance as at 1 April 2017	1,733,299	778,527	264,230	648,085	369,446	461,410	838,684	47,297	5,140,978
Additions	1,001,672	1,294	25,767	145,967	44,975	179,633	100,960	37,067	1,537,335
Transfers	-	8,560	-	-	-	-	(8,560)	-	-
Disposals/Write-offs	-	-	(1,709)	(4,163)	(10,044)	(663)	(276)	-	(16,855)
Balance as at 31 March 2018	2,734,971	788,381	288,288	789,889	404,377	640,380	930,808	84,364	6,661,458
Accumulated Depreciation and Impairment Losses									
Balance as at 1 April 2017	-	67,075	151,649	437,405	140,292	347,165	451,938	31,098	1,626,622
Charge for the Year	-	15,746	35,063	83,227	46,303	64,024	107,602	13,634	365,599
Impairment Loss	-	-	-	-	-	-	-	-	-
Transfers	-	14	-	-	-	-	(14)	-	-
Disposals/Write-offs	-	-	(1,525)	(4,155)	(5,031)	(395)	(276)	-	(11,382)
Balance as at 31 March 2018	-	82,835	185,187	516,477	181,564	410,794	559,250	44,732	1,980,839
Net Book Value as at 31 March 2018	2,734,971	705,546	103,101	273,412	222,813	229,586	371,558	39,632	4,680,619

4.23.3 Group - 2019

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost									
Balance as at 1 April 2018	2,734,972	788,381	288,607	790,202	404,465	640,978	930,808	84,364	6,662,777
Additions	1,763,292	131,516	30,955	128,293	36,650	142,469	32,811	54,019	2,320,005
Transfers	-	-	3,098	(126,994)	-	77,609	(340,165)	386,452	-
Exchange Rate Variance	-	-	(2)	(3)	(1)	(5)	-	-	(11)
Disposals/Write-offs	-	-	(11,055)	(12,846)	(5,772)	(80)	(17,153)	(3,041)	(49,947)
Balance as at 31 March 2019	4,498,264	919,897	311,603	778,652	435,342	860,971	606,301	521,794	8,932,824
Accumulated Depreciation and Impairment Losses									
Balance as at 1 April 2018	-	82,835	185,206	516,492	181,568	410,841	559,250	44,732	1,980,924
Charge for the Year	-	17,094	31,489	87,009	46,999	92,666	57,598	85,583	418,438
Impairment Loss	-	-	-	-	-	-	-	-	-
Transfers	-	-	(1,661)	(91,016)	-	52,234	(157,766)	198,209	-
Exchange Rate Variance	-	-	3	4	-	6	-	-	13
Disposals/Write-offs	-	-	(9,751)	(12,572)	(5,381)	(115)	(16,869)	(2,588)	(47,276)
Balance as at 31 March 2019	-	99,929	205,286	499,917	223,186	555,632	442,213	325,936	2,352,099
Net Book Value as at 31 March 2019	4,498,264	819,968	106,317	278,735	212,156	305,339	164,088	195,858	6,580,725

4.23.4 Group - 2018

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost									
Balance as at 1 April 2017	1,733,299	778,527	264,230	648,085	369,446	461,410	838,684	47,297	5,140,978
Additions	1,001,672	1,294	26,086	146,280	45,063	180,231	100,960	37,067	1,538,653
Transfers	-	8,560	-	-	-	-	(8,560)	-	-
Exchange Rate Variance	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(1,709)	(4,163)	(10,044)	(663)	(276)	-	(16,855)
Balance as at 31 March 2018	2,734,972	788,381	288,608	790,202	404,465	640,978	930,808	84,364	6,662,776
Accumulated Depreciation and Impairment Losses									
Balance as at 1 April 2017	-	67,075	151,649	437,405	140,292	347,165	451,938	31,098	1,626,622
Charge for the Year	-	15,746	35,082	83,242	46,308	64,070	107,602	13,634	365,684
Impairment Loss	-	-	-	-	-	-	-	-	-
Transfers	-	14	-	-	-	-	(14)	-	-
Exchange Rate Variance	-	-	1	-	-	2	-	-	3
Disposals/Write-offs	-	-	(1,525)	(4,155)	(5,031)	(395)	(276)	-	(11,382)
Balance as at 31 March 2018	-	82,836	185,207	516,492	181,569	410,842	559,250	44,732	1,980,927
Net Book Value as at 31 March 2018	2,734,972	705,546	103,401	273,710	222,896	230,136	371,558	39,632	4,681,849

4.23.5 Property, Plant and Equipment Acquired During the Financial Year - Company

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 2,317,321,174/- (2018 - Rs. 1,537,334,911/-). Cash payments amounting to Rs. 2,317,321,174/- (2018 - Rs. 1,537,334,911/-) was paid during the year for purchases of property, plant and equipment.

4.23.6 Property, Plant and Equipment subjected to Operating Lease - Company

Included in Property, Plant and Equipment are assets subject to operating lease where the Company is a lessor. At 31 March 2019, the net carrying value amount of those assets was Rs. 73,742,064/- (2018 Rs. 76,777,437/-), on which the accumulated depreciation as at 31 March 2019 was Rs. 30,707,979/- (2018 - Rs. 12,666,606/-).

Summary of future operating lease receivable was as follows;

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Future Operating Lease Receivable	31,118	72,386	-	103,504

As at 31 March 2018	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Future Operating Lease Receivable	28,176	89,283	-	117,459

4.23.7 Borrowing Costs - Company

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the financial year 2019 (2018 – Nil).

4.23.8 Fully-Depreciated Property, Plant and Equipment - Company

The initial cost of fully-depreciated property, plant and equipment, which are still in use as at reporting date is Rs. 1,320,406,007/- (2018 - Rs. 990,384,154/-).

4.23.9 Lease Commitments - Company

The Company lease land, buildings, and equipment under agreements that expire over various contractual periods. Minimum operating lease commitments as at 31 March were as follows;

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Minimum Operating Lease Commitments	273,848	1,090,204	973,163	2,337,215

As at 31 March 2018	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Minimum Operating Lease Commitments	234,267	822,087	574,458	1,630,812

Operating lease expense for the years ended 31 March was as follows;

	2019	2018
	Rs. '000	Rs. '000
Operating Lease Expense	299,260	220,074

4.23.10 Information on the Freehold Land and Buildings - Company

As at 31 March	2019					2018
	Extent	Buildings	Revalued Amount	Net Book Value	Revalued Amount as a % of Net Book Value	Net Book Value
Location	Perches	Square Feets	Rs. '000	Rs. '000		Rs. '000
Kollupitiya						
No. 20, Dharmapala Mawatha, Colombo 03.	52.82	57,020	2,119,000	894,437	237	906,946
Kollupitiya						
No. 676, Galle Road, Colombo 03.	167.65	59,999	4,191,250	1,961,176	214	1,964,097
Cinnamon Gardens*						
No. 165, Dharmapala Mawatha, Colombo 07.	48.95	7,400	1,138,375	1,003,239	113	-
Kandy*						
No. 115B, Kotugodella Veediya, Kandy.	25.2	7,780	519,992	519,992	100	-
Kandy						
No. 226, D S Senanayaka Street, Kandy.	7.05	3,674	64,000	10,405	615	10,466
Kandy						
Moragaspitiyawatta Road, Balagolla, Kengalla.	110.00	300	48,725	29,748	164	29,919
Kandy						
No. 47/10 A, Luwiss Pieris Mawatha, Buwelikada, Kandy.	42.40	-	36,000	34,085	106	34,085
Maradana						
No. 104/1, Vipulasena Mawatha, Colombo 10.	50.60	5,750	349,000	76,844	454	44,768
Nuwara Eliya						
No. 35/4, Upper Lake Road, Nuwara Eliya.	359.00	-	294,000	64,906	453	64,906
Wellawatta						
No. 51A, W A Silva Mawatha, Colombo 06.	14.23	-	156,500	156,442	100	156,107
Panadura						
No. 37, Jayathilake Mawatha, Panadura.	42.00	-	119,350	104,224	115	104,224
Kalutara*						
No. 334, Main Street, Kalutara South.	26.27	10,620	204,760	196,183	104	-
Borella*						
No. 1024, Maradana Road, Borella.	25.50	-	331,500	266,550	124	-

Valuation of freehold land and buildings of the Company was carried out as at 31 March 2019 by H.B. Manjula Basnayaka. AIV (Sri Lanka), N.C.T, QS, (COT), incorporated valuer. Investment method, Contractor's Test method and Comparison method have been used for the valuation.

Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy.

*Freehold land and buildings purchased during the financial year ended 31 March 2019.

4.23.11 Title Restriction on Property, Plant and Equipment - Company

There were no restrictions existed on the title of the property, plant and equipment of the Company as at the reporting date.

4.23.12 Property, Plant and Equipment Pledged as Security for Liabilities - Company

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date other than those disclosed in the Note 6.7 of these Financial Statements.

4.23.13 Compensation from Third Parties for Items of Property, Plant and Equipment - Company

There were no compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up as at the reporting date.

4.23.14 Temporarily Idle Property, Plant and Equipment - Company

There were no temporarily idle property, plant and equipment as at the reporting date.

4.23.15 Property, Plant and Equipment Retired from Active Use - Company

There were no property, plant and equipment retired from active use as at the reporting date.

4.24 INTANGIBLE ASSETS

An intangible asset is an identifiable monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

Accounting Policy

Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

Computer Software

Cost of all computer software licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category of intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition of an item of intangible asset is included in the Income Statement when the item is derecognised.

Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Group. Indefinite-lived intangible assets are not amortised, but are tested for impairment annually or more frequently if events or circumstances indicate the asset may be impaired. Only finite-lived intangible asset is computer software of the Group. There is no indefinite-lived intangible assets which are subject to annual impairment test. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The Group assumes that there is no residual value for its intangible assets.

Intangible assets mainly represent the cost of computer software and the useful lifetime is as follows;

Intangible Asset Category	Period (Years)	Depreciation % per Annum
Computer Software	5	20%

Computer Software	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost				
Cost as at the Beginning of the Year	164,213	146,647	169,386	146,647
Additions and Improvements	9,215	17,566	9,215	22,739
Exchange Rate Variance	-	-	(44)	-
Cost as at the End of the Year	173,428	164,213	178,557	169,386
Amortisation and Impairment Losses				
Amortisation as at the Beginning of the Year	116,094	97,458	116,525	97,458
Charge for the Year	17,487	18,636	18,492	19,053
Impairment Loss	-	-	-	-
Exchange Rate Variance	-	-	17	14
Accumulated Amortisation as at the End of the Year	133,581	116,094	135,034	116,525
Net Book Value as at 31 March	39,847	48,119	43,523	52,861

4.24.1 There were no restrictions on the title of the intangible assets as at the reporting date. Further there were no items pledged as securities for liabilities.

4.25 DUE TO BANKS

Accounting Policy

These include bank overdrafts, finance leases, syndicated loans and other bank facilities. Due to bank balances are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the repayable amount (including interest) is recognised in the Income Statement over the period of the loan using effective interest rate method.

Under finance leases, the leased assets are capitalised and included in 'property, plant and equipment' and the corresponding liability to the lessor is included in 'Due to Banks'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Interest Expense' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining period of the liability.

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
Bank Overdrafts	1,068,362	1,285,356
Syndicated Loans, Securitisation Loans and Other Bank Facilities (Note 4.25.1)	23,565,146	21,552,682
	24,633,508	22,838,038
Fair Value	24,857,290	22,805,871

4.25.1 Syndicated Loans and Other Bank Facilities

	As at 1 April 2018	*Loans Obtained	Interest Recognised	Repayments Capital	Repayments Interest	As at 31 March 2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans						
Syndication 1	130,199	-	9,392	(128,906)	(10,685)	-
Syndication 2	1,359,153	-	84,456	(900,000)	(90,121)	453,488
Syndication 3	2,222,271	-	214,571	(877,800)	(221,613)	1,337,429
Syndication 4	1,925,203	-	246,227	(455,000)	(241,656)	1,474,774
Syndication 5	1,458,436	-	195,517	(300,000)	(111,513)	1,242,440
Syndication 6	1,988,022	-	246,263	-	-	2,234,285
Syndication 7	-	992,782	70,620	-	-	1,063,402
Syndication 8	-	992,663	53,115	-	-	1,045,778
	9,083,284	1,985,445	1,120,161	(2,661,706)	(675,588)	8,851,596
Term Loans						
Bank of Ceylon 1	376,198	-	20,925	(375,000)	(22,123)	-
Bank of Ceylon 2	2,920,299	-	249,711	(1,250,000)	(247,008)	1,673,002
Commercial Bank 1	1,113,491	-	69,950	(666,000)	(70,755)	446,686
Commercial Bank 2	563,441	-	48,917	(250,000)	(49,282)	313,076
Commercial Bank 3	1,670,327	-	219,108	(444,000)	(219,715)	1,225,720
Commercial Bank 4	1,004,997	-	625	(1,000,000)	(5,622)	-
Commercial Bank 5	-	1,000,000	78,116	(1,000,000)	(78,116)	-
Nations Trust Bank 1	791,421	-	74,161	(504,000)	(74,903)	286,679
Nations Trust Bank 2	-	499,950	46,161	-	(41,948)	504,163
Nations Trust Bank 3	-	998,679	21,508	(42,000)	(20,024)	958,163
Hatton National Bank 1	771,844	-	47,128	(399,960)	(49,692)	369,320
Hatton National Bank 2	824,673	-	98,398	(300,000)	(98,061)	525,010
Hatton National Bank 3	663,607	-	77,161	(240,000)	(78,472)	422,296
Union Bank	177,160	-	5,305	(166,667)	(15,798)	-
Public Bank 1	140,243	-	13,697	(40,000)	(13,731)	100,209
Public Bank 2	80,002	-	8,045	(20,000)	(7,999)	60,048
Seylan Bank 1	693,697	-	83,914	(250,008)	(86,043)	441,560
Seylan Bank 2	-	1,000,000	7,572	-	-	1,007,572
DFCC Bank 1	677,998	-	77,000	(187,500)	(77,899)	489,599
DFCC Bank 2	-	998,000	100,398	(187,500)	(90,411)	820,487
DFCC Bank 3	-	1,197,359	40,121	(28,571)	(27,061)	1,181,848
AXIS Bank	-	498,471	44,054	(83,200)	(39,492)	419,833
Habib Bank	-	299,481	15,724	(41,667)	(15,405)	258,133
	12,469,398	6,491,940	1,447,699	(7,476,073)	(1,429,560)	11,503,404
Securitisation Loans						
Sampath Bank	-	2,983,446	226,700	-	-	3,210,146
	-	2,983,446	226,700	-	-	3,210,146
	21,552,682	11,460,831	2,794,560	(10,137,779)	(2,105,148)	23,565,146

* Net of transaction cost

The Group has unutilized borrowing facilities of Rs. 2,453,000,000/- as at 31 March 2019 (2018 - Rs. 2,407,119,207/-).

Details of the assets pledged as security for liabilities are disclosed in Note 6.7 to these Financial Statements.

4.25.2 Contractual Maturity Analysis of Syndicated Loans and Other Bank Facilities - Company & Group

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	2,824,821	6,026,775	-	8,851,596
Securitisation Loans	396,923	2,813,223	-	3,210,146
Term Loans	6,541,666	4,647,492	314,246	11,503,404
	9,763,410	13,487,490	314,246	23,565,146

As at 31 March 2018	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	2,631,708	6,451,576	-	9,083,284
Term Loans	6,097,049	6,372,349	-	12,469,398
	8,728,757	12,823,925	-	21,552,682

4.26 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

Accounting Policy

Due to Depositors comprise of interest bearing savings deposits and term deposits. Customer deposits are initially recognised at fair value net of transactions cost. Subsequent to the initial recognition they are measured at their amortised cost using the effective interest rate method. Interest expense on these deposits is recognised to the Income Statement.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	80,250,164	69,888,343	80,250,164	69,888,343
Certificates of Deposit	88,737	100,772	88,737	100,772
Savings Deposits	2,876,048	2,954,718	2,903,716	2,956,896
	83,214,949	72,943,833	83,242,617	72,946,011
Fair Value	84,061,205	73,617,203	84,088,873	73,619,381

4.26.1 Sri Lanka Deposit Insurance and Liquidity Support Scheme - Company

Under the Direction No 2 of 2010 [Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka and subsequent amendments thereto, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation upto a maximum of Rs. 600,000/- for each depositor. The Company has paid Rs.106,063,772/- as the premium of the said Insurance scheme during the current financial year (2018 - Rs. 93,016,500/-).

4.26.2 Contractual Maturity Analysis of Customer Deposits - Company

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	62,423,413	17,826,751	-	80,250,164
Certificates of Deposit	88,737	-	-	88,737
Savings Deposits	2,876,048	-	-	2,876,048
	65,388,198	17,826,751	-	83,214,949

As at 31 March 2018	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	54,641,273	15,247,070	-	69,888,343
Certificates of Deposit	100,772	-	-	100,772
Savings Deposits	2,954,718	-	-	2,954,718
	57,696,763	15,247,070	-	72,943,833

4.26.3 Contractual Maturity Analysis of Customer Deposits - Group

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	62,423,413	17,826,751	-	80,250,164
Certificates of Deposit	88,737	-	-	88,737
Savings Deposits	2,903,716	-	-	2,903,716
	65,415,866	17,826,751	-	83,242,617

As at 31 March 2018	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	54,641,273	15,247,070	-	69,888,343
Certificates of Deposit	100,772	-	-	100,772
Savings Deposits	2,955,216	1,680	-	2,956,896
	57,697,261	15,248,750	-	72,946,011

We have raised fixed deposits with a pre-termination option to the customers, so fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

4.27 DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

Accounting Policy

Debt instruments and other borrowings are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the repayable amount (including interest) is recognised in the Income Statement over the period of the loan using effective interest rate method.

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
Unsecured Debentures (Note 4.27.1)	3,107,783	5,152,832
Fair Value	3,026,629	5,270,741

4.27.1 Unsecured Debentures

Category	Interest Payable	Features	Amortised Cost Rs. '000	Face Value Rs. '000	Interest Rate	Issued Date	Redemption Date
Type A (60 Months)	Biannually	Listed	1,034,918	1,000,000	12.75% p.a	11 December 2017	11 December 2022
Type B (60 Months)	Biannually	Listed	2,072,865	2,000,000	13.25% p.a	11 December 2017	11 December 2022
			3,107,783	3,000,000			

4.27.2 Contractual Maturity Analysis of Debt Instruments Issued and Other Borrowed Funds - Company & Group

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unsecured Debentures	116,205	2,991,578	-	3,107,783

As at 31 March 2018	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unsecured Debentures	2,163,729	2,989,103	-	5,152,832

4.28 OTHER FINANCIAL LIABILITIES

Accounting Policy

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade payables are obligations to pay for vehicle suppliers in the ordinary course of business.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade Payables	620,323	462,654	620,323	462,654
Insurance Premium Payable	657,018	632,727	657,018	632,727
Unclaimed Balances	573,891	529,475	573,891	529,475
Advances Collected from Customers	27,862	38,889	27,862	38,889
Sundry Creditors	95,396	97,673	95,396	97,673
	1,974,490	1,761,418	1,974,490	1,761,418
Fair Value	1,974,490	1,761,418	1,974,490	1,761,418

4.29 OTHER NON FINANCIAL LIABILITIES

Accounting Policy

Group classifies all non financial liabilities other than post employment benefit liability, deferred tax liabilities and current tax liabilities under other non financial liabilities. Other non financial liabilities include accruals, advances and provisions. These liabilities are non-interest bearing and recorded at the amounts that are expected to be paid.

Provisions

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

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Payable	1,108,114	-	1,108,114	-
Stamp Duty Payable	96,420	101,434	96,420	101,434
EPF/ETF/PAYE Payable	38,081	36,127	38,081	36,127
Withholding Tax Payable	179,459	9,257	179,459	9,257
Crop Insurance Levy Payable	15,884	12,202	15,884	12,202
Accrued Expenses	606,588	667,097	606,588	667,097
Sundry Creditors	18,728	26,598	23,887	27,048
Impairment Provision in Respect of Off-Balance Sheet Credit Exposures	7,358	-	7,358	-
	2,070,632	852,715	2,075,791	853,165

4.30 CURRENT TAX LIABILITIES

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Tax	1,136,794	468,362	1,144,739	468,362
Value Added Tax (VAT)	172,033	146,024	172,033	146,024
Nation Building Tax (NBT)	22,674	18,672	22,674	18,672
Debt Repayment Levy (DRL)	64,470	-	64,470	-
	1,395,971	633,058	1,403,916	633,058

4.31 DEFERRED TAXATION

Accounting Policy

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses carried forward can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Accounting Estimates

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax planning strategies.

Deferred Tax Assets, Liabilities and Income Tax Relate to the Followings;

	Reflected in Statement of Financial Position				Reflected in Income Statement				Reflected in Statement of Comprehensive Income			
	Company		Group		Company		Group		Company		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred Tax Liability												
Depreciation of Leased Assets	1,133,983	922,285	1,133,983	922,285	211,698	567,302	211,698	567,302				
Depreciation of Property, Plant and Equipment	229,052	221,934	229,052	221,934	7,118	30,415	7,118	30,415				
	1,363,035	1,144,219	1,363,035	1,144,219	218,816	597,717	218,816	597,717				
Deferred Tax Assets												
Defined Benefit Obligation - Income Statement	(61,025)	(47,238)	(61,025)	(47,238)	(13,786)	(8,347)	(13,786)	(8,347)				
Defined Benefit Obligation - Other Comprehensive Income	(10,798)	(17,509)	(10,798)	(17,509)					6,712	(13,386)	6,712	(13,386)
Carried Forward Impairment Provision	18,510	(20,722)	18,510	(20,722)	39,232	(20,722)	39,232	(20,722)				
	(53,313)	(85,469)	(53,313)	(85,469)	25,446	(29,069)	25,446	(29,069)	6,712	(13,386)	6,712	(13,386)
Deferred Income Tax Charge/(Reversal)					244,262	568,648	244,262	568,648	6,712	(13,386)	6,712	(13,386)
Net Deferred Tax Liability/(Asset)	1,309,722	1,058,750	1,309,722	1,058,750								

4.31.1 Deferred tax has been determined based on the enacted tax rate of 28% for the Company.

4.32 POST EMPLOYEMENT BENEFIT LIABILITY

Accounting Estimates

Our end of service benefit obligations are measured based on the present value of projected future benefit payments for all participants for services rendered to date. The measurement of projected future benefits is dependent on the stipulated formula, salary assumptions, demographics of the group covered by the plan, and other key measurement assumptions. The net periodic benefit costs associated with the Company's defined benefit plans are determined using assumptions regarding the benefit obligations. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

Recognition of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Expected Return on Assets

Expected return on assets is zero as the plan is not pre-funded.

Funding Arrangements

The gratuity liability is not externally funded.

4.32.1 Post Employment Benefit Liability

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance at the Beginning of the Year	231,240	153,621	231,240	153,621
Amount Charged/(Reversed) for the Year	39,129	92,496	39,129	92,496
Payments Made During the Year	(13,857)	(14,877)	(13,857)	(14,877)
Balance at the End of the Year	256,512	231,240	256,512	231,240

4.32.2 Amounts Recognised in the Income Statement

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current Service Cost for the Year	38,818	25,932	38,818	25,932
Interest Cost on the Net Defined Benefit Liability for the Year	24,280	18,757	24,280	18,757
	63,098	44,689	63,098	44,689

4.32.3 Amounts Recognised in the Other Comprehensive Income

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Liability (Gains)/Losses due to Changes in Assumptions	(30,106)	39,594	(30,106)	39,594
Liability Experience (Gains)/Losses Arising During the Year	6,137	8,213	6,137	8,213
	(23,969)	47,807	(23,969)	47,807

4.32.4 Defined Benefit Obligation Reconciliation

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Benefit Obligation at End of Prior Year	231,240	153,621	231,240	153,621
Current Service Cost for the Year	38,818	25,932	38,818	25,932
Net Interest Cost on the Net Defined Benefit Liability for the Year	24,280	18,757	24,280	18,757
Liability (Gains)/Losses due to Changes in Assumptions	(30,106)	39,594	(30,106)	39,594
Liability Experience (Gains)/Losses Arising During the Year	6,137	8,213	6,137	8,213
Payments Made During the Year	(13,857)	(14,877)	(13,857)	(14,877)
	256,512	231,240	256,512	231,240

4.32.5 Average future working lifetime as per the assumptions made is 14.6 years as of 31 March 2019 (14.6 years as of 31 March 2018).

4.32.6 Assumptions

	2019	2018
	Rs. '000	Rs. '000
Discount Rate	11.50%	10.50%
Salary Increment	10.00%	10.00%
Staff Turnover		
20 to 40 years	25.00%	25.00%
45 years	1.00%	1.00%
50 years	1.00%	1.00%

Mortality - GA 1983 Mortality Table

Disability - Long Term Disability 1987 Soc. Sec. Table

Retirement Age - Normal Retirement Age (55 Years), or Age on Valuation Date, if greater

An actuarial valuation of the gratuity was carried out as at 31 March 2019 by Piyal S. Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

4.32.7 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the retirement benefit liability measurement.

The sensitivity of the Statement of Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment on the profit or loss and retirement benefit obligation for the year.

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment	2019		2018	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
		Sensitivity Effect on Statement of Comprehensive Income - Increase /(Reduction) in Results for the Year	Sensitivity Effect on Retirement Benefit Obligation - Increase /(Reduction) in the Liability	Sensitivity Effect on Statement of Comprehensive Income - Increase/ (Reduction) in Results for the Year	Sensitivity Effect on Retirement Benefit Obligation - Increase/(Reduction) in the Liability
1%		25,192	(25,192)	24,619	(24,619)
-1%		(30,106)	30,106	(29,641)	29,641
	1%	(29,511)	29,511	(28,788)	28,788
	-1%	25,144	(25,144)	24,385	(24,385)

4.32.8 The Expected Benefit Payout in the Future Years for Retirement Gratuity

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Within the Next 12 Months	16,453	16,847	16,453	16,847
Between 2 and 5 Years	125,615	106,747	125,615	106,747
Beyond 5 Years	230,337	207,961	230,337	207,961
	372,405	331,555	372,405	331,555

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation at the end of the financial year and include benefits attributable to estimated future employee service.

4.33 STATED CAPITAL

4.33.1 Issued and Fully Paid Ordinary Shares

	Company & Group		Company & Group	
	2019		2018	
	No. of Shares	Rs. '000	No. of Shares	Rs. '000
At the Beginning of the Year	138,514,284	838,282	138,514,284	838,282
At the End of the Year	138,514,284	838,282	138,514,284	838,282

4.33.2 Rights of Shareholders

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

4.34 RESERVES

	Company			Group		
	As at 1 April 2018	Movement/ Transfers	As at 31 March 2019	As at 1 April 2018	Movement/ Transfers	As at 31 March 2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory Reserve	4,274,827	1,010,932	**5,285,759**	4,274,827	1,010,932	**5,285,759**
Available for Sale Reserve	(4,305)	4,305	**-**	(4,305)	4,305	**-**
Fair Value Reserve	-	(75,662)	**(75,662)**	-	(75,662)	**(75,662)**
Foreign Currency Translation Reserve	-	-	**-**	5,231	15,548	**20,779**
	4,270,522	939,575	**5,210,097**	4,275,753	955,123	**5,230,876**

4.34.1 Statutory Reserve

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
Balance as at 1 April	**4,274,827**	3,424,683
Transfers made during the financial year	**1,010,932**	850,144
Balance as at 31 March	**5,285,759**	4,274,827

Statutory reserve is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No 1 of 2003.

4.34.2 Available for Sale Reserve

	Company & Group	
	2019	2018
	Rs. '000	Rs. '000
Balance as at 1 April	**(4,305)**	(12,365)
Transfers made during the financial year/Fair Value Gains and Losses arising on Re-measuring Available for Sale Financial Assets	**4,305**	8,060
Balance as at 31 March	**-**	(4,305)

The available for sale reserve comprises the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

4.34.3 Fair Value Reserve

	Company & Group
	2019
	Rs. '000
Balance as at 1 April	-
Transfers made during the financial year / Net Gains /(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	(75,662)
Balance as at 31 March	(75,662)

The fair value through other comprehensive income reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until they are derecognised or impaired. Due to the adoption of SLFRS 09, the balance of the available for sale reserve was transferred to fair value through other comprehensive income reserve.

4.34.4 Foreign Currency Translation Reserve

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 April	-	-	5,231	-
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	15,548	5,231
Balance as at 31 March	-	-	20,779	5,231

The foreign currency translation reserve comprises of all foreign currency differences arising from the translation of the Financial Statements of foreign operations. As at the reporting date, the assets and liabilities of the L B Microfinance Myanmar Company Limited a subsidiary of the Company were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the reporting date and the Income Statement and Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation are taken to foreign currency translation reserve through other comprehensive income.

4.35 RETAINED EARNINGS

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 April	10,240,092	8,259,079	10,234,440	8,259,079
Impact of Adoption of SLFRS 09	(299,578)	-	(299,578)	-
Transfer of Available for Sale Reserve build on Impairment of Financial Investments - Available for Sale	39,444	-	39,444	-
Dividend Paid	(1,662,171)	(1,385,143)	(1,662,171)	(1,385,143)
Profit for the Year	5,054,660	4,250,721	5,079,349	4,245,069
Other Comprehensive Income, Net of Tax	17,257	(34,421)	17,257	(34,421)
Transfers During the Year (Note 4.34)	(1,010,932)	(850,144)	(1,010,932)	(850,144)
Balance as at 31 March	12,378,772	10,240,092	12,397,809	10,234,440

Retained earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future losses or dividends payable.

4.36 NON-CONTROLLING INTEREST

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Company has non-controlling interest of the L B Microfinance Myanmar Company Limited (NCI of 0.30%) as at the reporting date as follows;

	Group	
	2019	2018
	Rs. '000	Rs. '000
Balance as at 1 April	459	-
Non-Controlling Interest contribution for subsidiary share issues	-	460
Profit for the year	74	(17)
Other Comprehensive Income, Net of Tax	47	16
Disposal of Shares	(580)	-
Balance as at 31 March	-	459

We are INVESTED in Delivering Results

SECTION 05

Risk Management Disclosures

5.1 INTRODUCTION

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

The Group identifies the following key financial risks in its business operations.

- Credit Risk
- Liquidity Risk
- Market Risk
- Capital Adequacy

Risk Management Framework

The Risk Management Framework of the Group has been optimized through the application and the embedment of the risk management process including risk identification, risk analysis, risk measurement, risk management decision and execution, risk monitoring and reporting.

The overall responsibility and oversight of the Risk Management framework of the Group is vested with the Board of Directors. The Integrated Risk Management Committee (IRMC), a sub committee appointed by the Board, is responsible for developing and monitoring Group's risk management policies practiced.

The following management committees, each with a defined responsibility, support the IRMC by executing their respective risk management mandates.

- Asset and Liability Committee
- Credit Committee
- IT Steering Committee
- Sustainability Committee

Risk Management Department (RMD)

Whilst the Business units have primary responsibility for Risk Management the RMD provides an independent oversight function acting as a second line of defence. RMD is headed by the CRO who directly reports to the Managing Director and also has a functional reporting to the IRMC. The RMD co-exists with other control functions in the Group that might uncover risk management issues, most notably Internal Audit, Compliance and Finance. Each of the control functions has a different focus and potential overlap between them is kept at a minimum, while ensuring that the approaches taken are complementary and lead to consistent, effective and timely escalation of risks.

5.2 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers/other companies and investments in debt securities. Credit risk constitutes the Group's largest risk exposure category. This can be broadly categorized into three types; default, concentration and settlement risk.

Default risk is the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Group's loans and advances to customers.

Concentration risk is the credit exposure being concentrated as a result of excessive build-up of exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

Settlement risk is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis.

Group manages credit risk by focusing on following steps;

The loan origination stage comprises preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. The Company/Group has clearly defined guidelines for credit approvals where the limits have been set taking into consideration the factors such as maximum counterparty exposures, loan to value ratio and forced sale value. These steps enables the Company/ Group in assessing the default risk of the borrower.

A comprehensive set of credit risk indicators are monitored monthly to review credit concentrations, status of loan recoveries and compliance with regulatory and prudent exposure limits.

Post Disbursement Review

Initial monitoring and follow up activities are carried out by the Credit Department. Once a loan is overdue for a period exceeding the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. Risk Management Department (RMD) reviews asset quality performance regularly. Delinquencies are handled early with effective follow ups and reminders. Swift recovery actions are taken against critical exposures.

Management of Large Exposures

Credit Committee

The Credit Committee consists of the Managing Director, Executive Directors, Chief Financial Officer and Chief Risk Officer. Sanctioning of large exposures are primarily handled by the Credit Committee. RMD independently monitors post sanctioning performance of large exposures.

Impairment Assessment

The methodology of the impairment assessment has been explained in the Note 4.18 to these Financial Statements.

Collateral and Other Credit Enhancements

The Group uses collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, letters of guarantees, real estate, receivables, inventories and other non-financial assets. The fair value of collateral is generally assessed at the inception based on the guidelines issued by the Central Bank of Sri Lanka and the Central Bank of Myanmar.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Non financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner through public auctions and the proceeds are used to reduce or recover the outstanding claims and the amount recovered in excess of the dues is refunded to the customer.

5.2.1 ANALYSIS OF CREDIT RISK EXPOSURE

The fair value of collateral for finance receivables is calculated based on the number of contracts multiplied by the loss severity and the probability of default (PD) percentage or the outstanding receivable balances multiplied by the average recovery value (ARV) percentage to determine the fair value adjustment.

The following tables shows the maximum exposure to credit risk by class of financial asset. It further shows the net exposure to credit risk.

5.2.1 (a) Company

As at 31 March - Company	2019		2018	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4,040,586	-	5,874,375	-
Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	6,866	6,866	9,682	9,682
Loans and Receivables (Gross) *	48,716,149	4,243,415	40,721,663	4,491,173
Lease Rentals Receivable and Stock out on Hire (Gross)	68,476,217	3,111,225	64,490,819	2,771,264
Financial Assets Measured at Fair Value Through Other Comprehensive Income/ Financial Investments - Available for Sale	89,710	89,710	121,624	121,624
Other Financial Assets **	10,804,517	5,665,787	6,772,554	3,240,113
Total Financial Assets	132,134,045	13,117,003	117,990,717	10,633,856

* At 31 March 2019, the net credit risk exposure of Gold Loans was Rs. 12,623,938/- (2018 - Rs. 2,438,259/-)

** Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2019, the net carrying value amount of those investments was Rs. 5,282,020,232/- (2018 - Rs. 2,879,390,261/-).

5.2.1 (b) Group

As at 31 March - Group	2019		2018	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	4,058,610	-	5,990,295	-
Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	6,866	6,866	9,682	9,682
Loans and Receivables (Gross) *	49,099,031	4,626,297	40,760,931	4,530,441
Lease Rentals Receivable and Stock out on Hire (Gross)	68,476,217	3,111,225	64,490,819	2,771,264
Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	89,710	89,710	121,624	121,624
Other Financial Assets **	10,794,673	5,655,943	6,766,710	3,234,269
Total Financial Assets	132,525,107	13,490,041	118,140,061	10,667,280

* At 31 March 2019, the net credit risk exposure of Gold Loans was Rs. 12,623,938/- (2018 - Rs. 2,438,259/-)

** Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2019, the net carrying value amount of those investments was Rs. 5,282,020,232/- (2018 - Rs. 2,879,390,261/-).

5.2.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31 March 2019 - Company	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Cash and Cash Equivalents	4,040,586	-	-	4,040,586
Financial Assets Recognised Through Profit or Loss	6,866	-	-	6,866
Loans and Receivables (Gross)	31,212,662	14,973,776	2,529,711	48,716,149
Lease Rentals Receivable and Stock out on Hire (Gross)	29,125,389	34,247,262	5,103,566	68,476,217
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	89,710
Other Financial Assets	10,804,517	-	-	10,804,517
Total Financial Assets	75,279,730	49,221,038	7,633,277	132,134,045

* Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets

	Past Due But Not Impaired				
	Less than 31 Days	31 - 60 Days	61 - 90 Days	More than 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	7,977,076	4,317,835	2,069,998	608,867	14,973,776
Lease Rentals Receivable and Stock out on Hire (Gross)	15,547,271	12,738,114	5,961,877	-	34,247,262
	23,524,347	17,055,949	8,031,875	608,867	49,221,038
	47.79%	34.65%	16.32%	1.24%	100.00%

Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Company's assessment do not need to be individually impaired.

As at 31 March 2018 - Company	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Cash and Cash Equivalents	5,874,375	-	-	5,874,375
Financial Investments - Held for Trading	9,682	-	-	9,682
Loans and Receivables (Gross)	24,422,248	14,753,385	1,546,030	40,721,663
Lease Rentals Receivable and Stock out on Hire (Gross)	27,206,324	33,513,265	3,771,230	64,490,819
Financial Investments - Available for Sale	79,087	-	42,537	121,624
Other Financial Assets	6,772,554	-	-	6,772,554
Total Financial Assets	64,364,270	48,266,650	5,359,797	117,990,717

* Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets

	Past Due But Not Impaired				
	Less than 31 Days	31 - 60 Days	61 - 90 Days	More than 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	7,076,320	4,029,457	1,830,083	1,817,525	14,753,385
Lease Rentals Receivable and Stock out on Hire (Gross)	14,350,222	11,430,372	5,379,292	2,353,379	33,513,265
	21,426,542	15,459,829	7,209,375	4,170,904	48,266,650
	44.39%	32.03%	14.94%	8.64%	100.00%

Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Company's assessment do not need to be individually impaired.

As at 31 March 2019 - Group	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Cash and Cash Equivalents	4,058,610	-	-	4,058,610
Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	6,866	-	-	6,866
Loans and Receivables (Gross)	31,592,670	14,976,650	2,529,711	49,099,031
Lease Rentals Receivable and Stock out on Hire (Gross)	29,125,389	34,247,262	5,103,566	68,476,217
Financial Assets Measured at Fair Value Through Other Comprehensive Income/ Financial Investments - Available for Sale	89,710	-	-	89,710
Other Financial Assets	10,794,673	-	-	10,794,673
Total Financial Assets	75,667,918	49,223,912	7,633,277	132,525,107

* Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets

	Past Due But Not Impaired				
	Less than 31 Days	31 - 60 Days	61 - 90 Days	More than 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	7,979,597	4,318,188	2,069,998	608,867	14,976,650
Lease Rentals Receivable and Stock out on Hire (Gross)	15,547,271	12,738,114	5,961,877	-	34,247,262
	23,526,868	17,056,302	8,031,875	608,867	49,223,912
	47.79%	34.65%	16.32%	1.24%	100.00%

Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Group's assessment do not need to be individually impaired.

As at 31 March 2018 - Group	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Cash and Cash Equivalents	5,990,295	-	-	5,990,295
Financial Investments - Held for Trading	9,682	-	-	9,682
Loans and Receivables (Gross)	24,461,516	14,753,385	1,546,030	40,760,931
Lease Rentals Receivable and Stock out on Hire (Gross)	27,215,418	33,513,265	3,771,230	64,499,913
Financial Investments - Available for Sale	79,087	-	42,537	121,624
Other Financial Assets	6,766,710	-	-	6,766,710
Total Financial Assets	64,522,708	48,266,650	5,359,797	118,149,155

* Collectively assessed for the impairment

Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets

	Past Due But Not Impaired				
	Less than 31 Days	31 - 60 Days	61 - 90 Days	More than 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	7,076,320	4,029,457	1,830,083	1,817,525	14,753,385
Lease Rentals Receivable and Stock out on Hire (Gross)	14,350,222	11,430,372	5,379,292	2,353,379	33,513,265
	21,426,542	15,459,829	7,209,375	4,170,904	48,266,650
	44.39%	32.03%	14.94%	8.64%	100.00%

Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Group's assessment do not need to be individually impaired.

5.2.3 CONCENTRATION OF CREDIT RISK

By setting various concentration limits under different criteria within the established risk appetite framework, the Group ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are monitored and reviewed by the Credit Committee, Risk Management Department and Integrated Risk Management Committee on a regular basis to capture the developments in market, regulatory and economic environment to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The Group monitors concentration of credit risk by sector and by geographic location. An analysis of risk concentration of financial assets based on industry sector and geographical location is given below;

Industry-wise Concentration

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

As at 31 March 2019 - Company

Sector-wise Breakdown	Cash and Bank Balances	Financial Investments - Held for Trading	Loans and Receivables **	Lease Rentals Receivable and Stock out on Hire **	Financial Investments - Available for Sale	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,116,050	13,542,251	-	-	29,658,301
Manufacturing	-	-	2,796,920	2,335,810	-	-	5,132,730
Construction	-	-	670,951	999,796	-	-	1,670,747
Financial Services	4,040,586	-	778,990	441,419	-	10,804,517	16,065,512
Trading	-	6,866	6,036,483	11,830,720	89,710	-	17,963,779
Retail	-	-	1,961,610	-	-	-	1,961,610
Government	-	-	-	-	-	-	-
Hotels	-	-	557,865	543,602	-	-	1,101,467
Services	-	-	18,476,156	36,356,831	-	-	54,832,987
Total	4,040,586	6,866	47,395,025	66,050,430	89,710	10,804,517	128,387,133

Province-wise Concentration

**Provincial breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows;

As at 31 March 2019 - Company

Province	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,777,180	7,387,091	11,164,271
Eastern	2,629,169	2,496,101	5,125,270
North Central	1,285,204	3,188,759	4,473,963
North Western	3,088,154	7,063,226	10,151,380
Northern	3,432,359	430,794	3,863,153
Sabaragamuwa	964,643	2,437,535	3,402,178
Southern	3,237,573	8,677,033	11,914,606
Uva	1,133,613	2,518,089	3,651,702
Western	27,847,130	31,851,801	59,698,931
Total	47,395,025	66,050,429	113,445,454

Industry-wise Concentration

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

As at 31 March 2018 - Company

Sector-wise Breakdown	Cash and Bank Balances	Financial Investments - Held for Trading	Loans and Receivables **	Lease Rentals Receivable and Stock out on Hire **	Financial Investments - Available for Sale	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	14,270,034	14,349,850	-	-	28,619,884
Manufacturing	-	-	1,888,521	1,830,137	-	-	3,718,658
Construction	-	-	810,943	1,108,874	-	-	1,919,817
Financial Services	5,874,375	-	637,761	379,084	-	6,772,554	13,663,774
Trading	-	9,682	5,527,811	11,795,115	121,624	-	17,454,232
Retail	-	-	1,903,437	-	-	-	1,903,437
Government	-	-	-	-	-	-	-
Hotels	-	-	604,263	481,567	-	-	1,085,830
Services	-	-	14,212,628	32,545,059	-	-	46,757,687
Total	5,874,375	9,682	39,855,398	62,489,686	121,624	6,772,554	115,123,319

Province-wise Concentration

**Provincial breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows;

As at 31 March 2018 - Company

Province	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,156,668	6,922,955	10,079,623
Eastern	2,217,036	3,207,308	5,424,344
North Central	1,012,548	3,331,064	4,343,612
North Western	2,528,814	6,845,408	9,374,222
Northern	2,759,874	582,872	3,342,746
Sabaragamuwa	1,003,430	4,037,745	5,041,175
Southern	2,030,121	6,292,184	8,322,305
Uva	795,252	2,640,024	3,435,276
Western	24,351,655	28,630,126	52,981,781
Total	39,855,398	62,489,686	102,345,084

Industry-wise Concentration

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

As at 31 March 2019 - Group

Sector-wise Breakdown	Cash and Bank Balances	Financial Investments - Held for Trading	Loans and Receivables **	Lease Rentals Receivable and Stock out on Hire **	Financial Investments - Available for Sale	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,494,730	13,542,251	-	-	30,036,981
Manufacturing	-	-	2,796,920	2,335,810	-	-	5,132,730
Construction	-	-	670,951	999,796	-	-	1,670,747
Financial Services	4,058,610	-	778,990	441,419	-	10,794,673	16,073,692
Trading	-	6,866	6,036,483	11,830,720	89,710	-	17,963,779
Retail	-	-	1,961,610	-	-	-	1,961,610
Government	-	-	-	-	-	-	-
Hotels	-	-	557,865	543,602	-	-	1,101,467
Services	-	-	18,476,156	36,356,831	-	-	54,832,987
Total	4,058,610	6,866	47,773,705	66,050,429	89,710	10,794,673	128,773,993

Geographical Concentration

**Geographical breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers is as follows;

As at 31 March 2019 - Group

Province/Country	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,777,180	7,387,091	11,164,271
Eastern	2,629,169	2,496,101	5,125,270
North Central	1,285,204	3,188,759	4,473,963
North Western	3,088,154	7,063,226	10,151,380
Northern	3,432,359	430,794	3,863,153
Sabaragamuwa	964,643	2,437,535	3,402,178
Southern	3,237,573	8,677,033	11,914,606
Uva	1,133,613	2,518,089	3,651,702
Western	27,847,130	31,851,801	59,698,931
Myanmar	378,680	-	378,680
Total	47,773,705	66,050,429	113,824,134

Industry-wise Concentration

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

As at 31 March 2018 - Group

Sector-wise Breakdown	Cash and Bank Balances	Financial Investments - Held for Trading	Loans and Receivables **	Lease Rentals Receivable and Stock out on Hire **	Financial Investments - Available for Sale	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	14,308,912	14,349,850	-	-	28,658,762
Manufacturing	-	-	1,888,521	1,830,137	-	-	3,718,658
Construction	-	-	810,943	1,108,874	-	-	1,919,817
Financial Services	5,990,295	-	637,761	379,084	-	6,766,710	13,773,850
Trading	-	9,682	5,527,811	11,795,115	121,624	-	17,454,232
Retail	-	-	1,903,437	-	-	-	1,903,437
Government	-	-	-	-	-	-	-
Hotels	-	-	604,263	481,567	-	-	1,085,830
Services	-	-	14,212,628	32,545,059	-	-	46,757,687
Total	5,990,295	9,682	39,894,276	62,489,686	121,624	6,766,710	115,272,273

Geographical Concentration

**Geographical breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers is as follows;

As at 31 March 2018 - Group

Province/Country	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,156,668	6,922,955	10,079,623
Eastern	2,217,036	3,207,308	5,424,344
North Central	1,012,548	3,331,064	4,343,612
North Western	2,528,814	6,845,408	9,374,222
Northern	2,759,874	582,872	3,342,746
Sabaragamuwa	1,003,430	4,037,745	5,041,175
Southern	2,030,121	6,292,184	8,322,305
Uva	795,252	2,640,024	3,435,276
Western	24,351,655	28,630,126	52,981,781
Myanmar	38,878	-	38,878
Total	39,894,276	62,489,686	102,383,962

5.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

In the context of a financial institution liquidity risk arises primarily due to mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; market liquidity risk and funding liquidity risk.

Market liquidity risk is the inability to easily exit a position. Group's market liquidity risk is low if assets can be liquidated without moving the price too much.

Funding liquidity risk means the Group's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Group's credit quality is, or at least perceived to be, deteriorating, but also because financial conditions as a whole are deteriorating.

The Group's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Group regularly monitors liquidity position and maintain an adequate buffer of liquid assets. Group also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management.

Assets and Liability Management Committee (ALCO)

ALCO is chaired by the Managing Director and comprises of Executive Directors, representatives from Treasury Department, Fixed Deposits, the Chief Financial Officer and the Chief Risk Officer. The Committee meets regularly and make all policy decisions with regard to funding matters, duration management of assets and liabilities and investments, to keep the liquidity at healthy levels, whilst satisfying regulatory requirements.

5.3.1 ANALYSIS OF LIQUIDITY RISK EXPOSURE

5.3.1 (a) The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2019.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2019 - Company	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	2,276,892	1,765,744	-	-	-	4,042,636
Financial Assets Recognised Through Profit or Loss	6,866	-	-	-	-	6,866
Loans and Receivables	8,136,234	20,673,063	11,570,569	15,489,274	1,777,630	57,646,770
Lease Rentals Receivable and Stock out on Hire	3,811,553	9,217,509	25,078,392	53,566,180	65,002	91,738,636
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	-	-	89,710
Other Financial Assets	384,319	2,641,987	8,328,339	-	-	11,354,645
Total Financial Assets	14,705,574	34,298,303	44,977,300	69,055,454	1,842,632	164,879,263
Financial Liabilities						
Due to Banks	1,068,362	2,911,289	8,220,809	17,883,500	353,444	30,437,404
Financial Liabilities at Amortised Cost - Due to Depositors	2,876,047	26,248,075	40,922,119	21,284,340	-	91,330,581
Debt Instruments Issued and Other Borrowed Funds	-	195,712	196,788	4,177,500	-	4,570,000
Other Financial Liabilities	1,974,490	-	-	-	-	1,974,490
Total Financial Liabilities	5,918,899	29,355,076	49,339,716	43,345,340	353,444	128,312,475
Total Net Financial Assets/(Liabilities)	8,786,675	4,943,227	(4,362,416)	25,710,114	1,489,188	36,566,788

5.3.1 (b) The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2018.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2018 - Company	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	2,655,069	3,236,437	-	-	-	5,891,506
Financial Investments - Held for Trading	9,682	-	-	-	-	9,682
Loans and Receivables	7,217,140	15,526,674	10,268,927	13,909,808	1,421,371	48,343,920
Lease Rentals Receivable and Stock out on Hire	3,378,193	8,714,343	23,994,138	50,284,196	52,464	86,423,334
Financial Investments - Available for Sale	121,624	-	-	-	-	121,624
Other Financial Assets	360,723	1,154,025	5,550,806	-	-	7,065,554
Total Financial Assets	13,742,431	28,631,479	39,813,871	64,194,004	1,473,835	147,855,620
Financial Liabilities						
Due to Banks	1,285,356	3,291,949	7,149,075	15,652,842	-	27,379,222
Due to Depositors	2,958,302	25,467,832	33,215,379	18,675,363	-	80,316,876
Debt Instruments Issued and Other Borrowed Funds	-	272,488	2,362,319	4,570,000	-	7,204,807
Other Financial Liabilities	1,761,418	-	-	-	-	1,761,418
Total Financial Liabilities	6,005,076	29,032,269	42,726,773	38,898,205	-	116,662,323
Total Net Financial Assets/(Liabilities)	7,737,355	(400,790)	(2,912,902)	25,295,799	1,473,835	31,193,297

5.3.1 (c) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2019.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2019 - Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	2,294,916	1,765,744	-	-	-	4,060,660
Financial Assets Recognised Through Profit or Loss	6,866	-	-	-	-	6,866
Loans and Receivables	8,136,233	20,790,367	11,840,363	15,553,266	1,777,630	58,097,859
Lease Rentals Receivable and Stock out on Hire	3,811,553	9,217,509	25,078,392	53,566,180	65,002	91,738,636
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	-	-	89,710
Other Financial Assets	374,475	2,641,987	8,328,339	-	-	11,344,801
Total Financial Assets	14,713,753	34,415,607	45,247,094	69,119,446	1,842,632	165,338,532
Financial Liabilities						
Due to Banks	1,068,362	2,911,289	8,220,809	17,883,500	353,444	30,437,404
Financial Liabilities at Amortised Cost - Due to Depositors	2,903,715	26,248,075	40,922,119	21,284,340	-	91,358,249
Debt Instruments Issued and Other Borrowed Funds	-	195,712	196,788	4,177,500	-	4,570,000
Other Financial Liabilities	1,974,490	-	-	-	-	1,974,490
Total Financial Liabilities	5,946,567	29,355,076	49,339,716	43,345,340	353,444	128,340,143
Total Net Financial Assets/(Liabilities)	8,767,186	5,060,531	(4,092,622)	25,774,106	1,489,188	36,998,389

5.3.1 (d) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2018.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2018 - Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and Cash Equivalents	2,770,989	3,236,437	-	-	-	6,007,426
Financial Investments - Held for Trading	9,682	-	-	-	-	9,682
Loans and Receivables	7,217,140	15,536,486	10,296,151	13,920,058	1,421,371	48,391,206
Lease Rentals Receivable and Stock out on Hire	3,378,193	8,714,343	23,994,138	50,284,196	52,464	86,423,334
Financial Investments - Available for Sale	121,624	-	-	-	-	121,624
Other Financial Assets	354,879	1,154,025	5,550,806	-	-	7,059,710
Total Financial Assets	13,852,507	28,641,291	39,841,095	64,204,254	1,473,835	148,012,982
Financial Liabilities						
Due to Banks	1,285,356	3,291,949	7,149,075	15,652,842	-	27,379,222
Financial Liabilities at Amortised Cost - Due to Depositors	2,958,302	25,467,832	33,215,877	18,677,043	-	80,319,054
Debt Instruments Issued and Other Borrowed Funds	-	272,488	2,362,319	4,570,000	-	7,204,807
Other Financial Liabilities	1,761,418	-	-	-	-	1,761,418
Total Financial Liabilities	6,005,076	29,032,269	42,727,271	38,899,885	-	116,664,501
Total Net Financial Assets/(Liabilities)	7,847,431	(390,978)	(2,886,176)	25,304,369	1,473,835	31,348,481

5.3.2 CONTRACTUAL MATURITIES OF COMMITMENTS AND CONTINGENCIES

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

As at 31 March 2019 - Company and Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingent Liabilities						
Guarantees Issued to Banks and Other Institutions	-	-	5,270	-	-	5,270
Total Contingent Liabilities	-	-	5,270	-	-	5,270
Commitments						
Commitment for Unutilised Facilities	1,815,586	-	-	-	-	1,815,586
Total Commitments	1,815,586	-	-	-	-	1,815,586
Total Commitments and Contingencies	1,815,586	-	5,270	-	-	1,820,856

As at 31 March 2018 - Company and Group	On Demand	Less than 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingent Liabilities						
Guarantees Issued to Banks and Other Institutions	-	1,460	5,040	-	-	6,500
Import LC and Ordinary Guarantees	38,069	-	-	-	-	38,069
Total Contingent Liabilities	38,069	1,460	5,040	-	-	44,569
Commitments						
Commitment for Unutilised Facilities	1,217,412	-	-	-	-	1,217,412
Total Commitments	1,217,412	-	-	-	-	1,217,412
Total Commitments and Contingencies	1,255,481	1,460	5,040	-	-	1,261,981

5.3.3 LIQUIDITY RESERVES

The table below sets out the components of the Company's liquidity reserves;

	2019		2018	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and Coins Held	873,072	873,072	793,796	793,796
Balances with Banks	1,403,820	1,403,820	1,861,273	1,861,273
Treasury Bills Repurchase Agreements (Less than 03 Months)	1,763,694	1,763,694	3,219,306	3,219,306
Treasury Bills Repurchase Agreements (More than 03 Months)	5,138,730	5,138,730	3,532,441	3,532,441
Investment in Fixed Deposits	5,281,468	5,281,468	2,879,390	2,879,390
Total Liquidity Reserves	14,460,784	14,460,784	12,286,206	12,286,206

5.4 MARKET RISK

Market risk refers to the possible losses to the Group that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk has been identified as the most critical risk given Group's nature of business.

5.4.1 INTEREST RATE RISK

Interest rate risk is a key constitute of the market risk exposure of the Group due to adverse and unanticipated movements in future interest rate which arises from core business activities; disbursing of credit facilities, accepting deposits and issuing debt instruments.
Due to the nature of operations of the Group, the impact of interest rate risk is mainly on the earnings of the Group rather than the market value of portfolios.

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

- Reprising risk arising from a fixed rate borrowing portfolio, where reprising frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

Interest rate risk is managed principally through minimizing interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Group conducts periodic reviews and reprices its assets accordingly.

5.4.2 COMMODITY PRICE RISK

Commodity price risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. Given the significance of the Gold Loans business to Group's overall loan book, sharp fluctuations to the gold prices could have an adverse impact to earnings. Gold price fluctuations lead to market risk which is the primary source of credit risk associated with this product.

Group currently manages the credit and market risks arising from adverse movements in Gold prices by adopting the following strategies;

- Shorter product life: Group, as a credit risk management strategy lends for shorter periods allowing it to initiate its recovery process faster.
- Frequent revisions to Loan-to-Value (LTV) ratio : Group practices a process of revising advance offered per gold sovereign to reflect market value fluctuations to maintain the desired loan to value ratio.

5.4.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

5.4.4 EXCHANGE RATE RISK

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Exchange risk could materialize as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk.

Group is exposed to two types of risk caused by currency volatility.

Transaction risk –This risk arises whenever the Group has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. This type of exposure is short-term to medium-term in nature.

Translation risk – This exposure arises from the effect of currency fluctuations on the consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term.

5.4.5 INTEREST RATE SENSITIVITY

The following table demonstrates the impact on net interest income to a reasonably possible change in interest rates based on the assumption that a rate sensitive asset surplus would be subjected to reinvestment risk whereas a rate sensitive asset deficit would be subjected to funding risk.

Impact on Net Interest Income due to a parallel rate shock of 100 basis points (bps) on rate sensitive assets and liabilities is shown below;

Net Interest Income (NII) Sensitivity by Interest Rate Change

As at 31 March	2019		2018	
Impact on NII (Rs. '000)	**Parallel Increase 100 bps**	**Parallel Decrease 100 bps**	**Parallel Increase 100 bps**	**Parallel Decrease 100 bps**
Annual Impact	(+) 45,046	(-) 45,046	(-) 15,114	(+) 15,114

5.4.6 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

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

As at 31 March 2019 - Company	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Non-Interest Bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	3,167,514	-	-	-	-	873,072	4,040,586
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	6,866	6,866
Loans and Receivables	33,810,376	6,679,348	5,038,374	1,785,056	81,871	-	47,395,025
Lease Rentals Receivable and Stock out on Hire	9,576,758	16,130,295	30,826,521	9,458,788	58,067	-	66,050,429
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	89,710	89,710
Other Financial Assets	2,619,053	7,801,145	-	-	-	384,319	10,804,517
	49,173,701	30,610,788	35,864,895	11,243,844	139,938	1,353,967	128,387,133
Financial Liabilities							
Due to Banks	11,406,473	3,714,479	5,714,106	3,798,450	-	-	24,633,508
Financial Liabilities at Amortised Cost - Due to Depositors	28,145,642	37,242,556	14,832,852	2,993,899	-	-	83,214,949
Debt Instruments Issued and Other Borrowed Funds	118,594	(2,308)	(6,155)	2,997,652	-	-	3,107,783
Other Financial Liabilities	-	-	-	-	-	1,974,490	1,974,490
	39,670,709	40,954,727	20,540,803	9,790,001	-	1,974,490	112,930,730
Interest Sensitivity Gap	9,502,992	(10,343,939)	15,324,092	1,453,843	139,938	(620,523)	15,456,403

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

As at 31 March 2018 - Company	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Non-Interest Bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	5,080,579	-	-	-	-	793,796	5,874,375
Financial Investments - Held for Trading	-	-	-	-	-	9,682	9,682
Loans and Receivables	24,408,615	7,683,892	5,367,931	2,343,782	51,178	-	39,855,398
Lease Rentals Receivable and Stock out on Hire	8,864,049	15,464,800	29,962,900	8,151,043	46,894	-	62,489,686
Financial Investments - Available for Sale	-	-	-	-	-	121,624	121,624
Other Financial Assets	1,144,827	5,267,004	-	-	-	360,723	6,772,554
	39,498,070	28,415,696	35,330,831	10,494,825	98,072	1,285,825	115,123,319
Financial Liabilities							
Due to Banks	10,331,073	3,687,074	6,566,270	2,253,621	-	-	22,838,038
Due to Depositors	27,529,747	30,167,015	10,939,297	4,307,774	-	-	72,943,833
Debt Instruments Issued and Other Borrowed Funds	144,922	2,018,807	(5,877)	2,994,980	-	-	5,152,832
Other Financial Liabilities	-	-	-	-	-	1,761,418	1,761,418
	38,005,742	35,872,896	17,499,690	9,556,375	-	1,761,418	102,696,121
Interest Sensitivity Gap	1,492,328	(7,457,200)	17,831,141	938,450	98,072	(475,593)	12,427,198

5.4.6 (c) The table below analyses the Group's interest rate risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31 March 2019 - Group	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Non-Interest Bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	3,185,359	-	-	-	-	873,251	4,058,610
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	6,866	6,866
Loans and Receivables	33,902,278	6,906,862	5,097,638	1,785,056	81,871	-	47,773,705
Lease Rentals Receivable and Stock out on Hire	9,576,758	16,130,295	30,826,521	9,458,788	58,067	-	66,050,429
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	89,710	89,710
Other Financial Assets	2,609,209	7,801,145	-	-	-	384,319	10,794,673
	49,273,604	30,838,302	35,924,159	11,243,844	139,938	1,354,146	128,773,993
Financial Liabilities							
Due to Banks	11,406,473	3,714,479	5,714,106	3,798,450	-	-	24,633,508
Financial Liabilities at Amortised Cost - Due to Depositors	28,173,310	37,242,556	14,832,852	2,993,899	-	-	83,242,617
Debt Instruments Issued and Other Borrowed Funds	118,594	(2,308)	(6,155)	2,997,652	-	-	3,107,783
Other Financial Liabilities	-	-	-	-	-	1,974,490	1,974,490
	39,698,377	40,954,727	20,540,803	9,790,001	-	1,974,490	112,958,398
Interest Sensitivity Gap	9,575,227	(10,116,425)	15,383,356	1,453,843	139,938	(620,344)	15,815,595

5.4.6 (d) The table below analyses the Group's interest rate risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31 March 2018 - Group	Up to 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Non-Interest Bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets							
Cash and Cash Equivalents	5,080,579	-	-	-	-	909,716	5,990,295
Financial Investments - Held for Trading	-	-	-	-	-	9,682	9,682
Loans and Receivables	24,415,595	7,706,258	5,377,463	2,343,782	51,178	-	39,894,276
Lease Rentals Receivable and Stock out on Hire	8,864,049	15,464,800	29,962,900	8,151,043	46,894	-	62,489,686
Financial Investments - Available for Sale	-	-	-	-	-	121,624	121,624
Other Financial Assets	1,138,983	5,267,004	-	-	-	360,723	6,766,710
	39,499,206	28,438,062	35,340,363	10,494,825	98,072	1,401,745	115,272,273
Financial Liabilities							
Due to Banks	10,331,073	3,687,074	6,566,270	2,253,621	-	-	22,838,038
Due to Depositors	27,529,747	30,167,513	10,940,977	4,307,774	-	-	72,946,011
Debt Instruments Issued and Other Borrowed Funds	144,922	2,018,807	(5,877)	2,994,980	-	-	5,152,832
Other Financial Liabilities	-	-	-	-	-	1,761,418	1,761,418
	38,005,742	35,873,394	17,501,370	9,556,375	-	1,761,418	102,698,299
Interest Sensitivity Gap	1,493,464	(7,435,332)	17,838,993	938,450	98,072	(359,673)	12,573,974

5.5 CAPITAL ADEQUACY

For a financial institution, capital is a buffer against insolvency. It is available to absorb unforeseen losses which will assure the sustainability of the Group's operations so the Group can remain in business. The more capital the Group has relative to the risks it takes, the more confidence the stakeholders are that it will meet its obligations to them. Group's capital management process is steered with the aim of holding sufficient capital to support the Group's risk appetite whilst maintaining adequate capital to meet minimum regulatory capital requirements.

Regulatory Capital - Company

The Company manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies in Sri Lanka. Thus the Company's operations are directly supervised by the CBSL and the Company is required to comply Directions on Risk Weighted Capital Adequacy Ratio issued by CBSL. During the year under review existing capital adequacy framework was revised and changes were implemented requiring a higher capital charge for operational risks. Following the revision, the Licensed Finance Companies (LFCs) in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Capital Ratio (Tier 1) of atleast 6% upto 1 July 2019. LFCs with total assets equal or more than Rs.100 bn were defined as Domestic Systematically Important LFCs where a capital surcharge will be applicable on a staggered basis. Therefore L B Finance PLC as a Domestic Systematically Important LFC is required to maintain following minimum capital ratios within the stipulated time frames.

Components of Capital	1 July 2019	1 July 2020	1 July 2021
Tier 1 Capital (%)	7%	8%	10%
Total Capital (%)	11%	12%	14%

As of 31 March 2019, the Company has maintained Risk Weighted Capital Adequacy Ratios above the CBSL's minimum capital requirements.

We are INVESTED in Delivering Results

SECTION 06

Other Disclosures

6.1 RELATED PARTY DISCLOSURES

The Group carried out transactions with key management and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates except that the key management have availed facilities under the loan schemes uniformly applicable to all the staff.

The Company's parent undertaking is Vallibel One PLC. The Company's ultimate parent undertaking is Vallibel One PLC, which is incorporated in Sri Lanka. The Company's ultimate controlling party is Mr. Dhammika Perera.

Details of related party transactions during the year are as follows;

6.1.1 Transactions with Key Management Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Such KMPs include the Board of Directors of the Company (inclusive of executive and non-executive directors), KMPs of the subsidiary and KMPs of the parent company.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Short-Term Employment Benefits	342,422	322,391	342,422	322,391
Directors' Fees and Expenses	15,149	16,399	15,149	16,399
	357,571	338,790	357,571	338,790

In addition to the above, the Company has also paid non-cash benefits such as vehicles and fuel to Key Management Personnel in line with the approved employment benefits of the Company.

6.1.2 Transactions, Arrangements and Agreements Involving KMPs and Their Close Members of the Family (CMFs)

CMFs of KMPs are those family members who may be expected to influence, or be influenced by, those KMPs in their dealing with the entity.

		Company		Group	
		2019	2018	2019	2018
	Reported Under	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statement of Financial Position					
Liabilities					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	895,284	732,312	895,284	732,312
Savings Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	4,869	5,097	4,869	5,097
Dividend Payable	Other Non Financial Liabilities	3,764	-	3,764	-
		903,917	737,409	903,917	737,409
Income Statement					
Interest Expense on Customer Deposits	Interest Expenses	83,835	53,643	83,835	53,643
		83,835	53,643	83,835	53,643
Other Transactions					
Deposits Accepted During the Year		244,761	221,261	244,761	221,261
Dividend Paid on Shareholdings		1,567	4,232	1,567	4,232
		246,328	225,493	246,328	225,493

6.1.3 Transaction, Arrangements and Agreements Involving Entities which are Controlled, and/or Jointly Controlled by the KMPs and Their CMFs

	Reported Under	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Statement of Financial Position					
Assets					
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	205	245	205	245
Lease Rentals Receivable	Lease Rentals Receivable and Stock out on Hire	-	8,150	-	8,150
Leasehold Improvements	Property, Plant and Equipment	31,889	19,936	31,889	19,936
		32,094	28,331	32,094	28,331
Liabilities					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	104,743	9,361	104,743	9,361
Income Statement					
Interest Income on Lease and Vehicle Loans	Interest Income	2,111	113	2,111	113
Income on Operating Lease	Other Operating Income	24,088	19,866	24,088	19,866
Interest Expense on Customer Deposits	Interest Expenses	5,234	622	5,234	622
Dividend Income	Other Operating Income	8	-	8	-
		31,441	20,601	31,441	20,601
Other Transactions					
Deposits Accepted During the Year		90,000	900	90,000	900
		90,000	900	90,000	900

6.1.4 Transactions with Group Entities

The Group entities include the Parent, Fellow Subsidiaries and Associate companies of the parent.

Transactions with Parent Company	Reported Under	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Statement of Financial Position					
Liabilities					
Dividend Payable	Other Non Financial Liabilities	573,459	-	573,459	-
		573,459	-	573,459	-
Other Transactions					
Dividend Paid on Shareholdings		286,730	716,824	967,712	716,824
		286,730	716,824	967,712	716,824

Transactions with Subsidiary	Reported Under	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Statement of Financial Position					
Assets					
Investment in Equity Securities	Investment in Subsidiary	318,471	152,915	-	-
Due from Subsidiary	Other Financial Assets	9,844	5,844	-	-
		328,315	158,759	-	-

Transactions with Fellow Subsidiaries and Associate Companies of the Parent	Reported Under	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Statement of Financial Position					
Assets					
Leasehold Improvements	Property, Plant and Equipment	2,382	2,102	2,382	2,102
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	1,184	1,942	1,184	1,942
Investment in Equity Securities	Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	42,359	45,838	42,359	45,838
		45,925	49,882	45,925	49,882
Liabilities					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	112,664	67,473	112,664	67,473
Dividend Payable	Other Non Financial Liabilities	288,986	-	288,986	-
		401,650	67,473	401,650	67,473
Income Statement					
Dividend Income	Other Operating Income	4,379	-	4,379	-
Interest Expense on Customer Deposits	Interest Expenses	2,664	7,540	2,664	7,540
		7,043	7,540	7,043	7,540
Other Transactions					
Deposits Accepted During the Year		110,000	-	110,000	-
Dividend Paid on Shareholdings		144,493	314,272	144,493	314,272
		254,493	314,272	254,493	314,272

6.2 CAPITAL

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

Details of the regulatory capital requirements and compliance level are disclosed in Note 5.5 to these Financial Statements.

6.2.1 Capital Management

Objective

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

6.3 CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31 March	Company						Group					
	2019	2019	2019	2018	2018	2018	2019	2019	2019	2018	2018	2018
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets												
Cash and Cash Equivalents	4,040,586	-	4,040,586	5,874,375	-	5,874,375	4,058,610	-	4,058,610	5,990,295	-	5,990,295
Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	6,866	-	6,866	9,682	-	9,682	6,866	-	6,866	9,682	-	9,682
Loans and Receivables	35,784,930	11,610,095	47,395,025	29,573,537	10,281,861	39,855,398	36,104,345	11,669,360	47,773,705	29,602,883	10,291,393	39,894,276
Lease Rentals Receivable and Stock out on Hire	25,707,053	40,343,376	66,050,429	24,328,849	38,160,837	62,489,686	25,707,053	40,343,376	66,050,429	24,328,849	38,160,837	62,489,686
Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	89,710	-	89,710	121,624	-	121,624	89,710	-	89,710	121,624	-	121,624
Other Financial Assets	10,804,517	-	10,804,517	6,772,554	-	6,772,554	10,794,673	-	10,794,673	6,766,710	-	6,766,710
Other Non Financial Assets	938,421	128,939	1,067,360	706,126	109,682	815,808	944,126	128,939	1,073,065	706,781	109,682	816,463
Investment in Subsidiary	-	318,999	318,999	-	152,915	152,915	-	-	-	-	-	-
Property, Plant and Equipment	-	6,577,379	6,577,379	-	4,680,619	4,680,619	-	6,580,725	6,580,725	-	4,681,849	4,681,849
Intangible Assets	-	39,847	39,847	-	48,119	48,119	-	43,523	43,523	-	52,861	52,861
Total Assets	77,372,083	59,018,635	136,390,718	67,386,747	53,434,033	120,820,780	77,705,383	58,765,923	136,471,306	67,526,824	53,296,622	120,823,446
Liabilities												
Due to Banks	10,831,772	13,801,736	24,633,508	10,014,113	12,823,925	22,838,038	10,831,772	13,801,736	24,633,508	10,014,113	12,823,925	22,838,038
Financial Liabilities at Amortised Cost - Due to Depositors	65,388,198	17,826,751	83,214,949	57,696,763	15,247,070	72,943,833	65,415,866	17,826,751	83,242,617	57,697,261	15,248,750	72,946,011
Debt Instruments Issued and Other Borrowed Funds	116,286	2,991,497	3,107,783	2,163,729	2,989,103	5,152,832	116,286	2,991,497	3,107,783	2,163,729	2,989,103	5,152,832
Other Financial Liabilities	1,974,490	-	1,974,490	1,761,418	-	1,761,418	1,974,490	-	1,974,490	1,761,418	-	1,761,418
Other Non Financial Liabilities	2,070,632	-	2,070,632	852,715		852,715	2,075,791	-	2,075,791	853,165	-	853,165
Current Tax Liabilities	1,395,971	-	1,395,971	633,058		633,058	1,403,916	-	1,403,916	633,058	-	633,058
Deferred Tax Liabilities	-	1,309,722	1,309,722	-	1,058,750	1,058,750	-	1,309,722	1,309,722	-	1,058,750	1,058,750
Retirement Benefit Liability	-	256,512	256,512	-	231,240	231,240	-	256,512	256,512	-	231,240	231,240
Total Liabilities	81,777,349	36,186,218	117,963,567	73,121,796	32,350,088	105,471,884	81,818,121	36,186,218	118,004,339	73,122,744	32,351,768	105,474,512
Maturity Gap	(4,405,266)	22,832,417	18,427,151	(5,735,049)	21,083,945	15,348,896	(4,112,738)	22,579,705	18,466,967	(5,595,920)	20,944,854	15,348,934
Cumulative Gap	(4,405,266)	18,427,151	-	(5,735,049)	15,348,896	-	(4,112,738)	18,466,967	-	(5,595,920)	15,348,934	-

6.4 SEGMENTAL INFORMATION

Accounting Policy

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

For management purposes, the Company has identified operating segments based on products and services. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed on a Group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2018 or 2019.

There were no transactions between reportable segments in 2018 or 2019.

	Leasing and Stock out on Hire		Loans and Receivables		Others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	16,374,704	14,083,194	9,880,019	8,253,343	1,166,119	1,059,350	27,420,842	23,395,887
Less: Interest Expenses	6,877,528	6,323,456	4,661,763	3,925,159	1,413,864	1,249,845	12,953,155	11,498,460
Net Interest Income/(Expenses)	9,497,176	7,759,738	5,218,256	4,328,184	(247,745)	(190,495)	14,467,687	11,897,427
Fee and Commission Income	417,893	372,877	836,792	671,928	532,234	459,794	1,786,919	1,504,599
Net Trading Income and Other Operating Income	30,790	36,338	2,430	(534)	101,231	110,049	134,451	145,853
Total Operating Income	9,945,859	8,168,953	6,057,478	4,999,578	385,720	379,348	16,389,057	13,547,879
Less: Impairment Charges and Other Losses	632,703	266,087	353,146	399,600	-	2,318	985,849	668,005
Less: Gold Loan Auction Losses	-	-	1,043	2,995	-	-	1,043	2,995
Net Operating Income	9,313,156	7,902,866	5,703,289	4,596,983	385,720	377,030	15,402,165	12,876,879
Less: Other Costs	2,957,517	2,658,552	2,172,316	1,942,640	46,590	82,236	5,176,423	4,683,428
Less: Depreciation	235,340	203,041	194,407	174,413	7,182	7,283	436,929	384,737
Operating Profits Before Taxes	6,120,299	5,041,273	3,336,566	2,479,930	331,948	287,511	9,788,813	7,808,714
Less: Taxes							4,709,390	3,563,662
Profits for the Year							5,079,423	4,245,052
Less: Non-Controlling Interest							74	(17)
Profit Attributable to Equity Holders of the Company							5,079,349	4,245,069
Segmental Assets	69,998,723	65,499,301	50,628,482	41,930,487	15,844,101	13,393,658	136,471,306	120,823,446
Segmental Liabilities	60,525,911	57,250,824	43,778,484	36,669,639	13,699,944	11,554,049	118,004,339	105,474,512
Cash Flows from Operating Activities	(24,943)	1,674,240	(18,038)	1,071,793	(5,646)	342,358	(48,627)	3,088,391
Cash Flows from Investing Activities	3,762	5,316	2,721	3,403	1,243,315	775,669	1,249,798	784,388
Cash Flows from Financing Activities	(300,915)	289,342	(217,616)	185,227	(68,112)	59,166	(586,643)	533,735
Capital Expenditure								
Property, Plant and Equipment	(1,190,034)	(834,115)	(860,609)	(533,973)	(269,362)	(170,565)	(2,320,005)	(1,538,653)
Intangible Assets	(4,727)	(12,326)	(3,418)	(7,892)	(1,070)	(2,521)	(9,215)	(22,739)

6.5 COMMITMENTS AND CONTINGENCIES

Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

6.5.1 Contingent Liabilities

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Guarantees Issued to Banks and Other Institutions	5,270	6,500	5,270	6,500
Import LC and Ordinary Guarantees	-	38,069	-	38,069
Total Contingent Liabilities	5,270	44,569	5,270	44,569

6.5.2 Commitments

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitment for Unutilised Facilities	1,815,586	1,217,412	1,815,586	1,217,412
Total Commitments	1,815,586	1,217,412	1,815,586	1,217,412
Total Commitments and Contingencies	1,820,856	1,261,981	1,820,856	1,261,981
Allowance for Impairment	(7,358)	-	(7,358)	-
Net of Impairment	1,813,498	1,261,981	1,813,498	1,261,981

6.5.3 Litigation Against the Company

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. Based on the information currently available, the Board of Directors is of the opinion that the ultimate resolution of the litigations would not likely to have a material impact on the Group.

	Company		Group	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cases Pending Against the Company (Values Claimed)	39,260	89,518	39,260	89,518

6.6 NET ASSET VALUE PER SHARE

	Company 2019 Rs. '000	Company 2018 Rs. '000	Group 2019 Rs. '000	Group 2018 Rs. '000
Amounts Used as the Numerators:				
Total Equity Attributable to Equity Holders	18,427,703	15,348,896	18,466,967	15,348,475
Number of Ordinary Shares Used as Denominators:				
Total Number of Ordinary Shares in Issue	138,514,284	138,514,284	138,514,284	138,514,284
Net Asset Value per Share (Rs.)	133.03	110.81	133.32	110.81

6.7 ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

			Carrying Amount Pledged			
			Company		Group	
			2019	2018	2019	2018
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Nature of Assets	**Nature of Liability**	**Included Under**				
Lease Rentals Receivable and Stock out on Hire/ Loans and Receivables*	Bank Loans, Overdrafts, Syndicated Loans and Securitisation Loans	Lease Rentals Receivable and Stock out on Hire	28,094,634	26,511,882	28,094,634	26,511,882
Freehold Land and Building	Term Loans	Property, Plant and Equipment	1,181,848	130,199	1,181,848	130,199
			29,276,482	26,642,081	29,276,482	26,642,081

* The receivables and cash flows that have been included in bank loans, overdrafts, syndicated loans and securitisation loans are only available for payment of the debt and other obligations issued or arising in such transactions. However, the Group hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of such transactions. Gross amount of Lease Rentals Receivable, Stock out on Hire, Loans and Receivables which have been pledged as at reporting date is Rs. 38,262,132,821/- (2018 - Rs. 34,938,094,911/-).

6.8 COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to conform with the current year's classification in order to provide better presentation.

6.8.1 Income Statement

There were no reclassifications during the financial year.

6.8.2 Statement of Financial Position

There were no reclassifications during the financial year.

6.9 EVENTS OCCURRING AFTER THE REPORTING DATE

6.9.1 Final Dividend - 2018/19

Subsequent to the reporting date, the Board of Directors of the Company recommended the payment of a final dividend of Rs. 4.00 per share for the year ended 31 March 2019. This final dividend is yet to be approved at the Annual General Meeting to be held on 27 June 2019. In accordance with the Sri Lanka Accounting Standard – LKAS 10 (Events After the Reporting Period), this proposed final dividend has not been recognised as a liability as at 31 March 2019. Under the Inland Revenue Act No 24 of 2017, a withholding tax of 14% has been imposed on dividends declared.

No other circumstances have arisen subsequent to the reporting date which would require adjustment to or disclosure in the Financial Statements.

6.10 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Accounting Policy

Sri Lanka Accounting Standard - LKAS 07 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2019 are disclosed below together with the comparative figures for the year ended 31 March 2018.

The funds borrowed by the Company and the Group are given in Note 4.25 and Note 4.27.

	Company & Group	
	Syndicated Loans and Other Bank Facilities	Debt Instruments Issued and Other Borrowed Funds
	Rs. '000	Rs. '000
Balance as at 1 April 2018	21,552,682	5,152,832
Net cash flows from financing activities	1,351,115	(2,000,000)
Non cash changes		
Foreign exchange movements	-	-
Net accrual for interest expense	661,349	(45,049)
Balance as at 31 March 2019	23,565,146	3,107,783
Within 12 Months	9,763,410	116,205
After 12 Months	13,801,736	2,991,578
Total	23,565,146	3,107,783

	Company	
	Syndicated Loans and Other Bank Facilities	Debt Instruments Issued and Other Borrowed Funds
	Rs. '000	Rs. '000
Balance as at 1 April 2017	22,742,879	2,044,216
Net cash flows from financing activities	(1,283,559)	3,000,000
Non cash changes		
Foreign exchange movements	-	-
Net accrual for interest expense	93,362	108,616
Balance as at 31 March 2018	21,552,682	5,152,832
Within 12 Months	8,728,757	2,163,729
After 12 Months	12,823,925	2,989,103
Total	21,552,682	5,152,832

Section	Rule	Compliance/ non-compliance	Status of compliance
2 THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS			
2 (1) Strengthening the safety and soundness of the Company			
	(a) Approve, oversee and communicate the strategic objectives and corporate values	Complied	The Board provided leadership, set strategic aims and ensures that the necessary financial and human resources are in place for the Company to meet its objectives; Board-approved strategic objectives and corporate values have been derived from the Company's Vision and Mission and it has been communicated throughout the Company. The Board ensures that obligations to shareholders and others are understood and met. Company has established a three -year Strategic Plan- 2018/19 to 2020/21 and approved by the Board. This has been communicated to all the Directors, DGMs, AGMs, Senior Managers and other managers relevant to different operations of the company.
	(b) Approve the overall business strategy, including the overall risk policy and risk management	Complied	The Board approved the 'Strategic Plan' of the Company and established a framework of prudent and effective controls which enables risk to beassessed and managed; The Board reviews Company management performance at monthly Board meetings. The Risk Management Policy is with measurable goals, includes a well-developed risk appetite well-defined responsibilities for risk management in particular and control functions in general and was reviewed and recommended by the Integrated Risk Management Committee (IRMC) and approved by the Board.
	(c) Identifying and managing risk	Complied	The Board is responsible for overseeing a strong risk governance framework. The Board takes an active role in defining the risk appetite and ensuring its alignment with the Company's strategic, capital and financial plans and compensation practices. Integrated Risk Management Committee identifies risks related to credit, market, liquidity and operations and ensures that appropriate actions are taken to manage risks. The Committee submits a Risk Assessment Report to the Board within seven days of each meeting. The Risk Management Report on pages 177 to 196 provides further insight in this regard.
	(d) Communication policy with all stakeholders	Complied	The Board-approved communication policy is available and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders, borrowers and employees of the Company. The Company discloses information on a timely basis. In disclosing information, Company ensures the descriptiveness, detailed and forthcoming as possible, and avoids boilerplate disclosures.
	(e) Integrity of the internal control system and management information system.	Complied	The Board-ensures that the Management maintains a sound system of internal controls to safeguard shareholders' investments and the Company's assets. Internal controls are designed, among other things, to ensure that, each key operation has a policy, process or other measures, as well as a control to ensure that such policy, process or other measure is being applied and works as intended. A Board-approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control System and observations were monitored by the Board, which confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over financial reporting.

Section	Rule	Compliance/ non-compliance	Status of compliance
	(f) Identifying and designating Key Management Personnel.	Complied	The Board-identified Key Management Personnel according to the Sri Lanka Accounting Standards and as per the Direction issued by the Central Bank of Sri Lanka on Corporate Governance and the latter includes the Board of Directors, Chief Financial Officer, Chief Risk Officer, Assistant General Managers Treasury & Legal, Compliance Officer and Senior Manager Finance as Key Management Personnel (KMP). The Directors have been identified as KMPs as per the Accounting Standards.
	(g) Authority and responsibilities of the Board and Key Management Personnel.	Complied	The Board sets out clearly the role, responsibilities, accountability and reporting relationships of Key Management Personnel, and has these properly documented. The delegation of authority from the Board to the Key Management Personnel is formal and clear.
	(h) Oversight of affairs of the Company by Key Management Personnel.	Complied	Oversight of the affairs of the Company by its Key Managerial Persons takes place at the regular Board meetings and Subcommittee meetings and Key Management Personnel make regular presentations to the Board on matters under their preview
	(i) Periodically assess the effectiveness of its governance practices, including: i) selection, nomination, and election of directors and appointment of KMP. ii) management of conflicts of interests. iii) Determination of weaknesses and implementation of changes where necessary.	Complied	The Board has delegated the functions of selection and nomination of Directors to the Nomination Committee (NC). Directors' interests are disclosed to the Board at the start of every meeting. If a Director has an interest in a particular matter, he abstains from voting at such meeting and he is not counted in the quorum. The Board and the Board sub committees have a formal self-evaluation process annually in order to identify and rectify the weaknesses. A summary of these evaluation forms is submitted to the Board by the Company Secretaries for further recommendations.
	(j) Succession plan for Key Management Personnel.	Complied	The Company has a Board approved one-to-one succession plan in place for the Key Management Personnel.
	(k) Regular meetings with the Key Management Personnel.	Complied	The Key Managerial Persons regularly make presentations and participate in discussions on their areas of responsibility at the Board and its sub-committee meetings and progress towards corporate objectives is a regular agenda items for the Board where Key Management Personnel are involved regularly.

Section	Rule	Compliance/ non-compliance	Status of compliance
	(l) Understanding Regulatory environment.	Complied	The Board of Directors closely monitors regulatory compliances at monthly Board meetings by means of a regular monthly Board paper, presentations on compliance. Further, the Compliance Officer presents changes to the regulatory environment from time to time and any other necessary information to the Board. All Board members attend the Directors' and CEOs' forums arranged by the CBSL and the Management personnel of the Company maintain dialogues on an ongoing basis.
	(m) Hiring and oversight of External Auditors.	Complied	The Board Audit Committee is responsible for hiring and oversight of the External Auditors and on the recommendation of the Board. External Auditors are appointed by the shareholders of the Company at the AGM. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with the external audit.
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	Complied	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and there is a clear division of the documented functions and responsibilities of the Chairman, CEO and Board to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.
2 (3)	Directors' ability to seek independent professional advice.	Complied	The Directors are able to obtain independent professional advice as and when necessary at Company expense and the Board approved procedure is in place. However, no such instances have occurred during the year.
2 (4)	Dealing with conflicts of interests.	Complied	Article 97 of Articles of Association on 'Restrictions on Voting' evidences the procedure for a Director to abstain from voting on any Board resolution when there is conflict of interest and he/ she is not to be counted in the quorum. The Company Secretaries obtained disclosure of interest from Directors at every Board meeting and conflict of interest (if any) is managed based on this statement. Directors abstain from voting in such a situation and they are not counted in the quorum.
2 (5)	Formal schedule of matters specifically reserved for Board Decisions	Complied	The Board has adopted a policy for a formal schedule of matters specifically reserved for the Board. Present agenda of meeting ensures that the direction and the control of the Company is under the Board's control and authority
2 (6)	Situation on insolvency	Complied	The Board is aware of the need to inform the Director of the Department of Supervision of Non-Bank Financial Institutions and no such situation arose during the year and we do not visualise such situations in the foreseeable future
2 (7)	Publish corporate governance report in the Annual Report.	Complied	The Annual Corporate Governance Report has been published by the Company in the Annual Report 2018/19 on page 140.
2 (8)	Annual self-assessment by the Directors and maintenance of such records	Complied	The Company has adopted a scheme of self-assessment to be undertaken by each Director annually.

Section	Rule	Compliance/ non-compliance	Status of compliance
3 MEETINGS OF THE BOARD			
3 (1)	Regular Board meetings and circulation of written or electronic resolutions.	Complied	The Board meets regularly approximately at monthly intervals and special Board meetings are convened whenever necessary. The Board met on 12 occasions during the year 2018/19. The consent of the Board is usually obtained at meetings with due notice given with Board papers. Consent obtained by circulation has been kept at minimal.
3 (2)	Arrangements for Directors to include matters and proposals in the agenda.	Complied	All the members were given equal opportunities to include matters and proposals in the agenda and the procedures are in place for this. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals to the agenda
3 (3)	Notice of meetings.	Complied	Board meeting dates were agreed to by Board members in advance for the calendar year. Agenda and all Board papers are uploaded through a secure link to iPad for Directors to access seven days prior to the Board meetings.
3 (4)	Directors' attendance at Board meetings	Complied	All Directors have attended at least two-thirds of the meetings held during the year and no Director has been absent from three consecutive regular Board meetings during the year 2018/19. Directors' Attendance at Board and Subcommittee meetings, Refer pages 149 to 152 for details of individual Directors' attendance at Board meetings.
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	Complied	P W Corporate Secretarial (Pvt) Ltd., a company registered with the Registrar of Companies as a qualified secretary, handles the secretarial services to the Board and shareholder meetings and carries out other functions specified in related laws and regulations
3 (6)	Responsibility of preparation of agenda for a Board meeting.	Complied	Preparation of the agenda is delegated to the Company Secretary and is approved by the Chairperson.
3 (7)	Directors' access to advice and services of the Company Secretaries	Complied	A Board-approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed. Directors have separate and independent access to the Company Secretary.
3 (8)	Maintenance of Board minutes	Complied	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director. Additionally, the Directors have access to past Board papers and minutes through a secure electronic link.
3 (9)	Recording of Minutes of Board meetings in sufficient detail.	Complied	The Company Secretary maintains detailed minutes of Board meetings to satisfy all requirements of this direction. Minutes are approved by the Chairperson and the other members of the Board after making required amendments, if necessary

Section	Rule	Compliance/ non-compliance	Status of compliance
4 COMPOSITION OF THE BOARD			
4 (1)	The number of Directors	Complied	The Company's Board comprised of 10 Directors up to 31.08.2018 and then increased to 11 and continued up to 18.02.2019. Thereafter this number has again reduced to 10 which is within the statutory limit required by the direction. The objective of the Company is to maintain a healthy balance between Executive, Non-Executive and Independent Directors.
4 (2)	Period of service of a Director	Complied	The total period of service of all Non-Executive Directors does not exceed nine years. Details of their tenures of service are given on page ...
4 (3)	Board balance	Complied	Board balance was maintained throughout the year.
4 (4)	Independent Nonexecutive Directors and the criteria for independence.	Complied	There is a strong and independent element on the Board, with Independent Directors making up a one-fourth of the Board. The Board has three Independent Non-Executive Directors as per the definition of this Direction which is 1/4th of the Board. The Board evaluates independence of the Directors annually based on the Directors' self-declarations.
4 (5)	Appointment of Alternate Directors.	Complied	There were no Alternate Directors during the year 20178/19
4 (6)	Skills and experience of Non-Executive Directors.	Complied	Appointments are recommended by the Nomination Committee. The Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and their detailed profiles are on pages 18 to 23
4 (7)	More than half the quorum of Non-executive Directors in Board meetings.	Complied	All Board meetings held during the financial year were duly constituted with one-half of the number of Directors present and one half of the number of Directors constituting the quorum being Non-Executive Directors.
4 (8)	Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors.	Complied	The Independent Non-Executive Directors are expressly identified in all corporate communication that discloses the names of all Directors of the Company. Composition of the Board of Directors including the category of Directors has been disclosed on pages 18 to 19 In addition to the disclosures on profiles of Directors on pages 22 to 23.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Complied	The new appointments to the Board are based on the recommendations made by the Nomination Committee and there is a procedure in place for the succession of appointments to the Board. After this procedure the names are referred to the CBSL for approval prior to appointment
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment	Complied	All Directors appointed to the Board are subject to re-election by the shareholders at the first Annual General Meeting after their appointment and there were no casual vacancies during the year.
4 (11)	Communication of reasons for removal or resignation of Directors.	Complied	Resignation of Directors and their reasons are duly communicated to the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities. Appointment, removal or resignations of Directors are informed to shareholders, with immediate notification to the Colombo Stock Exchange (CSE).

Section	Rule	Compliance/ non-compliance	Status of compliance
5 CRITERIA TO ASSESS THE FITNESS AND HE PROPRIETY OF DIRECTORS			
5 (1)	The age of a Director shall not exceed 70 years	Complied	All the Directors are below the age of 70 years as at 31st March 2019.
5 (2)	Directors shall not hold office as a Director of more than 20 Companies / Societies / Corporate bodies including Associate and Subsidiary Companies	Complied	The total number of positions held as a Director or any other position in companies/entities/institutions inclusive of subsidiaries or associate companies of the Company is less than 20.
6 DELEGATION OF FUNCTIONS			
6 (1)	Delegation of work to the Management.	Complied	As per the Articles of Association the Board may delegate any of their powers to the Board-appointed committees, Managing Director, Executive Directors and Key Management Personnel upon such terms and conditions. All delegations are made in a manner that it would not hinder the Board's ability to discharge its functions.
6 (2)	Periodical evaluations of the delegation process	Complied	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.
7 THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER			
7 (1)	Division of responsibilities of the Chairman and CEO	Complied	There exists a clear separation of duties between the roles of the Chairman and the CEO/Managing Director.
7 (2)	Chairman preferably an Independent Nonexecutive Director and if not appoint a Senior Director	Complied	Chairperson is a Non-Independent Non-Executive Director.
7 (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members	Complied	The Board has adopted a formal procedure to identify and disclose the relationships between the CEO and the Chairperson and among other Directors. Accordingly, the Board has declared that there are no material relationships [including financial, business, family or other material/relevant relationship(s)] between the Chairperson and Chief Executive Officer/Managing Director and among the members of the Board which will impair their respective roles. Details of the Chairperson and Chief Executive Officer are disclosed in the Annual Report on page 20.

Section	Rule	Compliance/ non-compliance	Status of compliance
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied	Board-approved list of functions and responsibilities of Chairperson includes 'Providing Leadership to the Board' as a responsibility of the Chairperson. The Board as a body worked effectively and discharged its responsibility as set out in the Annual Report. The annual self-assessment of the Board includes a criterion that evaluates the effectiveness of the Chairman in facilitating the Board's discharge of its responsibilities. All key and appropriate issues are discussed by the Board on a timely basis
7 (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary	Complied	Preparation of the agenda has been delegated to the Company Secretary who circulates a formal agenda prior to the Board meeting which is approved by the Chairperson.
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner	Complied	The Chairperson ensures that all Directors are properly briefed on issues arising at Board meetings through submission of agenda and Board papers with sufficient time prior to meeting
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interests of the Company	Complied	All Directors actively participate in Board affairs and the Board acts in the best interests of the Company.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	Complied	Executive and Non-Executive Directors work together in the best interests of the Company. Non-Executive Directors participate in Board sub-committees. This process is further strengthened through the annual self-evaluation of the Board and Board Sub Committees where views of all Directors are canvassed in respect of the performance of the Board and Sub Committees as a whole.
7 (9)	Refrain from direct supervision of Key Management Personnel or executive duties	Complied	Chairperson does not directly get involved in the supervision of Key Management Personnel or any other executive duties.
7 (10)	Maintain effective communication with shareholders.	Complied	The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with shareholders and they are given the opportunity to take up matters for which clarification is needed and also their views are communicated to the Board. Further, the Board approved communication policy evidences the Company's process in this regard.

Section	Rule	Compliance/ non-compliance	Status of compliance
7 (11)	Chief Executive Officer functions as the apex executive-incharge of the day-to-day operations and businesses.	Complied	In terms of duties and responsibilities of the CEO, he is the apex executive of the Company who is responsible for day-to-day operations of the Company with the assistance of Executive Directors and members of the Corporate Management and is accountable to the Board to recommend the Company's strategy implementation and ensure appropriate internal controls are in place to assess and manage risks.
8 BOARD APPOINTED COMMITTEES			
8 (1)	Establishing Board committees, their functions and reporting.	Complied	The following committees have been appointed by the Board and each such committee is required to report to the Board: 1. Remuneration Committee 2. Integrated Risk Management Committee 3. Nomination Committee 4. Audit Committee 5. Related Party Transactions Review Committee Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented report on the performance, duties and functions of each committee in the Annual Report.
8 (2)	Audit Committee		
	(a) The Chairman to be a Nonexecutive Director with relevant qualifications and experience	Complied	The Chairperson of the Audit Committee Mrs. Yogadinusha Bhaskaran is a Non-Executive Director and a fellow member of the Chartered Institute of Management Accountants (UK) of Sri Lanka. Qualifications and experience are disclosed on page 22 of this Annual Report.
	(b) All members of the Committee to be Non-Executive Directors	Complied	All the members of the Audit Committee are Non-Executive Directors.
	(c) Functions of the committee include; (i) the appointment of the External Auditors (ii) the implementation of the Central Bank Guidelines. (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor;	Complied	The Audit Committee has recommended; The re-appointment of M/s. Ernst & Young, Chartered Accountants as External Auditors for audit services; The implementation of guidelines issued by Central Bank of Sri Lanka to auditors from time to time. The application of Accounting Standards in consultation with the Chief Financial Officer and External Auditors; The service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. No resignation or dismissal of the Auditor has taken place during the year under review. The Committee ensures that the requirement of rotation of External Audit Engagement Partner, once in every five (5) years, is met.
	(d) Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes.	Complied	The External Auditor has provided an independent confirmation in compliance with the guidelines for appointment of Auditors of Listed Companies. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations and guidelines

Section	Rule	Compliance/ non-compliance	Status of compliance
	(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering; (i) skills and experience of the Auditor (ii) threat to the independence (iii) fee for the non-audit services and independence	Complied	The Audit Committee with the approval of the Board of Directors developed and implemented a policy for engagement of Auditors to provide non-audit services in order to ensure that the non-audit services do not impair the independence and objectivity of the External Auditors. The said policy addresses the skills and experience of the Auditor, threat to the independence and fee for the non-audit services and independency.
	(f) Determines the nature and the scope of the External Audit.	Complied	The Auditors make a presentation at the Audit Committee meeting with details of the proposed audit plan and the scope. Members of the Audit Committee obtain clarifications in respect of the contents of the presentation, if deemed necessary
	(g) Review the financial information of the Company	Complied	Quarterly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit judgments in the Financial Statements, going concern assumption and compliance with Accounting Standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.
	(h) Meeting of External Auditors to discuss issues and problems of Interim and Final audits in the absence of Key Management Personnel (if necessary)	Complied	The Committee met the External Auditors without the presence of the Executive Directors and Corporate Management twice during the financial year 2018/19.
	(i) Reviewing of the External Auditors' management letter and the response thereto	Complied	Upon receipt of the management letter, Auditors are invited to make a presentation at the Audit Committee with the responses of the corporate Management to discuss the significant findings which have arisen during the audit and instructions are given to Department Heads to take remedial actions, if necessary

Section	Rule	Compliance/ non-compliance	Status of compliance
	(j) Review of the Internal Audit Function - Review scope, function and resources - Review of Internal Audit Program - Review of Internal Audit Department - Recommendations on Internal Audit functions - Appraise the resignation of senior staff of Internal Audit and any outsourced service providers - Independence of Internal Audit functions	Complied	The Audit Committee has reviewed the information provided in the risk-based audit plan and concluded that scope, functions and resources of the Internal Audit Department are sufficient to carry out its functions. The Audit Committee has reviewed and approved the Internal Audit Program. The Company's internal audit functions were outsourced and are carried out by two independent professional audit firms till February 2019 and one Independent Audit firm from March 2019 onward and the audit reports were discussed at the Audit Committee meetings. Internal Auditors (outsourced) reports directly to the Audit Committee. Hence, it is independent and the audits are performed with due care. The Audit Committee has carried out a performance appraisal of the Internal Audit.
	(k) Consideration about the internal investigations and Management's responses.	Complied	Whenever a need arises, the Audit Committee assigns special internal investigations on certain matters and reviews major findings with the management responses and ensures that the recommendations are implemented. However, the need for an internal investigation on major findings has not arisen during the year.
	(l) Attendees of Audit Committee meeting with corporate Management and External Auditors.	Complied	The Committee met twice with the External Auditors without the presence of Executive Directors. The Managing Director/CEO, Executive Directors, Chief Financial Officer, Chief Risk Officer, Compliance Officer, AGM IT and AGM Treasury, Information System (IS) Auditor and the Internal Auditors normally attend all meetings. Where it is deemed necessary, members of the corporate management may also attend meetings by invitation.
	(m) Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary	Complied	The Audit Committee is guided by a Board-approved terms of reference which sets out authority and responsibility of the said Committee. The Audit Committee is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.
	(n) Regular meetings	Complied	The Committee meets regularly and the audit reports were issued to its members in advance and the minutes of the meetings maintained by the Company Secretary. The Committee has met 15 times during the year and the attendance at those meetings is set out on page 152 in Audit Committee Report
	(o) Disclosures in the Annual Report.	Complied	The Report of the Board Audit Committee is on page 171 and includes the detailed activities, meetings held during the year and the Directors attendance at the Audit Committee Meetings.
	(p) Maintain minutes of meetings	Complied	The Company Secretary acts as the Secretary of the Audit Committee and records and maintains all minutes of the meetings

Section	Rule	Compliance/ non-compliance	Status of compliance
	(q) Whistle blower Policy	Complied	The Company has a Board-approved Whistle blowing Policy whereby employees of the Company are entitled to raise concerns in confidence about the malpractices in the Company.
8 (3)	Integrated Risk Management		
	(a) The composition of IRMC	Complied	Composition of the IRMC: Three Non-Executive Directors, three Executive Directors including Managing Director / CEO and other Key Management Personnel, namely Chief Financial Officer, AGM Treasury, DGM Strategy & Digital Finance and Compliance Officer.
	(b) Periodical risk assessment	Complied	The Committee has a Board-approved Risk Management Policy which provides a framework for management and assessment of risk based on a rating linked to the risk score. According to that pre-established risk indicators are reviewed by the Committee on a quarterly basis. The Committee has a process to assess and evaluate the risk and the findings and reviews submitted to the Board quarterly.
	(c) Review the adequacy and effectiveness of Management level committees to manage risk.	Complied	The Committee reviews the adequacy and effectiveness in addressing specific risk and managing the same within the quantitative and qualitative risk limits set by such respective committees such as Asset and Liability Management Committee and Credit Committee.
	(d) Corrective action to mitigate the risk	Complied	The risk indicators introduced have been reviewed against the benchmark and prompt corrective actions are taken to mitigate the effects of such risks that are at level beyond the prudent levels decided by the committee. Review of this process is minuted at the IRMC for their review and action if deemed necessary.
	(e) Frequency of meetings	Complied	The Committee has met four times during the year to assess the risks of the Company.
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions	Complied	Committee refers such matters, if any, to the HR Department for necessary action. However, the specific risk and limits identified by the Risk Management Committee and such decisions are taken collectively
	(g) Risk assessment report to the Board	Complied	The Committee had kept the Board informed of their risk assessment of the Company by forwarding a risk report.
	(h) Establishment of a compliance function	Complied	An independent compliance function is established as second line of defence. This function is responsible for, among other things, ensuring that the Company operates with integrity and in compliance with applicable, laws, regulations and internal policies. Dedicated compliance officer appointed with sufficient authority, stature, independence, resources and access to the Board.

Section	Rule	Compliance/ non-compliance	Status of compliance
9 RELATED PARTY TRANSACTIONS			
9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	Complied	The Related Party Transactions Policy is in place which describes the related parties, types of related party transactions and stipulates that no Director shall participate in any discussion of a proposed related party transaction for which he or she is a related party, provided however he or she may participate in discussion to express, propose and providing information concerning to Related Party Transaction to the committee. The Board appointed Related Party Transactions Review Committee ensures that the transactions with Related Parties are in accordance with best practices. A system for monitoring and reporting of data pertaining to such transactions has been established by the Company during the year and through that system the Company ensures that no favorable transaction has been entered in to with such parties. Transactions carried out with Related Parties in the ordinary course of business (Recurrent transactions) are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 6.1 on page 328 in Financial Statements.
9 (3)	Related party transactions.	Complied	A Board-approved process is in place to identify the related party transactions and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis.
9 (4)	Monitoring of related party transactions defined as more favorable treatment including, (a) Granting accommodation in excess of prudent percentage of regulatory capital (b) Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counterparty (c) Allowing preferential treatment compared to unrelated parties in the normal course of business (d) Providing or obtaining services without proper evaluation (f) Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties.	Complied	The Board-approved Related Party Transactions Policy contains provisions to ensure compliance and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis. The Company has developed a separate system to monitor Related Party Transactions through the IT network, to ensure that related party transactions are not entered into on more favourable terms than those offered to others, and where applicable relevant approvals of the Related Party Transactions Review Committee/Board are obtained.

Section	Rule	Compliance/ non-compliance	Status of compliance
10 DISCLOSURES			
10 (1)	Publish Interim and Annual Financial Statements based on applicable accounting standards and publish in Sinhala, Tamil and English newspapers.	Complied	Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements are published in the newspapers, in all three languages.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report; (a) A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	Compliance with applicable accounting standards and regulatory requirements has been reported under the "Statement of Directors' Responsibility for Financial Reporting" on page 215
	(b) A report by the Board on the finance company's internal control mechanism.	Complied	Directors' Responsibility Statement on Internal Control Systems Over Financial Reporting is given on page 214
	(c) The External Auditors' certification on the effectiveness of the internal control mechanism.	Complied	The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism.

Section	Rule	Compliance/ non-compliance	Status of compliance
	(d) Details of Directors and the transactions with the finance company	Complied	**Transaction with KMP**
	(e) Fees/remuneration paid by the finance company to the Directors in aggregate.	Complied	
	(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds	Complied	

Compensation of KMP – Company

For the year ended	2017/2018 Rs.	2018/2019 Rs.
Short-term employment benefits		
Directors	338,790,257.68	357,571,487.37
KMPS	43,165,396.90	47,152,956.67
Post-employment benefits		
Directors		
KMPS	1,904,243.25	Not Paid
Total	**383,859,897.83**	**404,724,444.04**

Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner. CFM are related parties to the Company

Statement of Financial Position – Company

For the year ended	Year end balance 2017/2018 Rs.	Year end balance 2018/2019 Rs.
Assets		
Loans and advances	3,257,723.87	9,590,304.35
Total	3,257,723.87	9,590,304.35
Liabilities		
Deposits	762,510,780	927,774,658.70
Securities sold under repurchase agreements	-	-
Debentures	-	-
Total	**762,510,780**	**927,774,658.70**

Section	Rule	Compliance/ non-compliance	Status of compliance
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.	Complied	**Commitments and contingencies – Company**

Commitments and contingencies – Company

For the year ended	Year end balance 2017/2018 Rs.	Year end balance 2018/2019 Rs.
Undrawn facilities	-	-
Total	**-**	**-**

Share-based transactions of KMP and CFM

For the year ended	Average balance 2017/2018	Average balance 2018/2019
Number of ordinary shares held	446,177	431,050
Dividends paid (in Rs. '000)	4,232,306.00	5,330,220.00

Total accommodations granted to each category of related parties and as a percentage of the company's regulatory capital

Category of related party transactions	2017/2018 Rs. '000	percentage of the regulatory capital	2018/2019 Rs. '000	percentage of the regulatory capital
Directors	-	0%	-	0%
KMP				
Non-Executive Directors and their close family members	-	0%	-	0%
Key Management Personnel and their close family members (Includes the Executive Director)	3,257,723.87	0.021%	9,590,304.35	0.052%
Subsidiaries	-	0%	-	0%
Joint Venture	-	0%	-	0%
Entities which Directors and their close family members have a substantial interest	8,105,281.02	0.053%	-	0%
Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	-	0%	-	0%

Section	Rule	Compliance/ non-compliance	Status of compliance
	(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls	Complied	This has been disclosed on page 166 There were no significant lapses in the Company's Risk Management or non-compliance with this Direction that have been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and/or directed to be disclosed to the public by the Monetary Board. The Company has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Direction.
	(i) Non-Compliance reporting	Complied	
	(j) The External Auditors' certification of compliance with the corporate governance direction.	Complied	

COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017 ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Code Reference	Compliance and implementation	Status of compliance	Complied
A DIRECTORS			
A.1	The Board	The Board comprised 10 Directors as at 31st March 2019, five of whom functioned in Non-Executive capacity, having the required professional competence, skills and experience in the fields of entrepreneurship, banking and finance, legal and marketing to lead and control the Company. The Board gives leadership in setting the strategic direction and implement sound control environment for the successful functioning of the Company. Directors are elected by shareholders at the AGMs with the exception of the Executive Directors who are appointed by the Board and remain as Executive Directors until retirement, resignation or termination of such appointment.	√
A.1.1	Regular meetings	The Board usually meets at monthly intervals and special Board meetings are convened whenever necessary. The Board met twelve (12) times during the year. Attendance at meetings is summarized on page 149	√
A.1.2	Role and responsibilities of the Board	Formulation and implementation of a sound business strategy. The Board engages in providing direction in formulating a sound business strategy and closely monitors the implementation of the strategy effectively. A Strategic Plan has been developed covering five years from 2017-2021 and was approved by the Board.	√
A.1.3	Act in accordance with laws	The Board collectively and Directors individually, recognize their duty to comply with laws of the country. The Board of Directors ensures that procedures and processes are in place to ensure that the Company complies with all applicable laws and regulations. In order to preserve the independence of the Board and to strengthen the decision-making, the Board seeks independent professional advice when deemed necessary.	√
A.1.4	Access to advice and services of Company Secretary	All Directors have access to the Company Secretary, a company registered as a qualified Secretary. Their services are available to all Directors and they advise the Board on corporate governance matters, Board procedures and applicable rules and regulations	√

Code Reference	Compliance and implementation	Status of compliance	Complied
A.1.5	Independent judgment	All Directors are responsible for bringing independent judgment on issues of strategy, performance, resources and standard of business conduct. Non-Executive Directors are responsible for providing independent judgment on the proposals made by the Managing Director and Executive Directors.	√
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	Every Director has dedicated adequate time and effort to the meetings of the Board and sub-committee meetings to ensure that the duties and responsibilities are satisfactorily discharged and all the Board papers are loaded through a secure link to the iPad at least seven days prior to the Board meetings for the Directors to access prior to the Board Meeting.	√
A.1.7	If necessary in the best interest of the Company, one-third of the Directors can call for a resolution to be presented to the Board.	Necessity did not arise during the year	√
A.1.8	Board induction and training	Every Director was given appropriate induction when first appointed to the Board with regard to the affairs of the Company and laws and regulations applicable to the Company. It is mandatory for the Directors to attend Director Forums organised by the CBSL. Further the Corporate Management and external experts make presentations with regard to the business environment to update the knowledge.	√
A.2	Separating the business of the Board from the executive responsibilities for management of the Company	The positions of Chairperson and the Managing Director/CEO have been separated in line with best practices with a view to maintain the balance of power and authority. The Chairperson is an Independent Non-Executive Director. Managing Director/CEO is conferred with executive authority to manage the business.	√
A.3	Chairman's role in preserving good corporate governance	The Chairperson provides leadership to the Board, ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	√
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance	The Chairperson of the Audit Committee is a Fellow member of The Chartered Institute of Management Accountants of UK and the Chairman of the Integrated Risk Management Committee and is also a Fellow member of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the CIMA-UK. Further the Non-Executive Director and an Executive Director are qualified finance professionals with experience in finance and management. The remaining members of the Board also possess experience in finance and banking thus there is sufficient financial acumen and knowledge within the Board to offer guidance on matters of finance. The profiles of the Board of Directors are given on page 20 to 23.	√

Code Reference	Compliance and implementation	Status of compliance	Complied
A.5	Board balance	It is preferable for the Board to have a balance of Executive and Nonexecutive Directors as such that no individual or small group can dominate the Board's decision-taking. The Board should include at least two Non-Executive Directors or one-third of total Directors whichever is higher. During the financial year under review, the Board comprised Six (6) Non-executive Directors and Five (5) Executive Directors facilitating the required balance within the Board (Non-executive Directors as at 31.03.2019 – 05) Two or one-third of Non-Executive Directors whichever is higher should be independent. The Board has determined four (4) out of five (5) Non-Executive Directors are Independent as per this Code. Evaluation of independence of Non-Executive Directors. The Board evaluates the Independence yearly using annual declarations submitted by the Directors according to the Code criteria. Signed declaration of independence by the Non-Executive Directors All Non-Executive Directors provided the signed declarations of independence for 2018/19 as per Schedule K of the Code. Determination of the Independence and Non-Independence of each Non-Executive Director annually. The Board has reviewed the declarations submitted by the Non-Executive Directors, and determined their independence. If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive Director and if an Alternate Director is appointed by an Independent Director, the person who is appointed also should meet the criteria of independence. No Alternate Directors were appointed during the year. Senior Independent Director (SID). Confidential discussion with other Directors by the SID. The requirement to appoint a 'Senior Independent Director' does not arise under the Code in view of the roles of the Chairman and the CEO being held by two different individuals. Hence, no 'Senior Independent Director' was appointed during the year 2018/2019. Meetings held by the Chairman with Non-Executive Directors. The Chairperson held meetings with Non-Executive Directors. Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved. There were no instances where the Directors could not unanimously resolve matters and accordingly no such matters were recorded in the minutes.	√

Code Reference	Compliance and implementation	Status of compliance	Complied
A.6	Provision of appropriate and timely information	The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties. Management should provide timely information to the Board. Timely and accurate information is provided by the Management to the Board generally seven days prior to the Board meetings. The members of Corporate Management make presentations to the Directors on important issues relating to the financial performance, strategy, risk, systems and procedures. The minutes, agenda and papers required for a Board meeting should be provided before seven (7) days. Board papers are uploaded through a secure link to the iPad for the Directors to access seven (7) days prior to the Board meeting.	√
A.7	Appointments to the Board and reelection	Nomination Committee. The Nomination Committee makes recommendations to the Board on all new appointments to the Board. The Committee was set up pursuant to the Code of Best Practice on Corporate Governance. The report of the Nomination Committee is given on page 169 of the Annual Report. Assessment of Board composition by the Nomination Committee. The Nomination Committee reviews the new appointments and re-elections to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications. Disclosure requirements when appointing of new Directors to the Board. Details of new Directors are disclosed to the shareholders at the time of their appointment by way of announcements made to the Colombo Stock Exchange as well as in the Annual Report. Prior approval for appointment of new Directors is obtained from the Director of Department of Supervision of Non-Bank Financial Institutions and notification is sent to Colombo Stock Exchange. All new appointments are reviewed by the Nomination Committee.	√
A.8	All Directors should submit themselves for reelection at regular intervals	All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years. Re-election of Directors. At each Annual General Meeting one-third of the Non-Executive Directors for the time being who are subject to retirement, or, if their number is not a multiple of three, the number nearest to (but not greater than) one third, retire and seek re-election by the shareholders. The provisions of the Company’s Articles of Association also require Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at that meeting.	√

Code Reference	Compliance and implementation	Status of compliance	Complied
A.9	Appraisal of Board and committee performance	Appraisal of Board performance. The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill Board Performance Evaluation Forms in line with this Section of the Code. The responses are reviewed by the Company Secretary who collates them and submits is to the Board for necessary action as appropriate as decided by the Board. Annual self-evaluation by the Board of its sub-committees. The appraisal of the performance of sub-committees is presented to the Board. Disclosure in the Annual Report about the Board's performance evaluation methodology. Board approved procedure is in place	√
A.10	Annual Report to disclose specified information regarding Directors	Shareholders should be kept advised of relevant details in respect of Directors. Annual Report disclosure in respect of Directors. Profiles of the Board of Directors are given on pages 20 to 23 including other directorships held by the Directors and memberships of Board Committees. Directors' attendance is disclosed on page 149	√
A.11	Appraisal of the CEO	The Board should require at least annually assessing the performance of the CEO. Targets for CEO at the commencement of each financial year. CEO/ Managing Director's performance targets are aligned with business strategies of the Company. Targets are set at the beginning of every financial year by the Board which is in line with the short- medium- and long-term objectives of the Company. Evaluation of the performance at the end of fiscal year. At the end of each financial year the Board evaluates the set targets and the actual performance.	√
B DIRECTOR'S REMUNERATION			
B.1	Directors' and executive remuneration	The Company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Directors should be involved in deciding his/her own remuneration. Setting up of Remuneration Committee. The functions of the Committee include determination of compensation and benefits of the Managing Director/CEO and Executive Directors while ensuring that no Director is involved in setting his/her own remuneration. Composition of Remuneration Committee Composition of Remuneration Committee is in line with Listing Rules. All are Independent Non-Executive Directors as per the Code and the Listing Rules of the CSE. Disclosure in the Annual Report about the Remuneration Committee members. Remuneration Committee report is given on page 168 of the Annual Report. Remuneration of Non-Executive Directors. The Non-Executive Directors receive a fee for being a Director of the Board and additional fee whenever they serve on Board sub-committees and their fee structure is decided by the Board Remuneration Committee consults the Chairperson/ MD on matters relating to the Remuneration Committee, Executive Directors and access to the professional advice. The Committee consults the Managing Director when recommending the remuneration of other Executive Directors and also has access to professional advice when deemed necessary.	√

Code Reference	Compliance and implementation	Status of compliance	Complied
B.2	Level and make-up of remuneration	Level of remuneration of both the Executive and the Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to corporate and individual performance. Remuneration of Executive Directors. Remuneration of Executive Directors consists of performance based incentive payment to attract, retain and motivate them. Remuneration packages in line with industry practices. The Remuneration Committee reviews the information relating to competitors of the Company and due care is taken to ensure that remuneration is on par with industry standards. Remuneration packages in line with other companies in the Group. Size and scale of the Company's operations are not comparable with other Group Companies and therefore guidance could not be drawn from them. Performance-related payments to Executive Directors. There are performance-related elements of remuneration for Executive Directors with the objective of providing appropriate incentives to those Directors to perform at the highest level. Executive Share Option. There are no Share Option schemes offered by the Company Designing schemes of performance related remuneration. In deciding the remuneration of the Managing Director, Executive Directors and Senior Management, the Company takes note of the provisions set out in Schedule E. Early termination of service of Directors. Consideration of termination of service of the Executive Directors will be in accordance with their contract of service. Remuneration of Non-Executive Directors. Non-Executive Directors are remunerated by the Company considering the time commitment, responsibilities of the role and the market practices. The Company has not offered any Share Option plans to either Executive Directors or Non-Executive Directors.	√
B.3	Disclosures related to remuneration in Annual Report	Annual Report of the Company should contain a statement of Remuneration Policy and details of remuneration of the Board as a whole. Disclosure in the Annual Report about the Remuneration Committee members, statement of Remuneration Policy and aggregate remuneration paid. Remuneration Committee report is given on page 168 which sets out the details on the composition of Committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 6.1.1 to the Financial Statements on page 328.	√

Code Reference	Compliance and implementation	Status of compliance	Complied
C RELATIONS WITH SHAREHOLDERS			
C.1	Constructive use of the AGM and conduct of other general meetings	The Board should use the AGM to communicate with shareholders and should encourage their participation. Use of proxy votes. The Company has recorded all proxy votes for each resolution prior to the general meeting. Separate resolutions for separate issues. Separate resolutions are placed before shareholders for each substantial matters that require approval of shareholders at the Annual General Meetings (AGM). Arrangement made by the Chairman of the Board that all Chairmen of Subcommittees make themselves available at the AGM. The Board includes the Chairman of the Audit, Remuneration, Integrated Risk Management and Nomination Committees, and they are available at the AGM to answer any questions. Adequate notice for the AGM to the shareholders. The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders 15 working days prior to the date of the AGM as stipulated by the Companies Act. Procedures of voting at general meetings. Shareholders right to appoint a proxy for voting at AGM appears on Notice of Meeting and on the Form of Proxy. Voting procedures at general meetings appear on the Form of Proxy.	√

Code Reference	Compliance and implementation	Status of compliance	Complied
C.2	Communication with shareholders	Channel to reach all shareholders to disseminate timely information. There are many channels of communication for engaging with shareholders. These include press releases and notices and required disclosures to the CSE which are published on the CSE website. The quarterly Interim Financial Statements are disseminated to the CSE within 45 days, the exception being for the last quarter of the financial year where the Company has 60 days to publish those accounts. Half yearly Financial Statements are published in daily newspapers in all three languages as per the Finance Companies Guidelines No. 2 of 2006. Notice of Annual General Meeting is circulated together with the Annual Report and Accounts which includes any other special business (if any) to be transacted at the AGM. Where necessary Extra Ordinary General meetings are convened after giving statutory notice to all shareholders. Annual General Meeting provides a platform for shareholders to discuss and seek clarification on the activities of the Company. Policy and methodology of communicating. The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided. Refer Stakeholder engagement on page 56 in the Annual Report. Implementation of the communication policy and methodology. Shareholders receive the Annual Report from the Company either by way of a CD or in hard copy form. Shareholders may at any time elect to receive the Annual Report from the Company in printed form without any charge. Contact person. Shareholders may, at any time, direct questions and request for publicly available information from the Directors or Management of the Company. Awareness of Directors on major issues and concerns of shareholders. The Company Secretary maintains a record of all correspondence received and will deliver as soon as practicable such correspondence, which require Board attention to the Board or individual Director/s as applicable. Contact person for shareholders. Company Secretary can be contacted for any queries of shareholders. Process for responding to shareholders. Company has a Board-approved communication policy addressing this.	√
C.3	Disclosure of major and material transactions	Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company. Major transactions. During the year, the Company did not engage in or commit any major transactions which materially affected the Company’s net asset base	√

Code Reference	Compliance and implementation	Status of compliance	Complied
D ACCOUNTABILITY AND AUDIT			
D.1	Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects	The Board should present a balanced and an understandable assessment of the Company's financial position and prospects. Board should present interim and other price sensitive information to the public and reports to regulators. The Company has reported a true and fair view of its financial position and performance for the year ended on 31st March 2019 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner. Directors' Report in the Annual Report. Annual Report of the Board of Directors on the affairs of the Company is given on page 159 covering all areas of this section. Annual Report disclosure stating Board's and Auditors' responsibility Statement of Directors' Responsibility for Financial Reporting is given on page 215 and Auditors responsibility given in the Auditors' Report to the Internal Control is given on page 214 respectively. Management discussion and analysis. Management discussion and analysis is given on page 42 Information Required Page Industry structure and developments...48 Opportunities and threats........................... 55 Risks and concerns....................................177 Internal control systems and their adequacy................. 73 Social and environmental protection activities carried out by the Company .... 378 Financial performance .... 72 Material developments in human resource/industrial relations and ....98 Prospects for the future .... 102 Disclosure of Related Party Transactions. A detailed Board-approved documented process is available in the Company for monitoring and reporting of Related Party Transactions. The Company Secretary makes necessary disclosures of any Related Party Transactions which require disclosure as per the rules. All related party transactions as defined in Sri Lanka Accounting Standard – 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 6.1 to the Financial Statements on pages 328. Directors' assumption on the going concern of the business. This is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 159. Serious loss of capital. No such circumstance occurred, and its likelihood of occurrence is also remote.	√

Code Reference	Compliance and implementation	Status of compliance	Complied
D.2	Process of risk management and a sound system of internal control to safeguard shareholders' investments and the company's assets	The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Company. The IRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in discharge of its duties in relation to internal control. Their responsibilities are summarized in the respective Subcommittee reports and have been formulated with reference to the requirements of the Corporate Governance and business needs. The IRMC is supported by the Risk Management Department of the company and a comprehensive report of how the company manages risk is included on pages 177 to 196 and the Subcommittee Reports on page 173	√
D.3	Audit Committee	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the company's Auditors. Composition of the Audit Committee. The Audit Committee comprises the following Directors: Mrs. Yogadinusha Bhaskaran, Mr. M A J W Jayasekara, Mrs. Anandhiy K Gunawardhana Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors. The Audit Committee periodically reviews the scope and results of the audit and its effectiveness. Further independence and the objectivity of the Auditors are also reviewed periodically. The Committee would consider independence when providing non- audit engagements to the External Auditor. It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors. Disclosures made in the Annual Report about Audit Committee. Audit Committee report is given on page 171 of the Annual Report	√
D.4	Code of Ethics	Company must adopt a Code of Business Conduct and Ethics for Directors, and members of the Senior Management Team. Any non-compliance with the said Code should be promptly disclosed. Code of Business Conduct and Ethics is in place. There were no violation for disclosure.	√
D.5	Corporate governance disclosures	The Board should include this in the Annual Report setting out the manner and extent for it to be complied. Disclosure of corporate Governance Compliance The requirement is met with the presentation of this Corporate Governance Report from pages 353 to 363 of the Annual Report.	√
E & F	Encourage voting at AGM	The company has 2,006 ordinary voting shareholders of which 92.92% are institutional shareholders. We have a regular structured dialogue with the large institutional shareholders and any concerns of these institutional shareholders expressed at the meetings is communicated to the Board as a whole. All shareholders are encouraged to participate at AGM and cast their votes. Investor relations hotline/email is open for any investor to reach out to the CEO/Director if required. From the Company's perspective, the AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions from the Directors and to use their votes responsibly	√

Code Reference	Compliance and implementation	Status of compliance	Complied
G	Internet of things and cyber-security	Please refer page 177	√
H	Environment, Society and Governance (ESG)	Please refer page 128	√
H. 1	ESG reporting	Please refer page 128	√
H. 1.2	Environmental factors	Please refer page 128	√
H. 1.3	Social factors	Please refer page 114	√
H. 1.4	Governance	Please refer page 140	√
H.1.5	Board's role on ESG factors	Please refer page 128	√

LISTING RULES CORPORATE GOVERNANCE FOR LISTED COMPANIES ISSUED BY THE COLOMBO STOCK EXCHANGE

Section Reference	Rule	Status of Compliance	Complied
7.6 (iv)	The public holding percentage	Please refer 'Financial Capital' on page 72	√
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the Item 5.4 of the "Investor Relations" beginning and at the end of the financial year	Please refer 'Financial Capital' on page 88	√
7.6 (vi)	Information pertaining to material foreseeable risk factors	Please refer the 'Risk Management' section on page 177	√
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Please refer page 72	√
7.6 (viii)	Extents, locations, and valuations of land holdings and Investment properties as at the end of the year	Please refer Note 4.23 Information on the freehold land and buildings of the Company in the Financial Reports on page 288	√
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Please refer Note 4.33 Stated Capital in the Financial Reports on page 306	√
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as at the end of the year	Please refer 'Financial Capital' on page 89	√
7.6 (xi)	Ratios and market price information: Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share	Please refer 'Financial Capital' on page 89	√
	Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year	Please refer 'Ten year summary' on page 367	
	Any changes in credit rating		

Supplementary Information

Section Reference	Rule	Status of Compliance	Complied
7.6 (xii)	Significant changes in the Company or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year	Please refer Note 4.23 - Property, Plant & Equipment in the Financial Statements on page 288	√
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	There were no any share issues, rights issues or private placement during the year.	√
7.6 (xiv)	Information in respect of Employee Share Option Schemes: Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) Highest, lowest, and closing price of the share recorded during the financial year	The Company does not have any Employee Share Ownership or Stock Option Schemes at present. Please refer page 165	√
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Listing Rules	Please refer "Report on compliance with the Rules on the Content of the Annual Report on page 363	√
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	The Company did not have any Related Party Transactions exceeding this threshold during the year.	√
7.10.1 NON- EXECUTIVE DIRECTORS			
7.10.1 (a	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	As at 31st March 2019 The Board comprised five Non-Executive Directors out of total of 10 Directors which is 50 as a percentage	√
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	The Board comprised of 11 Directors as at the conclusion of the immediately preceding AGM.	√
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	The cessation and the appointment of the Directors as disclosed in 7.10.1 (b) complied with the requirement.	√
7.10.2 INDEPENDENT DIRECTORS			
7.10.2 (a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	The Board has determined that four Directors out of Five Non-Executive Directors are Independent	√
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format	All Directors have submitted annual declarations in respect of the year under review.	√
7.10.3 DISCLOSURES RELATING TO DIRECTORS			
7.10.3 (a)	The Board shall make determination of Independence/ Non-Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	Please refer page 147 of the Annual Report	√

Section Reference	Rule	Status of Compliance	Complied
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	Not applicable	√
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Please refer page 147 in the Annual Report.	√
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for Dissemination to the public.	Please refer pages 18 to 23 in the Annual Report	√
7.10.4 CRITERIA FOR DETERMINATION OF INDEPENDENCE OF DIRECTORS			
7.10.4 (a-h)	Requirements for meeting criteria to be independent	All Independent Directors of the Company met the criteria for independency specified in this Rule.	√
7.10.5 REMUNERATION COMMITTEE			
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise; of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Board appointed Remuneration Committee is in place. Please refer page 168 of the Annual Report. All the Directors in the Remuneration Committee comprised of independent Non-Executive Directors. Mrs. A. K Gunawardhana who is an Independent Non-Executive Director is the Chairperson of the Committee	√
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Please refer the Report of the Remuneration Committee on page 168 to the Annual Report.	√
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the Remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer the page 168 of Remuneration Committee Report.	√
7.10.6 AUDIT COMMITTEE			
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher. One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board. The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings. The Chairman or one member of the Committee should be a member of a recognize professional accounting body	All the members of the Audit Committee are Independent Non-Executive Directors. Mrs. Yogadinusha Bhaskaran is the Chairperson of the Committee who is a Non-Executive Director. Both the Managing Director and the Chief Financial Officer attend the meetings by invitation. The Chairperson of the Audit Committee is a fellow member of The Institute of Chartered Management Accountants of UK. Please refer page 18 to 23 of Directors profiles and Mr. A Jayasekara, a member of the Committee is also a Fellow Member of The Institute of Chartered Accountants of Sri Lanka.	√

Section Reference	Rule	Status of Compliance	Complied
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules	Please refer Audit Committee Report on page 171 of the Annual Report.	√
7.10.6 (c)	Annual Report shall set out; (i) The names of the Directors who comprise the Audit Committee. (ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination. (iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules.	Please refer the Audit Committee Report' on page 171 for the required disclosure.	√

Decade at a Glance

Key Indicators		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/ 17	2017/18	2018/19
Operating Results											
Net Interest Margin	%	11.60	12.87	11.43	10.22	10.38	12.67	12.17	10.91	11.15	**11.87**
Cost to Income	%	42.87	41.27	41.75	42.30	41.29	35.88	35.89	39.01	37.37	**34.22**
Interest Spread	%	9.32	11.77	10.84	9.49	9.45	11.55	11.09	9.59	9.65	**10.32**
Financial Position											
Total Assets to Equity	No.of times	9.79	10.81	10.75	10.18	9.80	8.52	8.07	8.21	7.87	**7.40**
Debt to Equity	No.of times	7.97	9.64	9.48	8.89	8.54	7.15	6.73	6.89	6.58	**6.02**
Equity to Deposits	%	14.06	13.32	14.60	13.75	13.46	17.45	19.63	20.71	21.04	**22.14**
Investor Information											
Return on Equity (ROE)	%	32.20	47.45	52.64	36.62	23.23	30.88	40.40	34.09	30.52	**29.93**
Return on Average Assets (ROA)	%	3.21	4.51	4.85	3.51	2.33	3.40	4.89	4.18	3.80	**3.93**
Equity to Assets	%	10.21	9.08	9.31	9.83	10.21	11.74	12.40	12.17	12.70	**13.51**
Net Assets Value per Share	Rs.	12.68	18.37	28.65	38.47	44.81	57.23	75.66	90.31	110.81	**133.03**
Earnings per Share (EPS)	Rs.	3.61	7.37	12.37	12.29	9.67	15.75	26.84	28.29	30.69	**36.49**
Dividend per Share (DPS)	Rs.	5.00	3.50	5.00	6.50	6.50	10.00	7.50	9.00	11.00	**12.00***
Dividend Cover	No.of times	2.89	4.21	4.95	3.78	2.98	3.15	3.58	3.14	2.79	**3.04 ***
Dividend Yield	%	26.32	11.29	2.86	4.82	4.90	9.99	9.99	8.48	9.29	**10.09 ***
Dividend Payout	%	34.62	23.76	20.20	26.45	33.59	31.74	27.94	31.82	35.84	**32.88 ***
Price Earning Ratio (PE)	No.of times	4.29	5.94	5.45	5.40	5.17	4.77	3.95	4.19	3.87	**3.29**
Price to Book Value (PBV)	No.of times	1.22	4.77	2.35	1.72	1.12	1.31	1.40	1.31	1.07	**0.90**
Market Price per Share	Rs.	62.00	175.10	134.90	132.70	100.10	150.20	106.10	118.40	118.90	**120.10**
Market Capitalisation	Rs. million	2,147	12,127	9,343	9,190	6,933	10,402	14,696	16,400	16,469	**16,636**
Interest Cover	No.of times	1.39	1.69	1.66	1.42	1.26	1.56	1.92	1.72	1.56	**1.60**
Growth											
Income	%	15.39	33.19	44.26	43.23	19.88	8.51	5.81	23.76	29.35	**16.90**
Interest Income	%	15.18	29.99	42.01	44.25	20.78	7.65	5.42	24.13	30.62	**16.97**
Interest Expense	%	0.49	7.50	46.87	67.39	20.05	(16.65)	(2.96)	40.52	41.74	**12.64**
Net Interest Income	%	42.76	59.71	37.69	22.31	21.72	38.76	11.86	13.20	21.41	**21.16**
Profit Before Tax	%	58.16	89.89	46.19	3.63	(26.05)	78.33	59.81	10.33	10.26	**19.50**
Profit After Tax	%	39.09	104.01	67.98	(0.69)	(21.27)	62.84	70.37	5.39	8.49	**18.91**
Total Assets	%	22.77	62.93	52.15	27.17	12.16	11.06	25.13	21.59	17.57	**12.89**
Lending Portfolio	%	23.58	61.46	55.03	22.09	9.99	13.75	27.87	24.59	14.80	**10.85**
Deposit Base	%	30.67	62.23	34.10	42.58	18.98	(1.44)	17.50	13.16	20.76	**14.08**
Equity	%	30.10	44.85	55.97	34.29	16.48	27.72	32.20	19.37	22.70	**20.06**
Employee											
Profit Before Tax per Employee	Rs.'000	986	1,319	1,541	1,229	875	1,387	1,940	1,823	1,883	**2,139**
Profit After Tax per Employee	Rs.'000	561	807	1,020	828	627	908	1,354	1,216	1,235	**1,397**
Total Assets per Employee	Rs.'000	19,325	22,359	25,395	26,385	28,497	28,131	30,800	31,904	35,112	**37,697**
No. of Branches		27	34	65	89	97	100	110	118	123	**127**
No of Gold Loan Centres		48	58	47	37	37	35	36	36	36	**36**
Total No. of Outlets		75	92	112	126	134	135	146	154	159	**163**
No. of Employees		890	1,264	1,679	2,055	2,134	2,401	2,744	3,221	3,441	**3,618**
Employees per Outlet		12	14	15	16	16	18	19	21	22	**22**

* Includes proposed final dividend of Rs. 4.00 per share.

Financial Statements

FINANCIAL STATEMENTS PREPARED UNDER SLASs - COMPANY

	2009/10 Rs '000	2010/11 Rs '000
INCOME STATEMENT		
Gross Income	4,130,993	5,501,885
Interest Income	3,953,032	5,138,718
Interest Expenditure	2,249,805	2,418,480
Net Interest Income	1,703,227	2,720,239
Other Operating Income	174,285	353,647
Operating Expenditure	839,479	1,171,025
Profits Before Taxation	878,290	1,667,820
Tax on Financial Services	159,744	235,040
Provision for Taxation	378,129	647,452
Net Profits	500,161	1,020,368
BALANCE SHEET		
Assets		
Cash and Amounts due from Banks	277,083	347,446
Placements with other Banks	364,918	302,584
Treasury Bills and other Bills Eligible for Re-discounting with Central Bank	1,165,157	1,622,158
Real Estate Stock	246,928	237,520
Loans and Advances	4,193,815	7,543,231
Lease Rentals Receivable and Stock Out on Hire	10,440,329	16,332,007
Investment Securities	5,994	28,594
Trading Portfolio	-	211,818
Other Debtors, Deposits and Prepayments	104,271	675,235
Vehicle Stock	156,502	519,706
Intangible Assets	7,333	9,682
Property, Plant and Equipment	237,613	432,359
Total Assets	17,199,943	28,262,340
Liabilities		
Deposits from Customers	12,489,789	19,619,681
Borrowings	1,065,377	3,526,374
Debentures	450,000	450,000
Trade Payables and Accrued Charges	916,729	1,529,035
Tax Payable	352,626	396,413
Deferred Taxation	141,728	93,249
Provision and other Liabilities	27,262	33,870
Total Liabilities	15,443,511	25,648,622
Shareholders' Funds		
Share Capital	491,996	838,282
Reserves	1,264,436	1,775,436
Total Shareholders' Funds	1,756,433	2,613,718
Total Liabilities and Shareholders' Funds	17,199,944	28,262,340

FINANCIAL STATEMENTS PREPARED UNDER LKASs AND SLFRSs - COMPANY

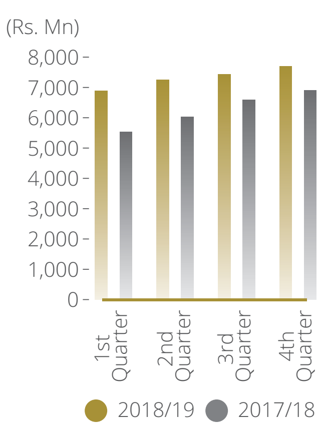
	2011/12 Rs '000	2012/13 Rs '000	2013/14 Rs '000	2014/15 Rs '000	2015/16 Rs '000	2016/17 Rs '000	2017/18 Rs '000	2018/19 Rs '000
INCOME STATEMENT								
Income	7,937,072	11,368,252	13,628,497	14,787,757	15,646,467	19,363,429	25,046,202	**29,278,024**
Interest Income	7,297,591	10,526,829	12,714,089	13,687,070	14,428,729	17,909,935	23,394,115	**27,363,768**
Interest Expenses	3,551,986	5,945,707	7,137,897	5,949,496	5,773,255	8,112,337	11,498,408	**12,951,323**
Net Interest Income	3,745,605	4,581,122	5,576,191	7,737,574	8,655,474	9,797,599	11,895,707	**14,412,445**
Other Operating Income	639,481	841,422	914,408	1,100,686	1,217,737	1,453,493	1,652,087	**1,914,256**
Total Operating Income	4,385,086	5,422,544	6,490,600	8,838,260	9,873,212	11,251,092	13,547,795	**16,326,701**
Impairment Charges and other Losses	116,023	400,307	570,332	1,804,838	382,435	(42,265)	667,628	**982,111**
Gold Loan Auction Losses	-	201,802	1,371,959	214,928	29,358	2,201	2,995	**1,043**
Operating Expenses	1,680,998	2,117,628	2,559,981	3,171,408	3,543,352	4,389,212	5,062,788	**5,587,279**
Profit Before Tax	2,588,065	2,526,559	1,868,390	3,331,853	5,324,615	5,874,843	6,477,691	**7,740,649**
Tax on Financial Services	149,952	176,249	119,936	315,232	593,452	1,027,101	1,336,693	**2,015,619**
Income Tax	874,071	824,443	528,361	1,149,727	1,606,822	1,956,639	2,226,969	**2,685,989**
Profit for the Year	1,713,994	1,702,116	1,340,029	2,182,126	3,717,792	3,918,204	4,250,721	**5,054,660**
STATEMENT OF FINANCIAL POSITION								
Assets								
Cash and Cash Equivalents	1,954,237	4,019,673	1,865,100	6,067,670	6,051,898	2,895,085	5,874,375	**4,040,586**
Financial Assets Recognised Through Profit or Loss/ Financial Investments - Held for Trading	6,740	7,323	7,595	10,063	10,645	10,068	9,683	**6,866**
Financial Assets at Amortised Cost/Loans and Receivables	12,771,108	16,452,987	18,893,238	22,262,761	26,449,169	33,488,779	39,855,398	**47,395,025**
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire	23,686,392	28,271,347	30,299,455	33,695,516	45,104,836	55,660,963	62,489,686	**66,050,429**
Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	128,068	473,739	1,468,602	140,587	138,411	118,021	121,624	**89,710**
Other Financial Assets	1,019,834	1,487,399	5,186,548	2,140,178	4,142,716	6,721,526	6,772,554	**10,804,517**
Other Non Financial Assets	1,066,622	1,205,230	817,629	1,206,275	538,898	305,047	815,808	**1,067,361**
Investment in Subsidiary	-	-	-	-	-	-	152,915	**318,999**
Property, Plant and Equipment	1,868,286	2,100,939	2,067,928	1,984,160	2,045,295	3,514,356	4,680,619	**6,577,379**
Intangible Assets	19,340	23,669	36,425	35,305	34,765	49,189	48,119	**39,847**
Deferred Tax Assets	117,779	180,551	171,857	-	-	-	-	**-**
Total Assets	42,638,405	54,222,859	60,814,380	67,542,519	84,516,636	102,763,035	120,820,780	**136,390,718**
Liabilities								
Due to Banks	8,910,255	6,366,217	1,423,642	7,703,265	14,577,233	23,778,147	22,838,038	**24,633,508**
Due to Depositors	27,172,161	38,742,700	46,095,205	45,430,551	53,379,801	60,401,955	72,943,833	**83,214,949**
Debt Instruments Issued and Other Borrowed Funds	1,541,555	2,244,210	5,475,903	3,529,575	2,601,282	2,044,216	5,152,832	**3,107,783**
Other Financial Liabilities	-	638,011	1,165,526	1,776,066	1,869,940	2,007,402	1,761,418	**1,974,490**
Other Non Financial Liabilities	757,275	694,933	250,496	516,719	597,806	673,436	852,715	**2,070,631**
Current Tax Liabilities	244,831	147,956	103,717	534,744	741,251	691,091	633,058	**1,395,971**
Deferred Tax Liabilities	-	-	-	11,930	143,142	503,488	1,058,750	**1,309,722**
Post Employment Benefit Liability	44,231	60,230	93,198	112,574	126,858	153,621	231,240	**256,512**
Total Liabilities	38,670,307	48,894,257	54,607,691	59,615,427	74,037,317	90,253,356	105,471,884	**117,963,566**
Equity								
Stated Capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	**838,282**
Retained Earnings	2,075,561	2,852,402	3,265,273	5,180,485	6,970,499	8,259,079	10,240,092	**12,378,772**
Reserves	1,054,254	1,637,917	2,103,132	1,908,324	2,670,537	3,412,318	4,270,522	**5,210,097**
Total Equity	3,968,097	5,328,601	6,206,688	7,927,091	10,479,319	12,509,680	15,348,896	**18,427,152**
Total Liabilities and Equity	42,638,405	54,222,859	60,814,380	67,542,519	84,516,636	102,763,035	120,820,780	**136,390,718**

Quarterly Financial Statements 2018/19

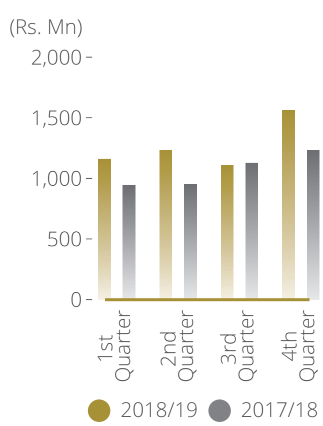
INCOME STATEMENT - COMPANY

For the 3 months ended	1st Quarter 30.06.2018 Rs.'000	1st Quarter 30.06.2017 Rs.'000	2nd Quarter 30.09.2018 Rs.'000	2nd Quarter 30.09.2017 Rs.'000	3rd Quarter 31.12.2018 Rs.'000	3rd Quarter 31.12.2017 Rs.'000	4th Quarter 31.03.2019 Rs.'000	4th Quarter 31.03.2018 Rs.'000
Income	6,895,553	5,534,727	7,254,838	6,021,459	7,424,814	6,586,588	7,702,820	6,903,427
Interest Income	6,478,182	5,213,003	6,812,579	5,628,373	6,943,922	6,155,619	7,129,085	6,397,120
Less: Interest Expenses	3,069,291	2,639,958	3,211,669	2,863,516	3,315,125	2,984,383	3,355,238	3,010,551
Net Interest Income	3,408,891	2,573,045	3,600,910	2,764,857	3,628,797	3,171,236	3,773,847	3,386,569
Fee and Commission Income	385,706	299,759	401,297	347,067	437,671	391,661	557,397	465,701
Net Trading Income	(575)	920	(1,148)	(444)	408	(399)	(1,243)	(376)
Other Operating Income	32,240	21,045	42,110	46,463	42,813	39,707	17,580	40,982
Total Operating Income	3,826,262	2,894,769	4,043,169	3,157,943	4,109,688	3,602,205	4,347,582	3,892,877
Less: Impairment Charges and Other Losses	278,995	68,625	326,090	127,628	319,532	184,011	57,494	287,365
Less: Gold Loan Auction Losses	453	470	(1,316)	(40)	(388)	(298)	2,294	2,862
Net Operating Income	3,546,814	2,825,675	3,718,394	3,030,355	3,790,544	3,418,492	4,287,794	3,602,649
Less: Operating Expenses								
Personnel Expenses	640,484	546,305	691,296	601,436	711,223	625,483	650,561	624,696
Depreciation of Property, Plant and Equipment	99,161	81,599	101,750	91,625	103,652	94,925	113,325	97,449
Amortisation of Intangible Assets	4,801	4,373	4,506	4,479	4,179	4,940	4,001	4,844
Other Operating Expenses	604,519	511,075	596,412	582,344	627,932	610,911	629,477	576,304
Operating Profit before Tax on Financial Services	2,197,849	1,682,323	2,324,431	1,750,472	2,343,558	2,082,232	2,890,431	2,299,356
Less: Tax on Financial Services	383,766	295,579	408,184	311,740	559,899	352,962	663,771	376,412
Profit before Taxation	1,814,083	1,386,744	1,916,246	1,438,731	1,783,659	1,729,271	2,226,660	1,922,944
Less: Income Tax Expense	655,428	446,749	684,669	487,741	678,625	600,248	667,267	692,230
Profit for the Period	1,158,655	939,995	1,231,578	950,990	1,105,033	1,129,023	1,559,394	1,230,714

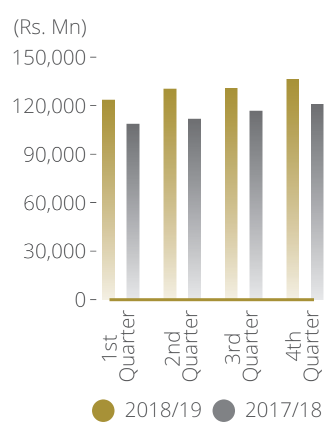
INCOME



PROFIT FOR THE PERIOD



TOTAL ASSETS



STATEMENT OF FINANCIAL POSITION - COMPANY

As at	1st Quarter 30.06.2018 Rs.'000	1st Quarter 30.06.2017 Rs.'000	2nd Quarter 30.09.2018 Rs.'000	2nd Quarter 30.09.2017 Rs.'000	3rd Quarter 31.12.2018 Rs.'000	3rd Quarter 31.12.2017 Rs.'000	4th Quarter 31.03.2019 Rs.'000	4th Quarter 31.03.2018 Rs.'000
Assets								
Cash and Cash Equivalents	5,422,483	4,016,316	6,091,116	3,627,591	7,149,677	3,873,610	4,040,586	5,874,375
Financial Assets Recognised Through Profit or Loss /Financial Investments - Held for Trading	8,856	10,901	7,700	10,458	8,108	10,059	6,866	9,682
Financial Assets at Amortised Cost/Loans and Receivables	41,113,937	35,036,991	41,815,228	35,588,604	44,054,305	37,768,494	47,395,025	39,855,398
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire	63,730,827	57,442,718	64,988,823	59,441,436	65,645,117	60,370,034	66,050,429	62,489,686
Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	108,005	135,242	100,772	130,521	97,215	120,037	89,710	121,624
Other Financial Assets	6,483,133	7,374,184	10,095,329	8,361,245	6,217,674	9,438,190	10,804,517	6,772,554
Other Non Financial Assets	818,829	468,618	1,055,245	427,203	1,092,018	887,524	1,067,360	815,808
Investment in Subsidiary	152,915	-	318,471	-	318,471	-	318,999	152,915
Property, Plant and Equipment	5,671,523	4,096,220	5,754,319	4,297,421	6,189,352	4,292,290	6,577,379	4,680,619
Intangible Assets	43,604	44,816	42,513	54,333	38,481	51,163	39,847	48,119
Total Assets	123,554,112	108,626,006	130,269,516	111,938,812	130,810,418	116,811,401	136,390,718	120,820,780
Liabilities								
Due to Banks	21,432,947	23,732,886	21,837,097	22,921,831	22,406,416	21,636,232	24,633,508	22,838,038
Financial Liabilities at Amortised Cost - Due to Depositors	75,602,031	65,197,424	77,960,292	68,555,172	78,742,024	70,839,702	83,214,949	72,943,833
Debt Instruments Issued and Other Borrowed Funds	5,051,961	2,040,468	8,218,807	2,091,699	6,123,393	5,007,711	3,107,783	5,152,832
Other Financial Liabilities	1,793,105	1,948,207	1,773,937	2,201,118	1,804,580	1,881,450	1,974,490	1,761,418
Other Non Financial Liabilities	985,384	884,676	953,941	867,118	805,644	731,044	2,070,632	852,715
Current Tax Liabilities	894,354	689,539	1,050,170	631,275	1,337,253	914,854	1,395,971	633,058
Deferred Tax Liabilities	1,058,750	503,488	1,058,750	503,488	1,058,750	503,488	1,309,722	1,058,750
Post Employment Benefit Liability	241,647	162,424	252,301	169,488	266,661	180,759	256,512	231,240
Total Liabilities	107,060,179	95,159,112	113,105,295	97,941,189	112,544,721	101,695,240	117,963,567	105,471,884
Equity								
Stated Capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Reserves	4,488,635	3,617,537	4,727,718	3,803,017	4,945,167	4,018,337	5,210,097	4,270,522
Retained Earnings	11,167,016	9,011,075	11,598,221	9,356,324	12,482,248	10,259,542	12,378,772	10,240,092
Total Equity	16,493,933	13,466,894	17,164,221	13,997,623	18,265,697	15,116,161	18,427,151	15,348,896
Total Liabilities and Equity	123,554,112	108,626,006	130,269,516	111,938,812	130,810,418	116,811,401	136,390,718	120,820,780
Quarterly NPL Information								
NPL Ratio - Gross	2.67%	2.14%	2.78%	2.14%	3.11%	2.36%	2.69%	2.37%
NPL Ratio - Net	0.02%	(0.14%)	0.06%	(0.13%)	0.18%	(0.02%)	(0.21%)	(0.06%)

Income Statement (US Dollars)

Year ended 31 March	Company		Group	
	2019	2018	2019	2018
	US$. '000	US$. '000	US$. '000	US$. '000
Income	166,352	160,552	166,716	160,554
Interest Income	155,476	149,962	155,800	149,974
Less: Interest Expenses	73,587	73,708	73,597	73,708
Net Interest Income	81,889	76,254	82,203	76,266
Fee and Commission Income	10,125	9,642	10,153	9,645
Net Trading Income	(15)	(2)	(15)	(2)
Other Operating Income	766	950	778	937
Total Operating Income	92,765	86,844	93,119	86,846
Less: Impairment Charges and Other Losses	5,580	4,280	5,601	4,282
Less: Gold Loan Auction Losses	6	19	6	19
Net Operating Income	87,179	82,545	87,512	82,545
Less: Operating Expenses				
Personnel Expenses	15,304	15,371	15,386	15,389
Depreciation of Property, Plant and Equipment	2,374	2,344	2,377	2,344
Amortisation of Intangible Assets	99	119	105	122
Other Operating Expenses	13,968	14,619	14,025	14,633
Total Operating Expenses	31,745	32,453	31,893	32,488
Operating Profit before Tax on Financial Services	55,434	50,092	55,619	50,057
Less: Tax on Financial Services	11,452	8,569	11,452	8,569
Profit before Taxation	43,982	41,523	44,167	41,488
Less: Income Tax Expense	15,261	14,275	15,306	14,275
Profit for the Year	28,721	27,248	28,861	27,213
Profit Attributable to:				
Equity Holders of the Company	28,721	27,248	28,861	27,213
Non-Controlling Interest	-	-	0	(0)
Profit for the Year	28,721	27,248	28,861	27,213
Earnings Per Share: Basic/Diluted (US$.)	0.21	0.20	0.21	0.20
Dividend Per Share				
Dividend per Share: Gross (US$.)	0.07*	0.07		
Dividend per Share: Net (US$.)	0.06*	0.06		

Exchange rate of US$ was Rs. 176.00 as at 31 March 2019 (Rs. 156.00 as at 31 March 2018)

* Calculated based on interim dividend payable and proposed final dividend, which is to be approved at the Annual General Meeting.

Statement of Comprehensive Income (US Dollars)

Year ended 31 March	Company		Group	
	2019	2018	2019	2018
	US$. '000	US$. '000	US$. '000	US$. '000
Profit for the Year	28,721	27,248	28,861	27,213
Other Comprehensive Income that will be Reclassified to Income Statement				
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	89	34
Fair Value Gains and Losses arising on Re-measuring Available for Sale Financial Assets				
Equity Securities				
Fair Value Gains/(Losses) on Re-measuring Equity Securities	-	23	-	23
Reclassification Adjustment for Impairment on Equity Securities	-	29	-	29
Net Fair Value Gains/(Losses) on Re-measuring Equity Securities	-	52	-	52
Other Comprehensive Income that will be Reclassified to Income Statement	-	52	89	86
Less: Deferred Tax Charge/(Reversal) on above Items	-	-	-	-
Net Other Comprehensive Income that will be Reclassified to Income Statement	-	52	89	86
Other Comprehensive Income that will never be Reclassified to Income Statement				
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	(181)	-	(181)	-
Actuarial Gains/(Losses) on Defined Benefit Plans	136	(306)	136	(306)
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	38	(86)	38	(86)
Net Actuarial Gains/(Losses) on Defined Benefit Plans	98	(220)	98	(220)
Net Other Comprehensive Income that will never be Reclassified to Income Statement	(83)	(220)	(83)	(220)
Other Comprehensive Income for the Year, Net of Tax	(83)	(168)	6	(134)
Total Comprehensive Income for the Year, Net of Tax	28,638	27,080	28,867	27,079
Attributable to:				
Equity Holders of the Company	28,638	27,080	28,866	27,079
Non-Controlling Interest	-	-	1	(0)
Total Comprehensive Income for the Year, Net of Tax	28,638	27,080	28,867	27,079

Exchange rate of US$ was Rs. 176.00 as at 31 March 2019 (Rs. 156.00 as at 31 March 2018)

Statement of Financial Position (US Dollars)

As at 31 March	Company		Group	
	2019	2018	2019	2018
	US$. '000	US$. '000	US$. '000	US$. '000
Assets				
Cash and Cash Equivalents	22,958	37,656	23,060	38,399
Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	39	62	39	62
Financial Assets at Amortised Cost/Loans and Receivables	269,290	255,483	271,442	255,733
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire	375,287	400,575	375,287	400,575
Financial Assets Measured at Fair Value Through Other Comprehensive Income/ Financial Investments - Available for Sale	510	780	510	780
Other Financial Assets	61,389	43,414	61,333	43,376
Other Non Financial Assets	6,065	5,230	6,097	5,234
Investment in Subsidiary	1,812	980	-	-
Property, Plant and Equipment	37,371	30,004	37,390	30,012
Intangible Assets	226	308	247	339
Total Assets	774,947	774,492	775,405	774,510
Liabilities				
Due to Banks	139,963	146,398	139,963	146,398
Financial Liabilities at Amortised Cost - Due to Depositors	472,812	467,589	472,969	467,603
Debt Instruments Issued and Other Borrowed Funds	17,658	33,031	17,658	33,031
Other Financial Liabilities	11,219	11,291	11,219	11,291
Other Non Financial Liabilities	11,765	5,466	11,794	5,469
Current Tax Liabilities	7,932	4,058	7,977	4,058
Deferred Tax Liabilities	7,442	6,787	7,442	6,787
Post Employment Benefit Liability	1,456	1,482	1,457	1,482
Total Liabilities	670,247	676,102	670,479	676,119
Equity				
Stated Capital	4,763	5,374	4,763	5,374
Reserves	29,603	27,375	29,721	27,409
Retained Earnings	70,334	65,641	70,442	65,605
Total Equity Attributable to Equity Holders of the Company	104,700	98,390	104,926	98,388
Non-Controlling Interest	-	-	-	3
Total Equity	104,700	98,390	104,926	98,391
Total Liabilities and Equity	774,947	774,492	775,405	774,510
Commitments and Contingencies	10,346	8,090	10,346	8,090
Net Asset Value per Share (US$.)	0.76	0.71	0.76	0.71

Exchange rate of US$ was Rs. 176.00 as at 31 March 2019 (Rs. 156.00 as at 31 March 2018)

Independent Assurance Report on Sustainability

EY
Building a better working world

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INDEPENDENT ASSURANCE REPORT TO LB FINANCE PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT- 2018/19

Introduction and scope of the engagement

The management of LB Finance PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2018/19 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 81 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' – Comprehensive guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("ICASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Comprehensive guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 09 April 2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.

Building a better working world

- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2019.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Comprehensive guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 81 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2019.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Comprehensive.

Ernst & Young
Chartered Accountants

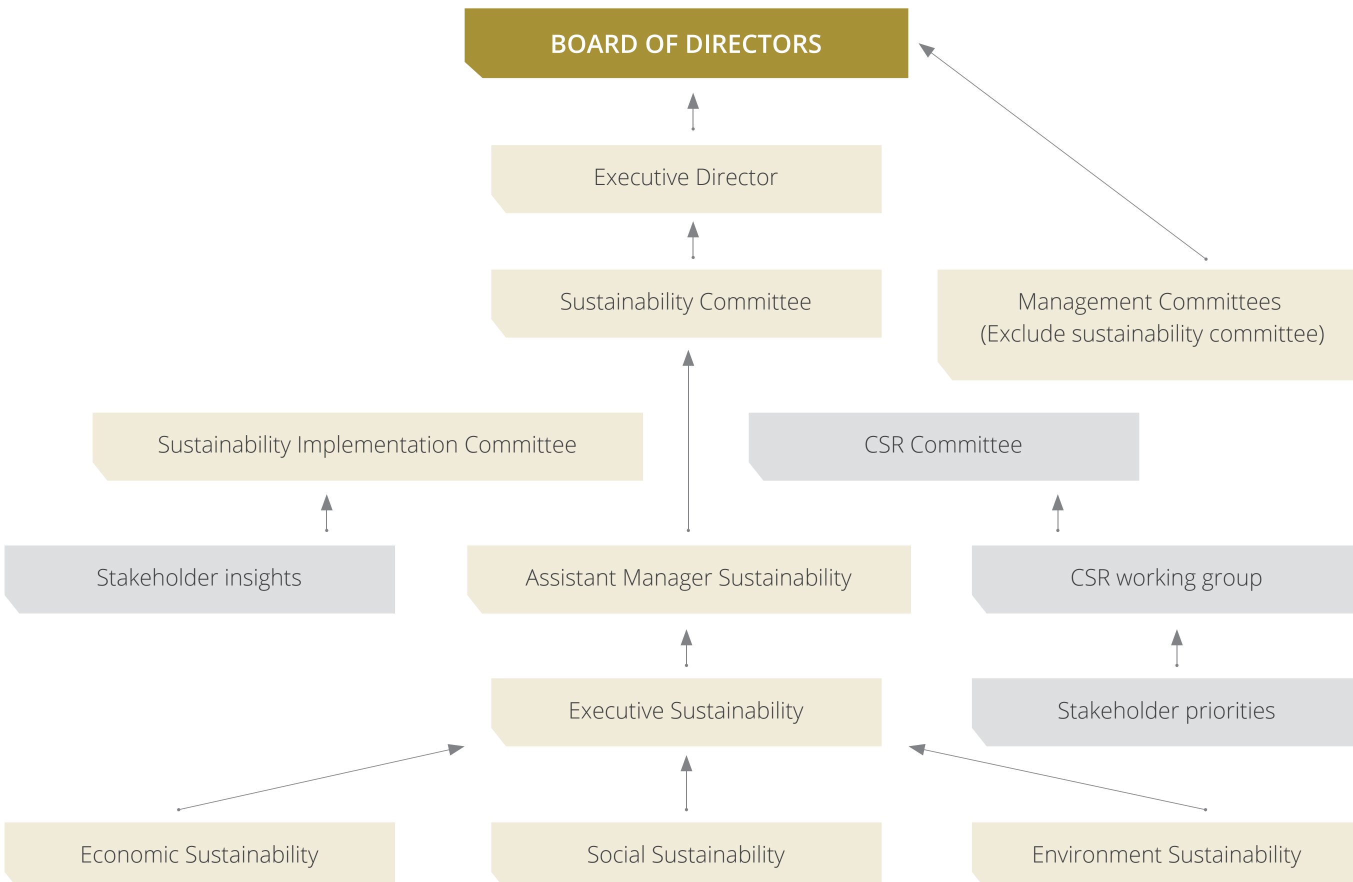
21 May 2019
Colombo

List of Abbreviations

AFS	Available for Sale
AGM	Annual General Meeting
ALCO	Assets and Liabilities Management Committee
APSP	Average Petroleum Spot Price
ASPI	All Share Price Index
ATM	Automated Teller Machine
AWDR	Average-Weighted Deposit Rate
AWFDR	Average-Weighted Fixed Deposit Rate
AWPLR	Average Weighted Prime Lending Rate
BFI	Banking Finance Insurance
BN	Billion
BOD	Board of Directors
BPO	Business Process Outsource
BPS	Basis Points
CAR	Capital Adequacy Ratio
CBSL	Central Bank of Sri Lanka
CDS	Central Depository System
CDM	Cash Deposit Mechine
CMU	Customer Management Unit
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CRO	Chief Risk Officer
CRM	Customer Replationship Management
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
DR	Disaster Recovery
EIR	Effective Interest Rate
EPF	Employees' Provident Fund
EPS	Earnings per Share
ERP	Enterprise Resource Planning System
ESC	Economic Service Charge
ETF	Employees' Trust Fund
FVtPL	Fair Value through Profit or Loss
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HFT	Held for Trading
HODs	Head of Departments
HP	Hire Purchase
HTM	Held to Maturity
ICASL	The Institute of Chartered Accountants of Sri Lanka
IFA	Investment Fund Account
IFRS	International Financial Reporting Standard
IIRC	Inrernational Integrated Reporting Council
IRMC	Integrated Risk Management Committee
IRMU	Integrated Risk Management Unit
ISO	International Standard Organisation
IT	Information Technology
KMP	Key Management Personnel
KPIs	Key Performance Indicators
KRIs	Key Risk Indicators
L&R	Loans and Receivables
LRA	Lanka Rating Agency
LBF	L B Finance PLC
LBMF	LB Microfinance Myanmar Company Limited
LCB	Licensed Commercial Bank
LFC	Licensed Finance Company
LKAS	Lanka Accounting Standards
LKR	Sri Lankan Rupees
LTV	Loan to Value
MN	Million
M3	Cubic Meter
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
MRMR	Monthly Risk Management and Reporting
NBFI	Non-Bank Financial Institutions
NBT	Nation Building Tax
NCRE	Non-Conventional Renewable Energy
NPA	Non-Performing Advances
NII	Net Interest Income
NIM	Net Interest Margin
NPL	Non-Performing Loans
OCI	Other Comprehensive Income
PAT	Profit after Tax
PAYE	Pay As You Earn
PDC	Product Development Committee
PER	Price Earnings Ratio
PLC	Public Limited Company
RMD	Risk Management Department
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
RWA	Risk-Weighted Assets
SBUs	Strategic Business Units
SEC	Securities and Exchange Commission
SLC	Specialised Leasing Company
SLA	Statutory Liquid Assets
SLAR	Statutory Liquid Asset Ratio
SLAS	Sri Lanka Accounting Standard
SLCF	Sri Lanka Carbon Fund
SLFRS	Sri Lanka Financial Reporting Standard
SLIPS	Sri Lanka Inter-Bank Payment System
SME	Small and Medium Enterprises
UOM	Unit of Measurement
USD	US Dollar
VAR	Value at Risk
VAT	Value Added Tax
WHT	Withholding Tax

COMMITMENT TOWARDS SUSTAINABILITY

We strongly believe that responsible stewardship is the key to creating a sustainable future for all communities associated with the business. We have always remained true to our fundamental values. We continue to uphold the promise to deliver consistent value to all stakeholders as we believe that our success is measured not only in terms of our ability to produce shareholder value, but also our accountability to all stakeholders associated with our business. We have embraced the triple bottom line model as a template to convey tangible value to all those impacted by our work.



SUSTAINABILITY GOVERNANCE

GRI Code	Disclosure / Reporting requirements	Status
102-18	**Governance structure** Governance structure of the organization, including committees of the highest governance body. Committees responsible for decision-making on economic, environmental, and social topics	The Board of Directors is the highest governing body. Management committees responsible for decision-making on economic, environmental, and social topics [Committees of the governing body are Audit Committee (AC), Integrated Risk Management Committee (IRMC), Nomination Committee (NC), Remuneration committee (RC) and Related Party Transaction Review Committee (RPTRC), Sustainability Committee]

GRI Code	Disclosure / Reporting requirements	Status
102-19	**Delegating authority** Process for delegating authority for economic, environmental, and social topics from the highest Governance body to senior executives and other employees.	The delegation of authority for economic, environmental, and social topics related to sustainability committee has been formalised in the CSR and Sustainability guidelines.
102-20	**Executive-level responsibility for economic, environmental, and social topics** Whether the organization has appointed an executive-level position or positions with Responsibility for economic, environmental, and social topics. Whether post holders report directly to the highest governance body.	There is a dedicated Assistant Manager to take the responsibility for economic, environmental, and social topics of the Company and directly reported to the Managing Director, Executive Director (Asset Finance) and Executive Director (Asset Management)
102-21	**Consulting stakeholders on Sustainability topics** Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics.	Consulting stakeholders for economic, environmental, and social topics going through sustainability governance framework has been formalised in the CSR and Sustainability guidelines.
102-23	**Chair of the highest governance body** Whether the chair of the highest governance body is also an executive officer in the organization.	No, the Chairman is Non-Executive
102-24	**Nomination and selection processes for the highest governance body and its committees** criteria used for nominating and selecting highest governance body members, including: • Whether and how diversity is considered • Whether and how independence is considered • Whether and how expertise and experience relating to economic, environmental and social topics are considered • Whether and how stakeholders (including shareholders) are involved	In the process of nomination of directors, the Board independently and the NC, evaluates the balance of skills, knowledge and experience on the Board and selects candidates who would complement the make-up of the Board. When doing so the skill-set, experience, knowledge, diversity, and availability on economic, environmental and social topics of the candidate are taken into consideration. Further, whether the candidate is independent in character and judgment and whether there are relationships or circumstances which are likely to affect, or could appear to affect, his/her judgment is also considered. All directors appointed to the Board are required to retire and submit themselves for re-election by the shareholders at the Annual General Meeting of Shareholders immediately succeeding his/her appointment.
102-25	**Processes for the highest governance body to ensure conflicts of interest** • Cross-Board membership • Cross-shareholding with suppliers and other Stakeholders • Existence of controlling shareholder • Related party disclosures	All Directors are guided by the provisions of the Conflict of Interest Policy. where Directors have an interest in a material transaction or matter involving the Company that is being considered at the Board or a Board Sub – Committee level, they: Disclose that interest As a general requirement, excuse themselves from the meeting during board or board subcommittee discussions Do not cast a vote on the matter Related party disclosures The Related Party Transaction Review Committee Reviews non-recurrent related party and interested person transactions and keeps the Board informed of such transactions, if any.

GRI Code	Disclosure / Reporting requirements	Status
102-26	**Role of highest governance body in setting purpose, values and strategy** Highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	Setting purpose, values and strategy reviewed and recommended by the Integrated Risk Management Committee (IRMC) and approved by the Board. Board-approved strategic objectives and corporate values have been derived from the Company's Vision and Mission and it has been communicated throughout the Company. Respective functional Heads/ business heads review and update strategies, policies and goals for submission to the Board through the responsible executive directors.
102-27	**Collective knowledge of highest governance body** Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	Board having the optimal mix of skills, expertise and experience, is paramount to ensure that the Board as a collective is equipped to guide the business and strategy of the Company. To enhance and develop the collective knowledge, Board is briefed on such matters to the management at the Committee meetings. Then an expert independent consultant or internal expert conducted a specialised refresher on Sustainability topics to the Board of Directors.
102-28	**Evaluating the highest governance body's performance** Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Whether such evaluation is independent or not, and its frequency. Whether such evaluation is a self-assessment. Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organisational practice.	A performance self-evaluation is carried out internally on a periodic basis. A self-evaluation is conducted within Group Sustainability's updates to the Board. The evaluation covers performance on key economic, environmental and social topics of priority at all levels of the company. None
102-29	**Identifying and managing economic, environmental, and social impacts** The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities, including its role in the implementation of due diligence processes. Whether stakeholder consultation used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities.	The identification of the risks will be carried out by the Integrated Risk Management Committee (IRMC) team on behalf of the Board, in consultation with the relevant business owners. The Board Audit Committee is responsible for identification and resolving of queries on governance. Identification, monitoring, controlling the due diligence aspects Assess, validate, report and review the sustainability aspects with compliance and due diligence • Monthly • Quarterly • Annually and submitting a report to the Board of Directors Yes, stakeholder consultation is an integral part of the IRMC process within LBF.

GRI Code	Disclosure / Reporting requirements	Status
102-30	**Effective of risk management process** Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.	The Group's risk management framework is reviewed by the Board Integrated Risk Management Committee
102-31	**Review of economic, environmental and social topics** Frequency of the highest governance body's review of economic, environmental and social topics and their impacts, risk and opportunities	On a quarterly basis.
102-32	**Highest governance body's role in Sustainability reporting** The highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered	Managing Director and Group Chief Financial Officer
102-33	**Communicating critical concerns** The process for communicating critical concerns to the highest governance body.	If there is/are critical concern/s, Management will communicate the same to the Board of Directors for their discussion and board will provide narrations and direction to solve or mitigate the concern/s
102-34	**Nature and total number of critical concerns** Total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	Concerns are considered 'critical' when existing internal controls are inadequate to Appropriately address them. Concerns taken up for discussion with the Board in 2018/19, none were deemed as 'critical'

ADDITIONAL GRI DISCLOSURES

	103-1 Material topics / Boundary	103 – 2 Impact disclosure					103- 3 Evaluation		
		Policies	Commitments	Goals and targets	Resources	Programs and initiatives	Effectiveness	Results	Related adjustments
201 – Economic performance	Managing business practices through uncertain socio economic factors	Page 66	Page 66, 67	Page 66, 67	Page 66, 67	Page 66, 67	Page 66, 67	Page [6]	None
Boundary : Within the company **Where we discuss :** Page [9] **Business impact :** yes									
202 – Market presence	Managing business practices through uncertain socio economic factors	Page 66	Page 66, 67	Page 66, 67	Page 66, 67	Page 66, 67	Page 66, 67	Page [6]	None

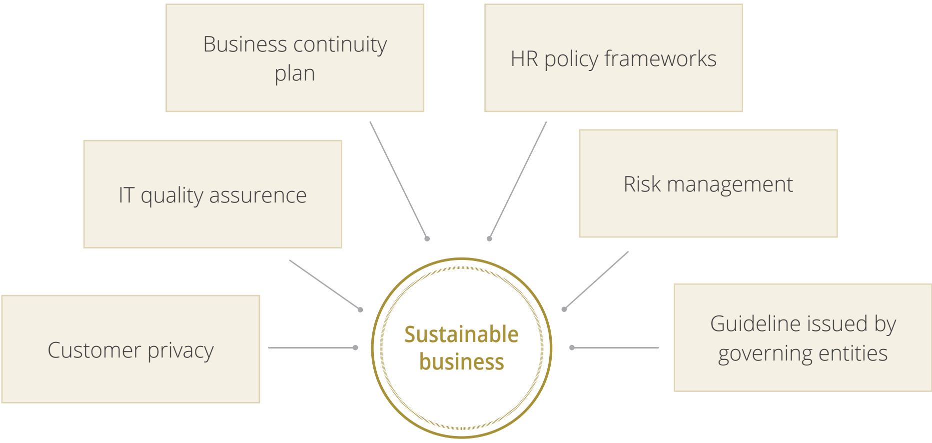
Supplementary Information

	103-1 Material topics / Boundary	103 – 2 Impact disclosure					103- 3 Evaluation		
		Policies	Commitments	Goals and targets	Resources	Programs and initiatives	Effectiveness	Results	Related adjustments
Boundary : Within the company **Where we discuss :** Page [11] **Business impact :** yes									
203 – Indirect economic performance	Managing business practices through uncertain socio economic factors	Page [34]	Page 66, 67	Page 66, 67	Page 66, 67	Page 66, 67	Page 66, 67	Page [6]	None
Boundary : Within the company **Where we discuss :** Page [9] **Business impact :** yes									
302- energy use	Managing social and environmental inequalities	Page [46], 130	Page [46], 131	Page 131	Page 131	Page 131	Page 131	Page 131	None
Boundary : Within the company **Where we discuss :** Page [42] **Business impact :** yes									
305 – Emission	Managing social and environmental inequalities	Page [46], 130	Page [46], 132	Page 132	Page 132	Page 132	Page 132	Page 132	None
Boundary : Within the company **Where we discuss :** Page [42] **Business impact :** yes									
401 - Employment	Manage evolving skill requirements of the talent pool	Page 99	Page 99	Page 99	Page 99	Page 99	Page 99	Page 99	None
Boundary : Within the company **Where we discuss :** Page [18] **Business impact :** yes									
404 - Training and development	Manage evolving skill requirements of the talent pool	Page [20]	Page [20]	Page [20]	-	Page [26]	Page [26]	Page [26]	None
Boundary : Within the company **Where we discuss :** Page [18] **Business impact :** yes									
405 - Diversity and equal opportunitiy	Manage evolving skill requirements of the talent pool	-	Page 103	Page 103	Page 103	-	-	-	None
Boundary : Within the company **Where we discuss :** Page [18] **Business impact :** yes									
413 - Local communities	Managing social and environmental inequalities	Page [34]	Page [34]	Page [37]	Page [37]	Page [37]	Page [37]	Page [37]	None

	103-1 Material topics / Boundary	103 – 2 Impact disclosure Policies	Commitments	Goals and targets	Resources	Programs and initiatives	103- 3 Evaluation Effectiveness	Results	Related adjustments
Boundary : Within the company **Where we discuss :** Page [33] **Business impact :** yes									
416 – Customer health and safety	Managing social and environmental inequalities	-	-	-	-	-	-	-	None
Boundary : Within the company **Where we discuss :** Page [33] **Business impact :** yes									
418- Customer privacy	Managing social and environmental inequalities	Page 118	Page 118	Page 119	Page 119	Page 119	-	-	None
Boundary : Within the company **Where we discuss :** Page 114 **Business impact :** yes									

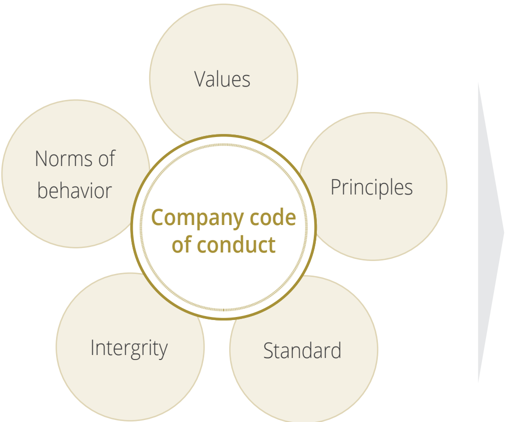
[Online information]

SUSTAINABILITY PROTECTION – PRECAUTIONARY PRINCIPLES



SUSTAINABILITY GOVERNANCE

Ethics and integrity framework of the Company



Responsible delegation of the framework

Preparation : HR department
Management : Senior Management
Approving : Board of Directors
Covering : All the employees of the Company

Practice and evaluation framework

- All employees should signed including highest governance body of the Company
- Conducting the training at the induction level and when required

Supplementary Information

Consolidated Set of GRI Sustainability Reporting Standards

CONSOLIDATED SET OF GRI SUSTAINABILITY REPORTING STANDARDS

GRI CONTENT INDEX – 'IN ACCORDANCE' – COMPREHENSIVE

GRI standard	Disclosure	External assurance provided	Page No.	Remarks
Organisational profiles				
102-1	Name of the organistion	✓	402	
102-2	Activities, brands, products and services	✓	11 - 12	
102-3	Location of headquarters	✓	402	
102-4	Location of operations	✓	11	
102-5	Ownership and legal form	✓	12, 402	
102-6	Markets served	✓	94, 117, [14 - 17]	Online information available
102-7	Scale of the organisation	✓	30 - 32	
102-8	Information on employees and other workers	✓	31, [21, 24]	Online information available
102-9	Supply chain	✓	120 - 121, [38]	
102-10	Significant changes to the organization and its supply chain	✓	4, [38]	Online information available
102-11	Precautionary principle or approach	✓	383	
102-12	External initiatives	✓	6	
102-13	Membership of associations	✓	403	
Strategy				
102-14	Statement from senior decision-maker	✓	38 - 41,	
102-15	Key impacts, risks and opportunities	✓	44 - 46, 177 - 195	
Ethics and integrity				
102-16	Values, principles, standards and norms of behavior	✓	10, 100, 383	
102-17	Mechanisms for advice and concerns about ethics	✓	100, 103 - 104, 156	
Governance				
102-18	Governance structure	✓	144, 378	
102-19	Delegating authority	✓	379	
102-20	Executive – level responsibility for economic, environmental and social topics	✓	379	
102-21	Consulting stakeholders on economic, environmental and social topics	✓	379	
102-22	Composition of the highest governance body and its committeees	✓	20 - 23	
102-23	Chair of the highest governance body	✓	379	
102-24	Nominating and selecting the highest governance body	✓	379	
102-25	Conflicts of interest	✓	379	
102-26	Role of highest governance body in setting purpose, values and strategy	✓	380	
102-27	Collective knowledge of highest governance body	✓	380	
102-28	Evaluating the highest governance body's performance	✓	380	
102-29	Identifying and managing economic, environmental and social impacts	✓	380	
102-30	Effectiveness of risk management processes	✓	381	
102-31	Review of economic, environmental and social topics	✓	381	
102-32	Highest governance body's role in sustainability reporting	✓	381	
102-33	Communicating critical concerns	✓	381	
102-34	Nature and total number of critical concerns	✓	381	
102-35	Remuneration policies		*	
102-36	Process for determining remuneration		*	

GRI standard	Disclosure	External assurance provided	Page No.	Remarks
102-37	Stakeholders' involvement in remuneration		*	
102-38	Annual total compensation ration		*	
102-39	Percentage increase in annual total compensation ratio		*	
Stakeholder engagement				
102-40	List of stakeholder groups	✓	57	
102-41	Collective bargaining agreements	✓	104	
102-42	Identifying and selecting stakeholders	✓	56	
102-43	Approach to stakeholder engagement	✓	57 - 61	
102-44	Key topics and concerns raised	✓	57 - 61	
Reporting practice				
102-45	Entities included in the Consolidated Financial Statements	✓	4, 219 - 221	
102-46	Defining report content and topic boundaries	✓	4, 381 - 383	
102-47	List of material topics	✓	66 - 70	
102-48	Restatements of information	✓		None
102-49	Changes in reporting	✓	4	
102-50	Reporting period	✓	4	
102-51	Date of most recent report	✓	4	
102-52	Reporting cycle	✓	4	
102-53	Contact point for questions regarding the report	✓	5	
102-54	Claims of reporting in accordance with the GRI Standards	✓	4	
102-55	GRI content index	✓	384 - 388	
102-56	External assurance	✓	5, 375 - 376	

* Infromation cannot be disclosed - confidential information

GRI 200 : ECONOMIC				
GRI 201: Economic performance				
103-1	MANAGEMENT APPROACH Wealth creation for all stakeholders of LB Finance PLC by implementing forward looking corporate strategies, while assessing the risk of the market	✓	381	
103-2	Implementation	✓		
103-3	Performance	✓		
201-1	Direct economic value generated and distributed	✓	14	
201-2	Financial implications and other risks and opportunities due to climate change	✓		Considering the nature of the business we are not reporting on climate changes.
201-3	Defined benefit plan obligations and other retirement plans	✓	243	
201-4	Financial assistance received from government	✓		There is no direct or indirect financial assistance received from the government.

Supplementary Information

Consolidated Set of GRI Sustainability Reporting Standards

GRI standard	Disclosure	External assurance provided	Page No.	Remarks
GRI 202: Market Presence				
103-1	MANAGEMENT APPROACH	✓	381	
	Create a stable and progressive financial environment, which renders high quality solutions, backed by superior technology and a customer-friendly service platform			
103-2	Implementation	✓		
103-3	Performance	✓		
202-1	Ratios of standard entry level wage by gender compared to local minimum	✓	101	Patially
202-2	Proportion of senior management hired from the local community	✓		Senior Management refers to the designated authority in charge of a key business department. All senior managers of the Company are local hires.
GRI 203: Indirect economic impacts				
103-1	MANAGEMENT APPROACH	✓	382	
	Initiate responsible stewardship and strategies that would transmit change through the social and economic parameters of the business operations			
103-2	Implementation	✓		
103-3	Performance	✓		
203-1	Infrastructure investments and services supported	✓	123 - 125, [37]	Online information available
203-2	Significant indirect economic impacts	✓	123 - 125	
GRI 300: ENVIRONMENT				
GRI 302: Energy				
103-1	MANAGEMENT APPROACH	✓	382	
	Adopt lean resource consumption practices across our operations, to reduce the use of paper, energy, non bio-degradable material, greater degree of renewable energy project financing and energy saving projects			
103-2	Implementation	✓		
103-3	Performance	✓		
302-1	Energy consumption within the organization	✓	131	
302-2	Energy consumption outside of the organisation	✓		We are not consuming energy outside of the organisation
302-3	Energy intensity	✓	131	
302-4	Reduction of energy consumption	✓	131	
302-5	Reductions in energy requirements of products and services	✓		Considering the nature of the business, this is not relevant for the organisation

GRI standard	Disclosure	External assurance provided	Page No.	Remarks
GRI 305: Emissions				
103-1	MANAGEMENT APPROACH Ensure proactive steps to mitigate the impact on the emission caused by day-to-day business and adhere to all mandatory environmental parameters applicable to business operations and transactions	✓	382	
103-2	Implementation	✓		
103-3	Performance	✓		
305-1	Direct (Scope 1) GHG emissions	✓	132, [48 - 59]	Online information available
305-2	Energy indirect (Scope 2) GHG emissions	✓	132, [48 - 59]	Online information available
305-3	Other indirect (Scope 3) GHG emissions	✓	132, [48 - 59]	Online information available
305-4	GHG emissions intensity	✓	132, [48 - 59]	Online information available
305-5	Reduction of GHG emissions	✓	132, [48 - 59]	Online information available
305-6	Emissions of ozone-depleting substances (ODS)	✓	132	
305-7	Nitrogen oxides (NOX) sulfur oxides (SOX) and other significant air emissions	✓	132	
GRI 400: SOCIAL				
GRI 401: Employment				
103-1	MANAGEMENT APPROACH Commitment to create an environment conducive for employees to develop and reach their full potential, both professionally and personally	✓	382	
103-2	Implementation	✓		
103-3	Performance	✓		
401-1	New employee hires and employee turnover	✓	[22 - 24]	Online information available
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	✓	[24]	Online information available
401-3	Parental leave	✓	[25]	Online information available
GRI: 404: Training and education				
103-1	MANAGEMENT APPROACH Develop a culture where people can make a difference both as individuals and as a team and ensure employee's readiness to take up responsibilities and challenges in our growth process	✓	382	
103-2	Implementation	✓		
103-3	Performance	✓		
404-1	Average hours of training per year per employee	✓	[26 - 27]	Online information available
404-2	Programmes for upgrading employee skills and transition assistance programmes	✓	[26]	Online information available
404-3	Percentage of employees receiving regular performance and career development reviews	✓	101	

Consolidated Set of GRI Sustainability Reporting Standards

GRI standard	Disclosure	External assurance provided	Page No.	Remarks
GRI 405: Diversity and equal opportunity				
103-1	MANAGEMENT APPROACH	✓	382	
	Striving to achieve HR excellence in our business, we continue to pursue an inclusive strategy to develop a work place where equality and diversity feature prominently in the people development agenda			
103-2	Implementation	✓		
103-3	Performance	✓		
405-1	Diversity of governance bodies and employees	✓	[21 - 22]	Online information available
405-2	Ratio of basic salary and remuneration of women to men	✓	[25]	Online information available
GRI 413: Local communities				
103-1	MANAGEMENT APPROACH	✓	382	
	Working in tandem with global and local mandates that safeguard social responsibility and uphold community empowerment			
103-2	Implementation	✓		
103-3	Performance	✓		
413-1	Operations with local community engagement, impact assessments and development programmes	✓	123 - 125, [37]	
413-2	Operations with significant actual and potential negative impacts on local communities	✓		There are no operations with significant actual and potential negative impacts on local communities.
GRI 416: Customer health and safety				
103-1	MANAGEMENT APPROACH	✓	383	
	Determination to ensure customer well-being has led us to formulate products and services that do not in any way impair or harm the health and safety of our customers			
103-2	Implementation	✓		
103-3	Performance	✓		
416-1	Assessment of the health and safety impacts of product and service categories	✓		A health and safety assessment of our products & services was not carried out during the reporting period.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	✓		There were no incidents reported regarding health and safety impacts of product and services
GRI 418: Customer privacy				
103-1	MANAGEMENT APPROACH	✓	383	
	Seeking to demonstrate accountability and responsible stewardship towards all customers, which provides unwavering commitment to safeguard customer privacy			
103-2	Implementation	✓		
103-3	Performance	✓		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	✓		There are no any complains concerning breaches of customer privacy and losses of customer data

* Information cannot be disclosed - confidential information

[Online information]

Consolidated Set of IR Standards

Ref. no	Particulars	Page Reference	Chapter/Section Reference
1	**ELEMENTS OF AN INTEGRATED REPORT**		
1.1	Organizational overview and external environment		
	An integrated report should disclose the main activities of the organization and the environment in which it operates	4 - 6, 48 - 55	About this report, Business Model, Operating environment, product and services and Risk Management
	An integrated report should identify the organization's mission and vision, and provides essential context by identifying matters	10	Vision, Mission, Value and Goals statements
	The organization's:		
	• Culture, ethics and values	10, 404	Organisational Values, Organisational hierarchy
	• Ownership and operating structure including size of the organization, location of its operations	12 - 13	About us, Ownership structure, Operating structure
	• Principal activities and markets	42 - 43	Business Model, Product portfolio
	• Competitive landscape and market positioning	55	Company SWOT
	• Position within the value chain and its process	114 -127	Social and relationship capital- business partners
	• Key quantitative information (Employees/ operating results / Highlights)	42 - 43	
	• Significant factors affecting the external environment and the organization's response	30 - 33, 11 -12	Financial and non-financial highlights, About us
	• The legitimate needs and interests of key stakeholders	48 - 55, 38 - 41	Operating environment Managing Director's Statement
	• Macro and micro economic conditions, such as economic stability, globalization, and sustainability / industry trends	56 - 61	Stakeholder Engagement
	• Market forces, such as the relative strengths and weaknesses of competitors and customer demand	28 - 29, 48 - 55	Chairman Statement Operating environment
	• Environmental challenges, such as climate change, the loss of ecosystems, and resource shortages as planetary limits are approached	106 - 113	Intellectual Capital
	• The legislative and regulatory environment in which the organization operates	114 - 127	Social and relationship capital
1.2	Governance		
	An integrated report should show how the organization's governance structure supports its ability to create value in the short, medium and long term	42 - 43, 62 - 64, 140 - 158	Business Model, Corporate strategy, Corporate governance
	An integrated report needs to provide an insight about its ability to create value	42 - 43, 62 - 64	Business Model, Corporate strategy
	• The organization's leadership structure, including the skills and diversity	18 - 23, 140 - 158	Profile of the Board of Directors, Statement of Corporate Governance
	• Mandatory and voluntary code of corporate governance adopted by the Company	140 - 158	Corporate governance tables
	• Code of ethical conduct adopted by the Company in relation to ethical business	140 - 158	Statement of Corporate Governance -Ethics and Compliance

Integrated Report Checklist

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	• Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues	172 - 196	Risk report
	• Governance have taken to influence and monitor the strategic direction of the organization and its approach to risk management	172 - 196	Risk Management
	• How the organization's culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders	140 - 158	Corporate Governance
	• Whether the organization is implementing governance practices that exceed legal requirements / Key Policies	72 - 135	Capital Reports
	• The responsibility those charged with governance take for promoting and enabling innovation	140 - 158	Corporate Governance
	• How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the capitals	-	Not reported
1.3	Stakeholder Identification/relationships		
	An integrated report should identify its key stakeholders and provide insight into the nature and quality of the organization's relationships with its key stakeholders,	56 - 61	Stakeholder Engagement
	• At what extent the organization understands	56 - 61	Stakeholder Engagement
	• Takes into account and responds to their legitimate needs and interest	56 - 61	Stakeholder Engagement
	Disclose the following in their integrated reports in respect of stakeholder relationships:	56 - 61	Stakeholder Engagement
	• How the company has identified its stakeholders	56 - 61	Stakeholder Engagement
	• Stakeholder engagement methodology	56 - 61	Stakeholder Engagement
	• Identification of material matters of stakeholders	66 - 70, 56 - 61	Our material matters Stakeholder Engagement
	• How the Company has applied such matters	66 - 70, 56 - 61	Our material matters Stakeholder Engagement
	• How the stakeholders are engaged in assessing impacts, implications and outlook unrespects of Company's business model	66 - 70, 56 - 61	Our material matters Stakeholder Engagement
	Capitals		
	An integrated report needs to provide insight about the resources and the relationships used and affected by the organization	72 - 135, 62 - 65	Capitals, Strategic focus and resource allocation
	How the organization interacts with the capitals to create value over the short, medium and long term	72 - 135, 42 - 43	Capital reports, Business Model
	An integrated report need to identify the various forms of capitals which are essential for the success of its business operations	72 - 135, 42 - 43	Capital reports, Business Model

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	• Financial Capital -The pool of funds that is available to the organization for use in the production of goods or provision of services	72 -91	Financial Capital
	• Manufacturing Capital - Manufactured physical objects that are available to the organization for use in the production of goods and provision of services	92 - 97	Manufactured Capital
	• Intellectual Capital - Organizational Knowledge based intangibles	106 - 113	Intellectual Capital
	• Human Capital - People's competencies, capabilities and experience, and their motivations to innovate	98 - 105	Human Capital
	• Social & Relationship Capital - The institutions and the relationships within and between communities, groups of stakeholders and other networks and collective wellbeing	114 - 127	Social and Relationship Capital
	• Natural Capital - All renewable and non-renewable environmental resources and processes that provide goods and services that support the past, current and future prosperity of the organization	128 - 135	Natural Capital
1.4	**Business model**		
	An integrated report should describe the organization's business model	42 - 43	
	An integrated report need to describe the business model, including key: • Inputs • Business activities • Outputs • Outcomes	42 - 43	Value Creation Process, Business Model
	Features that can enhance the effectiveness and readability of the description of the business model include: • Explicit identification of the key elements of the business model • A simple diagram highlighting key elements, supported by a clear explanation of the relevance of those elements to the organization	42 - 43	Business model
	• Narrative flow that is logical given the particular circumstances of the organization	42 - 43	Business model
	• Identification of critical stakeholder and other dependencies and important factors affecting the external environment	56 - 61	Stakeholder Engagement
	• Connection to information covered by other Content Elements, such as strategy, risks and opportunities, and performance	42 - 43, 62 - 65	Business Model Strategic focus and resource allocation

Integrated Report Checklist

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	Inputs		
	An integrated report shows how key inputs relate to the capitals on which the organization depends, or that provide a source of differentiation for the organization	42 - 43	Business Model,
	Business activities		
	An integrated report describes key business activities. This can include: How the organization differentiates itself in the market place	42 - 43, 198 - 208	Business Model, Business review
	How the organization approaches the need to innovate	42 - 43	Business Model, Business review
	How the business model has been designed to adapt to change	62 - 65	Strategic focus & Resource Allocation
	Outputs		
	An integrated report identifies an organization's key products and services. There might be other outputs, such as by-products and waste (including emissions), that need to be discussed within the business model disclosure depending on their materiality	198 - 208	Business review
	Outcomes		
	Both internal outcomes and external outcomes Both internal outcomes and negative outcomes	42 - 43	Business Model
1.5	Performance		
	An integrated report needs to explain the extent to which the organization has achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?	32 - 33	Capital Highlights Non financial Highlights
	An integrated report should contain qualitative and quantitative information such as:		
	• Quantitative indicators with respect to targets and risks and opportunities, • explaining their significance, their implications, and the methods and • assumptions used in compiling them	32 - 33	Non-financial highlights
	• The organization's effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain	66 - 70	Material matters Capitals, Material Matters
	• The state of key stakeholder relationships and how the organization has responded to key stakeholders' legitimate needs and interests	114 - 127	Social and relationship capital
	• The linkages between past and current performance, and between current performance and the organization's outlook.	114 - 127, 30 - 33, 38 - 41	Social and relationship capital Performance highlights (financial and non- financial) MD's statement

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	Include instances where regulations have a significant effect on performance or the organisation's non-compliance with laws or regulations may significantly affect its operations	172- 196	Risk Report
1.6	**Risks, opportunities and internal controls**		
	An integrated report should explain what are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term And effectiveness of the system of internal controls.	172 - 196, 122	Risk management report Risk governance framework
	• The specific source of risks and opportunities, which can be internal, external or, commonly, a mix of the two.	172 - 196	Risk Management
	• The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does.	182	Risk Management – Risk Heat Map
	• The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs	186 - 195	Risk management- Mitigation strategies
	• Risk Management Report (Which includes details about risk, root course, potential impact, response to risk, risk rating)	172 - 191	Risk Management
	• Response on the effectiveness of the internal controls and the board's responsibility for the disclosures on internal controls to safeguard stakeholder interest.	180 - 183	Risk management- Risk governance framework
1.7	**Strategy & Resource Allocation**		
	An integrated report should describe its strategic direction (Where does the organization want to go and how does it intend to get there)	42 - 43	Business model Stakeholder engagement
	An integrated report needs to identify: The organization's short, medium and long term strategic objectives	56 - 61	Strategic focus and resource allocation
	The strategies it has in place, or intends to implement, to achieve those strategic objectives	62 - 65	Business review
	• How the entity has positioned in the wider market	198 - 208	Business model
	• How the long term strategies relate to current business model	42 - 43	Strategic focus and resources allocation how it links to value creation
	• The resource allocation plans it has to implement its strategy	62 - 65	Strategic focus and resources allocation
	• How it will measure achievements and target outcomes for the short, medium and long term	62 - 62	Strategic focus and resources allocation Performance measurement

Integrated Report Checklist

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	The linkage between the organization's Strategy & Resource Allocation and the information covered by other Content Elements, including • Relationship with the organization's business model • What changes to that business model might be necessary to implement chosen strategies to provide an understanding of the organization's ability to adapt to • Change • Respond to the external environment and the identified risks and opportunities affect the capitals, and the risk management arrangements related to those capitals	60 - 65 42 - 43 91, 97, 105, 112, 126, 135	Strategy & Resource Allocation Business model Managing Tradeoff, positive and negative outcomes
	What differentiates the organization to give it competitive advantage and enable it to create value, such as: • The role of innovation • How the organization develops and exploits intellectual capital • The extent to which environmental and social considerations have been embedded into the organization's strategy to give it a competitive advantage • Key features and findings of stakeholder engagement that were used in formulating its Strategy & Resource Allocation plans.	106 - 113 62 - 65	intellectual capital strategic focus and resources allocation- market forces and competitive landscape
1.8	Outlook		
	An integrated report should explain what challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for future performance?	72 - 135 41	Capital reports MD's Statement looking forward
	An integrated report should highlight anticipated changes over time and provides information on: • The organization's expectations about the external environment the organization is likely to face in the short, medium and long term • How that will affect the organization • How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.	48 - 55 62 - 65	Operating environment Strategy & Resource Allocation
	The discussion of the potential implications, including implications for future financial performance may include: The external environment, and risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives	48 - 55	Operating environment

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	An integrated report may also provide lead indicators and sensitivity analyses. If forecasts or projections are included in reporting the organization's Outlook Summary of related assumptions is useful Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook	72 - 135 42 - 43 172 - 196 72 - 96	Capitals Business Model Risk Management Financial capital
	Disclosures about an organization's outlook in an integrated report should consider the legal or regulatory requirements to which the organization is subject	4 - 5	About This report
1.9	Basis of preparation and presentation		
	An integrated report should answer the question: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated,	66 - 70	Material matters
	An integrated report describes its basis of preparation and presentation, including:		
	• A summary of the organization's materiality determination process	66 - 70	Material matters identification
	• Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters	66 - 70	Material matters priorotise
	• Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters.	66 - 70	Material matters priorotise
	• A description of the reporting boundary and how it has been determined Eg: Include process used for identifying the reporting boundary, geographic scope, the entities represented in the report and the nature of the information provided for each entity	4 - 5	About our report- Scope and Boundaries
	• A summary of the significant frameworks and methods used to quantify or evaluate material matters (e.g., the applicable financial reporting standards used for compiling financial information, a company-defined formula for measuring customer satisfaction, or an industry based framework for evaluating risks).	66 - 70	Material matters

Ref. no	Particulars	Page Reference	Chapter/Section Reference
2	**RESPONSIBILITY FOR AN INTEGRATED REPORT**		
	An integrated report should include a statement from those charged with governance that includes: • An acknowledgement of their responsibility to ensure the integrity of the integrated report • An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report • Their opinion or conclusion about whether the integrated report is presented in accordance with the Framework	140	Corporate governance- Chairperson's message
3	**OTHER QUALITATIVE CHARACTERISTICS OF AN INTEGRATED REPORT**		
3.1	Conciseness		
	An integrated report should be concise.		
	An integrated report need to include sufficient context to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information	66 - 70	The Material Aspects, Strategy & Resource Allocation
	Follows logical structure and includes internal cross-reference as appropriate to limit repetition.	66 - 70	The Material Aspects
	Express concepts clearly and in as few words.	66 - 70	The Material Aspects
	Favours plain language over the use of jargon or highly technical terminology.		
	Avoids highly generic disclosures.		
3.2	Reliability and completeness		
	An integrated report should include all material matters, both positive and negative, in a balanced way and without material error	62 - 65 140 - 158	Strategy & Resource Allocation, Statement of Corporate Governance-
	The organization achieves the reliability and completeness through,		
	• Selection of presentation formats that are not likely to unduly or inappropriately influence assessments made on the basis of integrated report.	66 - 70	The Material Aspects
	• Giving equal conservation to both increases and decreases in the capitals, both strengths and weaknesses of the organization, both positive and negative performance etc.	72 - 135	Management Discussion and Analysis
	When information includes estimates, this is clearly communicated and the nature of limitations of the estimation process are explained.	375	Independent auditor's report

Ref. no	Particulars	Page Reference	Chapter/Section Reference
3.3	**Consistency and comparability**		
	The information in an integrated report should be presented:		
	• On a basis that is consistent over time	210 - 211	Financial statements
	• In a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time		Highlights for the year
		367	Ten year summery
		72 - 90	Financial statement analysis
	• Presenting information in the form of ratios		Highlights, Financial Capital
	• Reporting quantitative indicators commonly used by other organizations with similar activities, particularly when standardized definitions are stipulated by an independent organization		
	• Reporting policies are followed consistently from one period to other unless a change is needed to improve the quality of information reported.	72 - 90	Financial Capital
		219 - 225	Financial statements
	• Reporting the same KPIs if they continue to be material across reporting period.		
3.4	**Connectivity of information**		
	An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.	42	Business model
	• Capitals	42	Business model
	• Content elements		
	• Past, Present & Future	72 - 135	Capital reports
		38 - 41	MD's Statement
	• Finance and other information		Finance Capital
3.5	**Materiality**		
	An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term	66 - 70	Material matters
3.6	**Assurance on the Report**		
	• The policy and practice relating to seeking assurance on the report	216 - 218	Independent auditors report on financial statements
		214 - 215	Directors' Responsibility for Internal
			Control, Financial Reporting and
		140 - 158	Corporate Governance
	• The nature and scope of assurance provided for this particular report		

Glossary of Terms

A

ACCOUNTING POLICIES

Accounting policies The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCRUAL BASIS

The system of accounting wherein revenue is recognised at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

ALLOWANCE FOR IMPAIRMENT

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life. Amortised cost Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any deduction for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)

The committee that is responsible for managing assets and liabilities of the Company.

AVAILABLE FOR SALE FINANCIAL INVESTMENTS

Non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates. Average weighted prime lending rate (AWPLR) AWPLR is calculated by the Central Bank weekly based on commercial bank's lending rates offered to their prime customers during the week

B

BASIS POINT (BP)

One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

Brexit

The United Kingdom's withdrawal from the European Union.

C

CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

CASH EQUIVALENTS

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CASH FLOWS

Cash equivalents are short-term, highly liquid investment that are readily convertible to know amount of cash and which are subject to an insignificant risk of changes in value.

COLLECTIVE IMPAIRMENT

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant and to cover losses that have been incurred but has not yet been identified at the reporting date.

Commercial paper (CP)

An unsecured, debt instrument issued by a company, to finance short-term funding requirements. The debt is usually issued at a discount, reflecting prevailing market interest rate.

COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the reporting date. Compounded annual growth rate (CAGR) The rate at which it would have grown if it grew at an even rate compounded annually.

CONTINGENCIES

A condition or situation existing at reporting date where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

COST METHOD

A method of accounting where by the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profiles of the investee rising subsequent to the date of acquisition.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

CORPORATE SUSTAINABILITY

Business approach that creates long-term consumer and employee value by creating a 'green' strategy aimed toward the natural environment and taking into consideration every dimension of how a business operates in the social, cultural and economic environment.

COHORT METHOD

A study design where one or more samples (called Cohorts) are followed prospectively and subsequent status evaluation with or outcome are conducted to determine which initial participants exposure characteristics (risk factors) are associated with it.

COST TO INCOME RATIO

Operating expenses excluding impairment charge/gold loan auction losses as a percentage of total operating income (net of interest expenses).

CREDIT RATING

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK

Risk of financial loss, if a customer or counterparty fails to meet an obligation under a contract.

CREDIT RISK MITIGATION

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

D

DEFERRED TAXATION

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

DEPRECIATION

The systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION

Removal of a previously recognised financial asset or liability from an entity's Statement of Financial Position.

DISCOUNT RATE

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

DIVIDEND COVER

Profit attributable to ordinary shareholders as a percentage of gross dividends; indicates number of times dividend is covered by current year's distributable profits.

DIVIDEND PAY-OUT RATIO

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

DIVIDEND PER SHARE (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

DIVIDEND YIELD

Dividend expressed as a percentage of market value of a share. In absence of any capital gains, this shows the return on investing on a share relative to its market price.

E

EARNINGS PER SHARE (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's earnings attributable to an ordinary share in issue.

ECONOMIC VALUE ADDED (EVA)

A measure of performance considering cost of total invested equity.

EFFECTIVE INTEREST RATE (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

EFFECTIVE TAX RATE

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

EQUITY METHOD

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee

EVENTS AFTER THE REPORTING PERIOD

Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, but which give rise to the contingencies and commitments.

EXPOSURE

A claim, contingent claim or position which carries a risk of financial loss.

F

FAIR VALUE

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset or financial liability that is held-for trading or upon initial recognition designated by the entity as fair value through profit or loss.

FINANCE LEASE

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all risks and rewards of ownership to the lessee.

FINANCIAL ASSETS

Any asset that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

FINANCIAL GUARANTEE CONTRACT

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

FINANCIAL INSTRUMENT

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

FINANCIAL LIABILITIES

A contractual obligation to deliver cash or other financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

G

GLOBAL REPORTING INITIATIVE (GRI)

GRI is a leading organisation in the sustainability filed. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

GOING CONCERN

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

GROSS DIVIDEND

The proportion of profit distributed to shareholders including the tax withheld.

GUARANTEES

An assurance made by a third party (Guarantor) who is not a party to contract between two others, that the guarantor will be liable if the Guarantee fails to fulfil the contractual obligation

H

HELD FOR TRADING

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

HELD TO MATURITY INVESTMENTS

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

HIRE PURCHASE

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

IMPAIRED LOANS

Impaired loans are loans where the company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT

This occurs when the recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT CHARGE/(REVERSAL)

An increase/(decrease) of the difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset compared to the previous reporting date.

INDIVIDUAL IMPAIRMENT

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

INDIVIDUAL SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the management which should be assessed for objective evidence, measurement and recognition of impairment on an individual basis.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance.

INTEGRATED REPORTING

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

INTEREST COVER

Earnings before interest and taxes divided by interest cost. This indicates the number of times interest expenses is covered by earnings before interest and tax; ability to cover interest expenses.

INTEREST SPREAD

Represents the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

K

KEY MANAGEMENT PERSONNEL (KMP)

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

L

LENDING PORTFOLIO

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

LETTER OF CREDIT (LC)

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily.

LOSS GIVEN DEFAULT (LGD)

The percentage of an exposure that a lender expects to lose in the event of obligor default.

LOAN TO VALUE RATIO (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

MARKET CAPITALISATION

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

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 statement.

MILLENNIALS
Demographic cohort following generation X, also known as generation Y.

N

NET ASSETS VALUE PER SHARE (NAV)
Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

NET INTEREST INCOME
The difference between interest income earned from interest earning assets and interest expenses incurred on interest-bearing liabilities.

NET INTEREST MARGIN (NIM)
Net interest income expressed as a percentage of average interest earning assets.

NON-PERFORMING LOANS/ ADVANCES (NPL)
The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.

NON-PERFORMING LOANS COVER
Cumulative loan provision as a percentage of total non-performing loans (net of interest in suspense)

NPL RATIO
Total non-performing loans as a percentage of the total lending portfolio.

NON-RECURRING PROFIT
A one time or highly infrequent profit.

O

OFF-BALANCE SHEET TRANSACTIONS
Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, which give rise to the commitment and contingencies in future.

OPERATIONAL RISK
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

PRICE EARNINGS RATIO (P/E RATIO)
Market price of a share divided by earnings per share; reflects number of years that would be taken to recoup shareholders' capital outlay in the form of earnings.

PROBABILITY OF DEFAULT (PD)
An internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

R

RELATED PARTY
Parties have the ability to control or exert a significant influence over the company's financial and operating decisions.

RETURN ON ASSETS (ROA)
Net profit for the year expressed as a percentage of average total assets; indicates overall effectiveness in generating profits with available assets.

RETURN ON EQUITY (ROE)
Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average shareholders' funds/ equity.

REPURCHASE AGREEMENT (REPO)
Contract to sell and subsequently repurchase government securities at a specified date and price.

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

S

SHAREHOLDERS' FUNDS
Total of issued and fully paid share capital and revenue reserves.

T

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

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

TOTAL SHAREHOLDER RETURN
Combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

U

USEFUL LIFE
The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

VALUE ADDED
Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

YIELD TO MATURITY
Discount rate at which the present value of future cash flows would equals the security's current price.

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 reregistered as per the Companies Act No. 07 of 2007 on 6th June 2008.

A Licensed Finance Company under the Finance Business Act No. 42 of 2011.

A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

STOCK EXCHANGE LISTING

The Company was admitted to the official List of the Colombo Stock Exchange on 30th December 1997. The ordinary shares and senior and subordinated unsecured, redeemable rated, debentures redeemable in 2022 of the Company are listed on the Colombo Stock Exchange.

DATE OF INCORPORATION

30th May 1971

COMPANY REGISTRATION NUMBER

PQ 156

TAX PAYER IDENTIFICATION NUMBER

104033431

VAT REGISTRATION NUMBER

104033431 7000

CENTRAL BANK REGISTRATION NUMBER

RFC 1003

PRINCIPAL ACTIVITIES

Acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, margin trading facilities, factoring and trade finance facilities, other credit facilities and value added services.

Company subsidiary, LB Microfinance Myanmar Company Limited carried on microfinance lending in Myanmar.

REGISTERED OFFICE

No. 275/75, OPA Building, Prof. Stanley Wijesundara Mawatha, Colombo 07.
Tel: 011- 2 200 000 Fax: 011-5 345 327

CORPORATE OFFICE

No. 20, Dharmapala Mawatha, Colombo 03.
Tel: 011-2 155 000 Fax: 011-2 575 098

OUTLETS

Branches	-	127
Gold loan centres	-	36

WEBSITE

www.lbfinance.com

FINANCIAL YEAR END

31 March

CREDIT RATING

The Company has been assigned A- (lka) stable outlook by Fitch Ratings Lanka Limited

BOARD OF DIRECTORS AND BOARD APPOINTED COMMITTEES

BOARD OF DIRECTORS

Mrs. Shirani Jayasekara (Chairperson)

Mr. Dhammika Perera
(Executive Deputy Chairman)

Mr. Sumith Adhihetty
(Managing Director)

Mr. Niroshan Udage (Executive Director)

Mr. B D A Perera (Executive Director)

Mr. Ravindra Yatawara
(Executive Director)

Mrs. Anandhiy Gunawardhana
(Independent Non-Executive Director)

Mrs. Yogadinusha Bhaskaran
(Non-Executive Director)

Mr. Ashane Jayasekara
(Independent Non-Executive Director)

Mrs. Ashwini Natesan
(Independent Non-Executive Director)

Mr. Dharmadasa Rangalle
(Non-Executive Director)

AUDIT COMMITTEE

Mrs. Yogadinusha Bhaskaran (Chairperson)

Mrs. Anandhiy Gunawardhana

Mr. Ashane Jayasekara

REMUNERATION COMMITTEE

Mrs. Anandhiy Gunawardhana (Chairperson)

Mrs. Yogadinusha Bhaskaran

Mr. Ashane Jayasekara

NOMINATION COMMITTEE

Mr. Ashane Jayasekara (Chairman)

Mrs. Anandhiy Gunawardhana

Mr. Sumith Adhihetty

INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. Ashane Jayasekara (Chairman)

Mrs. Anandhiy Gunawardhana

Mrs. Ashwini Natesan

Mr. Sumith Adhihetty

Mr. Niroshan Udage

Mr. B D A Perera

Mr. Ravindra Yatawara

Mr. Bimal Perera

Mr. Hasitha Athapattu

Mr. Udul Chandrasena

Mrs. Zairaa Kaleel

Mrs. Waruni Perera

SECRETARIES

P W Corporate Secretarial (Pvt) Ltd.
No. 3/17, Kynsey Road, Colombo 08
Tel: 011- 4640360-3
Fax: 011- 4740588
Email: pwcs@pwcs.lk

EXTERNAL AUDITORS

Ernst & Young

INTERNAL AUDITORS

KPMG

BANKERS

Bank of Ceylon

Commercial Bank of Ceylon PLC

DFCC Bank PLC

Hatton National Bank PLC

Indian Overseas Bank

Indian Bank

NDB Bank PLC

Nations Trust Bank PLC

Pan Asia Banking Corporation PLC

People's Bank

Sampath Bank PLC

Seylan Bank PLC

Standard Chartered Bank

Union Bank of Colombo PLC

Habib Bank Limited

Public Bank Berhad

Axis Bank

Deutsche Bank

CORPORATE MEMBERSHIPS AND ASSOCIATIONS

The Finance Houses Association of Sri Lanka

Leasing Association of Sri Lanka

The Ombudsman Sri Lanka (Guarantee) Limited

Mercantile Cricket Association

Mercantile Football Association

SUBSIDIARY COMPANY

LB Microfinance Myanmar Company Limited
(Company incorporated in the Union of the
Republic of Myanmar)

COMPANY REGISTRATION NUMBER

844 FC of 2016-2017 (YGN)

REGISTERED OFFICE

Myawaddy Bank
Luxury Complex, 4th Floor, Apt 401 Bo Gyoke
Road cnr, W a Dan Street, Lanmadaw Township,
Yangon, Myanmar

BOARD OF DIRECTORS

Mr. Dhammika Perera

Mr. Sumith Adhihetty

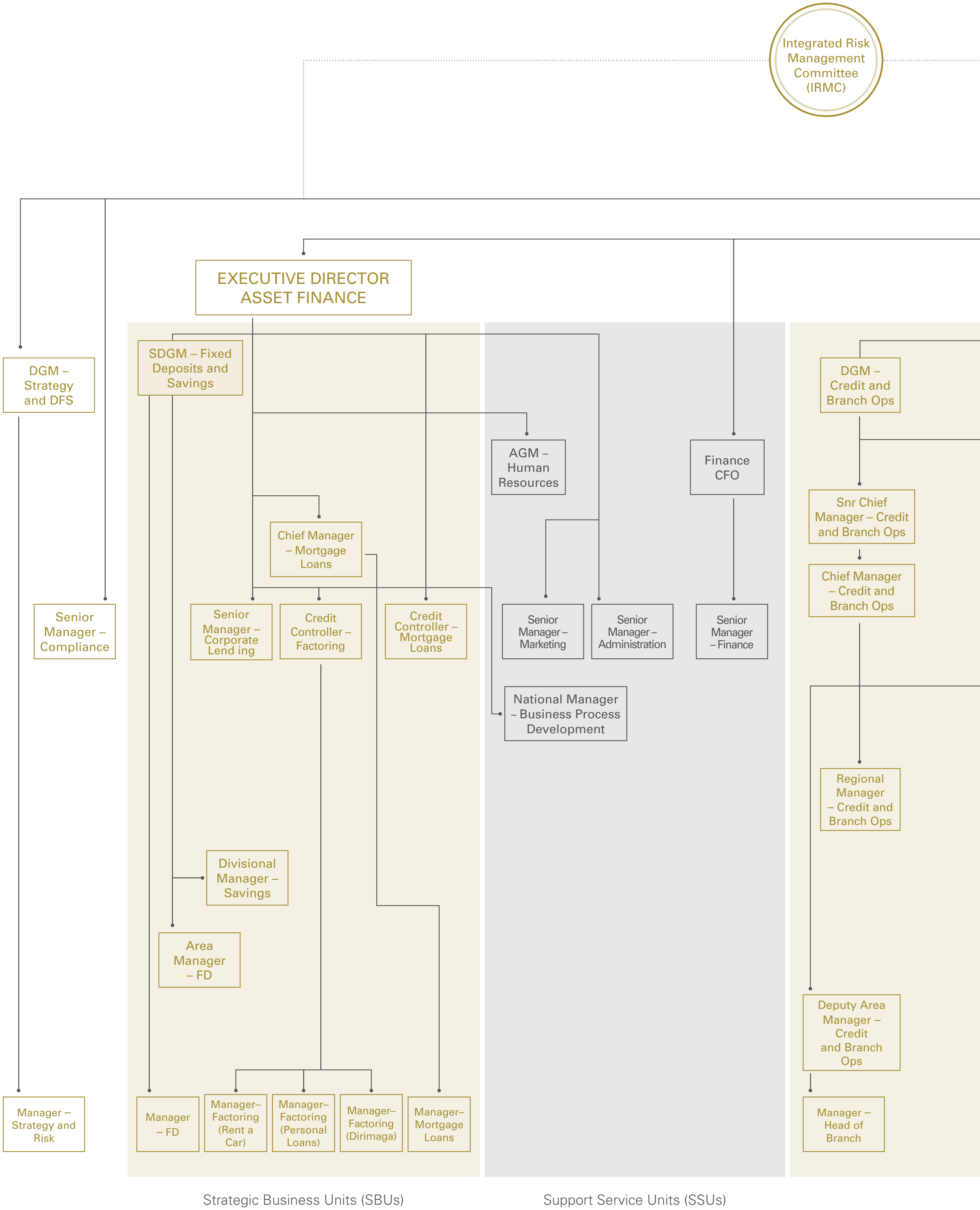
Mr. Niroshan Udage

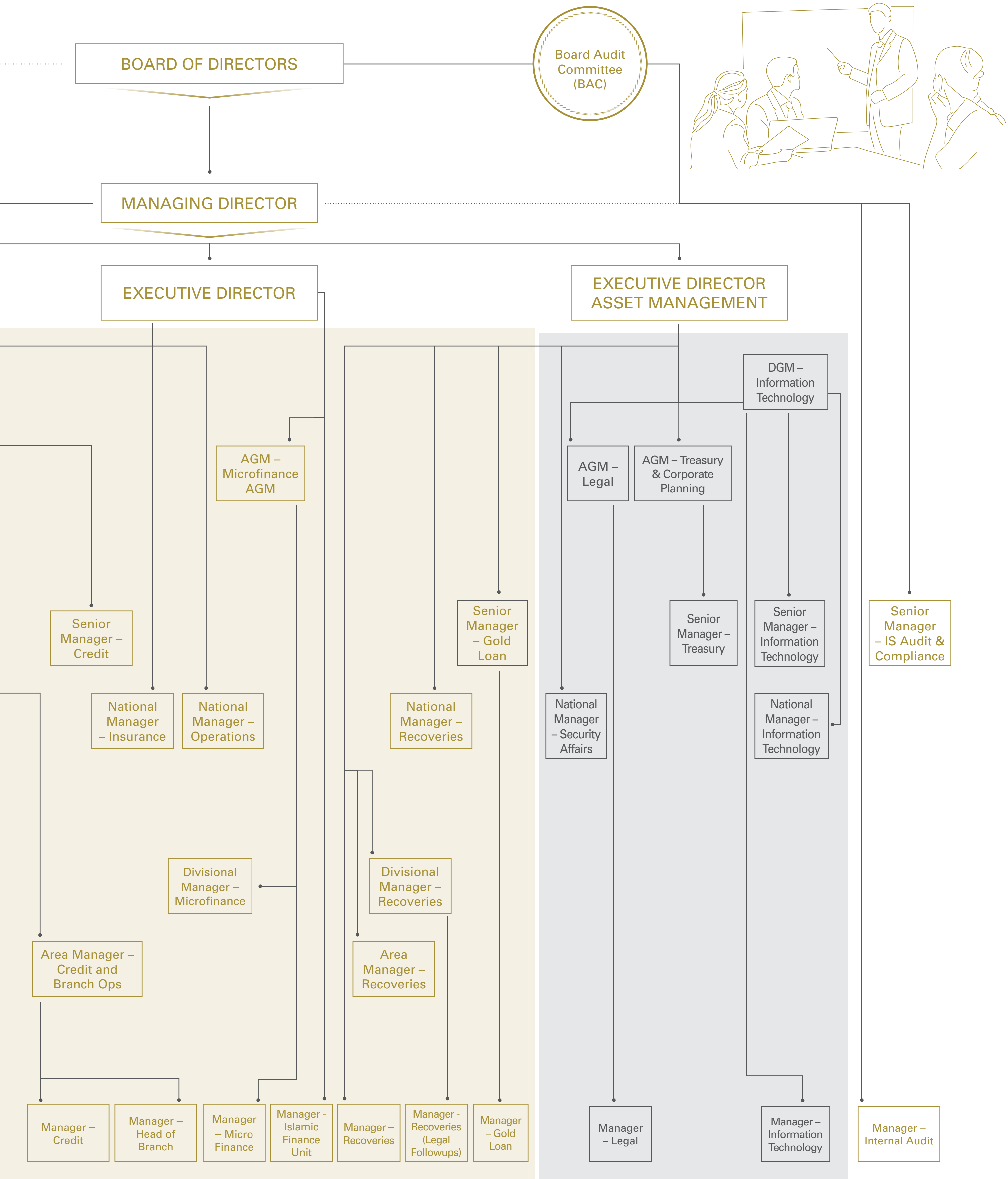
Mr. B D A Perera

Mr. Ravindra Yatawara

Mr. Dulan de Silva

Organisational Structure





Strategic Business Units (SBUs)

Support Service Units (SSUs)

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Sixth (46th) Annual General Meeting of L B Finance PLC will be held at the Corporate Office of the Company, No. 20, Dharmapala Mawatha, Colombo 3 on 27th June 2019 at 8.30 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 Financial Statements for the year ended 31st March 2019 and the Report of the Auditors thereon.

2. To declare a Dividend as recommended by the Directors.

3. To re-elect Mrs. Yogadinusha Bhaskaran as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.

4. To re-elect Mrs. Ashwini Natesan as a Director in terms of Article 92 of the Articles of Association of the Company.

5. To re-elect Mr. Dharmadasa Rangalle as a Director in terms of Article 92 of the Articles of Association of the Company.

6. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants, as the Company's Auditors and authorize the Directors to determine their remuneration.

7. To authorize the Directors to determine donations for the year ending 31st March 2020 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

28 May 2019

Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf.

2. A Proxy need not be a shareholder of the Company.

3. A Form of Proxy accompanies this Notice.

4. The completed Form of Proxy should be deposited at the Registered Office of the Company No. 275/75, Professor Stanley Wijesundera Mawatha, Colombo 7, by 8.30 a.m. on 25th June 2019.

Form of Proxy

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

Mrs. Shirani Jayasekara	or failing her *
Mr. Dhammika Perera	or failing him*
Mr. Sumith Adhihetty	or failing him*
Mr. Niroshan Udage	or failing him*
Mr. Biyanwilage Dudley Auburn Perera	or failing him*
Mr. Ravindra Yatawara	or failing him*
Mrs. Anandhiy Gunawardhana	or failing her *
Mrs. Yogadinusha Bhaskaran	or failing her*
Mr. Ashane Jayasekara	or failing him*
Mrs. Ashwini Natesan	or failing her*
Mr. Dharmadasa Rangalle	

as my/our* proxy to represent me/us* to speak and to vote as indicated hereunder for me/us* and on my/our* behalf at the Forty Sixth (46th) Annual General Meeting of the Company to be held on 27th June 2019 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

		For	Against
1	To declare a dividend as recommended by the Directors.		
2	To re-elect Mrs. Yogadinusha Bhaskaran as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.		
3	To re-elect Mrs. Ashwini Natesan as a Director in terms of Article 92 of the Articles of Association of the Company.		
4	To re-elect Mr. Dharmadasa Rangalle as a Director in terms of Article 92 of the Articles of Association of the Company		
5	To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants as the Company's Auditors and authorize the Directors to determine their remuneration		
6	To authorize the Directors to determine donations for the year ending 31st March 2020 up to the date of the next Annual General Meeting.		

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

....
Signature of Shareholder/s

*Please delete what is inapplicable.

Instructions for completion

1. The full name, National Identity Card number and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.

2. The completed Proxy should be deposited at the Registered Office of the Company, No.275/75, Professor Stanley Wijesundera Mawatha, Colombo 07, by 8.30 a.m. on 25th June 2019.

3. The Proxy shall –

   (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

   (b) In the case of a company or corporate / statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the company or corporate / statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).

4. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy in his/her discretion will vote as he/she thinks fit.

5. Articles 59 to 62 of the Articles of Association of the Company dealing with voting are quoted below for information of the shareholders.

"59 METHOD OF VOTING

At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by-

i. the chairman of the meeting; or

ii. not less than three persons present in person or by Attorney or representative or by proxy and entitled to vote; or

iii. a member or members present in person or by Attorney or representative or by proxy and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or

iv. a member or members present in person or by attorney or representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

A demand for a poll may be withdrawn, unless a poll be demanded (and the demand be not withdrawn) a declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

60. HOW A POLL IS TO BE TAKEN

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may direct, and the results of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman may (and if so requested shall) appoint scrutinizers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

61. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

62 A poll demanded on the election of a Chairman of the meeting or on a question of a adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately.

Feedback form – Annual report 2018/19

We would like to hear thoughts, concerns or problems about this report so that we may take measures for improvement.

Please Mention Your Relationship With L B Finance – Please tick (×) the appropriate box.

Shareholder		Employee		Customer	
Business Partner		Regulators/Government		Society	

Select the preferred communication method to contact you – Please tick (×) the appropriate box.

Phone		Website		Letter	
Email		Other			

Your views on Annual Report 2018/19 - Please tick (✓) the appropriate box.

Indicator	Excellent	Good	Bad	Poor
Design and layout				
Content and Disclosures				
Theme and focus				

Please write details of your feedback here:

....

....

....

Comments / Suggestions

....

....

....

Please provide your contact details

Name :

Tel :

Email :

Thanking you for taking your time. You can post or Email your feedback to:

Assistant Manager – Integrated Reporting and Sustainability

LB Finance PLC

Corporate office

No. 20, Dharmapala Mawatha, Colombo 3.

Email : thusithaw@lbfinance.lk

Tel : 0112155504

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LB FINANCE

www.lbfinance.com