Matter of

FACT

Unmatched value creation

Best-in-class products

State-of-the-art digital technologies

Talented, experienced people

Customer-friendly approach

L B FINANCE

L B Finance PLC | Annual Report 2017/18

Matter of
FACT

Unmatched value creation

Best-in-class products

State-of-the-art digital technologies

Talented, experienced people

Customer-friendly approach

These are some of the facts that matter in the analysis of any progressive company. They are also the reasons why we are now one of the nation's most respected creators of value. We've spent the past 47 years expanding and fine-tuning our product and service portfolio, to create an unmatched financial service experience for the many stakeholders we serve. From corporate customers and small and medium industries to individual customers, we have served a diversity of Sri Lankans with real value. Today our portfolio includes everything from fixed deposits, savings accounts, leasing, loans and microfinance to factoring and trade finance; making us one of the most versatile non-banking financial institutions in Sri Lanka today.

This report records another year of excellence in service, performance and value creation for our many stakeholders. We also describe how we drove your company to a new level; the streamlining of our systems and processes and the improvements to customer convenience we made through our recent investments into state of the art digital technology, that will transform the speed and accessibility of the products and services we offer.

We're changing the way people work and live and evolving our business model to be best in class financial institution.

And that's a matter of fact.

Contents

Vision

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

Mission

To mobilise public funds by innovating investment products that will enhance the value delivered to our depositors.

To engage in prudent lending to entrepreneurs to assist them in the creation of wealth.

To embark on investments in which results can be clearly assessed and seize new opportunities in the market.

To offer a caring and personalised service that will form the foundation for developing lasting partnerships with our stakeholders, employees and the general public.

To use training and career development to create an empowered and committed group of employees who will drive the Company to high levels of achievement.

Values

Excellence

Ethics

Professionalism

Transparency

Innovation

Quality

Goals

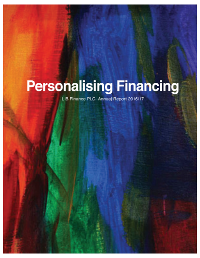
To be a major player in the financial services sector in Sri Lanka

GRI - 102 - 46, 50, 51, 52, 54

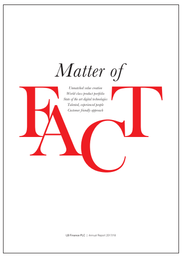
About Our 2017/18 Integrated Report

OUR 6TH INTEGRATED REPORT

Our 2017/ 18 Annual Report has been presented as an 'Integrated Report' with the aim of articulating how L B Finance PLC (LBF), as an organisation, has effectively managed its business to deliver consistent value to its stakeholders. Accordingly, the report encompasses the efforts the Company has undertaken to contribute towards economic prosperity, environmental sustainability and social well-being for a brighter and more optimistic future.



Our 2016/17 Annual Report



Our 2017/18 Annual Report

OUR AUDIENCE

Our long-term providers of capital are the primary audience of our integrated report. However, our value creation activities benefit and impact a wider range of stakeholders whose interests are also specifically covered in this report, in line with our shared value creation principle.

BENCHMARKING

We benchmark our performance against our peers based on publicly available information. While consistent benchmarks are not always readily available, we have included these where relevant so that readers can measure LBF's performance relative to peers.

SCOPE AND BOUNDARY

Our Integrated Report details our performance for the 2017/18 financial year, covering the period 1 April 2017 and 31 March 2018. Reflecting our integrated thinking, the report extends beyond financial reporting and includes non-financial performance, including opportunities and risks, which have a significant influence on our ability to create value along with the strategies adopted and stakeholder outcomes resulting from strategies. To demonstrate LBF's performance in this context, this report has been prepared in accordance with the Global Reporting Initiatives (GRI) standards 'Comprehensive Option'.

THE SIX CAPITALS AND MATERIALITY

This Integrated Annual Report is structured around the matters we consider to be most material to the sustainability of our Company and the strategies adopted during the year to address these matters, with special emphasis given to those matters which have or could have the ability to influence our financial performance or our reputation, or impact on our operations. We report on our performance in managing these material matters through the International Integrated Reporting Council (IIRC) six capitals model of value creation.

While we have adopted the six capitals categorisation, based on our understanding of the IIRC's guidance, our report explains our dependence and impact on the forms of capital that are fundamental to our ability to create value over the long-term. We have not structured this report using the capitals but have embedded them within each section to enable us to plot the interrelationships and trade-offs between them in relation to the Company and individual business unit strategies.

Financial Capital

Our shareholders' equity and funding from investors and clients that are used to support our business and operational activities, including credit extension (advances). Pages 202 to 227

Human Capital

Our people, investing in their development and our collective knowledge, skills and experience to enable innovative and competitive solutions for our customers. Pages 246 to 263

GRI - 102 - 32, 53, 56

Manufactured Capital

Our business structure and operational processes, including our physical and digital infrastructure, our products, as well as our information technology that provides the framework and mechanics of how we do business and make money. Pages 238 to 245

Intellectual Capital

Our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships. Pages 228 to 237

Social and Relationship Capital

Our citizenship and strong stakeholder relationships, including the communities we operate in, as we recognise that the Company plays an important role in building a strong and thriving society. Pages 264 to 289

Natural Capital

Our positive and negative impact on natural resources through our operations and business activities. Pages 290 to 305

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 2564488

ASSURANCE

We used a combination of internal controls, management assurance and compliance, and internal reviews to ensure the accuracy of our Integrated Report. The content included in this Report has been approved by the respective business heads and financial information reviewed by the Audit committee reviewed prior to submission to the Board of Directors for approval. Our Report is consistent with the requirement of GRI standards and prepared in accordance with the said requirements. Messrs. Ernst & Young, Chartered Accountants have provided an independent assurance statement that further verifies LBF's compliance with financial reporting and the GRI Standards. Page 434.

FORWARD-LOOKING STATEMENTS – FUTURE OUTLOOK

This announcement contains certain future outlook statements with respect to the financial condition and results of operations of L B Finance PLC's that, by its nature, involve risk and uncertainty because we relate to events and depend on circumstances that may or may not occur in the future. Factors that could cause actual results to differ materially from those in the forward-looking statements include global, national and regional economic conditions; levels of securities markets; interest rates; exchange rates; credit or other risks of lending and investment activities; as well as competitive and regulatory factors. Consequently, all forward-looking statements have not been reviewed or reported by the company auditors.

STATEMENT BY THE BOARD

The Board acknowledges its responsibility to ensure the integrity of the annual Integrated Report and is of the opinion that the report addresses all material issues that it believes to have a bearing on the Company's capacity to create value over the short- medium- and long-term. The report was unanimously approved by the Board and is signed on its behalf by

Chairperson
On behalf of the Board of Directors

GRI - 102 - 12

About Our 2017/18 Integrated Report

MANDATORY REPORTING FRAMEWORKS AND GUIDELINES

Financial reporting

- Sri Lanka Accounting Standards comprising of 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. 03 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
- 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 – AA100SES

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

Location

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

- Broad overview of where the Company's current position and future direction.
- LBF's key success factors and incisive analysis of the existing business verticals.
- The experiences and competence of LBF's leadership.
- In-depth review of the governance and control framework.

a. PAGE 24 b. PAGE 28 c. PAGE 70 d. PAGE 44

WHAT ARE THE BROAD RISKS FACING THE COMPANY AND HOW ARE THEY MANAGED?

a. Statement of Risk Management

- 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.

a. PAGE 177

WHAT ROLE DOES THE COMPANY HAVE IN THE BIGGER PICTURE AND HOW DOES LBF STRUCTURE IT ACTIVITIES TO OPTIMIZE VALUE CREATION?

a. Value creation process
b. Business model
c. Operating structure
d. Organisational chart

- 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.

a. PAGE 118 b. PAGE 120 c. PAGE 18 d. PAGE 13

WHAT ARE THE VARIOUS CHALLENGES WITHIN THE OPERATING ENVIRONMENT AND COMPETITIVE LANDSCAPE AFFECTING LBF'S BUSINESS?

a. Operating Environment and Strategic Response

- Macroeconomic aspects that shape the industry.
- Market forces and the competitive landscape that shape our business.
- LBF's key competencies and scope of improvement.

a. PAGE 154

About our 2017/18 Integrated Report

HOW ARE STRATEGIES FORMULATED AND RESOURCES ALLOCATED?

a. Strategy and Resource Allocation

» 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.

a. PAGE 143

HOW RESOURCES ARE TRANSFORMED THROUGH THE VARIOUS CAPITALS – IN ORDER TO CREATE VALUE FOR STAKEHOLDERS?

a. Financial Capital
b. Manufactured Capital
c. Intellectual Capital
d. Human Capital
e. Social and Relationship Capital
f. Natural Capital

» Financial resources.
» Tangible inputs.
» Knowledge-based intangibles.
» People.
» Key relationships and engagement with stakeholders.
» Environmental resources.

a. PAGE 202 b. PAGE 238 c. PAGE 228 d. PAGE 246 e. PAGE 264 F. PAGE 290

HOW DID THE DIFFERENT SEGMENTS OF THE BUSINESS CONTRIBUTE TOWARDS THE OVERALL RESULTS OF THE COMPANY?

a. Business Segment Review

» Performance reviews.
» Influential trends affecting business segments and subsidiaries.
» Risks and outlook.

a. PAGE 159

ICON GUIDE

Throughout our Integrated Report, the following icons are used to show the connectivity between sections:

Page references

Online version available

Link to online video

CAPITALS

FINANCIAL CAPITAL

INTELLECTUAL CAPITAL

MANUFACTURED CAPITAL

HUMAN CAPITAL

SOCIAL AND RELATIONSHIP CAPITAL

NATURAL CAPITAL

MATERIAL MATTERS

Managing business practices through uncertain socio economic factors

Technological advancement and increase competition

Demand for governance, regulation requirements and risk management

Customer understanding, Managing competitiveness and market positioning

Managing social and environmental inequalities

Manage evolving skill requirements of the talent pool

Market outreach, presence and accessibility

TRIPLE BOTTOM LINE

ECONOMIC

SOCIAL

ENVIRONMENT

STRATEGIC FOCUS

Understanding our customer and placing clients at the centre of everything we do

Managing scarce resources to optimise economic outcomes

Being operationally excellent and global expansion

Sustainably growing, revenue managing and economic headwinds

Embracing innovation and leveraging our investments on IT

STAKEHOLDERS

CUSTOMERS

SHAREHOLDERS

EMPLOYEES

BUSINESS PARTNERS

REGULATORS

SOCIETY/ COMMUNITY

About Our 2017/18 Integrated Report

SUMMARY OF OUR 2017/18 INTEGRATED REPORT

HTML mobile version

Hard copy

PDF version on CD

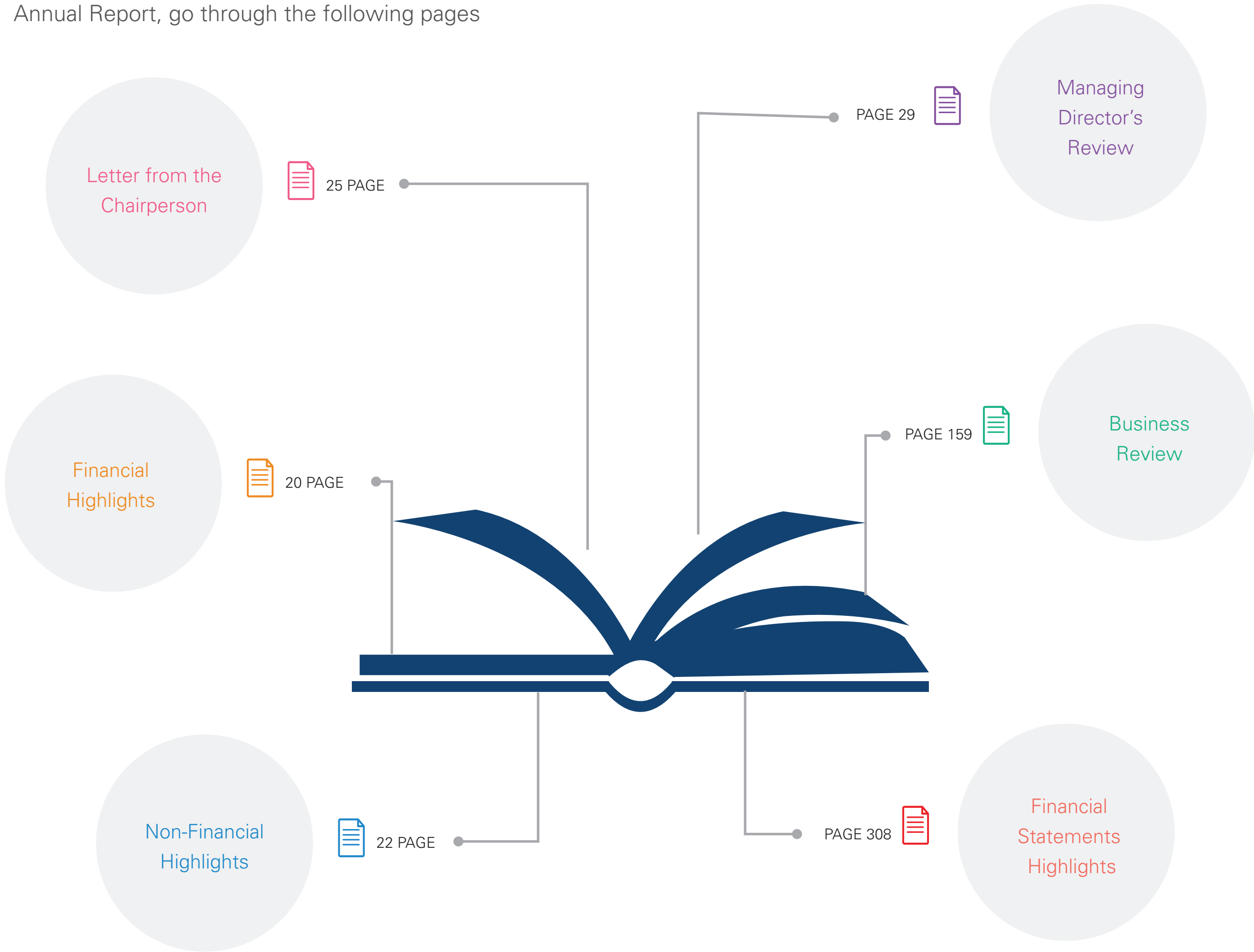
Read this report online
https://sustainability.
/lbfinance.com

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.

Dedicated website for Annual Report information

QUICK READERS TO UNDERSTAND OUR REPORT

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



GRI - 102 - 4, 6

About Us

As a leading financial solutions provider in Sri Lanka…

L B Finance PLC offers the full gamut of personal finance products and services as well as financial solutions for businesses. These offerings are delivered to the market through a network of 123 branches and 36 gold loan centres.

We have a clear vision for the future, which drives our passion to help people achieve their ambitions in the right way. This is brought to life through our mission to realise our values that define the way we think, work and act across the Company. Backed by our long-standing presence spanning 47 years coupled with our local expertise, we believe we have the right credentials to spearhead growth for the benefit of all those in Sri Lanka.

More recently L B Finance has strategically expanded its operations beyond the shores of Sri Lanka to Myanmar, where under the license issued by the Myanmar Government the Company has set up a micro finance operation aimed at bringing prosperity to the people of that country as well.

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

At the beginning, 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 well-known iconic 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 (LBF) is now part of the Vallibel One Group, which is a diversified holding company with strategic investments in financial services, tile and sanitary ware manufacturing and leisure.

In addition to its direct stake of 51.75% in LBF, Vallibel One also has an indirect holding of 14.59% through Royal Ceramics Lanka PLC, giving it an effective holding of 66.34%. The general public and other hold 22.18% of the shares and LBF has a fully-owned subsidiary company in Myanmar.

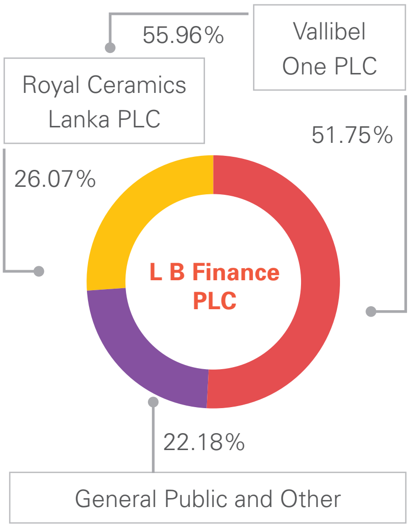
Backed by a strong financial tradition of over 47 years, LBF offers a portfolio of financial solutions trusted widely by corporates, SMEs and individuals alike. As of 31st March 2018, the Company was ranked as the third largest Licensed Finance Company (LFC) in terms of total assets.

We leverage our competitive advantage in the industry…

We are uniquely positioned as a leading financial institution in Sri Lanka, a status we have leveraged on to expand our reach to other markets in Asia, specifically Myanmar. In striving to enhance our credentials as a regional player, our strategy is to focus on the opportunity for growth by taking into account the matters we believe are material to our long-term sustainability and our ability to leverage the assets and expertise of the wider Vallibel One group. In doing so, our intention is to be the first to

GRI - 102 - 7, 45

SHAREHOLDING STRUCTURE



response effectively and efficiently to the needs of our key stakeholders by aligning our strategy, in cognisance with the prevailing economic environment and prospective opportunities.

We measure our performance against our strategy and the matters we consider to be most material to our sustainability...

In an effort to serve our customers and help them to prosper, we are committed to simplifying our business processes to make them more sustainable through the efficient and cost effective use of resources. We do this by unlocking the power of a dynamic workforce and through investments in technology, information and innovation. At the same time, we will keep evolving and building new strategic capabilities that enable us to be relevant and competitive as we move into the future.

Guided and supported by our operating structure...

L B Finance is governed by a strong and effective Board of Directors, headed by a Chairperson who sits at the helm. The Board approves the strategy and ensures that the Company has a proper framework of controls and governance in place. The Managing Director (MD), reporting to the Board, is responsible for implementing the Company's strategy and is assisted in this endeavour by three Executive Directors, each responsible for the day-to-day operations of the core business lines.

Our three business segments contribute to our Company strategy...

Our business is built on three key pillars; investment activities, financing solutions and Value-Added Services, each consisting of a broad range of products and services geared to meet the diverse needs of our customers. Each business line is headed by a member of the senior management team.

SUSBSIDIARY INFORMATION

The Company's latest venture, L B Microfinance Myanmar Company Limited (LBMF) was set up in 2017, with 99.7% stake held by L B Finance PLC and the remaining 0.3% by Vallibel One PLC.

Board of Directors

Mr. Dhammika Perera
Mr. J A S Sumith Adhihetty
Mr. Dulan de Silva
Mr. Niroshan Udage
Mr. B D A Perera
Mr. Ravi Yatawara

Marking LBF's entry to the regional financial market, the vision for LBFM is "To contribute to the development of sustainable and socially significant enterprises that improve the lives of the entire nation".

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 a credit+ culture.

Strategic Journey

1971
Established as a private company on 30th May 1971 with its registration 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 to 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

Introduced factoring product to the Company

2011

RAM Ratings Lanka Limited upgraded the Company rating as A-/P2 Stable

North and east market presence for the first time

Established Islamic Finance Unit for the Company

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

The Islamic Finance Unit awarded as the emerging Islamic Finance Unit of the year

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 1st Premier Branch in Mount Lavinia

Staff strength surpassed 2,000

2014

The Company was certified as a Carbon Conscious Company by the Sri Lankan Carbon Fund

Tied up with the Sri Lanka Interbank Payment System (SLIPS) which has direct links to the local clearing network in Sri Lanka

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% reaching the highest-ever profit of Rs. 3.7 billion (PAT)

2017

Integrated with Common Electronic Fund Transfer Switch (CEFTS)

Launched of LB Gift store www.lbstore.lk

Exceeded Rs. 100 billion asset base

2018

First overseas expansion of L B Finance to Myanmar

Going into cloud-based IT platform

Ranked 17th among the top 20 brands in Sri Lanka by Interbrand

Won the Gold Award in NBFI sector at CA Sri Lanka Annual Report Awards

Launching of Cash Deposit Machine facility

Awards

Annual Report Awards 2017

Finance Companies & Leasing Companies Gold Award

Annual Report Awards 2017

Integrated Reporting Best Disclosure on Capital Management Gold Award

Annual Report Awards 2017

Integrated Reporting Silver Award

National Business Excellence Awards 2017

Presented by the National Chamber of Commerce Sri Lanka

Non Banking Financial Service Sector Runner-up

CIMA Excellence in Integrated Reporting Awards 2017

Award for the ten best Integrated Reports

IFFSA Awards 2017

Bronze Award CSR Project of the year.

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. As further testimony to our ongoing efforts, this annual report too has been declared a Carbon Neutral product.

Company

ClimateSI

CARBON NEUTRAL CERTIFICATE

Climate Smart Initiatives (Pvt) Ltd assures that

LB Finance PLC,

for the financial year **2017/18,** is a carbon neutral organization having offset organization's carbon footprint by purchasing United Nations Certified Emission Reductions (CERs) from Adavikanda, Kuruwita Division Mini Hydro Power Project by Vallibel Lanka (Pvt) Ltd registered under UN Clean Development Mechanism (Reg.3531).

Organization carbon footprint has been measured and reported in accordance with the requirements of ISO 14064-1: 2006 – Specification with guidance at the organizational level for the quantification and reporting of greenhouse gas emissions and removals.

Certificate No : ClimateSI/CNO/004

Date of Certification : 30/ 05/ 2018

Period of Assessment : 01/04/2017 to 31/03/2018

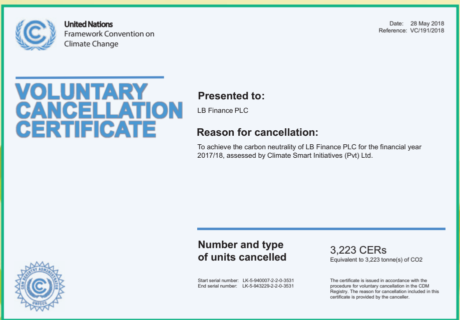
Period of Validity : 30/05/2018 to 31/03/2019

Scope of Certification : Operationally controlled business activities belongs to LB finance PLC

Scope 1- Direct GHG Emissions	: 182 tonnes of CO_2 equivalent
Scope 2- Electricity indirect GHG Emissions	: 2,251 tonnes of CO_2 equivalent
Scope 3- Other Indirect GHG Emissions	: 790 tonnes of CO_2 equivalent
Total	: **3,223** tonnes of CO_2 equivalent

Eng.H.M. Buddika Hemashantha
(Bsc (Hons) Eng., M.Eng.)
Chief Executive Officer
Climate Smart Initiatives (Pvt) Ltd

Scope 1 : Company own vehicles, Fire extinguisher, Stand by generator
Scope 2 : Grid connected electricity
Scope 3 : Transmission & distribution loss, Business Air Travels, Employee commuting, Municipal water, Waste disposal
Exclusions : Waste transport, Transport of water bottles, Refrigerant leakages



United Nations
Framework Convention on
Climate Change

Date: 28 May 2018
Reference: VC/191/2018

VOLUNTARY CANCELLATION CERTIFICATE

Presented to:

LB Finance PLC

Reason for cancellation:

To achieve the carbon neutrality of LB Finance PLC for the financial year 2017/18, assessed by Climate Smart Initiatives (Pvt) Ltd.

Number and type of units cancelled

3,223 CERs
Equivalent to 3,223 tonne(s) of CO2

Start serial number: LK-5-940007-2-2-0-3531
End serial number: LK-5-943229-2-2-0-3531

The certificate is issued in accordance with the procedure for voluntary cancellation in the CDM Registry. The reason for cancellation included in this certificate is provided by the canceller.

Annual Report

ClimateSI

CARBON NEUTRAL CERTIFICATE

Climate Smart Initiatives (Pvt) Ltd assures that

L B Finance PLC's

Annual Report for the financial year **2017/18**

is a carbon neutral product having offset Annual Report's carbon footprint of 4.2 tCO_2e by purchasing United Nations Certified Emission Reductions (CERs) from the project activity 10076 registered under UN Clean Development Mechanism.

Product carbon footprint has been measured and reported in accordance with the requirements of Greenhouse Gas Protocol (Life Cycle Accounting and Reporting Standard) developed by World Business Council for Sustainable Development and World Resource Institute.

Certificate No : ClimateSI/CNP/007

Date of Certification : 30/ 05/ 2018

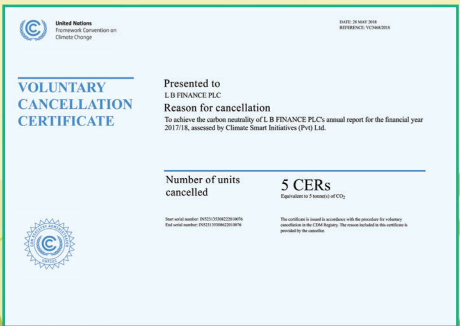
Period of Assessment : 01/04/2017 to 31/03/2018

Period of Validity : 30/05/2018 to 31/03/2019

Scope of Certification : Cradle to Gate

Total GHG emissions per one hard copy of annual report and one soft copy (CD) of the Annual Report are 4.2 kg and 1.2 kg of CO_2 equivalent respectively for the life cycle assessment of product Cradle to Gate.

Eng.H.M. Buddika Hemashantha
(Bsc (Hons) Eng., M.Eng.)
Chief Executive Officer
Climate Smart Initiatives (Pvt) Ltd



United Nations
Framework Convention on
Climate Change

DATE: 28 MAY 2018
REFERENCE: VC3468/2018

VOLUNTARY CANCELLATION CERTIFICATE

Presented to

L B FINANCE PLC

Reason for cancellation

To achieve the carbon neutrality of L B FINANCE PLC's annual report for the financial year 2017/18, assessed by Climate Smart Initiatives (Pvt) Ltd.

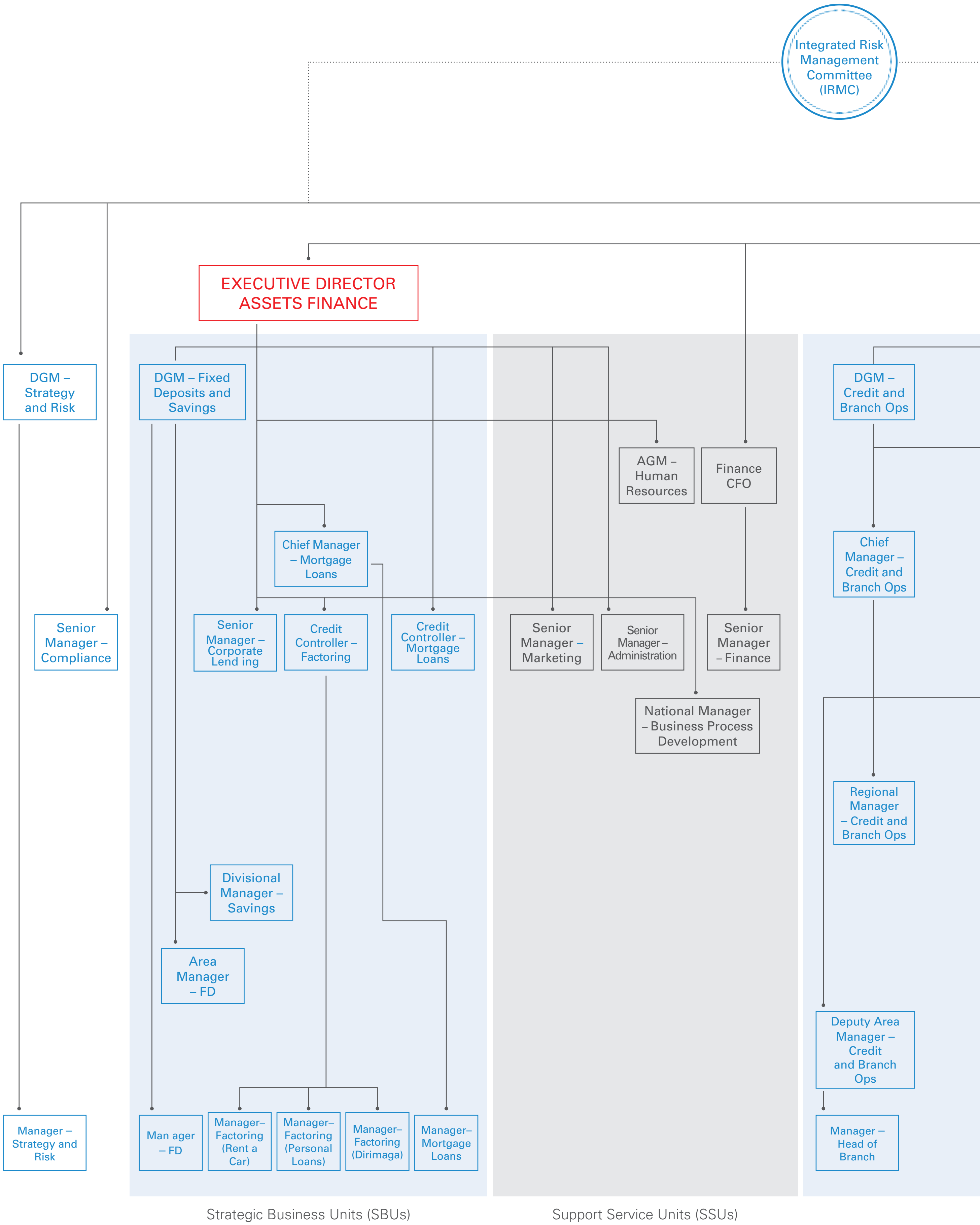
Number of units cancelled

5 CERs
Equivalent to 5 tonne(s) of CO_2

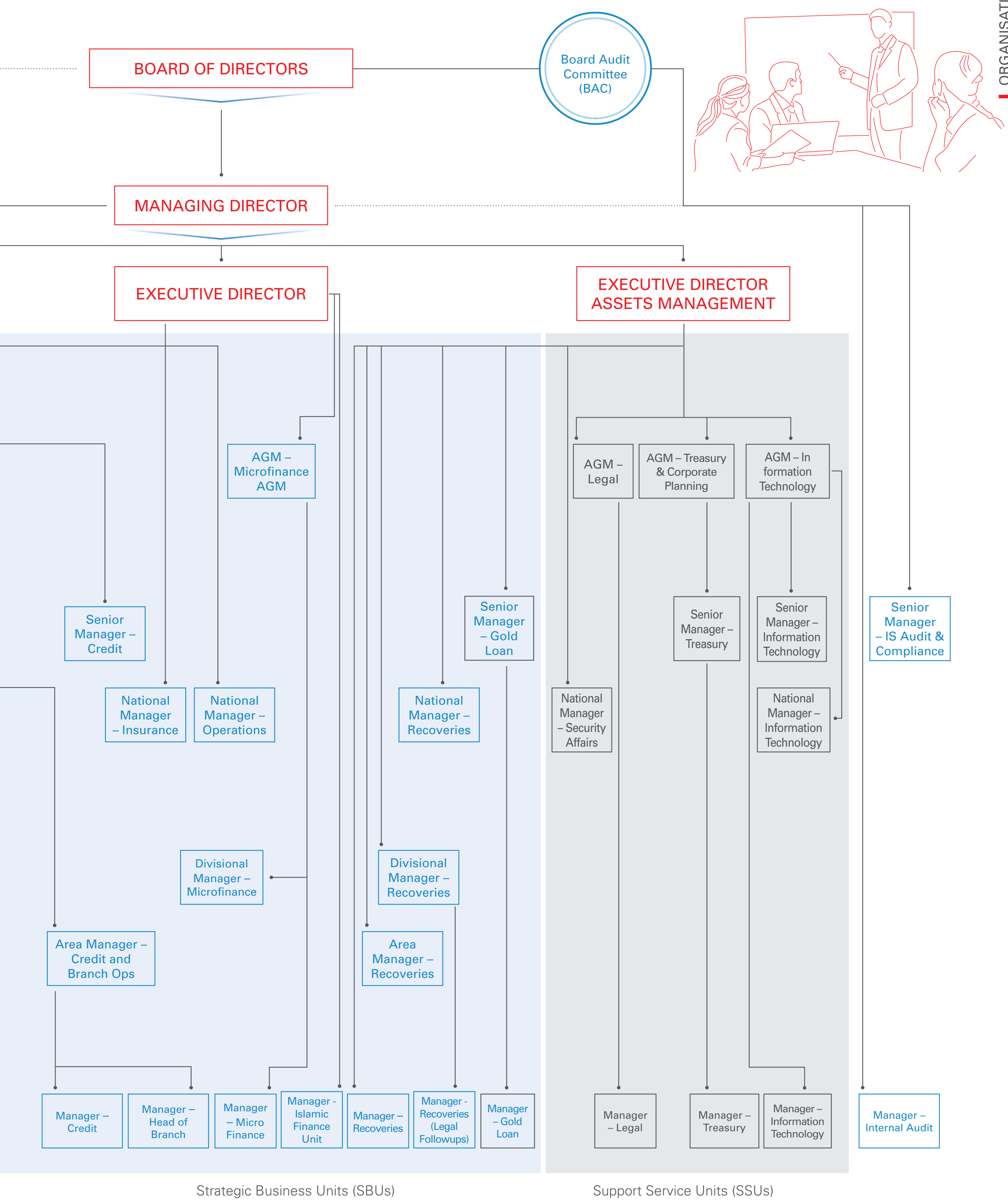
Start serial number: IN523135308222010076
End serial number: IN523135308622010076

The certificate is issued in accordance with the procedure for voluntary cancellation in the CDM Registry. The reason included in this certificate is provided by the canceller.

Managing Structure



GRI - 102 - 18

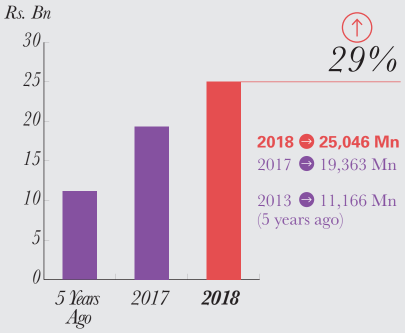

BOARD OF DIRECTORS
Board Audit Committee (BAC)
MANAGING DIRECTOR
EXECUTIVE DIRECTOR
EXECUTIVE DIRECTOR ASSETS MANAGEMENT
AGM – Microfinance AGM
AGM – Legal
AGM – Treasury & Corporate Planning
AGM – In formation Technology
Senior Manager – Credit
Senior Manager – Gold Loan
Senior Manager – Treasury
Senior Manager – Information Technology
Senior Manager – IS Audit & Compliance
National Manager – Insurance
National Manager – Operations
National Manager – Recoveries
National Manager – Security Affairs
National Manager – Information Technology
Divisional Manager – Microfinance
Divisional Manager – Recoveries
Area Manager – Credit and Branch Ops
Area Manager – Recoveries
Manager – Credit
Manager – Head of Branch
Manager – Micro Finance
Manager - Islamic Finance Unit
Manager – Recoveries
Manager - Recoveries (Legal Followups)
Manager – Gold Loan
Manager – Legal
Manager – Treasury
Manager – Information Technology
Manager – Internal Audit
Strategic Business Units (SBUs)
Support Service Units (SSUs)

Financial Highlights

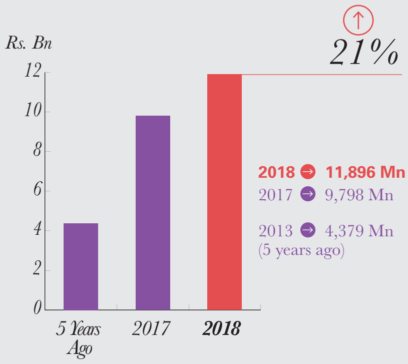
Indicator			2017/18	2016/17	Change (%)
Operating results					
Income		Rs. million	25,046.20	19,363.42	29.35
Interest income		Rs. million	23,394.12	17,909.93	30.62
Net interest income		Rs. million	11,895.71	9,797.59	21.41
Profit before taxation (PBT)		Rs. million	6,477.69	5,874.84	10.26
Profit after taxation (PAT)		Rs. million	4,250.72	3,918.20	8.49
Financial position					
Total assets		Rs. million	120,820.78	102,763.03	17.57
Lending portfolio		Rs. million	102,345.08	89,149.74	14.80
Deposits		Rs. million	72,943.83	60,401.95	20.76
Borrowings		Rs. million	27,990.87	25,822.36	8.40
Equity		Rs. million	15,348.90	12,509.68	22.70
Share information					
Market price per share		Rs.	118.90	118.40	0.42
Market capitalisation		Rs. million	16,469.35	16,400.09	0.42
Net asset value per share		Rs.	110.81	90.31	22.70
Earning per share (EPS)		Rs.	30.69	28.29	8.48
Price earning ratio (PE)		Times	3.87	4.19	(7.53)
Dividend per share (DPS)		Rs.	11.00*	9.00	22.22
Dividend yield		%	9.25	8.48	9.10
Dividend payout ratio		%	35.84	31.82	12.65
Statutory ratios					
Core capital to risk weighted assets ratio (Tier 1)	>5	%	17.33	16.12	7.51
Total risk weighted capital ratio (Tier I & II)	>10	%	19.78	17.06	15.94
Equity to deposits	>10	%	21.04	20.71	1.60
Liquidity ratio		%	14.73	14.47	1.80
Other ratios					
Return on assets (ROA)		%	3.80	4.18	(9.03)
Return on equity (ROE)		%	30.52	34.09	(10.48)
Net interest margin (NIM)		%	11.15	10.91	2.23
Loan to deposits		Times	1.40	1.48	(5.20)
Non-performing loans ratio (NPL)		%	2.37	2.14	10.75

* Includes proposed final dividend of Rs. 4.00 per share.

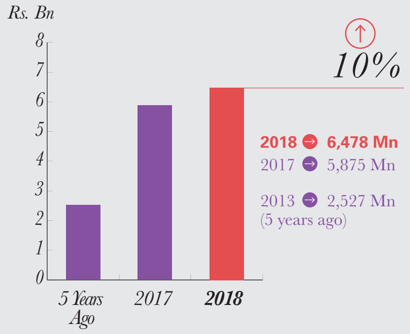
INCOME



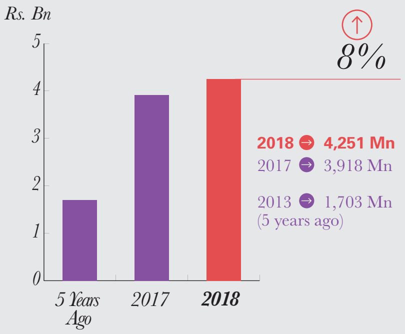
NET INTEREST INCOME



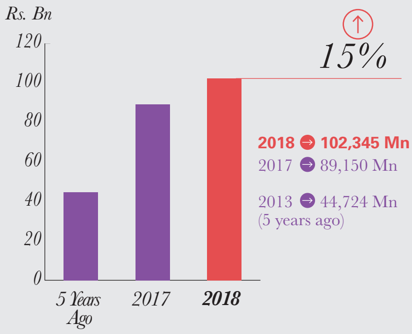
PROFIT BEFORE TAX (PBT)



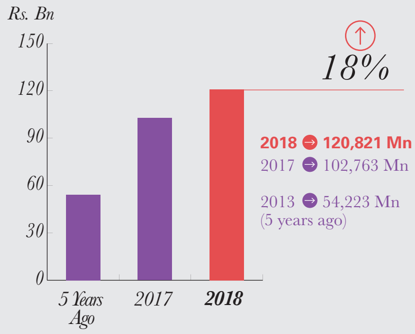
PROFIT AFTER TAX (PAT)



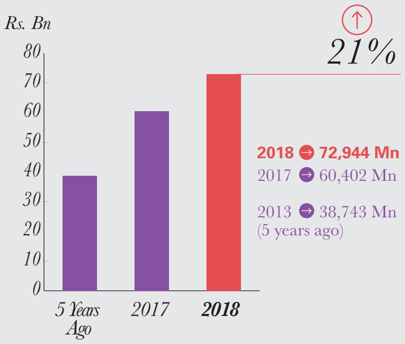
LENDING TO CUSTOMERS



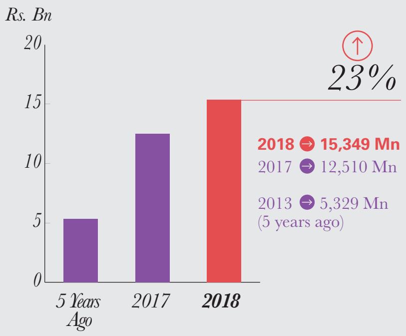
TOTAL ASSETS



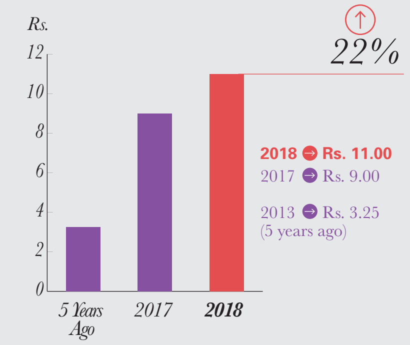
DUE TO CUSTOMERS



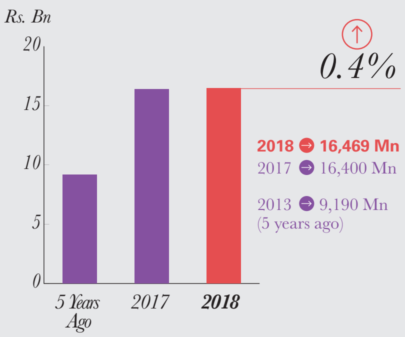
EQUITY



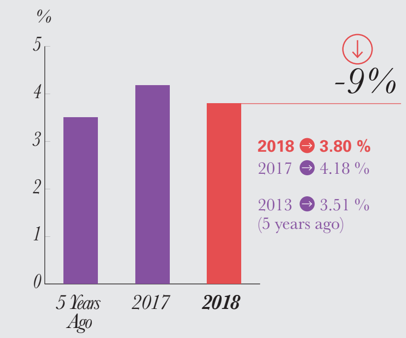
DIVIDEND PER SHARE (DPS)



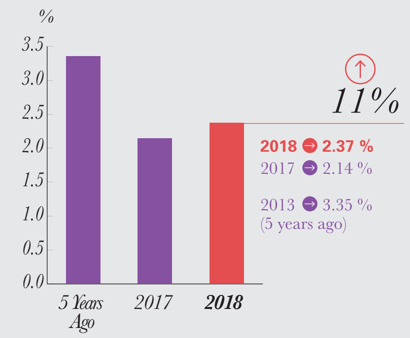
MARKET CAPITALISATION



RETURN ON ASSETS (ROA)



NON-PERFORMING LOANS RATIO (NPL)



Non-Financial Highlights

GRI	Indicator		2017/18	2016/17
	Intellectual Capital			
102-16	Brand value (LMD)	Rs. million	4,236.00	3,853.00
	Brand ranking - Most respected entitiy (LMD)	Number	33	80
	Credit rating (fitch ratings)		A- (lka)	A- (lka)
	Online Transactions	Number	1,738	44
203-1	Investment on ICT	Rs. million	194.49	79.25
	Manufactured Capital			
102	Total outlets	Number	159	154
	Total Branches	Number	123	118
	Gold loan centres	Number	36	36
	New outlets opened	Number	5	8
	Investment in property plant and equipment	Rs. million	1,537.34	1,809.00
	Human Capital			
102-7	Employees hired	Number	1,313	1,096
401-1	Employment opportunities created	Number	220	477
102-8	Employees completed 20 years of service	Number	20	17
	Profit per employee	Rs. million	1.235	1.216
404-2	Training programs carriedout	Number	113	88
	Investment in training and development	Rs. million	8.56	8.04
404-1	Training hours	Number	25,846	20,672
404-1	Average hours of training per employee	Number	7.52	6.42
	Staff remuneration & benefits	Rs. million	2,306.00	2,254.00
	Social and Relationship capital			
201-1	Economic value created	Rs. million	3,090.42	2,341.15
201-1	Economic value Distributed to:			
	Depositors	Rs. million	11,077.10	7,766.75
	Employees	Rs. million	2,389.35	2,324.85
	Government	Rs. million	3,038.17	2,660.77
	Shareholders	Rs. million	1,523.66	1,246.63
	Community development programmes	Number	26	17
	Staff volunteered hours	Number	9,079	2,302
	Natural Capital			
	Environment related projects	Number	6	9
303-1	Water Consumption	m3	29891.91	30,388.00
	Water Consumption per Rs. million of revenue	m3	1.19	1.56
	Trees planted/ Distributed	Number	612	400
	Investment on green initiatives	Rs. million	3.51	3.29
	Paper recycled	kg	2,943	7,938
302-1	Energy Consumption	GJ	18,231.87	23,720.00
	Energy per Rs. million of revenue	GJ	0.73	1.23
305	Total carbon footprint	tCO2e	3,223	4,361

EMPLOYEES

3,441

220 NEW EMPLOYMENT OPPORTUNITIES

OUTLETS

159

123 FULLY FLEDGED BRANCHES
36 GOLD LOAN CENTRES
4 STRATEGIC RELOCATIONS

BRAND VALUE

Rs.4,236Mn

LMD 2018

27

INNOVATIVE FINANCIAL SOLUTIONS

OVER **Rs.190Mn**

DISBURSED AS MSME LOANS

1st subsidiary in Myanmar

7,114

EMPLOYEE VOLUNTEERING HOURS

OVER **Rs.3Mn**

SPENT ON GREEN INITIATIVES

RANKED **17th** INTERBRAND BEST SRI LANKAN BRANDS 2017

OVER **Rs.39Mn**

E-CONNECT TRANSACTIONS

A Carbon Neutral Company

FOR THE THIRD CONSECUTIVE YEAR

CLINCHED FINANCE AND LEASING SECTOR

Gold Award

AT THE CA SRI LANKA ANNUAL REPORT AWARDS 2017

Rs.23Mn INVESTED ON CSR INITIATIVES

126 Pre-Schools refurbished

Rs.3.04

BILLION REVENUE TO THE GOVERNMENT

ISO 27001: 2013

INFORMATION SECURITY STANDARD RECERTIFIED

Introduced CDMs

4,691 TRANSACTION VALUE DISTRIBUTION

Letter from the Chairperson

Consistently, for the past 47 years, our LBF employees have been bringing this vision to life through disciplined actions, and dynamic decision making to enhance the quality of life of the people we deal with.

MRS. SHIRANI JAYASEKARA
Chairperson

Dear Stakeholder,

As I welcome you to the 45th Annual General Meeting of LBF Finance PLC, my first as Chairperson of this great Company, I take immense pride in stating that we are not merely paying lip service to our vision to contribute towards the growth of our country and its people – but are actually living it.

Consistently, for the past 47 years, our LBF employees have been bringing this vision to life through disciplined actions, and dynamic decision making to enhance the quality of life of the people we deal with.

For example our pioneering efforts to develop Sri Lanka's Micro Small Medium Entrepreneurs (MSME) sector over the past four decades and in particular the last five years testifies to our commitment to fuel progress at a grass root level, while LBF's first-ever offshore venture – LB Microfinance Myanmar was set up to assist the MSME sector in that country.

Meanwhile, our commitment to succeed, despite all odds, 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.

On an accelerated growth path, LBF has recorded year-on-year growth over the past five years and I am happy to announce that our performance for the year under review is no exception.

These results only serve to solidify LBF's position as the chosen financial services partner for most Sri Lankans. And as a "Matter of fact" it is easy to see why.

To our Shareholders...

We have continued to meet, and at times exceed, your expectations. In 2017/18, when the country's economy was struggling to cope with the impact of adverse weather, reporting GDP growth at 16 year lows, LBF's year-on-year asset growth was 17.57%, well ahead of the industry average. (Industry reported year-on-year growth of 9.8% as at Dec. 2017)

At the same time a strong emphasis on cost management has ensured our cost-to-income ratio reach an all-time low in the year under review. Strong asset growth coupled with prudent cost management has helped sustain ROA and ROE well above the industry in 2017/18, while our dividend payout ratio of 35.84% for the year continues to be the highest among peers.

Letter from the Chairperson

Moreover, we continued to pursue new opportunities whenever they became available both locally and overseas. In the year under review, we reacted swiftly to the revised legislative framework under the new Foreign Exchange Act and secured a license to set up a Greenfield micro finance operation in Myanmar. LBF Myanmar was opened in December 2017, marking our first step in taking the LB brand global.

Furthermore, working purposefully to ensure our capital position remains above par, LBF raised Rs. 3 billion by way of a debenture issue in December 2017 of which Rs. 2 billion was to strengthen Tier II capital. Buttressed by these initiatives, LBF has continued to maintain its A-(lka) rating with a Stable Outlook.

To our Customers...

We want you to be our customers for life. As such we are continuously working to refine our products, services and outreach to ensure they are all geared to serve your every financial need. We continue to fine-tune our product basket in an effort to support wealth creation across a broader segment of the market. For example, 'Mul Gala', a new product launched in the year under review, aims to offer a more robust Mortgage Loan proposition for homeowners, while 'LB Yasaisuru' also launched in 2017 is a new term deposit proposition that gives the customer the flexibility of tailoring returns. We are also investing considerable resources to strengthen our Gold Loan footprint and in the year under review, increased our presence in the North and East regions of the country.

To our Depositors...

We hold you in high esteem, for you have entrusted us to safeguard your valuable savings. And we are committed to doing just that. We engage prudent and calculated lending strategies and pro-actively manage risks to ensure a healthy deposit cover ratio is maintained at all times. We focus on maintaining the financial stability of the institution as a paramount need to enhance depositor confidence and our A- rating (by Fitch) bears testimony of that effort. Moreover, as a responsible financial institution, we strive to promote the savings habit among our nation's people from a young age, for we firmly believe that saving is the key to long-term wealth creation. Premised on this, we re-branded our minor savings as 'Little Heroes' kids savings proposition to appeal to a new generation of young parents.

To our Employees...

You are the backbone of our business and main champions of the LB brand. The commitment to our employees is therefore a continuous and ongoing process to keep improving. Our aim is to create an environment where our employees stay motivated, are empowered and feel recognised for their work enabling them to learn and grow with the Company. In the year under review, we invested Rs. 8.56 million on training and took the first steps towards implementing a digital workplace strategy through the launch of the Virtual Learning Academy to give employees the resources for continuous learning.

To the broader Community...

We are firm about caring for our island's people and our planet and take our responsibilities very seriously. LBF's code of ethics, values and governance structures are all designed to responsibly manage the broader impact of our actions at all times. This includes regularly engaging with the broader community to understand how best LBF as a leading financial services institution in Sri Lanka can assist in positive wealth creation for all Sri Lankans.

Equally important is the emphasis we place on complying with all applicable laws and regulatory frameworks governing the non-bank financial services sector, which LBF is a part of. At this point it is pertinent to mention a few of the new regulations introduced during the year. The proposed move by the CBSL to increase core capital requirements of Licensed Finance Companies is a welcome move which I believe will go a long way in strengthening the integrity of the sector. The new Financial Customer Protection Framework is also a step in the right direction for it will undoubtedly improve customer confidence in the country's financial system.

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.

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

Moving Forward...

I envision even greater things for LBF in the years ahead and look forward to seeing the entire LBF team working cohesively with one purpose in mind.

Let me conclude by echoing the words of my predecessor and urge all our valued stakeholders to also partner with us on this journey, as you have done in the past.

Mrs. Shirani Jayasekara
Chairperson

Managing Director's Review

Net interest income, our main source of revenue, grew by a phenomenal 21.41%, while profit after tax was up by a commendable 8.49% year-on-year reaching Rs. 4.25 billion in 2017/18.

SUMITH ADHIHETTY
Managing Director

SURPASS PROFIT AFTER TAX OF

Rs.4 billion

TOTAL ASSETS CROWNED

Rs.120 billion

MAINTAINING NPL AT

2.37%

While industry at 5.9%

61.71%

INCREASE IN CSR RELATED INVESTMENT TO

Rs. 23.51 million

CLINCHED

Sector Gold Award

at the CA Sri Lanka Annual Report Awards

The 2017/18 financial year saw LBF once again making significant strides along the strategic path we have been on over the last few years. I am pleased to report that our financial performance, while consistent with our expectations continues to break records in the NBFI sector of which we are a significant part. Our total asset base is solid and at Rs. 120.82 billion as at 31 March 2018, continues to be one of the leading operators in the NBFI sector. Net interest income, our main source of revenue grew by a phenomenal 21.41%, while profit after tax was up by a commendable growth 8.49% year-on-year reaching Rs. 4.25 billion in 2017/18. We continue to maximise wealth for our shareholders recording and ROE of 30.52% and EPS improving Rs. 30.69 from Rs. 28.29. An Interim Dividend of Rs. 7.00 per share was paid and final dividend of Rs. 4.00 per share is proposed. The impressive numbers have helped the Company to retain its A- (lka) rating from Fitch Ratings Lanka Limited.

MORE INFORMATION PAGE 218

The LB brand also made notable headway. In the inaugural Inter-brand yearly brand ranking study, LBF was placed 17th of the top 20 Best Sri Lankan Brands for 2017 and also emerged as the only NBFI. Moving up the ranks from 80th position in 2016 to 33rd place in the LMD Most Respected Entities for 2017, LBF was also placed 26th among the top 100 Most Valuable Brands in Sri Lanka for 2017.

MORE INFORMATION PAGE 234

I believe these consistent results testify to our firm and unremitting commitment to continue to create value for all of our stakeholders against all odds. To fully appreciate the scale of our success, it is important to understand the immediate operating environment.

EXTERNAL ENVIRONMENT

While the global economy was on the rebound in 2017, the Sri Lankan economy faced some troubled times, with GDP growth slowing to multi-year lows as the impacts of adverse weather and its spillover effects continued to bring pressure on many key sectors of the economy for the second consecutive year.

In light of these developments credit growth remained subdued, causing the NBFI sector to underperform, marked by declining profitability and higher non-performing loans. The sector's traditional lending model remained to be under stress amidst ongoing regulatory pressures. Most notable among them a move by the Government to curb vehicle imports, which led to the Budget 2017 directive issued by the CBSL to further tighten the LTV ratio for credit facilities in respect of unregistered vehicles.

Managing Director's Review

Marking a historical milestone in our 47-year-old journey, we took the bold step to expand our footprint beyond Sri Lanka, by setting up LB Microfinance Myanmar (LBMF) in December 2017

On a more positive note however the decision by the government to relax import duties and LTV rules for leasing of energy-efficient vehicles (hybrid and electric vehicles as well low-capacity automobiles below 1,000 CC) was a welcome one that helped boost the prospects of the sector from the latter part of 2017.

MORE INFORMATION PAGE 164

STRATEGY AND FOCUS

In light of the prevailing depressed economic conditions, NPL management was undertaken as a key priority, which I am happy to note has helped to keep NPLs under control.

Moreover, with the LTV restrictions severely affecting our core leasing business, we reviewed our game plan with the intention of realigning our business model in response to changes in the business environment.

As the demand for registered vehicle leasing virtually dried up, we began to look for alternative lending opportunities, prompting renewed efforts to explore the leasing market for energy-efficient vehicles (hybrid and electric vehicles as well low-capacity automobiles below 1,000CC). Leveraging on the duty concessions and the soft LTV rules for these vehicle categories, we launched an aggressive branch-driven campaign across the country to promote these solutions, which I must say has met with considerable success.

We also engaged our market reach and our brand to deepen the penetration to the gold loan business. Taking swift action to capitalise on the upward trend in world gold prices, a new three-month proposition was rolled out and was coupled with flexible repayment plan to give customers the ability to tailor their repayment. In parallel the 'apitama hariyana apema thane' campaign was launched to spearhead our efforts to position the LB gold loan proposition as first choice in the market. As a result our growth in the gold loan portfolio was impressive at 23.63%. To improve service delivery to the customer, we looked to implement the 'Customer First' concept across our operational model, which saw the launch of a new call centre in Jaffna dedicated specifically to service the needs of customers in the north of the country, along with additional investments to strengthen the capacity of LBF's gold loan call centre in Mount Lavinia. Ground work also commenced to set up a new integrated ERP system, which I believe would significantly enhance the capacity of the gold loan segment in the long-term.

The mortgage loan proposition was also revamped and re-launched to the market as 'Mul Gala' with the aim of tapping into the country's flourishing construction sector. Again the move sparked considerable interest and seeing the response from the market, I am sure the product will gain considerable traction in the coming years.

MORE INFORMATION PAGE 166

Meanwhile, amidst rising interest rates, our deposit mobilisation strategies also came under scrutiny, with the focus shifting towards mobilising more savings deposits. We see the move as part of a broader risk rebalancing strategy to ensure we are able to optimise deposit mix in order to benefit from interest rate movements.

As part of our effort to operationalise these lending and deposit mobilization strategies we further widened our outreach, adding five new branches and relocating four branches and a VIP gold loan centre to our network within the year under review.

Aside from the focus on sharpening our business competencies, we were quick to seize the opportunity afforded by the new Exchange Control Regulations permitting local listed entities to invest upto USD 2,000,000 in offshore ventures.

Marking a historical milestone in our 47-year-old journey, we took the bold step to expand our footprint beyond Sri Lanka, by setting up L B Microfinance Myanmar (LBMF) in December 2017 as a Greenfield operation licensed to provide direct financial assistance to underserved farming communities in rural Myanmar to improve their livelihoods.

COMMITMENT TO BUILD A SUSTAINABLE BUSINESS

Our business philosophy is underpinned by the belief that conducting our business prudently, ethically and with integrity will enable the Company to remain sustainable and continue to achieve positive outcomes for all of our stakeholders in the long-term. Accordingly, we remain committed to continually strengthen our corporate governance framework in order to increase our capacity to remain sustainable in the long-term.

The Board remains firm in its belief that sound governance practices are the foundation for the long-term success and that it is only by upholding the highest standards of corporate governance that we can truly do justice to our strategy.

Critical to our long-term sustainability also is the ability to attract and retain the skills and capability required to deliver our ambitious growth strategy. Accordingly, we continued working on building our talent pool with a view to developing within and took the first steps in our digital workplace strategy as part of a long-term undertaking that aims to streamline business processes, promote employee collaboration and drive successful business outcomes that would deliver a definite edge over peers. The launch of the Virtual Learning Academy in 2017 underscores the commitment to this goal and signals our intention to embed a culture of continuous learning.

MORE INFORMATION PAGE 255

Having understood that technology adoption remains equally important to our sustainability journey, we had already embarked on a digital transformation strategy a few years ago. Our efforts for the year were focused on expediting the ERP roll-out to systematically automate all aspects of the business and facilitate seamless integration among all key business processes. Marking the first phase of the undertaking, we completed the cloud-ready information technology platform for the gold loan product within the year itself. We also invested a further to upgrade the capacity of our Disaster Recovery (DR) infrastructure, which will allow the Company to rely on the DR site for an extended period of time in the event of an incident.

Additionally, we are committed to addressing the broader social and environmental sustainability issues facing our country and its people. To integrate these concerns into our business activities, we have more recently adopted the United Nations' Sustainable Development Goals (SDGs) as a benchmark for our actions. As such LBF's Social Investment Framework now focuses on contributing towards five of the UN Sustainability Development Goals

MOVING FORWARD

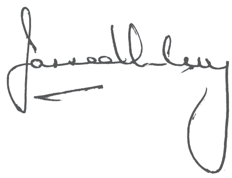
While changes in the economy are beyond our control, we want to be prepared to always be at the forefront of change management. This means engaging a broad and forward-looking perspective in order to foresee our customers' needs and actively seek opportunities to achieve a sustainable competitive advantage, enhance our corporate value, and continue to create wealth for all of our stakeholders: our shareholders and customers, our employees and their families as well as the local societies in which we operate.

IN CONCLUSION

I wish to express my sincere thanks to the Chairperson and the Board of Directors of L B Finance PLC for their unfailing support and guidance at all times. I also take the opportunity to extend my heartfelt gratitude to the management and staff for their commitment and dedication towards achieving a common goal. My heartfelt gratitude also goes to our shareholders. I am immense grateful for your continued support and confidence.

Thank you also to the Governor and officials of the Central Bank for their guidance and support throughout the year and to our external auditors for their valuable input. Finally, I wish to thank the customers and other stakeholders of the Company for their continued patronage. I rely on your continued support to explore the promising possibilities in the year ahead.

Last but not least I have to note with heartfelt gratitude the services rendered by Mrs. Kimarli Fernando, the past Chairperson, and Mr. Lalith de S Wijeratne, who retired after completing nine years as Directors of L B Finance. Their contributions in committees and in streamlining the Vision and strategies strengthened your Company by leaps and bounds. I wish them success in all their endeavours personally, on behalf of the employees and the shareholders!



SUMITH ADHIHETTY
Managing Director

A Matter of Direction

GOVERNANCE

Visionary Leadership
Prudent Policies
Openness and Transparency
Good Governance
Accountability

Board of Directors

Seated left to right:

MR. J A S SUMITH ADHIHETTY
Managing Director

MRS. SHIRANI JAYASEKARA
Independent Non-Executive Director

MR. DHAMMIKA PERERA
Executive Deputy Chairman

Standing left to right:

MR. RAVINDRA YATAWARA
Executive Director

MR. B D A PERERA
Executive Director

MR. NIROSHAN UDAGE
Executive Director

MRS. ANANDHIY K GUNAWARDHANA
Independent Non-Executive Director

MR. ASHANE JAYASEKARA
Independent Non-Executive Director

MRS. YOGADINUSHA BHASKARAN
Non-Executive Director

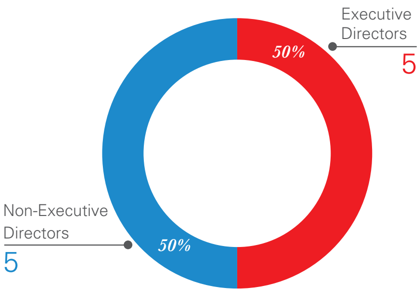
MR. THOSAPALA HEWAGE
Independent Non-Executive Director

GRI - 102 - 22, 23

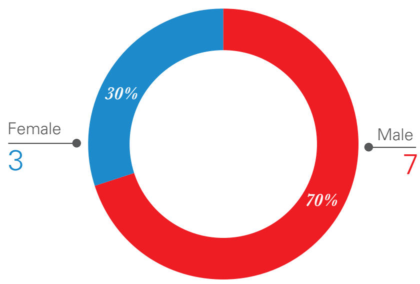
Board of Directors

The LBF Board is made up 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.

COMPOSITION

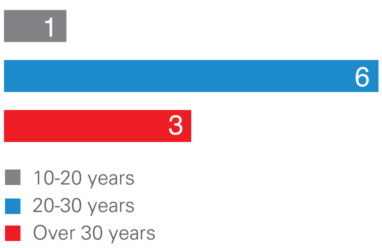


GENDER BALANCE

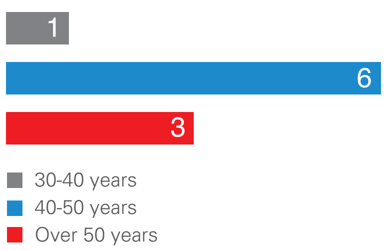


GENDER BALANCE

EXPERIENCE



AGE



MRS. SHIRANI JAYASEKARA

Chairperson
Independent Non-Executive Director

Skills and experience

She has over 37 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 25 August 2010, appointed as the Chairperson on 18 September 2017.

Membership of Board Sub-Committees

Chairperson of the Related Party Transactions Review Committee.

Current appointments

Director of Asian Hotels and Properties PLC, a subsidiary of John Keells Holdings PLC.

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.

MR. DHAMMIKA PERERA

Executive Deputy Chairman

Skills and experience

A quintessential business leader, with interests in a variety of key industries including hydropower generation, manufacturing, hospitality, entertainment, banking and finance. He enriches the Board with nearly

30 years of experience in building formidable businesses through unmatched strategic foresight.

Appointed to the Board

On 22 October 2002, appointed as the Chairman on 26 October 2010 and Executive Deputy Chairman on 21 October 2011.

Current appointments

Chairman/Managing Director of Vallibel One PLC. Chairman of Royal Ceramics Lanka PLC, Lanka Ceramic PLC, Lanka Walltiles PLC, Lanka Tiles PLC, The Fortress Resorts PLC, Vallibel Power Erathna PLC, Delmege Limited and L B Microfinance Myanmar Company Limited. Co-Chairman of Hayleys PLC, The Kingsbury PLC and Singer (Sri Lanka) PLC. Deputy Chairman of Horana Plantations PLC. Executive Director of Vallibel Finance PLC. Director of Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC, Dipped Products PLC and Hayleys Global Beverages (Pvt) Limited.

Former appointments

Chairman of Sampath Bank PLC.

MR. J A S SUMITH ADHIHETTY

Managing Director

Skills and experience

A well-known professional in the marketing field, counts over 36 years of experience in the finance sector.

Appointed to the Board

On 10 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 2 March 2018.

MR. THOSAPALA HEWAGE

Independent Non-Executive Director

Skills and experience

Holds a Bachelor's Degree in Social Science from the University of Ceylon, Peradeniya and a Master of Philosophy (Policy Analysis) from the University of Wales, UK. He holds a Post Graduate Diploma in Development Studies from the University of Cambridge, UK. He served as the Ambassador of Sri Lanka in Nepal for four years. He counts 42 years of experience as a professional Development Administrator and Natural Resource Manager.

Appointed to the Board

On 23 April 2013 and appointed the Chairman on the same day, which office he relinquished on 17 May 2016.

Membership of Board Sub-Committees

Chairman of the Nomination Committee.

Former appointments

Ambassador in Nepal from 2009 to 2012. He was Secretary to the Ministries of Ports and Aviation, Enterprise Development and Investment Promotion, Urban Development and Water Supply, Environment and Natural Resources. Additional Secretary to the Ministry of Forestry and Environment (Policy Planning), Additional Director General of Southern Development Authority (Ministry of Finance and Planning) and Director, Ministry of Lands, Irrigation and Mahaweli Development. Led Sri Lankan delegations in various fields from 2000 to 2008 to Mauritius, Los Angeles, New York, Europe, Middle East, Bangladesh, Senegal, Thailand, Philippines, India, Korea and Japan.

MR. NIROSHAN UDAGE

Executive Director

Skills and experience

Bachelor's Degree in Science from the University of Colombo and possesses 27 years of experience in the field of leasing and finance, including 10 years at Lanka Orix Leasing Company PLC and 3 years at Mercantile Investments Limited prior to joining L B Finance PLC in 2004. Mr. Udage followed a course in 2007 conducted by International Development Ireland Ltd. in Dublin

Board of Directors

and London on Strategy and Management in Banking and also successfully completed the High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA.

Appointed to the Board

On 1 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 Jayawardenapura, successfully completed the High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA. Counts over 20 years of experience in the leasing industry that includes positions at Commercial Leasing and Finance PLC, Lanka Orix Leasing Company PLC and a Merchant Bank in Bangladesh.

Appointed to the Board

On 1 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 K 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 DC. Her areas of specialisation are Corporate and Commercial Law, Mergers & Acquisitions.

Appointed to the Board

On 1 March 2013.

Membership of Board Sub-Committees

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

Current appointments

Director of Messrs. Jaycey and Company, Jacey Trust Services (Private) Limited, Jacey Advisory Services (Private) Limited, Jacey & Company (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 and of The Colombo Fort Land & Building PLC. 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.

MR. RAVINDRA S YATAWARA

Executive Director

Skills and experience

Holds a BSc. Degree in Business Administration from the Oklahoma State University, USA. Counts over 21 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 15 March 2016.

Membership of Board Sub-Committees

Member of the Integrated Risk Management Committee.

Current appointments

Director of L B Microfinance Myanmar Company Limited.

Vice Chairman, 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

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 15 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, 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 Partner & Head of Risk, IT and Forensic Services for BDO Sri Lanka. He currently oversees BDO Maldives and BDO Outsourcing operations. He has over 16 years of experience in providing outsourced internal audit, corporate governance and risk management solutions to private, public listed companies, multinational and Government enterprises.

He has vast experience in managing the delivery of internal audits, forensic investigations and information system audits across a range of sectors. He has experience in forensic services 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 30 October 2017.

Membership of Board Sub-Committees

Chairman of the Integrated Risk Management Committee, Member of the Audit Committee, Remuneration Committee and Related Party Transactions Review Committee.

Current appointments

Partner of Forensic, Risk and IT Advisory Services - BDO Sri Lanka, Director - B T Communications Lanka (Pvt) Ltd., Director - BDO BPO Services (Pvt) Ltd., Director - Sri Lanka Chapter of the Information Systems Audit and Control Association [USA].

Former appointments

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

*Non Executive Director as per the Finance Companies (Corporate Governance) Direction No.03 of 2008

Senior Management

Seated left to right:

MR. ANIL BANDARA Senior Manager - IS Audit and Compliance, MR. DINUSHA MUDUNKOTUWA Senior Manager - Business Analysis, MRS. ZAIRAA KALEEL Compliance Officer

Standing left to right

MRS. NIROSHA AMANULLA Senior Manager-Kandy Branch, MR. KALPA SANJEEWA Chief Manager - Credit and Branch Operations, MR. KENNETH DANIEL Chief Manager - Credit and Branch Operations, MR. SHANAKA PERERA Senior Manager - Administration, MR. DINUDAYA ABEYWARDENA Senior Manager - Corporate Lending, MR.SURAJ KARUNANAYAKA Senior Manager - Gold Loan, MR. SUDEEP PERERA Senior Manager - Marketing, MR. GAYAN AYUWARDANE Chief Manager - Central Region, MR. MALITH HEWAGE Senior Manager - Finance

Seated left to right

MR. CHINTHAKA CHANDRASENA Chief Manager - Credit and Branch Operations, MR. BIMAL PERERA Deputy General Manager - Strategy and Risk, MRS. DESHIKA YATAWARA Senior Manager - Treasury

Standing left to right

MR. HASITHA ATHAPATTU Chief Financial Officer, MR. PRASANNA KALINGA Assistant General Manager - Human Resources, MR. ROSHAN JAYAWARDENA Assistant General Manager - Microfinance,
MR. HIRANTHA JAYASINGHE Chief Manager - Credit and Branch Operations, MR. UDUL CHANDRASENA Assistant General Manager - Treasury MR. WICKRAMA PUNCHIHEWA Head of Legal, MR. CHETHANA KAHANDUGODA Assistant General Manager - Information Technology, MR. AINSLEY MOTHA Deputy General Manager - Credit and Branch Operations, MR. MARLON PERERA Deputy General Manager - Deposits

Senior Management

MR. MARLON PERERA

Deputy General Manager – Deposits

Joined LBF in 1986, counts over 31 years of experience in the finance industry and has held many managerial positions.

MR. BIMAL PERERA

Deputy General Manager – Strategy and Risk

CFA Charterholder, Certified FRM

Joined LBF in 2013, counts over 15 years in 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, counts over 27 years of experience in the banking, leasing and finance industry.

MR. CHETHANA KAHANDUGODA

Assistant General Manager – Information Technology

MSc Information Technology (University Of Colombo), MIEEE

Joined LBF in 2010, counts over 19 years of experience in the field of information and communication technology, principally in the finance industry.

MR. HASITHA ATHAPATTU

Chief Financial Officer

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

Joined LBF in 2014, counts over 19 years of experience in 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, counts over 28 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

Joined LBF in 2016, counts over 19 years of industry experience both locally and overseas.

MR. UDUL CHANDRASENA

Assistant General Manager- Treasury

ACMA, CGMA (UK), MA (Econ.)

Joined LBF in 2017, counts more than 31 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, counts over 16 years as an Attorney-at-Law, and experience in non-banking finance sector and commercial law sector.

MR. CHINTHAKA CHANDRASENA

Chief Manager – Credit and Branch Operations

MBA (UK)

Joined LBF in 1996, counts over 21 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, counts over 18 years of experience in the areas of credit, marketing, recovery and branch operations.

MR. KALPA SANJEEWA

Chief Manager – Credit and Branch Operations

MBA (UK)

Joined LBF in 2005, counts over 17 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, counts over 23 years of experience in the leasing, finance and banking industry.

MR. GAYAN AYUWARDANE

Chief Manager – Central Region

MBA (UK)

Joined LBF in 2015, counts over 16 years of experience in the leasing, finance and banking industry.

MRS. NIROSHA AMANULLA

Senior Manager – Kandy Branch

Joined LBF in 1985, counts over 31 years of experience in the finance industry.

MR. DINUDAYA ABEYWARDENA

Senior Manager – Corporate Lending

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

Joined LBF in 2016, counts over 13 years of experience in the banking and finance industry.

MR. SHANAKA PERERA

Senior Manager – Administration

Joined LBF in 1998, counts over 20 years of experience in the fields of administration and procurement.

MR. MALITH HEWAGE

Senior Manager – Finance

Bsc Accounting (Sp) (University of Sri Jayewardenepura), ACA (Sri Lanka)

Joined LBF 2013, counts more than 8 years of experience in the fields of financial reporting, accounting and auditing.

MR. ANIL BANDARA

Senior Manager – IS Audit and Compliance

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

Joined LBF in 2016, counts over 26 years of experience in information system and general audits experiences both locally and overseas.

MRS. ZAIRAA KALEEL

Compliance Officer

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

Joined LBF in 2016, counts over 11 years of experience in the fields of banking, finance and capital markets.

MR. DINUSHA MUDUNKOTUWA

Senior Manager – Business Analysis

BICT (University of Colombo)/PMP (PMI USA)

Joined LBF in 2017, counts over seven years of experience in the fields of information technology, accounting and auditing, specialising in banking and finance sector.

MR. SUDEEP PERERA

Senior Manager – Marketing

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

Joined LBF in 2017, counts over 14 years of experience in the fields of marketing, travelling and manufacturing.

MRS. DESHIKA YATAWARA

Senior Manager – Treasury

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

Joined LBF in 2008, counts over 10 years of experience in the field of finance.

MR.SURAJ KARUNANAYAKA

Senior Manager – Gold Loan

BSc. Physical Sciences (University of Kelaniya)

Joined LBF in 2016, counts over 10 years of experience in the banking and finance industry.

Corporate Governance

CHAIRPERSON'S MESSAGE

Effective corporate governance practices are essential to achieve and maintaining public trust and confidence in the financial system which are critical to the proper functioning of the financial sector and economy as a whole.

When we measure L B Finance's performance, shareholder return is an important metric – but only as it reflects a more fundamental commitment to earning the trust of all stakeholders. We have a responsibility not simply to meet regulatory requirements, but to act in accordance with our stated values. And the cornerstone of our efforts is sound corporate governance. We've changed successfully over the past 47 years because of good governance, keeping an eye on the long-term, and focusing on what is right for our customers.

YOUR BOARD OVERSEES YOUR BUSINESS

Your Board of Directors provides stewardship, including direction-setting and general oversight of our management and operations. Its members have sophisticated expertise and a range of perspectives. The Board approves the Company's overall strategy and makes decisions based on L B Finance's values, emphasising long-term performance over short-term gain.

OUR FOCUS ON DIVERSITY REFLECTS OUR VALUES

The diverse backgrounds of your Board help us connect with our customers, our markets and our employees. A diverse Board also helps us make better decisions. Board diversity facilitates effective governance by positioning the Board to be made up of highly-qualified Directors.

Strong governance is a vital ingredient in our successful, growing and dynamic business

WE MAINTAIN A STRONG FOCUS ON ETHICAL CONDUCT

Our culture is open, fair and transparent. We have a non-negotiable commitment to doing what's right, supported by our Code of Conduct, a Board-approved set of principles that is based on our values of integrity, empathy, diversity and responsibility – and is applicable to our Board of Directors and everyone who works at L B Finance.

BOARD AND MANAGEMENT STAY CONNECTED WITH OUR SHAREHOLDERS

Transparency is the key, and communication is essential. We engage and inform our shareholders through our annual meeting of shareholders, Annual Report, management proxy circular, annual information form, Sustainability Report, Corporate Responsibility Report, quarterly reports, news releases, earnings, conference calls, industry conferences and other ad hoc meetings of shareholders with members of management and our Board of Directors. Our website provides extensive information about the Board, its mandate, the Board committees and their charters, and our Directors.

This section of the Report explains and demonstrates the framework of governance at L B Finance PLC and the level of compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and amendments thereto, Listing Rules of the Colombo Stock Exchange on Corporate Governance and the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka.

We welcome engagement with our stakeholders and look forward to your valuable feedback to continue with our commitment to further improve on our corporate governance philosophy on a continuing basis.

Shirani Jayasekara
Chairperson

1 June 2018
Colombo

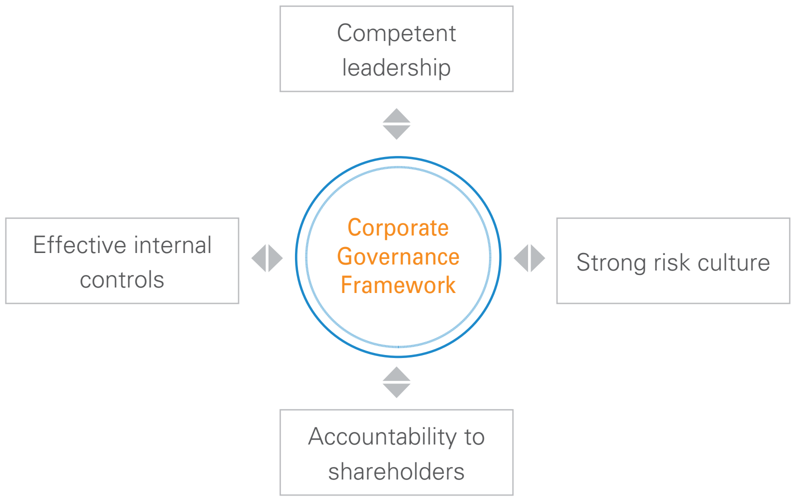
CORPORATE GOVERNANCE PHILOSOPHY

At LBF, our corporate governance philosophy stems from our belief that corporate governance is a key element in improving efficiency, growth, enhancing investor confidence and return to the shareholders. This provides an overview of the corporate governance structures, principles, policies and practices of the Board of Directors of L B Finance PLC, which together enable LBF to meet governance expectations of all stakeholders.

To serve the interests of shareholders and other stakeholders, LBF's corporate governance system is subject to ongoing review, assessment and improvement. The Board of Directors proactively adopts governance policies and practices designed to align the interests of the Board and management with those of shareholders and other stakeholders and to promote the highest standards of ethical behaviour and risk management at every level of the organisation.

We have a clearly defined governance framework that promotes transparency, fairness and accountability.

The Board believes that corporate governance principles should be embedded in our corporate culture. Our corporate culture is anchored on (a) competent leadership, (b) effective internal controls, (c) a strong risk culture and (d) accountability to shareholders. Our internal controls cover financial, operational, compliance and technology, as well as risk management policies and systems.



Corporate Governance

Regulatory Benchmarks On Corporate Governance

Companies Act No. 07 of 2007

Mandatory compliance

http://www.drc.gov.lk/?page_id=1933

Finance Business Act No. 42 of 2011 and all Directions/ Guidelines issued thereunder

Mandatory compliance

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/acts/en/finance_business_act_2011_42E.pdf

Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Monetary board of Central bank of Sri Lanka

Mandatory compliance

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/ snbfi_LFCsDirectionBook_Nov2013-compressed_0.pdf

Listing Rules of the Colombo Stock Exchange (CSE)

Mandatory compliance

https://www.cse.lk/home/listingRules

The Code of Best Practice on Corporate Governance as published by the Institute of Chartered Accountants of Sri Lanka

Voluntary compliance

https://www.casrilanka.com/casl/images/stories/2017/2017_pdfs/code_of_best_practice_on_corporate_governance_2017_final_for_web.pdf

Continuing Listing Requirements of the Colombo Stock Exchange (CSE)

Mandatory compliance

Principle	Description
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.

Internal Benchmarks on Corporate Governance

- Articles of Association

  https://cdn.cse.lk/cmt/ ssociationFiles/4571429845658_379.pdf

- All Board approved Policies on operational areas
- Organisational Structure
- Code of Ethics and Conduct for all employees
- Policies related to Corporate Governance
- Share Trading Policy
- Risk Management Policy
- Human Resources Policy and Manual

https://cdn.cse.lk/pdf/Section-7-17.01.2018.pdf

Related Party Transactions Section 9 of the Listing Rules of the CSE

Mandatory compliance

https://cdn.cse.lk/pdf/Section-9-17.01.2018.pdf

Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)

Mandatory compliance

http://www.sec.gov.lk/wp-content/uploads/SEC-Act-Revised-Edition-2009.pdf

Inland Revenue Act No. 24 of 2017 and amendments thereto and other statutes

Mandatory compliance

http://www.ird.gov.lk/en/publications/Income%20Tax_Documents/IR_Act_No_10[E]_2006_(Consolidation_2015).pdf

Shop and Office Employees Act No. 19 of 1954 and amendments thereto

Mandatory compliance

http://www.ilo.org/dyn/travail/docs/1350/Shop%20and%20Office%20Employees%20Act.pdf

Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995

Mandatory compliance

http://www.slaasc.lk/pdf/01.pdf

Anti-Money Laundering Laws and Regulations and Financial Transactions Reporting Act No. 6 of 2006

Mandatory compliance

http://fiusrilanka.gov.lk/docs/ACTs/FTRA/Financial_Transactions_Reporting_Act_2006-6_%28English%29.pdf

Principle	Description
Risk Oversight	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.

- Whistleblowing Policy
- Charters/Terms of Reference of Board Subcommittees and Management Committees
- Policy on Managing Conflicts of Interest
- Communication Policy
- Complaint Handling Policy
- Related Party Transactions Policy
- Anti-Money Laundering and Suppression of Terrorist Financing Policy
- Document Retention and Destruction Policy
- Information Systems Security Policy
- Board Charter

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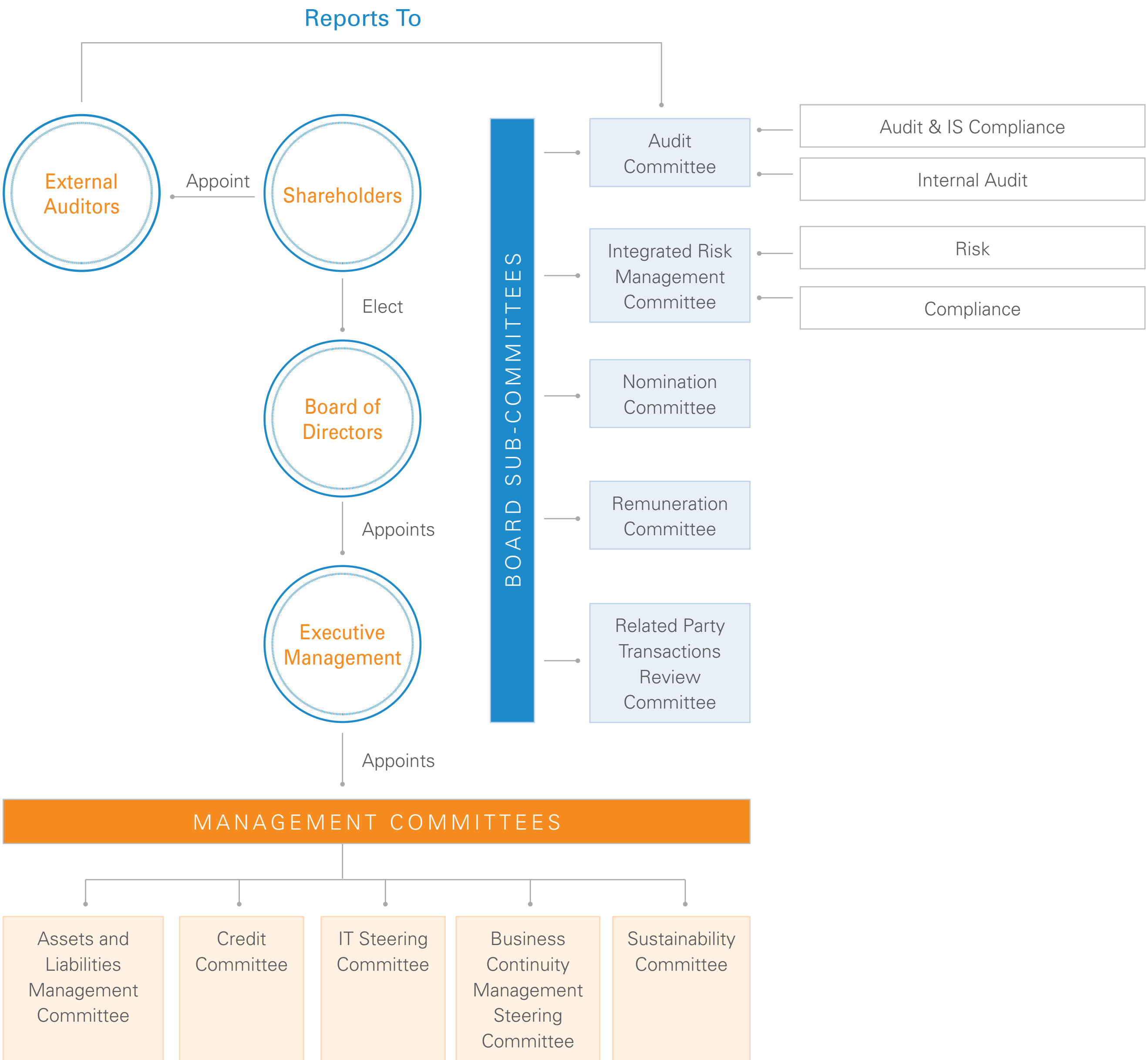
Corporate Governance

GOVERNANCE STRUCTURE

The fundamental relationships among the Board, its sub-committees, Management, shareholders, regulators and other stakeholders are guided by the 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 2017/2018

April 2017

- The whistleblower Policy was re-visited with a view to further strengthen the process by which employees raise concerns in confidence
- The Board and all Board sub-committees carried out self-assessments to critically evaluate the effectiveness of the Board and each of the sub-committees. The results of the self-evaluations were discussed in detail and areas for improvement together with an action plan were mandated
- The Company engaged the services of Messrs. Ernst & Young to seek their assessment of the Company's compliance with the requirements of the Finance Business Act No. 42 of 2011 on 'Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Monetary Board of Central bank of Sri Lanka

May 2017

- Formation of the Strategy division headed by a Deputy General Manager
- Changes were made to the corporate management structure and reporting lines in pursuance of the Company's Strategy
- Anti-Money Laundering, Countering the Financing of Terrorism and Know your Customer Policies were approved by the Board.
- Audit Committee Charter and Internal Audit Charter were reviewed and approved by the Board
- Policy for engaging external Auditors to provide Non-Audit Services was approved by the Board

June 2017

- Reviewed and assessed the strength of the Company's cyber security capabilities and potential risks in light of the perpetually-changing nature of potential threats

July 2017

- Reviewed IT Governance Policies which were adopted by the Board with revisions.

August 2017

- Procedure for Anti Money Laundering and Combating of Financing of Terrorism was approved by the Board.
- Re-constitution of Nomination Committee and Related Party Transactions Review Committee.

October 2017

- Re-constitution of Board sub-committees to include newly-appointed Directors
- Reviewed the Terms of Reference of IRMC and KPIs developed and monitored by the IRMC
- Pledge of Secrecy to be signed by every Director was adopted by the Board

November 2017

- Share Trading Policy was approved by the Board, which applies to all Employees and Directors of the Company

January 2018

- Code of Conduct was revised based on the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka
- Audit Committee Charter was further reviewed and confirmed by the Board after incorporating one amendment

February 2018

- Carried out unannounced real-time testing on the comprehensive business continuity plan

March 2018

- The Board and all Board sub-committees 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 in April 2018.

DIVERSITY IN THE BOARDROOM

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.

Corporate Governance

The Board has adopted a diversity policy, which recognises 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 has a good balance between continuity and fresh perspectives on the Board.

Board composition

The board consists of 10 Directors as at 31st of March 2018

No	Name of Director	Board composition	Date of appointment to Board	Period of service upto to 31.3.2018
1	Mrs. Shirani Jayasekara	Chairperson – Independent Non-Executive Director	25.08.2010 (as a Director) 18.09.2017 (as the Chairperson)	7 years and 7 months
2	Mr. Dhammika Perera	Executive Deputy Chairman	22.10.2002 – (as a Non-Executive Director) 21.10.2011 (as Executive Deputy Chairman)	9 years as a Non-Executive Director; - 6 years and 5 months as Executive Deputy Chairman
3	Mr J A S S Adhihetty	Managing Director	10.12.2003	14 years and 3 months
4	Mr. Thosapala Hewage	Independent Non-Executive Director	23.04.2013	4 years and 11 months
5	Mr. Niroshan Udage	Executive Director	01.01.2007	11 years and 3 months
6	Mr. B D A Perera	Executive Director	01.01.2007	11 years and 3 months
7	Mr. R S Yatawara	Executive Director	15.03.2016	2 years
8	Mrs. Anandhiy K Gunawardhana	Independent Non-Executive Director	01.03.2013	5 years and 1 month
9	Mrs. Yogadinusha Bhaskaran	Non-Executive Director	15.03.2016	2 years
10	Mr. M A J W Jayasekara	Independent Non-Executive Director * Non-Executive Director +	30.10.2017	5 months

* As per the Listing Rules

+ As per the Finance Companies (Corporate Governance) Direction No. 3 of 2008 on Corporate Governance and amendments thereto

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	No. of Directors 1	2	3	4	5	6	7	8	9	10
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 companying, 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 as many companies, the LBF Board and shareholders have recognised the benefits of having a gender-balanced Boardroom. Age diversity is an often overlooked element in the LBF Boardroom.

Gender	No. of Directors 1	2	3	4	5	6	7	8	9	10
Male										
Female										

Age	No. of Directors 1	2	3	4	5	6	7	8	9	10
30-39										
40-49										
50-59										
60-69										

Corporate Governance

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 meeting.

The Board is satisfied that each Non-Executive Director who has served on the Board during 2017/2018 has retained independence of character and judgment and has not formed associations with Management or others that might compromise their ability to fulfil their role as an Independent Director.

	No. of Directors									
INDEPENDENCE	1	2	3	4	5	6	7	8	9	10
Independent Non-Executive Directors										
Non-Independent and Non-Executive Director										
Executive Directors										

	No. of Directors				
NON-EXECUTIVE DIRECTOR TENURE	1	2	3	4	5
No of Years					
Lesser than 3 years					
3 - 6 Years					
6 - 9 Years					

BOARD'S KEY AREAS OF FOCUS

- Review LBF's strategic and business plans
- Monitor the responsibilities delegated to the Board committees to ensure proper and effective oversight and control of LBF's activities
- Establish a framework for risks to be assessed and managed
- Review management performance
- Determine LBF's 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's strategy

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 on a monthly basis
- 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 give constructive challenge to ideas
- 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's affairs

Frequent and effective engagement with the Board

- The Board is regularly updated on the performance and prospects of LBF
- Outside of Board meetings, 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
- 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

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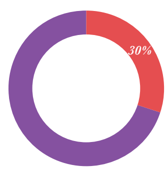
Corporate Governance

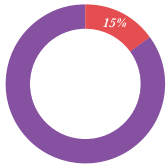
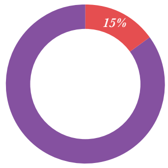
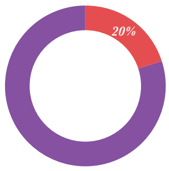
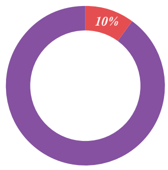
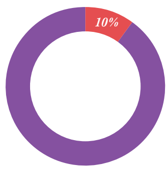
Board Meeting Attendance from April 2017 to March 2018

Name of the Director	Attendance at Board Meetings											
	25/4	28/4 Special Board Meeting	23/5	20/6	28/7	22/8	17/10	28/11	4/1	30/1	14/3	14/3	Total
Mrs. Kimarli Fernando	✓	✓	✓	✓	✓	✓	Ceased w.e.f. 25.8.2017						6/6
Mrs. Shirani Jayasekara	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12/12
Mr. Dhammika Perera	✓	Ex	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/12
Mr. T Hewage	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12/12
Mr. J A S S Adhihetty	✓	Ex	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11/12
Mr. L N de S Wijeyeratne	✓	✓	✓	✓	✓	✓	✓	Ceased w.e.f. 31.10.2017					7/7
Mr. W D N H Perera	Ab	Ex	Resigned w.e.f. 30.4.2017										0/2
Mr. Niroshan Udage	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12/12
Mr. B D A Perera	✓	✓	✓	✓	✓	✓	✓	✓	Ex	✓	✓	✓	11/12
Mr. Ravi S Yatawara	✓	Ex	✓	✓	✓	✓	✓	✓	✓	Ex	✓	✓	10/12
Mrs. Anandhiy K Gunawardhana	✓	✓	✓	✓	✓	✓	✓	✓	✓	Ex	✓	✓	11/12
Mrs. Yogadinusha Bhaskaran	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12/12
Mr. M A J W Jayasekara	Appointed with effect from 30th October 2017							✓	✓	✓	✓	✓	5/5

Ex - Excused Ab - Absent

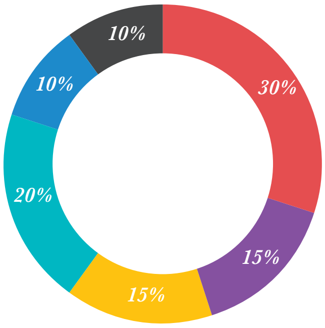
2017/2018 Highlights of Board Oversight Activities and Time Spends

Responsibility	Activities	Time Spent
Strategic Planning	Approving LBF's Strategic Plan 2017/2018 -2020/2021. 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 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.	30% 

Responsibility	Activities	Time Spent
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.	15% 
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.	15% 
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	20% 
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.	10% 
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.	10% 

Corporate Governance

HIGHLIGHTS OF BOARD OVERSIGHT ACTIVITIES AND TIME SPENDS



- Strategic planning
- Governance
- Risk management
- Financial reporting and internal control
- Culture of integritiy
- Talent management and succession planning

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 approved by the Board. Broadly, the responsibilities of the Board include the following:

» 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 controls 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.

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.

The Chairperson's key responsibilities are to:

» 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 of the Chief Executive Officer/Managing Director are to:

- exercise executive accountability for 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.

Sub Committees Meeting Attendance From April 2017 to March 2018

Name of the Director	Audit Committee		Integrated Risk Management Committee		Remuneration Committee		Related Party Transactions Review Committee		Nominations Committee	
	Attendance	Status	Attendance	Status	Attendance	Status	Attendance	Status	Attendance	Status
Mrs. Shirani Jayasekara	8/10	M	3/3	C	-	-	2/4 2/4	M* C**	-	-
Mr. Dhammika Perera	-	-	-	-	-	-	-	-	-	-
Mrs. Kimarli Fernando	-	-	1/2	M	-	M	2/2	C	1/1	M
Mr. T Hewage	-	-	-	-	-	-	1/1	M	3/3	C
Mr. J A S S Adhihetty	-	-	2/4	M	-	-	-	-	3/3	M
Mr. L N de S Wijeyeratne	10/10	C	-	-	-	M	3/3	M	-	-
Mr. Niroshan Udage	-	-	4/4	M	-	-	-	-	-	-
Mr. B D A Perera	-	-	4/4	M	-	-	4/4	M	-	-
Mr. Ravi S Yatawara	-	-	2/2	M	-	-	-	-	-	
Mrs. Anandhiy K Gunawardhana	14/16	M	2/2	M	2/2	C	-	-	2/2	M
Mrs. Yogadinusha Bhaskaran	6/6	C	-	-	-	-	-	-	-	-
Mr. M A J W Jayasekara	6/6	M	1/2 1/2	M C	2/2	M	1/1	M	-	-

*Till 25 August 2017

**From 26 August 2017

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Corporate Governance

NON-EXECUTIVE DIRECTORS

Along with the Chairperson and Executive Directors, the Non-Executive Directors are responsible for ensuring that the Board fulfils its responsibilities under its terms of reference. The Non-Executive 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 Non-Executive 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.

BOARD COMMITTEES

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. Refer page 70 for the Committee Report for more details.

COMPANY SECRETARY

P W Corporate Secretarial (Pvt) Ltd. is the Company Secretary.

The key responsibilities of the Company Secretary include:

» 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 Chairperson/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 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.

ACTING ETHICALLY AND RESPONSIBLY

Managing Conflicts of Interest

All Directors are guided by the provisions of the 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.

THE 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 the "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.

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 victimisation in response.

Further, the Company is in the process of developing the "Speak-Up Hotline" offering a trusted avenue for its people and external partners to report issues and concerns.

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.

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 optimizing 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, avoid failure and mitigate IT associated risks.

Corporate Governance

The Company's IT steering committee is headed by the Executive Director – Asset Management and meets monthly to discuss the following:

» To ensure that IT has sufficient resources to meet the Company's demands.

» To assess and report IT-related risks and their organisational impact.

» Provide feedback about compliance of IT carrying out the system reviews according to CBSL requirements.

» Reviews are made to ensure that the objectives are achieved.

ACCOUNTABILITY TO OUR SHAREHOLDERS

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.

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.

COMPLIANCE STATEMENT

We are happy to confirm that throughout the year ended 31st March 2018 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. 03 of 2008 on Corporate Governance and amendments thereto. In addition, tables set out in pages 82 to 94 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'.

By order of the Board
L B Finance PLC

P W Corporate Secretarial (Pvt) Ltd
Secretaries

1 June 2018

Colombo

FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 03 OF 2008 AND SUBSEQUENT AMENDMENTS THERETO) ON CORPORATE GOVERNANCE FOR LICENSED FINANCE COMPANIES IN SRI LANKA

The Central Bank of Sri Lanka has issued the Direction on Corporate Governance in order to improve and sustain the Corporate Governance processes and practices of the Licensed Finance Companies in Sri Lanka. This Direction is identified as the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and the amendments are referred to as Finance Companies (Corporate Governance – Amendment) Direction No. 04 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013. The above Directions comprise of nine fundamental principles, namely

- The responsibilities of the Board
- Meetings of the Board
- Composition of the Board
- Criteria to assess the fitness and propriety of Directors
- Management functions delegated by the Board
- The Chairman and the Chief Executive Officer
- Board-appointed committees
- Related party transactions
- Disclosures

The Company's level of compliance with the Corporate Governance Directions is tabulated below.

Section	Rule	Compliance/ non-compliance	Status of compliance
02	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.
	(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 be assessed 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.

Corporate Governance

Section	Rule	Compliance/ non-compliance	Status of compliance
	(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 199 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.
	(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.

Section	Rule	Compliance/ non-compliance	Status of compliance
	(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.
	(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.

Corporate Governance

Section	Rule	Compliance/ non-compliance	Status of compliance
	(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 2017/18 on page 61.
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 2017/18. 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 2017/18. Directors' Attendance at Board and Subcommittee meetings, Refer pages 54 to 57 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.

Corporate Governance

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 12 Directors upto 30.04.2017 and then reduced to 11 which continued up to 25.08.2017. Thereafter this number has further reduced to 10 from 31.10.2017 which is within the statutory limit required by the direction during the year 2017/18. 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 52.
4 (3)	Board balance	Complied	Board balance was maintained throughout the year.
4 (4)	Independent Non-Executive 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 2017/18
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 36 to 39.
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 page in 50 addition to the disclosures on profiles of Directors on pages 36 to 39.
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.

Section	Rule	Compliance/ non-compliance	Status of compliance
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).
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 2018.
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.

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Section	Rule	Compliance/ non-compliance	Status of compliance
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 Non-Executive 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 102.
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.

Section	Rule	Compliance/ non-compliance	Status of compliance
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.

Corporate Governance

Section	Rule	Compliance/ non-compliance	Status of compliance
7 (11)	Chief Executive Officer functions as the apex executive-in-charge 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 Non-Executive 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 39 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.

Section	Rule	Compliance/ non-compliance	Status of compliance
	(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.
	(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.

Corporate Governance

Section	Rule	Compliance/ non-compliance	Status of compliance
	(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 judgemental 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 2017/18.
	(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 Dept. 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 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.

Corporate Governance

Section	Rule	Compliance/ non-compliance	Status of compliance
	(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 16 times during the year and the attendance at those meetings is set out on page 110 in Audit Committee Report.
	(o) Disclosures in the Annual Report.	Complied	The Report of the Board Audit Committee is on page 110 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.
	(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: Two Non-Executive Directors, three Executive Directors including Managing Director / CEO and other Key Management Personnel, namely Chief Financial Officer, AGM Treasury, Chief Risk Officer 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.

Section	Rule	Compliance/ non-compliance	Status of compliance
	(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.
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 favourable 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 406 in Financial Statements.

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Section	Rule	Compliance/ non-compliance	Status of compliance
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 favourable 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 100.
	(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 100.
	(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.

Corporate Governance

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	

Transaction with KMP

Compensation of KMP – Company

For the year ended	2016/2017 Rs.	2017/2018 Rs.
Short-term employment benefits		
Directors	323,008,856.24	338,790,257.68
KMPs	36,839,743.68	43,165,396.90
Post-employment benefits		
Directors		
KMPs	866,250.00	1,904,243.25
Total	360,714,849.92	383,859,897.83

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.

Section	Rule	Compliance/ non-compliance	Status of compliance
	(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds	Complied	Statement of Financial Position – Company

Statement of Financial Position – Company

For the year ended	Year-end balance 2016/2017 Rs.	2017/2018 Rs.
Assets		
Loans and advances	426,478.12	3,257,723.87
Total	426,478.12	3,257,723.87
Liabilities		
Deposits	654,477,140	762,510,780
Securities sold under repurchase agreements	0	0
Debentures	0	0
Total	654,477,140	762,510,780

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 2016/2017 Rs.	2017/2018 Rs.
Undrawn facilities	0	0
Total	0	0

Share-based transactions of KMP and CFM

For the year ended	Average balance 2016/2017 Rs.	2017/2018 Rs.
Number of ordinary shares held	369,689.00	446,177.00
Dividends paid (in Rs. '000)	4,024,134.00	4,232,306.00

Corporate Governance

Section	Rule	Compliance/ non-compliance	Status of compliance
			Total accommodations granted to each category of related parties and as a percentage of the Company's regulatory capital

Category of related party transactions	2016/2017 Rs. '000	percentage of the regulatory capital	2017/2018 Rs. '000	percentage of the regulatory capital
Directors	0	0%	0	0%
KMP				
Non-Executive Directors and their close family members	0	0%	0	0%
Key Management Personnel and their close family members (includes the Executive Director)	426,478.12	0.003%	3,257,723.87	0.021%
Subsidiaries	0	0%	0	0%
Joint Venture	0	0%	0	0%
Entities which Directors and their close family members have a substantial interest	393,159.00	0.003%	8,105,281.02	0.053%
Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	0	0%	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 107.
	(i) Non-Compliance reporting	Complied	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.
	(j) The External Auditors' certification of compliance with the corporate governance direction.	Complied	The Company has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Direction.

Corporate Governance

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 2018, 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 summarised on page 54.	✓
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, recognise 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.	✓
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.	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
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 Institute of 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 36 to 39.	✓

Corporate Governance

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 Non-Executive 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 Five (5) Non-Executive Directors and Five (5) Executive Directors facilitating the required balance within the Board. **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 2017/18 as per Schedule K of the Code.	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
		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 2017/2018. **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.	✓
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.	✓

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Corporate Governance

Code Reference	Compliance and implementation	Status of compliance	Complied
A.7	Appointments to the Board and re-election	**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 109 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 re-election 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 36 to 39 including other directorships held by the Directors and memberships of Board Committees. Directors attendance is disclosed on page 54.	✓
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.	✓

Corporate Governance

Code Reference	Compliance and implementation	Status of compliance	Complied
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 108 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.	✓

Corporate Governance

Code Reference	Compliance and implementation	Status of compliance	Complied
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 108 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 406.	✓
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 Chairmen 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 124 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.	✓

Corporate Governance

Code Reference	Compliance and implementation	Status of compliance	Complied
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.	✓
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 2018 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 98 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 100 and Auditors responsibility given in the Auditors' Report to the 313 Internal Control is given on page 100 respectively. **Management discussion and analysis.** Management discussion and analysis is given on page 118. Information Required ... Page Industry structure and developments ... 156 Opportunities and threats ... 205 Risks and concerns ... 188 Internal control systems and their adequacy ... 212 Social and environmental protection activities carried out by the Company ... 153 Financial performance ... 208 Material developments in human resource/industrial relations and .. 258 Prospects for the future ... 246	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
		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 406. **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 107. **Serious loss of capital.** No such circumstance occurred, and its likelihood of occurrence is also remote.	✓
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 summarised 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 199 and the Subcommittee Reports on page 112.	✓
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 110 of the Annual Report	✓

Corporate Governance

Code Reference	Compliance and implementation	Status of compliance	Complied
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 82 to 94 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.	✓
G	Internet of things and cyber-security	Please refer page 198.	✓
H	Environment, Society and Governance (ESG)	Please refer page 290.	✓
H. 1	ESG reporting	Please refer page 290.	✓
H.1.2	Environmental factors	Please refer page 290.	✓
H.1.3	Social factors	Please refer page 264.	✓
H.1.4	Governance	Please refer page 44.	✓
H.1.5	Board's role on ESG factors	Please refer page 290.	✓

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 202	✓
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 224	✓
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 246	✓
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 369	✓
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 388	✓
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 224	✓
7.6 (xi)	Ratios and market price information: Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year Any changes in credit rating	Please refer 'Financial Capital' on page 224 Please refer 'Ten year summary' on page 419	✓
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 369	✓
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 106.	✓
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 95	✓

Corporate Governance

Section Reference	Rule	Status of Compliance	Complied
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 2018 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 proceeding 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 50 of the Annual Report	✓
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 No. 50 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 No. 36 to 39 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.	✓

Section Reference	Rule	Status of Compliance	Complied
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 108 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 108 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 108 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 recognised 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 an 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 36 to 39 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.	✓
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 110 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 110 for the required disclosure.	✓

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

The Directors of L B Finance PLC have pleasure in presenting their Annual Report together with the Consolidated Financial Statements of the Company and its subsidiary for the year ended 31st March 2018 and the Independent Auditors Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

This Report includes the information as required by the Companies Act, Finance Companies (Corporate Governance) Direction No. 03 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, namely 20,000,000 Unsecured, Subordinated, Redeemable, Rated, Debentures (redeemable in 2018); and 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 ratings in respect of the Debentures issued by the Company are 20,000,000 Subordinated Debentures redeemable in 2018 – national long term rating at BBB+(lka), 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**
The nature of the business of the Company	Section 168 (1) (a)	Complied Page 324
Signed Group Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Complied Pages 317 to 413
Auditor's Report on Group Financial Statements of the Company	Section 168 (1) (c)	Complied Pages 313 to 315

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Level of compliance
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Complied Page 329
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Complied Page 104
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Complied Page 406
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Complied Page 106
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Complied Page 50
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 338
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Complied Page 106
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 107
Information as per Section 168 (1)(b) to (j) in relation to the subsidiary	Section 168 (2)	Complied Page 324

VISION, MISSION AND VALUES

The Company's vision, mission and values are given on page 3 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.

During the year, the Company extended its presence to the Republic of the Union of Myanmar through the investment in its subsidiary, L B Microfinance Myanmar Company Limited. The said subsidiary received its licence to engage in Microfinance business in the Bago Region of Myanmar on 10th October 2017, and consequently, commenced business in December 2017.

There were no significant changes in the nature of the principal activities of the Company during the year under review, except the investment made in the subsidiary in Myanmar and commencement of business by the said subsidiary.

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 28 to 30 which form an integral part of this Report.

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

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairperson's Message on page 24, Managing Director's Review on page 28 and the Management Discussion and Analysis on page 117.

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 22nd May 2018.

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 317 to 413, 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

The Directors are responsible for the preparation of the Financial Statements of the Company and the Group which reflect a true and fair view of its state of affairs and its subsidiary.

The Directors are of the view that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements appearing on pages 317 to 413 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, 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 100 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. 03 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 pages 98 to 107.

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 311.

AUDITORS' REPORT

The Report of the Independent Auditors on the Financial Statements of the Company and the Group is given on page 313.

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The accounting policies adopted in the preparation of the Financial Statements are given on pages 330 to 389 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 2018 was Rs. 25,046 million (in 2017 it was Rs. 19,363 million).

Group Income during the year was Rs. 25,046 million (2017 – N/A)

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 10% and a growth in profit after tax of 8% in the year ended 31st March 2018 in comparison to those of the preceding year.

The growth in total Comprehensive Income was 8%.

Details of appropriation of profit of the Company are given below:

	2018 Rs.'000	2017 Rs.'000
Profit for the year after payment of all the expenses of management, provision for depreciation and amortisation, impairment of loans and other losses, gold loan auction losses and tax on financial services.	6,477,690	5,874,843
Less: Income tax expense	2,226,969	1,956,639
Profit after tax	4,250,721	3,918,204
Unappropriated balance brought forward from previous year	8,259,079	6,970,499
Actuarial gains/(losses) on defined benefit plans	(34,421)	(3,182)
Profit available for appropriation	12,475,379	10,885,521
Less: Appropriations		
Dividend paid for previous financial year	415,543	1,038,857
Interim dividend paid for current financial year	969,600	831,086
Transfers during the year	850,144	756,499
Total appropriation	2,235,287	2,626,442
Unappropriated balance carried forward	10,240,092	8,259,079
Proposed dividend	554,057	415,543

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 page 388.

TAXATION

The Income Tax rate applicable to the Company's operations is 28% (28% in 2016/17).

The Company was also liable for Value Added Tax (VAT) on Financial Services at 15% (2016/17: 15%) and Nation Building Tax (NBT) on Financial Services at 2% (2016/17: 2%).

THE BOARD OF DIRECTORS

The Board of Directors of the Company as at 31st March 2018 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 36 to 39.

Executive Directors

Mr. Dhammika Perera
Executive Deputy Chairman

Mr. J A S S Adhihetty
Managing Director

Mr. Niroshan Udage

Mr. B D A Perera

Mr. R S Yatawara

Non-Executive Directors

Mrs. Shirani Jayasekara
Chairperson*+

Mr. Thosapala Hewage*+

Mrs. Anandhiy K Gunawardhana*+

Mrs. Yogadinusha Bhaskaran

Mr. M A J W Jayasekara*
(appointed on 30 October 2017)

* Independent Director as per the Listing Rules + Independent Director as per the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended)

New appointments during the year

Mr. M A J W Jayasekara was appointed on 30 October 2017. The relevant regulatory approval under Finance Companies (Assessment of Fitness and Propriety of Directors and Officers performing Executive Functions) Direction No. 03 of 2011 was obtained for the said appointment.

Resignations during the year

Mr. W D N H Perera resigned with effect from 30th April 2017. The relevant regulatory approval in terms of Finance Companies (Structural Changes) Direction No. 01 of 2013 was obtained for the said resignation.

Cessations during the year

Mrs Kimarli Fernando, Acting Chairperson and Mr. L N de S Wijeyeratne ceased to be Directors with effect from 25th August 2017 and 31 October 2017 respectively on completion of nine (9) years of service, in terms of Section 4(2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

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

Other structural changes in the directorate

Consequent to the cessation of office of Mrs. Kimarli Fernando, who was the Acting Chairperson, Mrs. Shirani Jayasekara was appointed the Chairperson of the Board of Directors with effect from 18th September 2017.

The relevant regulatory approval in terms of Finance Companies (Structural Changes) Direction No. 01 of 2013 was obtained for the aforesaid structural change.

Directors of the Subsidiary

The Directors of the subsidiary, L B Microfinance Myanmar Company Limited as at 31st March 2018 consisted of the following:

Mr. Dhammika Perera

Mr. J A S S Adhihetty

Mr. Dulan de Silva
(appointed on 7 June 2017)

Mr. Niroshan Udage

Mr. B D A Perera

Mr. R S Yatawara
(appointed on 7 June 2017)

There were no changes in the Directors of the subsidiary,during the year under review except the two appointments referred to above.

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 the 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 Sections 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 page 406 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 406.

The relevant interests of Directors in the shares of the Company as at 31st March 2018 as recorded in the Interests Register are given in this Report under Directors' shareholding.

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. 03 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. 03 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. Shirani Jayasekara	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 1 Director who was appointed during the year, the number of Directors subject to retirement by rotation is 4 and therefore, one Director (Mrs Shirani Jayasekara) is to retire at the forthcoming Annual General Meeting and is recommended by the Directors for re-election. Mrs.Shirani Jayasekara was last re-elected as a Director at the Annual General Meeting held in 2014
Mr. M A J W Jayasekara	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. Mr. M A J W Jayasekera being a Director appointed during the year retires at the Annual General Meeting in terms of Article 92 and being eligible for re-election is 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 1 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 is set out in Note 6.1 to the Financial Statements.

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party 'more favourable 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 2018.

Directors' remuneration

The remuneration of Directors of the Company and its subsidiary is disclosed under key management personnel compensation in Note 6.1.1 to the Financial Statements on page 406.

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

Relevant interests of directors' in shares

The Directors' shareholding and the relevant interests of Directors in the shares of the Company as at 31 March 2018 and 31 March 2017 are as follows:

	Shareholding as at 31 March 2018	Shareholding as at 31 March 2017
Mrs. Shirani Jayasekara	-	-
Mr. Dhammika Perera*	-	-
Mr. J A S S Adhihetty	106,120	106,120
Mr. Thosapala Hewage	-	-
Mr. N Udage	250,325	173,837
Mr. B D A Perera	-	-
Mr. R S Yatawara	-	-
Mrs. Anandhiy K Gunawardhana	-	-
Mrs. Yogadinusha Bhaskaran	-	-
Mr. M A J W Jayasekara	-	-

*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. J A S S Adhihetty are Directors of Vallibel One PLC, where they serve as Chairman/ Managing Director and Non-Executive Director respectively.

Mrs. Yogadinusha Bhaskaran is the Chief Executive Officer of Vallibel One PLC.

Mr. Dhammika Perera, also serves as Chairman of Royal Ceramics Lanka PLC.

Directors' interests in debentures

Except, 15,000 Subordinated, Unsecured, Listed, Redeemable, Rated Debentures held by Mrs Anandhiy K Gunawardhana, no debentures were registered in the name of any Director at the beginning and at the end of the year under review.

Board sub-committees

The Board of Directors of the Company has formed five committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 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 (with effect from 1 November 2017)

Mr. L N De S Wijeyeratne
Chairman (upto 31 October 2017)

Mrs. Shirani Jayasekara
(upto 31 October 2017)

Mrs. Anandhiy Gunawardhana

Mr. M A J W Jayasekara
(with effect from 31 October 2017)

The Report of the Audit Committee appears on page 110.

Integrated Risk Management Committee (IRMC)

Mr. M A J W Jayasekara
Chairman (from 2 November 2017)

Mrs. Shirani Jayasekara
Chairperson (upto 1 November 2017)

Mrs. Kimarli Fernando
(upto 25 August 2017)

Mrs. Anandhiy K Gunawardhana
(from 17 October 2017)

Mr. J A S S Adhihetty
Managing Director

Mr. Niroshan Udage
Executive Director

Mr. B D A Perera
Executive Director

Mr. R S Yatawara
Executive Director

Mr. Bimal Perera
DGM – Strategy & Risk

Mr. Hasitha Saman Athapattu
Chief Financial Officer

Mr. Udul Chandrasena
AGM Treasury

Mrs. Zairaa Kaleel
Compliance Officer

The Report of the IRMC appears on page 112.

Remuneration Committee

Mrs. Anandhiy Gunawardhana
Chairperson

Mrs. Kimarli Fernando
(upto 25 August 2017)

Mr. L N de S Wijeyeratne
(upto 31 October 2017)

Mr. M A J W Jayasekara
(from 31 October 2017)

Mrs Yogadinusha Bhaskaran
(from 17 October 2017)

The Report of the Remuneration Committee appears on page 108.

Related Party Transactions Review Committee (RPTRC)

Mrs Shirani Jayasekara
Chairperson (from 26 August 2017)

Mrs. Kimarli Fernando
Chairperson – (upto 25 August 2017)

Mr. L N de S Wijeyeratne
(upto 31 October 2017)

Mr. Thosapala Hewage
(from 17 October 2017)

Mr. Ashane Jayasekara
(from 31 October 2017)

Mr. B D A Perera
(upto 24 April 2018 thereafter a Permanent Invitee)

The Report of the RPTRC appears on page 114.

Nomination Committee

Mr. Thosapala Hewage
Chairman

Mrs. Kimarli Fernando
(upto 25 August 2017)

Mrs. Anandhiy Gunawardhana
(from 26 August 2017)

Mr. J A S S Adhihetty

The Report of the Nomination Committee appears on page 109.

STATED CAPITAL AND DEBENTURES

The stated capital of the Company as at 31 March 2018 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 31 March 2018 are set out in Note 4.33 to the Financial Statements on page 388 and on page 389 of this Report.

SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS

Shareholders

There were 2,006 shareholders registered as at 31 March 2018 (2,102 shareholders as at 31 March 2017).

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, 20 largest shareholders, public holding and ratios and market price information are set out on page 224 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 pages 226 to 227.

During the year under review, there were no changes in the credit rating for the Company and/or the Debentures issued by the Company in 2013.

During the year the Company issued 10,000,000 Senior, Unsecured Listed Redeemable, Rated Debentures and 20,000,000 Subordinated, Unsecured, Listed, Redeemable, Rated Debentures, which were assigned national long-term ratings at A-(lka) and BBB+(lka) respectively by Fitch Ratings Lanka Limited by their Report dated 17 November 2017.

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. 7/- per share for the year under review on 9 March 2018 out of the profits of the Company, which was subjected to a 10% withholding tax.

The Directors recommended a final dividend of Rs. 4/- per share for the year under review subject to obtaining a certificate of solvency from the Auditors and to be approved by the shareholders at the forthcoming Annual General Meeting. This dividend payment will be subject to 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 declarations 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 10th July 2018.

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

PROPERTY, PLANT AND 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 Notes 4.23 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 2018 as per valuations conducted by Mr. H V Manjula Basnayake an Independent Incorporated Valuer are set out in Note 4.23.9 to the Financial Statements on page 375.

Debenture Issue in December 2017

By a Prospectus dated 28th November 2017, the Company invited subscription to raise a total of Rs. 3,000,000,000/- through the issue of Senior, Unsecured, Listed, Redeemable, Rated Debentures (Type A) and Subordinated, Unsecured, Listed, Redeemable, Rated Debentures (Type B).

Consequent thereto, the Company issued 10,000,000, Type "A" debentures of Rs. 100/- each [total consideration being Rs. 1,000,000,000/] and 20,000,000 Type "B" debentures of Rs. 100/- each [total consideration being Rs. 2,000,000,000/-].

The objective of the issue of the debentures was to finance expansion by increasing the lending portfolio of the Company within 12 months of the date of allotment and the totality of funds raised through the debenture issue of Rs. 3,000,000,000/- was utilised for the said purpose.

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 31 March 2018, the Company had 3,441 employees (3,221 employees as at 31 March 2017).

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

Neither the Company nor its subsidiary made any donations during the year under review.

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 page 153.

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 Limited 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 judgment 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. 6.59 million is payable by the Company to the Auditors for the year under review comprising Rs. 2.95 million as Audit Fees, and Rs. 2.6 million. as audit related fees and expenses and Rs. 1.04 million for non-audit services. A fee of USD 4,000 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 9 May 2018 recommended that they be reappointed as Auditors. A resolution to reappoint the Auditors and to authorise 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 199.

Directors' Statement on Internal Controls over Financial Reporting is on page 100.

MATERIAL FORESEEABLE RISK FACTORS

Material Foreseeable Risk Factors as applicable to the business operations of the Company and its subsidiary are set out in Notes 5.1 to 5.5 to the Financial Statements on pages 390 to 405.

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. 03 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. 03 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 and further evaluated at the Board Meeting held in the month of April 2018.

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 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 61 to 97 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 the 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 290 to 305.

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 413 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-fifth (45th) Annual General Meeting to be held on 29 June 2018 appears on Page 445.

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 1 June 2018 having acknowledged the contents of this Annual Report.

Signed on behalf of the Board by

Mrs. Shirani Jayasekara
Chairperson

Mr. J A S S Adhihetty
Managing Director

P W Corporate Secretarial (Pvt) Ltd.
Secretaries

1 June 2018

Remuneration Committee Report

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.

COMPOSITION OF THE COMMITTEE

The Remuneration Committee appointed by the Board of Directors comprises the following members:

Mrs. Anandhiy Gunawardhana
Independent Non Executive Director – Chairperson of the Committee

Mrs. Yogadinusha Bhaskaran
Non-Executive Director

Mr. M A J W Jayasekara
Independent Non-Executive Director*

*Independent Non Executive Director as per the Listing Rules and Non Executive Director as per the Finance Companies (Corporate Governance) Direction No.03 of 2008

Mrs Kimarli Fernando and Mr L N de S Wijeyeratne, served as members of the Committee until their retirement from the Board on completion of 9 years of service on 25th August 2017 and 31st October 2017, respectively.

The Committee was reconstituted by the Board on 17th October 2017, whereby Mrs Yogadinusha Bhaskaran was appointed a member from that day and Mr M A J W Jayasekara became a member of the Committee, effective from 31st October 2017, following his appointment as a Director.

The Company Secretary functions as the Secretary to the Committee

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 two (2) times 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.

REMUNERATION POLICY

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

DIRECTORS' REMUNERATION

The total of the Directors' remuneration paid during the year under review is set out in Note 6.1 to the Financial Statements.

Anandhiy Gunawardhana
Chairperson
Remuneration Committee

1 June 2018
Colombo

Nomination Committee Report

The Nomination Committee was formed in line with Best Practices on Corporate Governance.

COMPOSITION OF THE COMMITTEE

The Nomination Committee comprises two Non-Executive Directors and one Executive Director, whose names are set out below:

Mr. Thosapala Hewage
Independent Non-Executive Director – Chairman of the Committee

Mrs. Anandhiy Gunawardhana
Independent Non-Executive Director

Mr. Sumith Adhihetty
Managing Director

Mrs Kimarli Fernando served as a member of the Committee until her retirement from the Board on completion of 9 years of service on 25 August 2017.

The Committee was reconstituted by the Board on 22 August 2017, whereby Mrs Anandhiy Gunawardhana was appointed a member following the retirement of Mrs Kimarli Fernando.

The Company Secretary functions as the Secretary to the Committee.

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

The Committee met on 23 May 2017 when it recommended the re-election of Directors at the Annual General Meeting for the year 2016/17 after considering their performance and contribution made by them as members of the Board and their areas of expertise and experience that would assist the Board in the discharge of its responsibilities. At this meeting the Committee also considered the requirement of additional expertise on the Board, resulting from the retirement of two Directors on completion of nine years service on the Board as per the Finance Companies (Corporate Governance) Direction No.03 of 2008.

Following the Committee's consideration of the requirement of additional expertise on the Board and the succession arrangements for the two Directors who were to retire during the year on completion of nine years of service, the Committee met on 17 October 2017 for the selection of Directors and made its recommendations with regard to one Director, which was subsequently approved by the Board. The said nominee was appointed a Director after obtaining the requisite regulatory approval.

The Committee also met on 14th March 2018 to consider the re-election of Directors who are subject to retirement by rotation / appointed to fill a casual vacancy during the year under review, taking into consideration, the Declarations completed by the said Directors and after taking cognizance of the fit and proper criteria and their contribution as members of the Board, competencies, independence and whether there were any relationships which have potential to give rise to conflict vis-à-vis the business of the Company. Thereupon the Committee recommended the re-election of Mrs Shirani Jayasekara (under Articles 85 and 86) and Mr M A J W Jayasekara (under Article 92). During this meeting the Committee also reviewed the Key Management Succession Plan to ensure that the succession planning was in order.

Thosapala Hewage
Chairman
Nomination Committee

1 June 2018
Colombo

Audit Committee Report

COMPOSITION

The Board-appointed Audit Committee comprises of three non-executive Directors and is in line with the composition requirements specified in the Finance Companies (Corporate Governance) CBSL Direction No. 03 of 2008 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange. The members of the Audit Committee are as follows:

Name of the Board Sub Committee Member	Directorship Status	Membership Status
Mrs. Yogadinusha Bhaskaran	Non-Executive Director	Chairperson
Mrs. Anandhiy K Gunawardhana	Independent/Non-Executive Director	Member
Mr. Ashane Jayasekara	Independent/Non-Executive Director	Member

The following changes took place during the year in the Audit Committee.

Mr. L N de S Wijeyeratne ceased to be a member on his retirement from the Board on 31 October 2017 and Mrs. Shirani Jayasekara ceased to be a member on 31 October 2017. Mrs. Yogadinusha Bhaskaran and Mr. Ashane Jayasekara were appointed to the Committee w.e.f. 1 November 2017 and 31 October 2017 respectively.

The profiles of the members are given on pages 36 to 39.

CHARTER OF THE AUDIT COMMITTEE

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is reviewed annually, to ensure new developments to the Committee's functions and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in January 2018.

The Audit Committee is setup primarily for the purpose of 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, and the independence and performance of the external auditors.

MEETINGS

The committee met on sixteen (16) occasions during the year under review and the attendance of the members at such meetings was:

Name of Director	Attendance
Mrs. Yogadinusha Bhaskaran	6/6
Mrs. Anandhiy K Gunawardhana	14/16
Mr. Ashane Jayasekara	6/6

Name of Director	Attendance
Mr. L N de S Wijeyeratne	10/10
Mrs. Shirani Jayasekara	8/10

The Managing Director, the Executive Directors and the Chief Financial Officer, DGM - Strategy and Risk, Compliance Officer, Audit Manager, 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.

P W Corporate Secretarial (Pvt) Ltd acted as Secretaries to the audit committee. The proceedings of the audit committee were reported regularly to the Board.

SUMMARY OF ACTIVITIES

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 on a day to day basis.

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 auditors in selected areas in line with their internal audit programs.

INTERNAL AUDIT

The internal audit function is outsourced to Chartered Accountants, Messrs. KPMG Ford Rhodes Thornton & Company and BDO Partners and they report 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.

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 finalisation of the Financial Statements.

The Audit Committee together with Management reviewed and discussed the audit scope, approach and audit plan with Messrs. Ernst & Young, prior to the commencement of the audit for 2017/18.

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 2019, subject to the approval of the shareholders at the next Annual General Meeting.

WHISTLEBLOWING POLICY

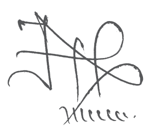
The Committee ensures the Whistleblowing Policy of the Company is a current, live document to which all employees have access. All employees are encouraged to practice whistleblowing if they suspect any wrongdoing. Senior Management, time to time conducts awareness programs to encourage staff to raise genuine concerns.

AUDIT COMMITTEE EFFECTIVENESS

The effectiveness of the Committee is self-evaluated annually by its members and the results presented to the Board.

APPRECIATION

The Committee wishes to convey its gratitude to former Chairman Mr. L N de S Wijeyeratne and Mrs. Shirani Jayasekara for their valuable contribution



Yogadinusha Bhaskaran
Chairperson
Audit Committee

1 June 2018
Colombo

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Integrated Risk Managment Committee Report

The Integrated Risk Management Committee (IRMC) is a Board-appointed committee chaired by a 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.

COMPOSITION OF THE COMMITTEE

The Board-appointed Integrated Risk Management Committee (IRMC), as at the end of the year, comprised the following members:

Mr. Ashane Jayasekara
Chairman/Non-Executive Director*

Mrs. Anandhiy Gunawardhana
Independent Non-Executive Director

Mr. J A S S Adhihetty
Managing Director

Mr. Niroshan Udage
Executive Director

Mr. B D A Perera
Executive Director

Mr. R S Yatawara
Executive Director

Mr. Bimal Perera
DGM – Strategy and Risk

Mr. Hasitha Athapattu
Chief Financial Officer

Mr. Udul Chandrasena
AGM – Treasury

Mrs. Zairaa Kaleel
Compliance Officer

*Non Executive Director as per the Finance Companies (Corporate Governance) Direction No.03 of 2008 and Independent Non Executive Director as per the Listing Rules.

The Company Secretary functions as the Secretary to the Integrated Risk Management Committee.

COMMITTEE MEETINGS

The Committee held four meetings during the year under review to discuss the regular scope of work. Attendance at Committee Meetings is given on page 57. Key members of the staff participated at the meetings as appropriate.

TERMS OF REFERENCE

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 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 actions against the officers for failure to identify specific risks and take prompt corrective actions as recommended by the Committee.
5. Report and recommend to Board of Directors on Risk Management and Compliance related matters seeking the Board's views, concurrence and /or specific directions.

ACTIVITIES IN FY 2017/18

Credit Risk

» Reviewed the credit quality of the micro leasing portfolio with special focus on motor cycles and registered three-wheelers.

» Reviewed the activities of Credit Committee through the assessment of the loan performance of significant exposures against the Company and internal credit rating.

Liquidity and Market Risk

» Reviewed and approved the Crisis Management Plan to be followed during a deposit flight caused due to external factors

- Reviewed the adequacy and effectiveness of ALCO activities by assessing net/gross FD inflow, interest cost of new and renewed FDs, FD renewal ratio of the Company in terms of volume and number of FDs, etc.
- Reviewed asset and liability limits, including but not limited to single borrower exposure/single group exposure, single depositor exposure/bulk depositor exposure, duration of deposits and optimal funding mix
- Reviewed the liquidity position and liquidity management strategies of the Company

Operational Risk & Human Resources Risks

- Reviewed the adequacy and effectiveness of existing fraud detection and prevention mechanisms
- 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;
    - Adequacy of insurance in respect 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
- Assessed the cyber risks faced by the Company and the effectiveness of remedial actions in place

Compliance

- Assessed the Company's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations
- Reviewed and recommended the Share Trading Policy of the Company, for approval of the Board

General

- Reviewed the KRIs used in FY2016/17 for their appropriateness for FY2017/18 in light of changing business, economic, industry and Company dynamics
- Reviewed and approved the the risk appetite statement of the Company for FY 2017/18

Ashane Jayasekara
Chairman
Integrated Risk Management Committee

1 June 2018
Colombo

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee (RPTRC) of the Company was established by the Board on 22 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.

COMPOSITION OF THE COMMITTEE

The RPTRC comprises the following Directors :

Mrs. Shirani Jayasekara
Independent Non-Executive Director
Chairperson of the Committee

Mr. Thosapala Hewage
Independent Non Executive Director

Mr. M A J W Jayasekara
Non Executive Director*

*Independent Non Executive Director as per the Listing Rules and Non Executive Director as per the Finance Companies (Corporate Governance) Direction No.03 of 2008.

Mrs Kimarli Fernando and Mr L N de S Wijeyeratne, served as the Chairperson and a member of the Committee respectively until their retirement from the Board on completion of 9 years of service on 25 August 2017 and 31 October 2017, respectively.

The Committee was reconstituted by the Board on 22 August and 17th October 2017, whereby Mrs Shirani Jayasekara was appointed the Chairperson and Mr Thosapala Hewage was included as a member effective from 17 October 2017.

As per the said Board decision, Mr. M A J W Jayasekara became a member of the Committee, effective from 31 October 2017, following his appointment as a Director.

Mr B D A Perera, Executive Director was appointed to the Committee on 15 December 2015 to ensure a communication link between the Committee and the Management. In accordance with a Board decision made on 24 April 2018, Mr B D A Perera ceased to be a member and was made a Permanent Invitee with effect from 24 April 2018, in order that the composition of the Committee is in conformity with the provisions of the new 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 at least 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 their ongoing dealings with the relevant related party.
- 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 22 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, 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 CSE 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 made recommendations to the Board for approval of those revisions, which were duly adopted by the Board.

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 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 four 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 60 of the Annual Report.

Shirani Jayasekara
Chairperson
Related Party Transactions Review Committee

1 June 2018
Colombo

A Matter of Strategy

MANAGEMENT DISCUSSION AND ANALYSIS

Integrated Thinking
Extensive Market Knowledge
Target Driven
Responsive to Change
Continuous Improvement

Business Model: Our Value Creation Story

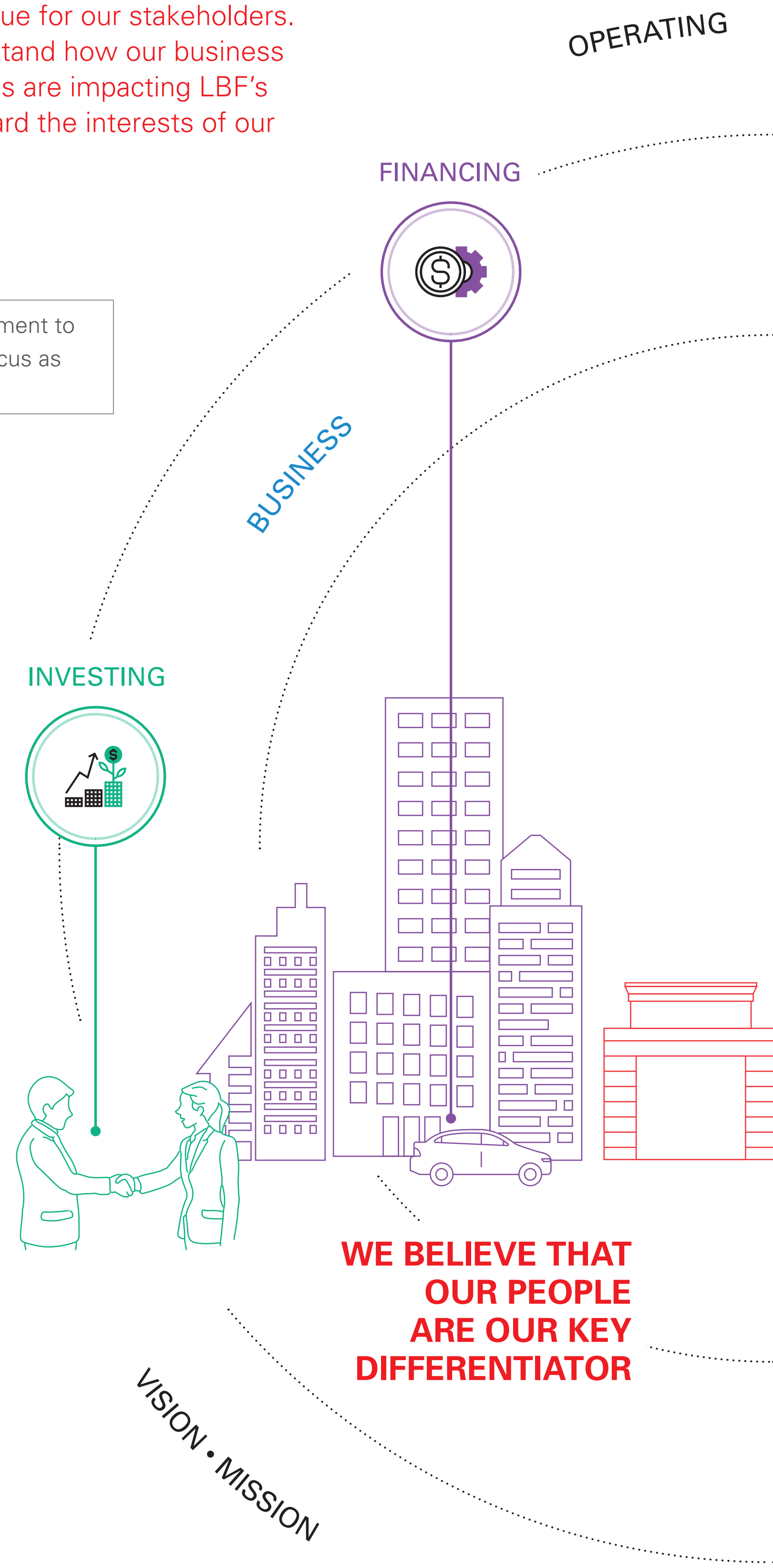
The main purpose of our business is to create value for our stakeholders. Doing so, calls for a proactive approach to understand how our business context is evolving, determine how these changes are impacting LBF's value creation capacity and take action to safeguard the interests of our stakeholders.

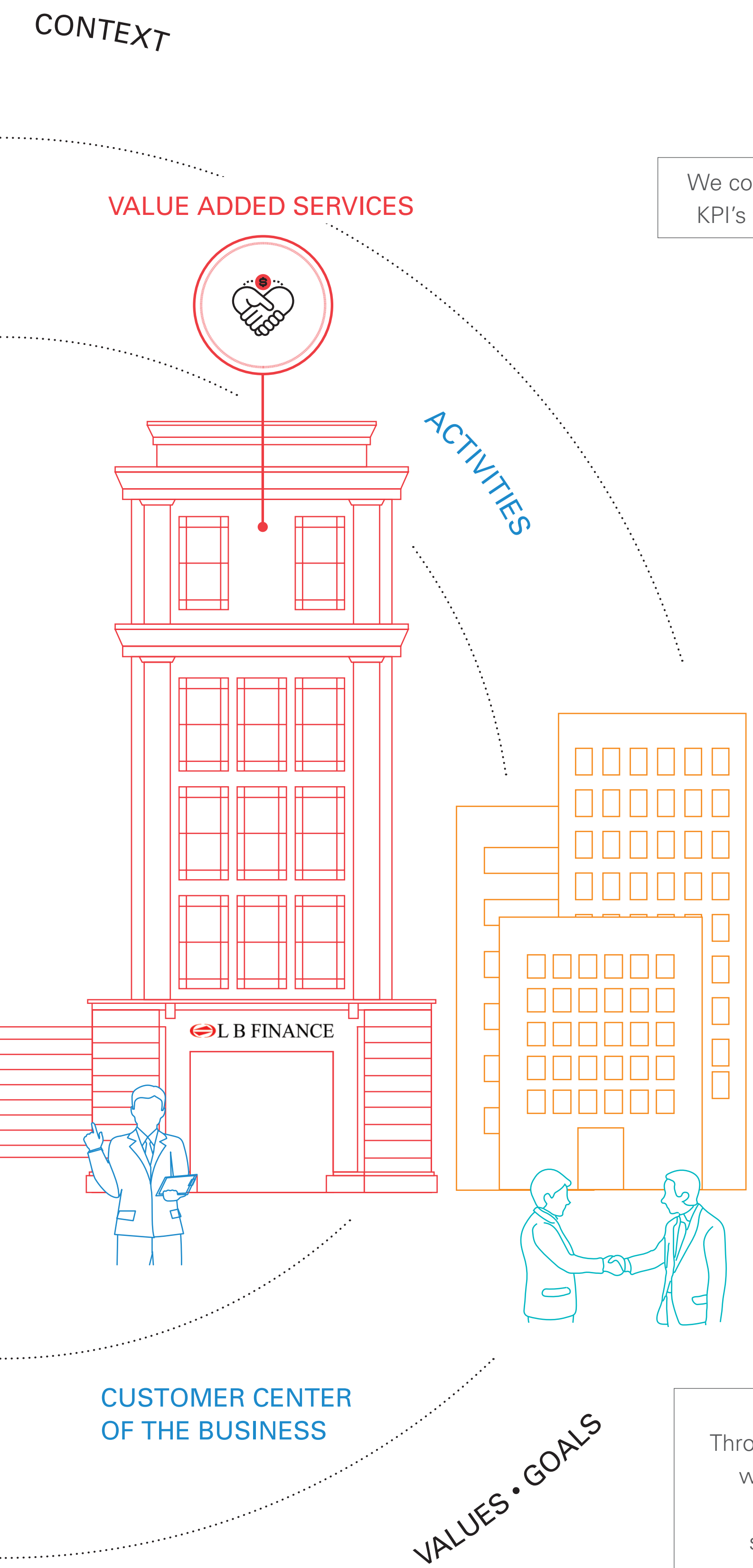
OPERATING CONTEXT

We continuously analyse our immediate operating environment to identify the context that would underpin our operational focus as well as broader strategic direction

RESOURCES WE RELY ON

FINANCIAL CAPITAL	The funds generated through equity, customer deposits and other funding sources that we invest in value creating activities
MANUFACTURED CAPITAL	The tangible and intangible infrastructure, branches, gold loan centres, call centres as well as key investments in technology and digital hardware that enables the Company to carry out its business and deliver the LBF brand promise to the market
HUMAN CAPITAL	Our employees who are the key custodians of our business, the driving force of our competitive advantage and the defining factor of our success.
SOCIAL AND RELATIONSHIP CAPITAL	The strength of the relationships we have built with our key stakeholders – customers, investors, employees and the community that reflect LBF's position as a responsible corporate steward
INTELLECTUAL CAPITAL	A range of interconnected components: knowledge, brand value, ethics and corporate culture, all of which serve as the foundation for the LB brand promise
NATURAL CAPITAL	The natural resources on which we depend to create value for all stakeholders of the Company





DELIVER SUSTAINED STAKEHOLDER VALUE

PERFORMANCE

We continuously measure our performance based on a set of KPI's to determine if actual outcomes are in line with targets

STRATEGY – WHAT MATTERS MOST

Material matters act as a compass that guides the strategy and decision-making processes, enabling us to focus on what matters most

CORPORATE GOVERNANCE

LBF's corporate governance model provides oversight for strategy development and resource allocation as well as ensuring strategy execution that delivers the desired outcomes

RISKS AND OPPORTUNITIES

Material risks and opportunities are identified through the Enterprise Risk Management (ERM) framework and the stakeholder engagement process, regular board and management discussions as well as through the horizon scan, which provides a review of our operating environment

STAKEHOLDERS RELATIONSHIPS

Through continuous engagement with all key stakeholders, we are able to identify their aspirations and thereby take them into consideration when formulating business strategies, which ultimately circles back to add value to these same relationships

Business Model: Our Activities and their Impacts

VALUE ADDED BY LBF

INPUTS

What we had at the beginning of the year

FINANCIAL CAPITAL

- Return on Equity (ROE) 34.09%
- Total risk weighted capital ratio 17.06%
- Dividend per share Rs. 9.00
- Deposit base Rs. 60.4 billion
- Economic value retained Rs. 3.02 billion

INTELLECTUAL CAPITAL

- Brand value Rs. 3,853 million (LMD - 2016)
- Ongoing process of ISO 27001: 2013 certification
- Brand ranking 26 among top 100 companies (Most Respected Entity - 2017) (LMD)
- Reached 45,333 social media followers

MANUFACTURED CAPITAL

- 154 total outlets network
- 456 no. of e-connect transaction
- Initiatives for the adoption of new technologies Rs. 31.00 million
- Investment in IT infrastructure development Rs. 47 million

HUMAN CAPITAL

- Total employees 3,221
- Profit per employee Rs. 1.21 million
- 477 new employment opportunities
- Investment in training and development Rs. 8.04 million

SOCIAL AND RELATIONSHIP CAPITAL

- 17 community engagement CSR activities
- Rs. 2.58 million invested in community projects
- 2,302 volunteer hours spent on community activities

NATURAL CAPITAL

- Carbon footprint of the Company 4,361tCO_2e
- Invested Rs. 3.29 million in green initiatives
- 409 volunteer hours on green activities
- 9 environment conservation projects

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.

PAGE 218

FINANCING

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

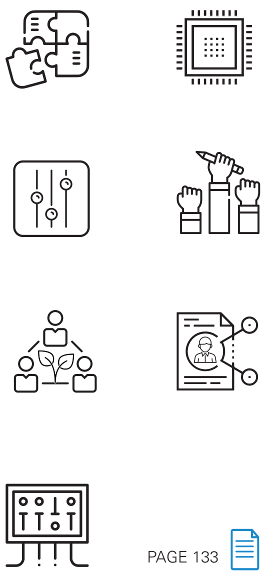
PAGE 268

VALUE ADDED SERVICES

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

PAGE 172

FOCUSING ON WHAT MATTERS MOST



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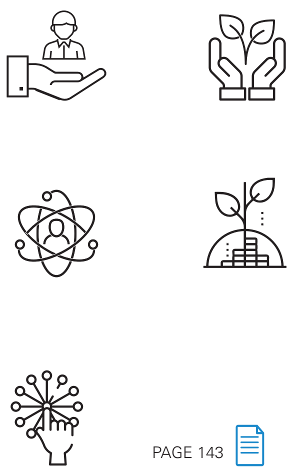
FOCUSING ON STRATEGIES AND RESOURCE ALLOCATION



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PRIMARY OUTPUT

BUSINESS OPERATION WITHIN THE COMPANY

OPERATION

FINANCIAL CAPITAL

- Issuance of Rs. 3 billion debenture to improve the capital adequacy of the Company and funding for operations
- Investment made on property, plant and equipment Rs. 1,537.34 million
- Spent Rs. 8.56 million on staff training and development

INTELLECTUAL CAPITAL

- Investment of Rs. 194.49 million on the digital transformation strategy to strengthen the Company's IT infrastructure
- Expansion of IT workforce by absorbing technical specialists from the industry
- Stepping up to cloud-based technology to create an online financial platform

MANUFACTURED CAPITAL

- Opened 5 branches and relocated 3 branches and one gold loan centre to better serve customers
- Installation of 3 CDM machines to enhance efficiency of the processes
- Regional expansion by setting up a subsidiary in Myanmar

HUMAN CAPITAL

- 113 business-oriented training programmes conducted
- 698 promotions offering career development opportunities
- Introduction of e-learning system

SOCIAL AND RELATIONSHIP CAPITAL

- 26 community-oriented projects conducted
- Set up a new gold loan call centre in Jaffna

NATURAL CAPITAL

- Promoting green lending facilities
- 6 environment-related projects
- Invested Rs. 3.51 million in green initiatives

Business Model: Our Activities and their Impacts

MANAGING TRADEOFF, POSITIVE AND NEGATIVE OUTCOMES

INVESTMENT DECISIONS

Where we allocate our money

PAGE 152

VALUE CREATION

Balancing short-term performance expectations and long-term expectations

PAGE 152

REDUCTION OF EXPENSES

Managing optional spend to ensure its effort

PAGE 152

WHILE MANAGING KEY RISKS

» Credit risk

» Liquidity risk

» Market risk

» Operational risk

» Other related risk

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OUTCOMES

FINANCIAL CAPITAL

- (+) Market capitalisation Rs. 16.47 billion
- (+) Asset increased Rs. 18.06 billion
- (−) Interest paid Rs. 8.11 billion
- (−) Distributed Rs. 1.52 billion in dividends

INTELLECTUAL CAPITAL

- (+) Brand value increase by Rs. 383 million to 4,236 million (LMD – 2017)
- (+) Brand raking movement to 33 from 80 among top 100 companies (Most Respected Entity – 2017) (LMD)
- (+) Social media followers 81,474

MANUFACTURED CAPITAL

- (+) Property, plant and equipment Rs. 4.68 billion (Increased by Rs. 1.17 billion)
- (+) Total outlets increased by 5 to 159
- (+) Investment in IT infrastructure increased by Rs. 115.24 million to Rs. 194.49 million
- (+) Opened a microfinance subsidiary in Myanmar

HUMAN CAPITAL

- (+) Invested over Rs. 8.56 million in training and development
- (−) Staff turnover up to 31.76% (2016/17 : 25.21%)
- (+) Rs. 2,398 million paid as the employment benefit
- (+) 9 work-life balance activities (2016/17 : 6)

SOCIAL AND RELATIONSHIP CAPITAL

- (+) Rs. 23.51 million spent on CSR projects (2016/17: Rs. 14.54 million)
- (+) 220 new employment generated

NATURAL CAPITAL

- (−) 6 environment engagement projects (2016/17 : 9)
- (+) Carbon footprint reduced from 4,361tCO_2e to 3,223tCO_2e
- (−) Green lending reduced by 43.75%
- (+) 5 email campaigns on energy saving management

OUTPUT

FINANCIAL CAPITAL

- Return on Equity (ROE) 30.52%
- Total risk weighted capital ratio 14.14%
- Dividend per share 11
- Deposit base Rs. 72.94 billion

INTELLECTUAL CAPITAL

- Brand value Rs. 4,236 million (LMD – 2017)
- Completion of ISO 27001: 2013 certification
- 17th among the top 20 Best Sri Lankan Brands

MANUFACTURED CAPITAL

- 159 total branch network
- 2,978 no. of e-connect transactions
- Investment in IT infrastructure development Rs. 194.49 million

HUMAN CAPITAL

- Total no. of employees 3,441
- Profit per employee Rs. 1.24 million
- 220 new employment opportunities

SOCIAL AND RELATIONSHIP CAPITAL

- 26 no. of community engagement CSR activities
- 9,079 volunteer hours spent on community initiatives

NATURAL CAPITAL

- Carbon footprint of the Company 3,223tCO_2e
- Investing Rs. 3.51 million in green initiatives
- 6 environmental conservation projects

VALUE CREATION TO THE STAKEHOLDERS

EMPLOYEES

- Created 220 new permanent job opportunities
- Paid Rs. 2.39 billion in salaries and benefits
- Invested Rs. 8.56 million in training and development
- 698 employees promoted to the next grade

CUSTOMERS / BUSINESS PARTNERS

- Distribution of Rs. 8.49 billion as interest to deposit holders
- Opened 5 new branches (Mannar, Dharga Town, Bambalapitiya, Wadduwa and Karapitiya)

SHAREHOLDERS

- Rs. 969.60 million amount spent on interim dividend payment
- Dividend per share increase by 22%
- Maintained transparent, timely and relevant investor communication and reporting
- Share price increased from Rs. 118.40 to Rs. 118.90
- Dividend yield ratio 9.29%

REGULATORS

- Made Rs. 3.38 billion tax contribution
- Strengthening the capital adequacy regulatory level
- System and process update in accordance with the customer protection framework

SOCIETY/ COMMUNITY

- Rs. 23.50 million invested in CSR projects
- Rs. 190.40 million facilities provided for MSME development
- More than 1,000 MSME facilities provided in Myanmar business operations
- Embarked on carbon-neutral operations

GRI - 102 - 40, 42

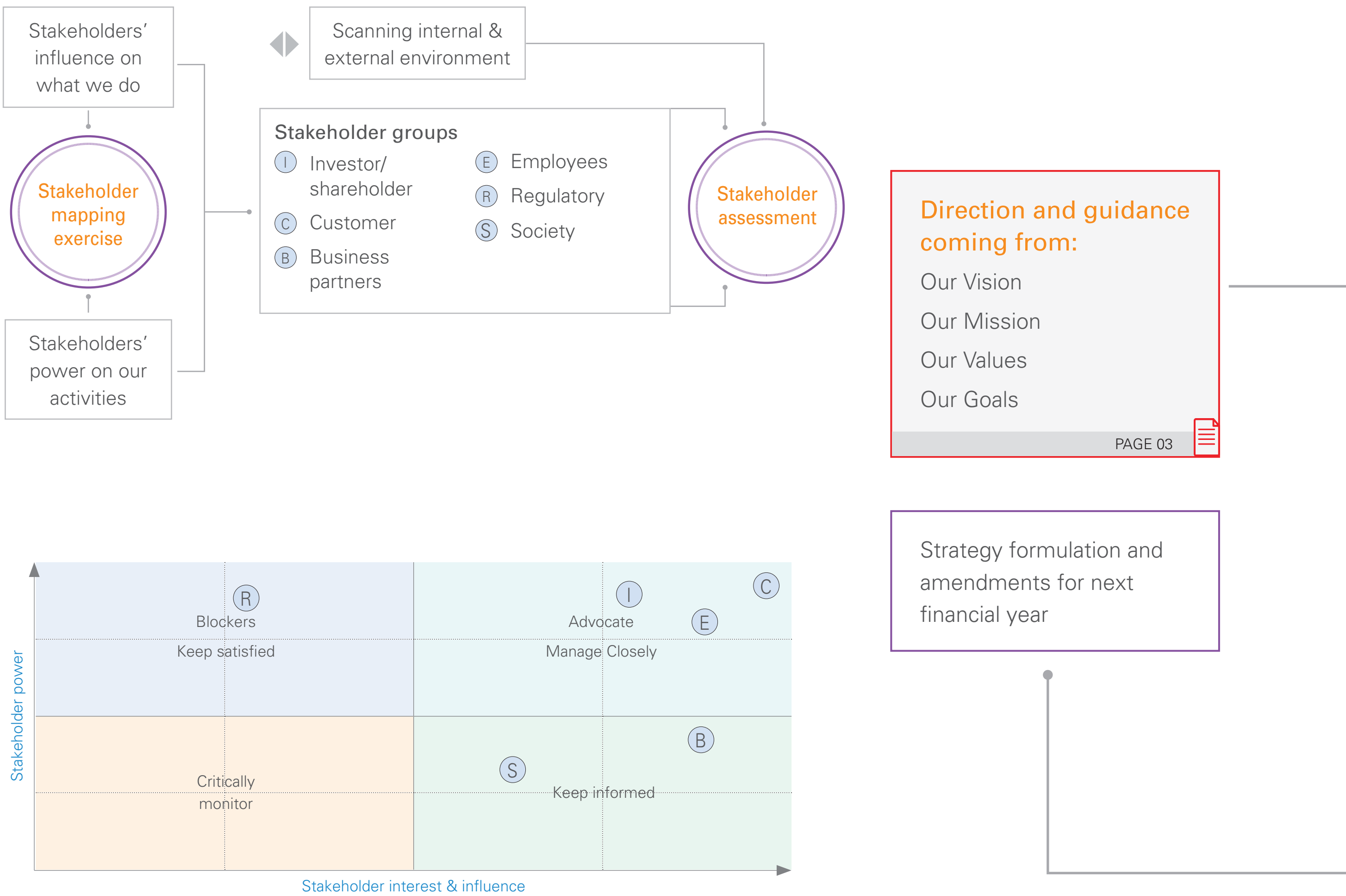
Stakeholder Engagement

OUR STRATEGIC DIRECTION

STAKEHOLDER ENGAGEMENT

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.

STAKEHOLDER MAPPING



OUR STRATEGIC DIRECTION: INTEGRATED THINKING

1 Stakeholders' expectations and management

PAGE 126

2 Market forces and competitive landscape

PAGE 145

Analysis of macro and micro trends

PAGE 144

3 Material matters derived through the process

- Managing business practices through uncertain socio economic factors
- Technological advancement and increased competition
- Demand for proper governance, regulatory compliance and risk management
- Customer understanding, managing competitiveness and market positioning
- Managing the talent pool in cognisance with evolving skill requirements
- Market outreach, presence and accessibility
- Contribution to minimise social and environmental inequalities

PAGE 133

4 Strategic focus for the year

- Understanding our clients and placing them the centre of everything we do
- Embracing innovation by leveraging on the latest developments in IT
- Sustainably growing revenue by managing economic headwinds
- Creating a great place to work for our people
- Nurturing nature by doing business the right way
- Working towards ensuring community well-being and promoting good corporate citizenship

5 Managing trends

- Transformative impact of technology
- Evolving worker and consumer expectations
- Strict financial regulations
- Cyber security and data privacy

6 Sustainability context and its direction towards the long term business targets

7 Sustainability impact assessment

Stakeholder Engagement

STAKEHOLDER EXPECTATION AND MANAGEMENT

Addressing stakeholder interests

Given the challenges brought about by rapid changes in industry dynamics and the impact resulting on our operations, the importance of engaging proactively with stakeholders has taken on added significance.

The main stakeholder groups identified by LBF are:

- CUSTOMERS
- SHAREHOLDERS
- EMPLOYEES
- BUSINESS PARTNERS
- REGULATORS
- SOCIETY/ COMMUNITY

To protect our legitimacy, compete effectively and create value, we work hard to build and maintain relationships of trust with our stakeholders based on open and proactive engagement.

Through continuous engagement, we are able to identify and understand the aspirations of our stakeholders and thereby take them into consideration in formulating business strategies, ultimately adding value to the relationships.

Identifying our priority stakeholders

To facilitate targeted engagement, we have prioritised our stakeholders based on following criteria:

- The degree to which we depend on the stakeholder's support in achieving our strategic goals;
- The degree to which the stakeholder can influence organisational performance;
- The relative importance of the stakeholder for the company as a whole;
- The significance of the issues linking the stakeholder to LBF; and
- The risks that we are exposed should not deliberately plan our engagement with the specific stakeholder.

PLANNING LEVEL

Determine the stakeholder groups

Strategy

Combine financial strength and identifying the value deliver mechanism to ensure the measurable changes to all stakeholders who associate with the business

Business process scanning → Identify the matters and concerns → Profile the individuals based on their similarities

MANAGING LEVEL

Analysing the importance of the stakeholders

Strategy

Promote clear and unbiased service to all stakeholders and mitigation of conflict of interest among key stakeholders of the business while at the same time ensuring the best possible performance of the Company

Track the level of influence → Define the mode of engagement → Viewing the frequency of engagement

IMPLEMENTATION LEVEL

Implementing stakeholder management procedures

Strategy

Ensure the value creation for stakeholders through sustainable financial services and work towards a more strategic approach that creates competitive advantage for all our stakeholders

Monitor the engagement mechanism → Review / improve and corrective actions

GRI - 102 - 15, 43, 44

THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

Responding to our stakeholders

Our stakeholders are those individuals or groups that have an interest in our success or failure and whose opinions and actions can impact on our ability to execute our strategy and conduct our business activities. Outlined below are the top issues raised by our key stakeholders and our strategic initiatives that respond to these concerns.

SHAREHOLDERS

Objective

Delivering appropriate shareholder returns while managing the risk arising from the operating environment

NEEDS AND EXPECTATIONS

- Appropriate financial returns to support above-average return on equity
- Sound balance sheet to safeguard against downside risk
- Strong governance and compliance
- Transparent reporting

WHY THIS IS IMPORTANT TO LBF

The financial capital we source from our equity and debt investors and our retained earnings are key to grow the businesses

OUR STRATEGIC RESPONSE

Communicate our strategy and governance model, as well as the rationale for it, we build confidence in our leadership and further investment interest in LBF

KEY RISK / OPPORTUNITY IDENTIFIED IN STAKEHOLDER ENGAGEMENT PROCESS

RISK

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

OPPORTUNITY

The extent to which we can leverage our financial strength, raise the necessary capital and funding at the best possible rates, and create shareholder value through stable ROE and fair retention of earnings.

ENGAGEMENT METHODS

LEVEL OF ENGAGEMENT	ENGAGEMENT MODE	FREQUENCY
Consult	Shareholder meetings / Annual General Meetings	Annual
Consult	Extraordinary General Meetings	Ad hoc
Inform	Annual Report	Annual
Inform	Interim Financial Statements	Quarterly
Inform	Announcements to CSE	Ad hoc as and when necessary
Remain passive	Press conferences and media releases	Ad hoc as and when necessary
Consult	One-to-one meetings	When necessary
Remain passive	Website information updates	On a regular basis

RELATED MATERIAL MATTERS

Stakeholder Engagement

EMPLOYEES

Objective

Maintaining a diverse workforce of capable, committed and motivated employees who are focused on, and feel empowered to deliver LBF's strategic objectives.

NEEDS AND EXPECTATIONS

- A safe, positive and inspiring work environment
- Challenging work, as well as career development and advancement opportunities
- A strong people brand that confirms our reputation as an employer of choice

WHY THIS IS IMPORTANT TO LBF

Skilled, motivated and energised staff creates value by providing our customers with services and solutions, which differentiates LBF in an increasingly competitive market

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

KEY RISK / OPPORTUNITY IDENTIFIED IN STAKEHOLDER ENGAGEMENT PROCESS

RISK

- Staff attrition
- Slow pace of transformation

OPPORTUNITY

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

ENGAGEMENT METHODS

LEVEL OF ENGAGEMENT	ENGAGEMENT MODE	FREQUENCY
Consult	Review meetings	Monthly
Consult	Management meeting	Monthly
Inform	HR newsletter	Annual
Collaborate	Company social events	Annual/Ad hoc
Inform	Email updates	On a regular basis
Involve	HR portal	On a regular basis
Inform	Employee notice board	On a regular basis
Consult	Employee direct meetings	When necessary

RELATED MATERIAL MATTERS

CUSTOMERS

Objective

Understanding the needs of customers and providing timely and relevant value propositions through a balanced distribution model.

NEEDS AND EXPECTATIONS

- Innovative products and services to ensure personalised customer care
- Promoting Island-wide accessibility
- Protecting customer privacy by adopting responsible business practices

WHY THIS IS IMPORTANT TO LBF

The need for continuous improvement in our operational efficiency and fine-tuning our structures and processes to build strong relationships with our customers

OUR STRATEGIC RESPONSE

New product offerings to remain competitive, and state of art technology to bring the power of digital technology

KEY RISK / OPPORTUNITY IDENTIFIED IN STAKEHOLDER ENGAGEMENT PROCESS

RISK

- Loss of customers due to dissatisfaction
- Breakdown of the existing relationships with customers

OPPORTUNITY

Further refine our internal processes using advanced technology and automation in order to enhance overall experience for existing customers and leverage on this to drive organic and inorganic

ENGAGEMENT METHODS

LEVEL OF ENGAGEMENT	ENGAGEMENT MODE	FREQUENCY
Involve	Customer hotline	As necessary
Consult	Customer surveys	Annual
Consult	One-to-one meetings	As necessary
Consult	Direct customer feedbacks	On a regular basis
Remain passive	Media campaigns/advertisements	On a regular basis
Remain passive	Website information updates	On a regular basis

RELATED MATERIAL MATTERS

Stakeholder Engagement

BUSINESS PARTNERS

Objective

Building strong collaborative relationships with business partners for business continuity.

NEEDS AND EXPECTATIONS

- Fair procurement practice
- Supplier development programmes for small businesses, including access to financing, where relevant

WHY THIS IS IMPORTANT TO LBF

- Ensure business continuity and minimize downtime caused by frequent changes of suppliers
- Cost optimisation through procurement practices

OUR STRATEGIC RESPONSE

Focus on supplier relationship management

KEY RISK / OPPORTUNITY IDENTIFIED IN STAKEHOLDER ENGAGEMENT PROCESS

RISK

- Loss of potential negotiation power due to breakdown of relationships with business partners
- Suppliers lack of business continuity planning

OPPORTUNITY

Forward and backward supplier integration to profitable ventures

ENGAGEMENT METHODS

LEVEL OF ENGAGEMENT	ENGAGEMENT MODE	FREQUENCY
Consult	Supplier meetings	As necessary
Involve	Letters/emails/telephone conversations	On a regular basis
Transact	Suppliers' get-together	Annual
Consult	One-to-one meetings	As necessary
Consult	Periodic visits	On a regular basis

RELATED MATERIAL MATTERS

REGULATORS

Objective

Driving ethical behaviour in the delivery of products and services, and in compliance with all applicable regulatory frameworks and globally accepted best practices for responsible social and environmental stewardship.

NEEDS AND EXPECTATIONS

» Compliance with all legal and regulatory requirements

» Being a responsible taxpayer

» Active participation in and contributing to industry and regulatory working groups

WHY THIS IS IMPORTANT TO LBF

Regulation ensures a sound and stable financial system, which reduces systemic risk and promotes healthy functioning of an economy in which all stakeholders prosper

OUR STRATEGIC RESPONSE

We have adopted a zero-tolerance approach towards non-compliance

KEY RISK/OPPORTUNITY IDENTIFIED IN STAKEHOLDER ENGAGEMENT PROCESS

RISK

» Strict rules applicable to the NBFI sector

OPPORTUNITY

The regulation looks to level the playing field, creating a single integrated NBFI sector

ENGAGEMENT METHODS

LEVEL OF ENGAGEMENT	ENGAGEMENT MODE	FREQUENCY
Consult	Directives and circulars	As necessary
Consult	On-site review by CBSL	Annual
Remain passive	Press releases	As necessary
Consult	Meetings and discussions with Board and Senior Management	As necessary
Inform	Submission of necessary reports	Periodic deadlines
Consult	Training and workshops organised by regulators	As necessary

RELATED MATERIAL MATTERS

Stakeholder Engagement

SOCIETY/ COMMUNITY

Objective

To make a positive impact on society by developing products, services and partnerships that improve communities

NEEDS AND EXPECTATIONS

- Social well-being of the community
- Infrastructure development
- Community capacity building
- Environmental goals

WHY THIS IS IMPORTANT TO LBF

- Actively participate in social and economic empowerment
- Mitigate the impact of climate change

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

KEY RISK/OPPORTUNITY IDENTIFIED IN STAKEHOLDER ENGAGEMENT PROCESS

RISK

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

OPPORTUNITY

Carefully-planned programmes that seek to add value to the local communities in areas where LBF has a presence. These efforts include local hiring, as well as structured community development programmes and environmental initiatives.

ENGAGEMENT METHODS

LEVEL OF ENGAGEMENT	ENGAGEMENT MODE	FREQUENCY
Remain passive	Media advertisements and press releases	As necessary
Collaborate	Public events	On a regular basis
Collaborate	Community projects	As necessary
Consult	Call centre conversations	As necessary
Collaborate	Interact through branch network	As necessary
Remain passive	Social media	On a regular basis
Remain passive	Sustainability website	On a regular basis

RELATED MATERIAL MATTERS

GRI - 102 - 46

Our Material Matters

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.

HOW WE DETERMINE OUR MATERIAL ISSUES – COMPREHENSIVE METHOD

IDENTIFY

We identify matters that may impact the execution of our strategy. This is a Company-wide effort involving inputs from all business and support units, and takes into account feedback from stakeholders.

PRIORITISE

From the list of identified matters, we prioritise those that most significantly impact our ability to successfully execute our strategy and deliver long-term value to our stakeholders.

	Identify	Prioritise
Principle	**Sustainability Context** » Stakeholder inclusiveness	**Materiality** » Stakeholder inclusiveness
Process	» Impact assessment	» Materiality test
Outcome	» Identified aspect & boundaries	» Identified aspect & boundaries

Our Material Matters

Information gathering within the organisation:

- » Board and Management meetings
- » Public events such as investor conferences and/or business meetings
- » Internal events such as our annual leadership events
- » The Company's social and ethics practices
- » Stakeholder engagement undertaken by the Company at various levels
- » Risk reports
- » Reports prepared as part of the Company's investor relations framework
- » The Company's internal audit
- » Employee engagement surveys

Internal environment scanning

Ongoing scanning of external sources of information to identify statements, concerns and perceptions raised by stakeholders in relation to the finance sector in general and the Company in particular:

- » Public events such as investor conference and / or business meetings
- » Shareholders at the Annual General Meeting
- » Requests, memos and complaints received from clients, political parties, civil society bodies and others
- » Media coverage
- » Reports issued by research institutions / rating institutions
- » Reports and statements by trade associations, business organisations and think tanks
- » Reports and articles by industry analysts and investors
- » Regional development concerns such as the Sustainable Development Goals

External environment scanning

VALIDATION

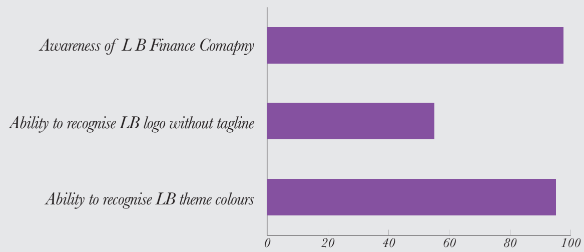
Matters that are most material to value creation are integrated into our balanced scorecard

- » Completeness
- » Stakeholder inclusiveness
- » Validation test
- » List of material aspects
- » Management
- » Reporting

KEY FOCUS AREAS OF THE RESEARCH

Impact of Integrated Marketing on L B Finance Customers

Owing to the aggressive marketing approach adopted by the company, every potential customer is aware of the LB brand name, LB logo and L B Finance Company



GRI - 102 - 47

MATERIAL MATTERS RAISED FROM THE STAKEHOLDERS INCISIVENESS

Materiality for reporting is identified through the stakeholder engagement process. As per the GRI guidelines, the thresholds for identifying these reportable subjects are termed, as 'materiality' and the subjects identified are terms as the 'aspects'. Based on the issues raised by stakeholders during the engagement process, the following material aspects have been identified and discussed throughout this report:

MATERIAL MATTER | 1 Managing business practices through uncertain socio economic factors

Why it matters most - Management approach

As a leading financial institution in Sri Lanka, we believe that focusing on socio economic factors helps us to ensure that we provide appropriate business outcomes to ensure LBF's long-term sustainability, improve trust in the financial system and safeguard the Company against future uncertainties.

Sustainability dimension – Economic

Key stakeholder – Shareholders

MATERIAL DRIVERS – FINANCIAL CAPITAL

1. Strategy and aligning employees to improve top-line
2. Disciplined cost management to improve cost-to-income ratio and thereby strengthen the bottom line
3. Ongoing liquidity management to maintain a healthy fund position
4. Delivering consistent shareholder returns

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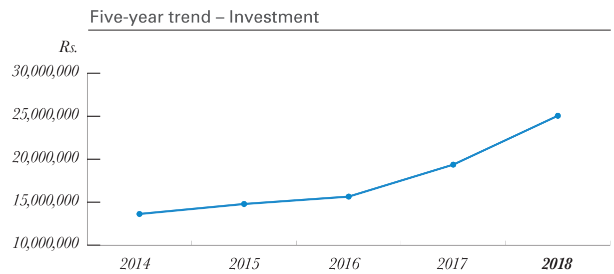
HOW WE RESPOND

» Budgeting and strategic planning
» Participatory quality improvement and better ways of doing business.
» Continuous improvement to internal systems and controls by updating enterprise risk management framework.
» Continuous improvements in legacy systems and introduction of new systems.

KPI: Revenue growth



Target for 2018/19: 20 % growth

Focus: Our ability to adopt an approach with continuous improvement is evidenced by the consistent revenue and profit growth over the last five years. Given the growing challenges, the focus for 2018 would be to drive innovation to ensure that our cost base remains proportionate to our revenue growth and our business processes remain relevant in an ever-changing business environment.

RELATED RISKS	Credit risk, market risk
RELATED CAPITALS	
RELATED GRI INDICATORS	201, 202

Opportunities for value creation

» Identify most appropriate financial products for underserved.
» Find the correct balance between business cycle, economic growth, interest rate, lending and key risk.

Our Material Matters

MATERIAL MATTER 2 Technological advancement and increase competition

Why it matters most - Management approach

Technology is at the core of LBF's business and defines our every action. In fact it is the glue that binds our business strategy. We seek to differentiate ourselves through a technology-driven approach to achieve business excellence in a fiercely-competitive market.

Sustainability dimension – Economic

Key stakeholder – Customers

MATERIAL DRIVERS – INTELLECTUAL CAPITAL

5. Enhance knowledge base
6. Invest in information systems
7. Reinforce culture and ethics
8. Expedite process automation

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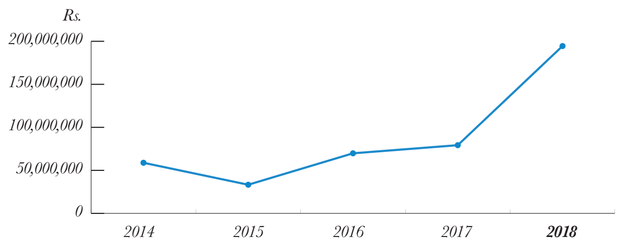
KPI: Investment in IT

Five-year trend – Investment in IT



HOW WE RESPOND

» Implement new systems and technologies such as cloud-based architecture

» Process improvement through software development

» Recruitment of technical specialists

Target for 2018/19: Implementing the paperless practices within the Company

Focus: IT strategy is to enhance our ability to deliver sustained value by leveraging on the latest digital technology. The focus for 2018 is to transform all front-end and back-end systems in order to position LBF as the most digitally-advanced financial services Company in the country

RELATED RISKS	Information security risk
RELATED CAPITALS	
RELATED GRI INDICATORS	202

Opportunities for value creation

» 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

MATERIAL MATTER

3 Demand for governance, regulatory requirements and risk management

Why it matters most - Management approach

Maintaining high ethical standards, responsible lending, risk management, and fair treatment to customers in line with legislative changes applicable to the industry to enhance LBF's reputation in the market.

Sustainability dimension – Economic

Key stakeholder – Regulators

MATERIAL DRIVERS – CORPORATE GOVERNANCE AND RISK MANAGEMENT REPORTS

9. Evolving regulatory and reporting landscape
10. Responding to industry-related regulations
11. Managing business-related risk

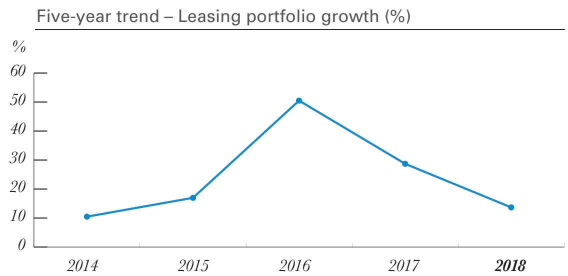
PAGE 44

HOW WE RESPOND

LBF remains proactive in addressing recent regulatory developments in capital adequacy and customer protection, through;

- The issue of a Rs. 3 billion debenture to strengthen Tier II capital and for funding operations
- Steps taken to comply with the Customer Protection Framework 2018/19
- Up to date knowledge with applicable rules and regulations

KPI: LTV ration against leasing business



Target for 2018/19: Strengthening the core business within the tight regulations

Focus: Regularly impact analysis (RIA) to assess negative and positive impact on current and proposed regulations

RELATED RISKS	Legal risk, reputational risk
RELATED CAPITALS	
RELATED GRI INDICATORS	416, 418

Opportunities for value creation

- Early adoption of new regulatory requirements to demonstrate compliance leadership
- Seamless integration of new regulatory requirements into the business framework to minimise customer downtime

Our Material Matters

MATERIAL MATTER 4 Customer understanding, managing competitiveness and market positioning

Why it matters most - Management approach

Be first-to-market in the delivery of ground-breaking new products and services that will secure a competitive advantage. Enhance brand perception by managing customer complaints efficiently and acting responsibly to address the root cause and thereby eliminate the possibility of recurrence.

Sustainability dimension – Social

Key stakeholder – Customers

MATERIAL DRIVERS – SOCIAL AND RELATIONSHIP CAPITAL

12. Understanding customer needs
13. Positioning the LB brand
14. Product responsibility
15. Innovative products offerings
16. Unmatched service

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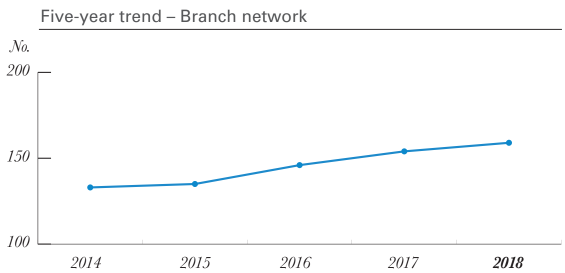
HOW WE RESPOND

» Improve digital functionality of the online channels

» Broaden mainstream channel accessibility eg: installation of Cash Deposit Machines at branches

» Simplify customer interactions through proactive customer on-boarding, continuously drive service excellence and deal with customer complaints efficiently

KPI: Customer base



Target for 2018/19: Increase customer base by 14.85%

Focus: Drive organic growth by increasing captive markets share, while pursuing inorganic growth through new customer acquisitions.

RELATED RISKS	Reputation risk, credit risk
RELATED CAPITALS	
RELATED GRI INDICATORS	416, 418

Opportunities for value creation

» Trade off between customer retention marketing vs customer acquisition marketing.

MATERIAL MATTER 5 Managing social and environmental inequalities

Why it matters most - Management approach

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.

Sustainability dimension – Social and Environment

Key stakeholder – Society

MATERIAL DRIVERS – SOCIAL AND RELATIONSHIP CAPITAL AND NATURAL CAPITAL

17. Financial inclusion
18. Corporate citizenship
19. Knowledge and beyond
20. Empowering communities
21. Nurture the nature
22. Action taking towards environmental management system
23. Green business practices

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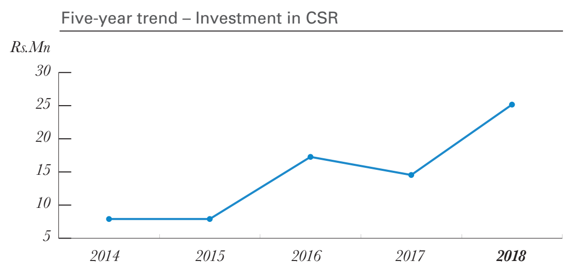
KPI: Investment in CSR



RELATED RISKS	Reputation risk
RELATED CAPITALS	
RELATED GRI INDICATORS	302, 305, 413

HOW WE RESPOND

» Ensure the way we do business reflects broader societal and environmental considerations

» Trigger broader socio-economic growth through programmes such as LB Dirimaga, that support the development of the country's SME sector

» Enhance the quality of community education and health through LBF's CSR fund

» Commitment towards environmental protection and conservation

Target for 2018/19: Develop SMEs and budding entrepreneurs, with a special focus on women empowerment

Focus: Bridging the gap between education, health care and financial inclusion through the development, Small and Medium Entrepreneurs. Engaging in collaborative partnerships to invest in community capacity building efforts that would raise the standard of living of low-income and marginalised communities across the country.

The focus for 2018 will be centred on entrepreneur development and women empowerment programmes

Opportunities for value creation

» Provide financial assistance to promote investment in alternative energy and renewable energy projects in support of the country's sustainable energy framework

Our Material Matters

MATERIAL MATTER 6 Manage evolving skill requirements of the talent pool

Why it matters most - Management approach

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 an engaged and talented workforce.

Sustainability dimension – Social

Key stakeholders – Employees

MATERIAL DRIVERS – HUMAN CAPITAL

24. Reward high achievers
25. Provide relevant and progressive learning opportunities
26. Promote leaders as a source of value
27. Build a culture of engagement

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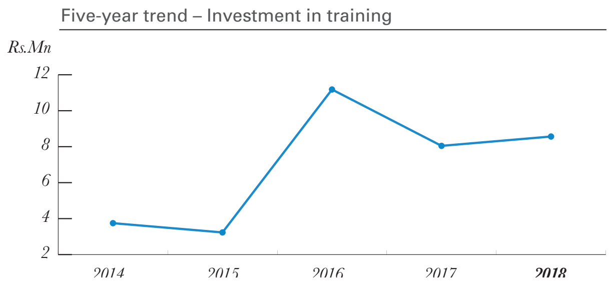
KPI: Investment on training



RELATED RISKS	Employee attrition
RELATED CAPITALS	
RELATED GRI INDICATORS	401, 404, 405

HOW WE RESPOND

- Putting our values and behaviours 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 the achieving business targets
- Improving employee engagement through LB Night, LB Got Talent, etc.

Target for 2018/19: Enhance employee soft-skills

Focus: Continue to create the right conditions for all employees remain committed to our goals and values, motivated to contribute to the Company's success and feel empowered to strive for personal growth. Our focus for 2018 will be to create an environment where employees can fulfil their potential.

Opportunities for value creation

- Develop the LBF brand to be known as an employer of choice
- Branch expansion to create new employment opportunities

MATERIAL MATTER 7 Market outreach, presence and accessibility

Why it matters most - Management approach

The need for a diverse range of distribution channels to reach out to as many customers as possible, with due consideration to customer convenience

Sustainability dimension – Social

Key stakeholders – Customer and Society

MATERIAL DRIVERS – MANUFACTURED CAPITAL

28. Strengthen local footprint
29. Unparalleled distribution
30. Effective communication

PAGE 238

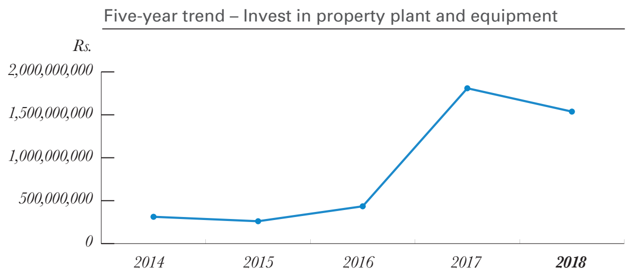
HOW ARE WE RESPOND

» Accelerating revenue growth by establishing new branches and relocations in high growth potential areas

» Communicating consistently across all platforms

» Regional expansion of the business such as starting the Myanmar business operations

KPI: Investment in property, plant and equipment



Target for 2018/19: Regional expansion

Focus: The focus for 2018 would be to create an efficient and highly competitive business by investing in smarter business opportunities and better ways of doing business. In this context, we will continue to refine our business expansion approach in looking to establish another micro finance branch in Myanmar that would enable LBF to further expand its outreach.

RELATED RISKS	Market risk
RELATED CAPITALS	
RELATED GRI INDICATORS	201, 203

Opportunities for value creation

» Making inroads into untapped markets in Sri Lanka

» Expanding the micro finance business in the East Asian region

Our Material Matters

MATERIAL DRIVERS AND THEIR RELEVANCE WITH MATERIAL IMPACT WITH THE STAKEHOLDERS

The following matrix summarises the findings of the materiality analysis carried our in the year under review. The material drivers under each Material aspect have been assigned a priority ranking taking cognisance of their importance both to the company and the stakeholder.

Material matters mapping

Material drivers

1. Continuous performance management to improve top-line
2. Disciplined cost management to improve cost-to-income ratio and thereby strengthen the bottom line
3. Ongoing liquidity management to maintain a healthy fund position
4. Delivering consistent shareholder returns
5. Enhance knowledge base
6. Invest in Information systems
7. Reinforce culture and ethics
8. Expedite process automation
9. Evolving regulatory and reporting landscape
10. Responding to industry-related regulations
11. Managing business-related risk
12. Understanding customer needs
13. Positioning the LB brand
14. Product responsibility
15. Innovative products offerings
16. Unmatched service
17. Financial inclusion
18. Corporate citizenship
19. Knowledge and beyond
20. Empowering communities
21. Nurture the nature
22. Action taken towards environmental management system
23. Green business practices
24. Reward high achievers
25. Provide relevant and progressive learning opportunities
26. Promote leaders as a source of value
27. Build a culture of engagement
28. Strengthen local footprint
29. Unparalleled distribution
30. Effective communication

Strategic Focus and Resource Allocation

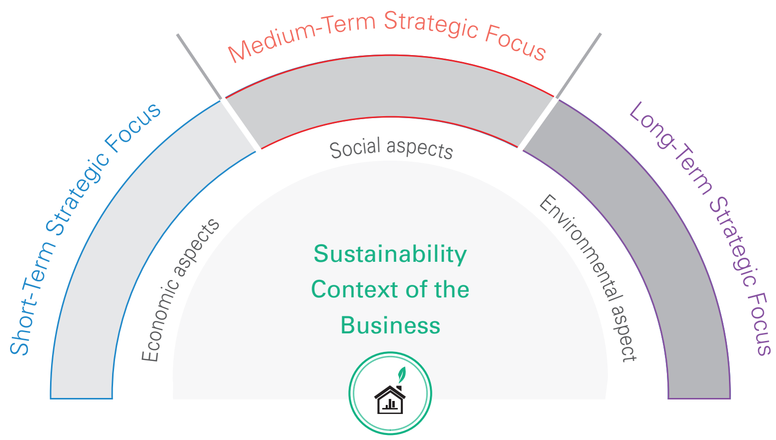
In order to create a shared future for our customers, our people and other stakeholders, we have adopted a formal approach that aligns our allocation of capital resources to our strategy.

The decision-making framework at the centre of this approach, which is outlined alongside, guides us to efficiently deploy resources and effectively direct the relationships required to create shared value.

STRATEGIC FOCUS FOR THE YEAR

- » Understanding our customer and placing clients at the centre of everything we do
- » Managing scarce resources to optimise economic outcomes
- » Being operationally excellent and global expansion
- » Sustainably growing revenue managing economic headwinds
- » Embracing innovation and leveraging our investments in IT

Resources allocation takes place based on short, medium and long term focus areas that become relevant vis-à-vis LBF's sustainability context.



Strategy identification
Role – Highest management level
Decide the strategy focus for the period

Capability designing
Role – Senior management level
Decide the importance and validity to the Company

Action taken
Role – Executive level/Operational level
Conducting and implementing the decisions

Performance measurement
Role – Highest and senior management level
Performance measuring and corrective action taken

Strategic Focus and Resource Allocation

We will realign our strategy to adopt customer-focused ways of working, by creating fit-for-purpose distribution channels and accelerating our digital journey to transform into a more agile and responsive financial services organisation.

MANAGING TRENDS - SUSTAINABILITY TRENDS

Trend	Our response
» Transformative impact of technology » Evolving worker and consumer expectations » Stricter financial regulations » Cyber security and data privacy » Demand for high-quality space » Demanding well-located, modern and efficient facilities	» Strategically capture the market share by providing optimised solutions » Embrace online financial trends to improve relevance and communication channels under good governance and practices » Use technology to enhance online experiences for both customers and the employees » Upgrading, updating and investing in latest technology to face cyber threats » Increase, relocate and upgrade the branches

UNDERSTANDING OUR CUSTOMER AND PLACING THEM AT THE CENTRE OF EVERYTHING WE DO

With customer preferences evolving faster than ever before, it is imperative that we take action to deliver innovative first-to-market products that will exceed their expectations every single time. This would require a continuous and ongoing effort to build strong relationships based on mutual trust, which we can then use to understand and anticipate their expectations. We will realign our strategy to adopt customer-focused ways of working, by creating fit-for-purpose distribution channels and accelerating our digital journey to transform into a more agile and responsive financial services organisation.

How does it make us different?

Internally, innovation is increasing the efficiency and cost-effectiveness of our structures, systems and processes, which ultimately benefits our clients.

Indicator	Performance 2016 /17	Performance 2017 /18	YOY change	Connection to the capital	How it links to value creation	Outlook/ Target
Digitally-active clients	1,024	2,978	Up			Continued strong growth
Branch relocation	03	04	Up		Self-service eliminates queuing time for the customer	10% of total outlets relocated by 2020
Brand ranking - Most Respected Entities	80	33	Up			Top 10 brand by 2020

Managing scarce resources to optimise economic outcomes

Our aim is to optimise our ROE by strategically managing our portfolio and coupled with solid capital and liquidity management strategies to optimise financial outcomes. At the same time we will remain proactive in our efforts to identify opportunities and challenges that may impact our business and take necessary action to sustain profitability in the longer-term. In doing so we will look to leverage on the skills and competencies of our employees to optimise productivity in line with the available capacity. We will also look to capitalise on our technology-driven platforms to safeguard our competitive position in the market.

How does it make us different?

Pre-emptive action on our part ensures we are the first to tackle challenges and convert them into opportunities that would strengthen our business model and build resilience for the future. We are thus able to create a scalable platform from which to sustainably grow the business and become agents of change for the national progress.

Indicator	Performance 2016 /17	2017 /18	YOY change	Connection to the capital	How it links to value creation	Outlook/ Target
Profit per employee	Rs. 1.22 million	Rs. 1.24 million	Up		Leverage on the Company's strong financial position to deliver cost efficiencies within the business	12% increase year-on-year
Net asset value per share	Rs. 90.31	Rs. 110.81	Up			22% increase year-on-year
Dividend per share	Rs. 9.00	Rs. 11	Up		Maintain a strong balance sheet and required capital adequacy to build the resilience needed to withstand negative headwinds	Increased by 10%

MARKET FORCES AND COMPETITIVE LANDSCAPE

Customer power – High

Customers typically have a high power of bargaining since big corporates tend to be extremely rate sensitive.

MSME 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 client base and channel resources towards finding new opportunities.

Strategic Focus and Resource Allocation

Being operationally excellent and global expansion

Operational excellence is one of LBF's core values. It cascades through to all levels of the business and is reflected in everything we do. While we strive to operate in a manner that would meet and exceed the expectations of our stakeholders, we do so by continuously raising the bar by thinking and working differently to realign our operating model in tandem with our dynamic operating environment.

In recent times we have broadened our vision and are now looking to emulate our success on a regional scale through the expansion to Myanmar.

How does it make us different?

The consistent focus on operational excellence has enabled the ongoing reduction of LBF's cost-to-income ratio. Moreover managed evolution of our strategy has reduced the risk relating to large-scale system implementation and has provided systems stability while enabling better credit evaluation, cost control, recovery and NPL management.

Indicator	Performance 2016 /17	Performance 2017 /18	YOY change	Connection to the capital	How it links to value creation	Outlook/ Target
Expansion of the branch network	08	05	Down		Delivery of the best in-class service for the benefit of more and more customers	Expansion of the branch network to rural areas
Business expansion to regional markets	-	01	Started micro finance business in Myanmar			Start the second branch in Myanmar

MARKET FORCES AND COMPETITIVE LANDSCAPE

Business partner power – Low

As a financial institution, our major suppliers comprise of support services. These different service providers are elaborated in our business partners (page 276). A key factor in the determination of strategy is that 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.

Sustainably growing the company business faster than the industry

The key priority is to gain a competitive advantage from changing economic models to grow our transactional financial services through first-to-market products that will strengthen captive market share and facilitate entry to new segments of the market.

How does it make us different?

We leverage our strong position in wholesale lending to increase opportunities for cross-selling through the adoption of digital strategies to increase the outreach.

Indicator	Performance 2016 /17	2017 /18	YOY change	Connection to the capital	How it links to value creation	Outlook/ Target
Introduction of CDMs	-	3	Up		Providing access to the widest possible range of financial products and services to meet the diverse needs of customers	Increase upto 20 CDMs in 2018/19
Total financial solutions	27	27	-			Further introduced innovative financial solutions

Embracing innovation and leveraging our investments in IT

With technology increasingly shaping consumer behaviour, LBF has adopted a broad-ranging IT strategy to underpin its investments to develop infrastructure, people and processes over the long term.

How does it make us different?

Ability to provide our customers with the best in-class digital experience by investing in the latest cutting edge systems that enable us to deliver simple, safe, fast and contextual financial services.

Indicator	Performance 2016 /17	2017 /18	YOY change	Connection to the capital	How it links to value creation	Outlook/ Target
Invest in ICT development	Rs. 79.26 million	Rs. 194.49 million	Up		Standardisation of the core financial platform to drive operational efficiencies at branch level, which would contribute towards enhancing the overall customer experience	Implementation oracle system for the core financial functions

Sustainability Context

INTEGRATED PLANNING TO CREATE SUSTAINABLE VALUE

Leading the way as a responsible corporate citizen, LBF has embraced sustainability as a high priority item in its corporate agenda. Having understood the importance of being sustainable in all aspects of our operations, values of sustainability are embedded in our strategy, product development process as well as across operations at all levels. We drive our sustainability values with commitment and dedication, and necessary board oversight to focus on creating value for stakeholders.

It is our firm belief that a sustainable business model is the key to ensure that the Company and its stakeholders continue to grow and thrive in the long-term.

IDENTIFICATION LEVEL 1

FOCUS

Our integrated planning takes into account who we are, our capabilities, our strategic ambitions and our operating environment.

OUR STAKEHOLDERS' EXPECTATIONS

CUSTOMERS
PAGE 247

SHAREHOLDERS
PAGE 218

EMPLOYEES
PAGE 246

BUSINESS PARTNERS
PAGE 202

REGULATORS
PAGE 44

SOCIETY/ COMMUNITY
PAGE 264

MARKET FORCES AND COMPETITIVE LANDSCAPE

Threat of new entrants – High

Finance industry is crowded with 32 banks and 46 NBFIs. 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.

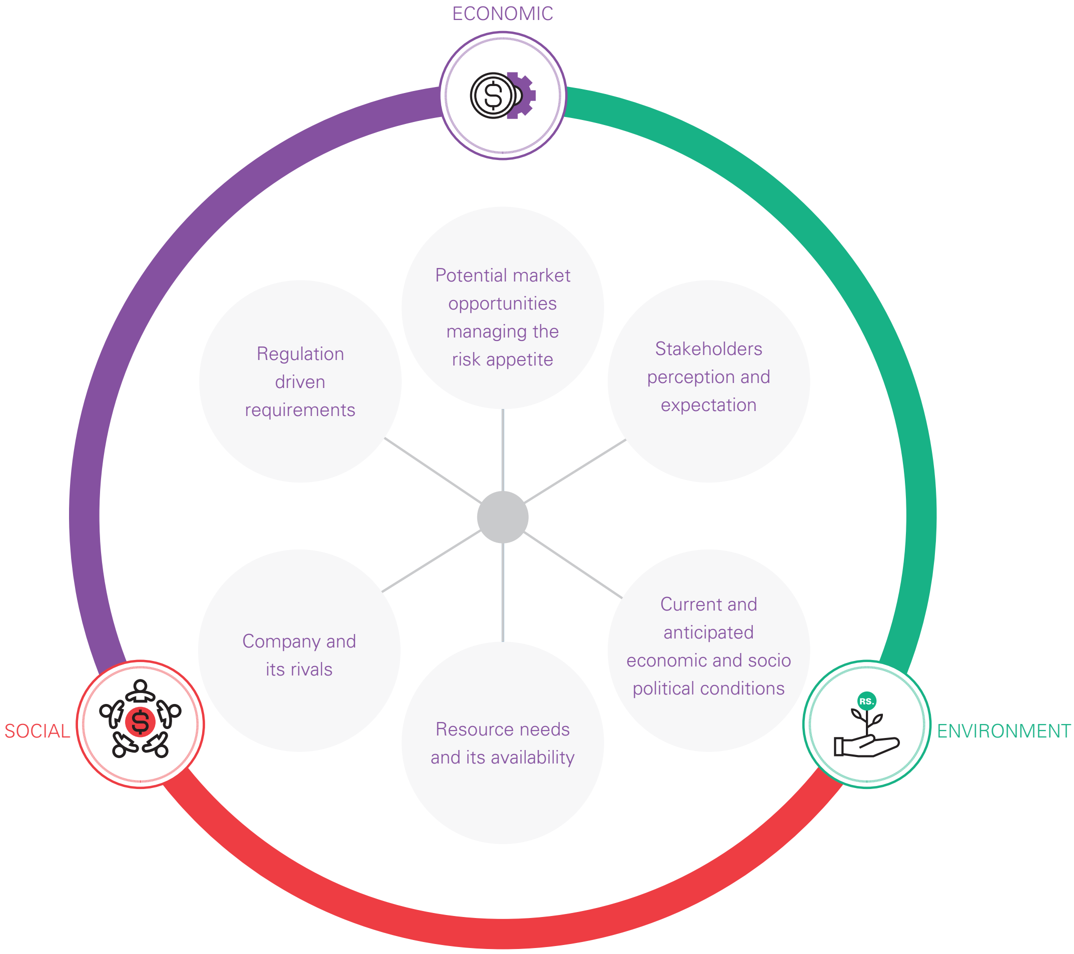
PLANNING LEVEL 2

DIRECTION COMING FROM

Our Purpose, our Goal, and our Values

MECHANISM COMING FROM

Our current strategy and business model



MARKET FORCES AND COMPETITIVE LANDSCAPE

Threat of substitute products Competitive rivalry – Moderate

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 for 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.

Sustainability Context

MANAGING LEVEL 3

WE WILL CONTINUE TO DELIVER STRATEGIC FOCUS ACCORDING TO OUR VISION

Our strategy targets key areas for growth, and maintain sound controls combined with proactive risk management to deliver appropriate value for our stakeholders.

WE HAVE SHAPED OUR BUSINESS ACCORDING TO OUR MISSION

Our business model continues to evolve in tandem with the immediate operating environment and in response to customer demands, enabling the creation of a scalable platform for consistent growth.

EXECUTION LEVEL 4

SHARED GROWTH IS OUR WAY OF DOING THINGS AND IT DEFINES WHO WE ARE

We have a responsibility to leave things in a better position than we found them, and our Shared Growth initiatives will accelerate over the coming years.

LINKING LEVEL 5

LINKING THE SUSTAINABILITY FRAMEWORK TO CREATE VALUE FOR STAKEHOLDERS

Our key priority is to manage the business in a manner consistent with LBF's strategic objective to create value for the stakeholders vis-à-vis the material matters that are relevant in short, medium and long term.

Time line

Within a year - Short term, One year to three years - Medium term, Three to five years - Long term.

MARKET FORCES AND COMPETITIVE LANDSCAPE

Competitive rivalry – High

Number of competitors: the Sri Lankan financial services industry is marked by high levels of competition with 32 banks and 46 NBFIs 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.

Long-term goals focus connection with universal practices

LBF has always followed universally-accepted guidelines. Analysing the emerging concepts of the global context, we develop our sustainability efforts in alignment with the Sustainable Development Goals (SDGs) put forward by the United Nations (UN), which was implemented as of January 2016. The SDGs are a call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. In order to support this sustainability agenda, we have taken steps to pivot our sustainability platform to address these SDGs and integrated into the business model. Our track record of working towards multiple goals provides us with a valuable experience and proven policy expertise to ensure LBF makes a meaningful contribution towards the 2030 SDG targets.

Our focus 2030 strategy is designed to ensure that, over time, we use our financial expertise to contribute positively towards meeting the future growth and development needs of individuals, businesses and society. Going forward we will use the SDGs as the guiding framework for long term action, as depicted in the figure below:

SUSTAINABILITY PHILOSOPHY

Aim for greater business success over the long term by working to integrate socioeconomic issues and the impact of climate change into the day-to-day operational format.

Sustainability Context

Short-term aspirations	Medium- to long-term aspirations	Long-term aspirations
Within the year	2 - 5 years	Over 5 years

FOCUS	POTENTIAL IMPACT	STRATEGIC DIRECTION
Economy Macroeconomic factors impact our ability to sustain business and achieve market commitments	» Reduced revenue » Increased impairments	Continue to respond to changes in leading indicators with definitive steps to mitigate risks and unlock opportunities
Social Strategic changes impact our ability to execute our plans that support market commitments and community investments	» Delayed completion of projects » Increased expenditure	Established a dedicated and integrated capability to address business-as-usual, transition and transformation change requirements
Biosphere Technology impacting competitiveness and natural resource consumption	» Operational disruptions » Operational losses » Reputational damage	Maintain the coordinated, comprehensive and timely approach to identify, assess and respond to regulatory changes

MANAGING TRADEOFF, POSITIVE AND NEGATIVE OUTCOMES

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.

From a business perspective reactionary short-term lending facilities can either positively or negatively impact our bottom-line depending on the movement in interest rates, but, if not undertaken, can have a negative impact on the demand for our products in the medium- to long-term. Long-term lending on the other hand offers a consistent outcome for both the Company and the customer.

Green lending supports the preservation of natural capital and Micro lending contributes towards social upliftment of communities, in turn enabling sustained value creation for LBF in the long-term.

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.

This year we invested in expanding our business internationally (Myanmar). The investment proposition offers secure income returns and more favourable funding costs.

Reduction of expenses

Managing optional spend to ensure its effort

In challenging times, it can be easy to aggressively cut discretionary spend, bolstering profits in the short-term, with potential negative long-term consequences

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. To manage this, we continually review our expenses to optimize outcomes from a targeted investment; thereby ensuring our stakeholders and our business receive the maximum benefit from this investment.

Corporate Social Responsibility Review

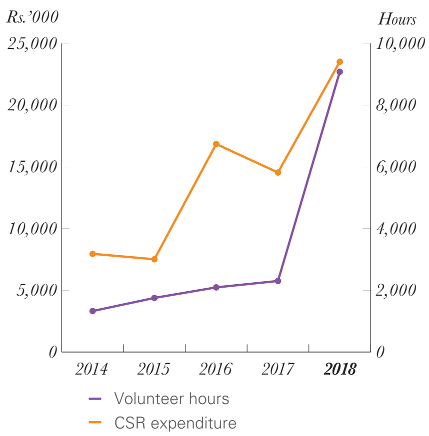
Our business strategies are based on the fundamental conviction to build a sustainable business that integrates good governance, environmental issues and social concerns to create maximum value for our stakeholders. Translating this belief, our CSR (Corporate Social Responsibility) and sustainability model is pivoted on the 3P approach – People, Planet and Profit:

» People, our stakeholders with whom we engage for our business, and the community where we live in;

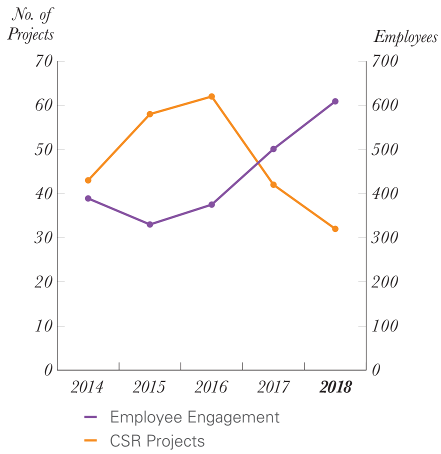
» Planet, our surrounding environment and

» Profit, our profit-generating capacity for long-term sustenance.

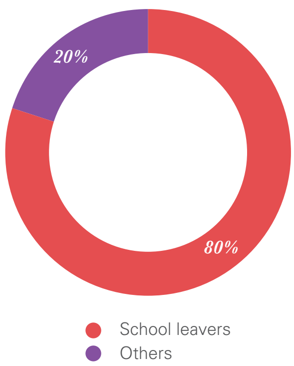
CSR EXPENDITURE VS VOLUNTEER HOURS



CSR PROJECTS VS EMPLOYEE ENGAGEMENT



OUR RECRUITMENT - BRIGHTER FUTURE FOR SCHOOL LEAVERS



CSR COMPLIANCE

We always conduct our CSR practices in ethical way. Our aim to generate positive impacts and developing their livelihood in efficient way. We comply with the all social and environment rules and regulation of the country. In the reporting year, we are unable to find or none of negative impacts or grievances reported on the social and environmental aspects from the community.

In line with the Company's environmental conservation agenda, L B Finance initiated and carried out a series of environmental campaigns

Environmental-friendly CSR - PAGE 303

L B Finance has continued to remain a pioneer in addressing the socio-economic needs of Sri Lanka

Community-based CSR - PAGE 283

Micro-, Small- and Medium-scale entrepreneurs are an emerging force of the Sri Lankan economy

Developing MSME-based CSR - PAGE 281

The Company's CSR model places a strong emphasis on education for the development of Sri Lanka

Educational-based CSR - PAGE 285

Operating Environment

GLOBAL ECONOMY

Economic Activity

The global economy continued to gain momentum in 2017 with a substantial majority of the world's economies registering a pickup in growth. Two-thirds of the world economies – emerging aned developing as well as advanced economies registered higher growth rates in 2017, compared to 2016.

In the US growth picked up in 2017 supported by strengthening private investment, while growth in the EU region gained substantial momentum, reaching an estimated 2.4% in 2017, 0.7% higher than previously expected being the result of broad-based improvements across member countries.

Growth in the East Asian region is estimated to have reached 6.4% in 2017, amidst the expansion of global trade and a recovery in commodity prices. The region continues to be a major driver of global growth, accounting for more than a third in 2017, mostly due to China's significant contribution. Growth in Myanmar also rebounded in 2017 notwithstanding policy uncertainty.

Growth in South Asia, while slowing down still remained at a robust 6.5% for 2017, marginally below the June 2017 forecast. The drop was mainly on account of the temporary disruptions from adverse weather conditions across the region.

Global Trade

Global trade recovered strongly and recorded substantially higher levels in 2017 compared to the past two years, notwithstanding moves by the US and China to impose retaliatory trade restrictions on each other.

Crude Oil Prices

During the year, oil prices escalated, particularly in the latter part of 2017 being the result of the strengthening global growth momentum, supply side disruptions in the US, geopolitical tensions in the Middle East and a unanimous decision by OPEC (Organization of the Petroleum Exporting Countries) to continue to curb oil production.

Gold Prices

Gold Bullion prices rose for a second year running in 2017, ending December at the highest annual close in US Dollar terms since the peak five years ago, prompting investors to continue to add gold to their portfolios.

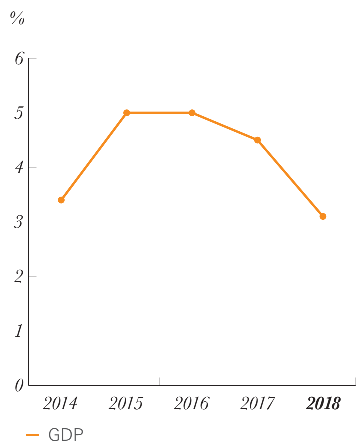
SRI LANKAN ECONOMY

Economic Activity

With adverse weather conditions and their spillover effects continuing to affect broad-based economic activity, Sri Lanka tabled a disappointing economic performance with GDP growing by only 3.2%, short of projections and below 4.5% reported in 2016.

Among the sectors of the economy, agriculture related activities contracted against the backdrop of adverse weather conditions that continued from 2016, although estimates for quarter 4, 2017 appear to indicate a slight recovery in the sector.

GROWTH IN GDP



A slowdown in economic activity in both services and industrial sectors was also seen. Growth in industry related activities was the slowest in two years, reaching only 3.9% in 2017 amidst a notable deceleration in construction activities, which has been mainstay of the economy throughout the post-conflict period. The growth rate of services related activities, which accounts for over 56% of real GDP, also moderated during 2017. Consequently growth in the service sector, which stood 4.7% in 2016, decelerated to 3.2% in 2017.

External Sector Developments

Sri Lanka's external sector improved gradually in 2017, as export earnings recorded a notable double digit growth in 2017, partly supported by the reinstatement of the EU's GSP+ facility (European Union's Generalised System of Preferences plus). Strong external demand especially for tea, increased commodity prices in the international market, conducive external trade policies together with strong institutional support and the favourable impact of the flexible exchange rate policy maintained by the Central Bank were among the other factors that contributed towards the improvement in export earnings.

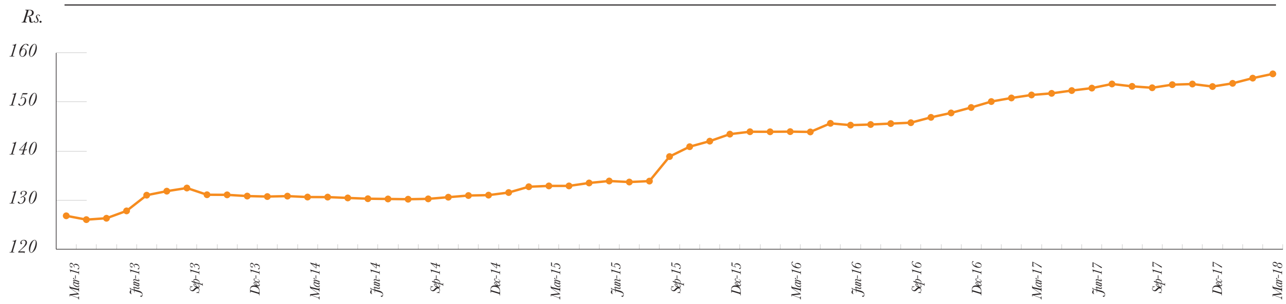
However, higher than expected expenditure on imports, particularly on fuel and rice imports, aimed at managing the impact of disruptive weather conditions, caused a widening of the trade deficit.

The trade deficit expanded to US dollars 9,619 million in 2017, compared to US dollars 8,873 million recorded in 2016. As a percentage of GDP, the trade deficit was at 11% in 2017, marginally above the 10.9% recorded in the previous year

Exchange Rate

The Rupee remained broadly stable, depreciating by 2.% against the US dollar in 2017, supported by the market-based exchange rate policy implemented by the Central Bank during the year. The depreciation pressure on the rupee further eased from May onwards with the receipt of the proceeds from the International Sovereign Bonds, the foreign currency term financing facility and disbursements of two tranches of the International Monetary Fund-Exchange Fund Facility programme, which also helped improve investor confidence.

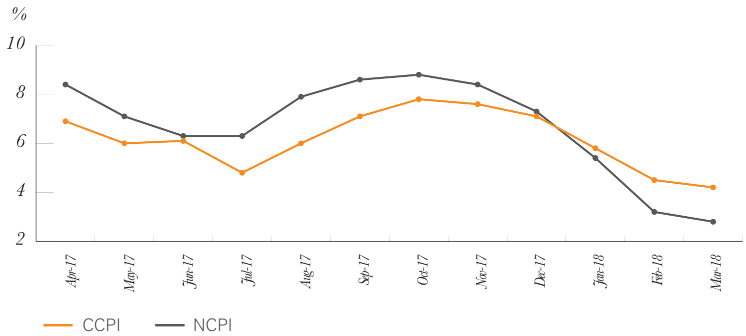
EXCHANGE RATE MOVEMENT - US DOLLAR



Inflation

Headline inflation remained broadly above the target during 2017, as the CBSL's tight monetary policy failed to control the sharp acceleration in food inflation caused by weather related supply disruptions. Revisions to Value Added Tax (VAT) and Nation Building Tax (NBT), and higher commodity prices in the global market also contributed to high levels of inflation.

INFLATION: CCPI AND NCPI YOY PERCENTAGE CHANGE



Operating Environment

Interest Rates

The CBSL continued to maintain its tight monetary policy stance in 2017 in an attempt to curtail the possible acceleration of demand driven inflationary pressures due to excessive monetary and credit expansion.

Following the increase in inflation during early 2017, the CBSL raised policy interest rates with the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) being increased by 25 basis points in March 2017 to 7.25% and 8.75%.

Deposit and lending interest rates of commercial banks continued to increase during most of 2017 raising the cost of funds in the economy. However, some moderation in deposit rates was observed towards the end of the year, while lending rates stabilised at elevated levels.

Source: CBSL

FINANCIAL SECTOR OVERVIEW

The financial sector showed improved performance as the supportive prudential measures continued to preserve stability of the financial system in 2017. The improved performance of the financial sector was broad-based and mainly contributed by the banks, other deposit taking financial institutions and contractual savings institutions.

The regulatory framework governing the financial system was further strengthened during the year with the CBSL introducing prudential measures with a view to enhancing the safety and resilience of the financial sector in Sri Lanka. Macro-prudential measures were mainly focused on enhancing transparency, capital requirements, access to finance, liquidity and risk management frameworks.

NBFI SECTOR DEVELOPMENTS

Overview

The NBFI sector consists of Licensed Finance Company (LFC) and Specialised Leasing Companies (SLC). The sector performance moderated during the year with low credit growth, declining profitability and increase in non-performing loans, but nonetheless remained well capitalised and with adequate liquidity buffers to remain above the regulatory minimum levels.

The sector's funding mix changed somewhat during the year, with asset growth mainly funded through deposits, and sector-wide borrowings declining compared to the previous year.

Further, the CBSL continued to take prudential measures to maintain the stability of the sector with much consideration on reviving the companies with weak financial positions.

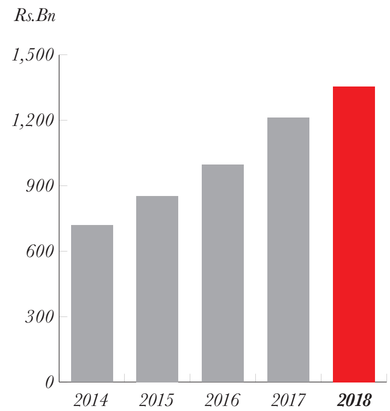
Credit Growth

In 2017, the sector witnessed slower credit growth when compared to 2016, which can be attributed mainly to fiscal and macro-prudential policy measures taken to curtail the importation of motor vehicles and lending towards vehicles. Moderate economic growth and high interest rates were some of the other factors that had a bearing on the appetite for credit.

Assets

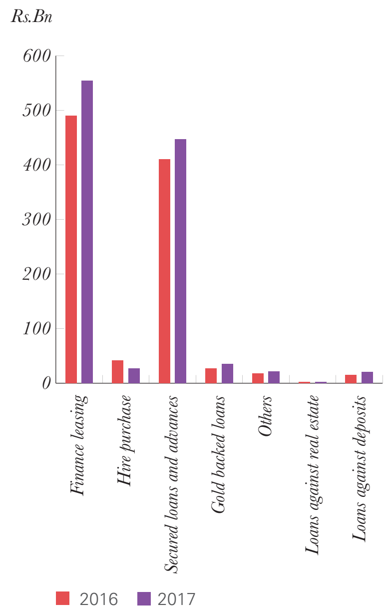
Affected by slow credit growth, the total asset base of the sector grew moderately by Rs. 143 billion during the year reaching Rs. 1,355 billion by end 2017, denoting year-on-year growth of 11.8% compared to 21.7% reported in 2016.

ASSETS OF THE NBFI SECTOR



Loans and advances accounted for 78% of total assets, with finance leases taking up nearly 50% of the loans and advances portfolio.

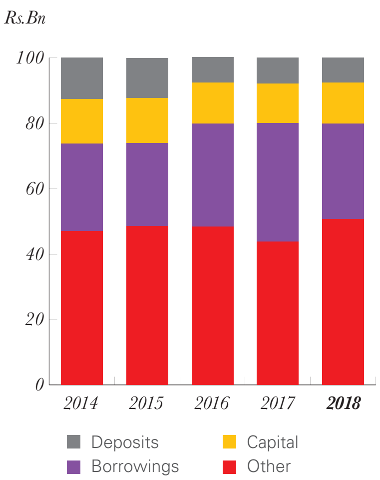
PRODUCT WISE LOANS AND ADVANCES IN NBFI SECTOR



Funding

Customer deposits accounted for the major portion of liabilities in 2017, indicating a shift in the funding mix compared to the previous year, which saw sector borrowings declining year-on-year. In tandem, total deposits grew by 29.4% year-on-year in 2017, compared to the growth of 10.4% in 2016, while borrowings showed a negative growth of 9.7% in contrast to the robust 39.6% reported in the previous year.

NBFI SECTOR FUNDING COMPOSITION



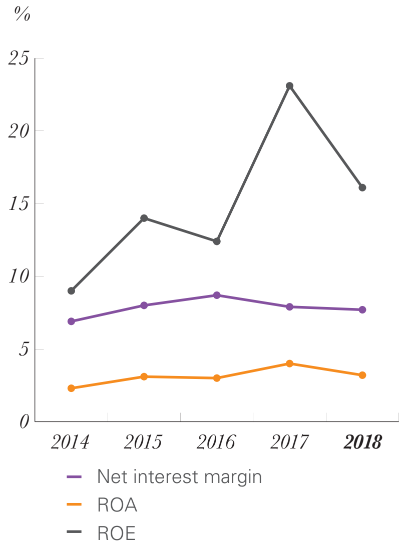
Asset Quality

Asset quality deteriorated in 2017 as NPLs increased, on the back of weak economic conditions and severe adverse weather brought pressure on all key sectors of the economy. Consequently, the sector-wide NPL ratio increased to 5.9% in 2017 from 5.3% in 2016

Profitability

Stressed by increased funding cost and higher loan loss provisions, the sector reported profit after tax of Rs. 25.8 billion, an 18% decline compared to the profit of Rs. 31.5 billion recorded in 2016.

PROFITABILITY INDICATORS NBFI SECTOR



Capital Position

The sector remained well capitalised, with capital adequacy ratios showing an increasing trend. Well above the minimum threshold level, the sector's core capital and total capital ratios increased to 12.4% and 13.1%, respectively in 2017, from 11.3 % and 11.7 % recorded in 2016.

Regulatory Developments

Several prudential policy measures were introduced by the CBSL, aimed at strengthening the supervisory and regulatory framework of NBFI sector with the ultimate aim of enhancing the stability and soundness of the sector and building customer confidence in the sector.

The key development was the new direction issued to revise the LTV ratio for credit facilities in line with the National Budget proposal for year 2017.

New regulations to increase the minimum core capital requirement for LFCs, was also introduced in order to strengthen the capital position of the sector and augment the sector capacity to absorb unexpected internal and external shocks. The adoption process was staggered with LFCs requested to increase minimum core capital from Rs. 400 million to Rs. 1.0 billion by 01 January 2018, to Rs. 1.5 billion by 01 January 2019, Rs. 2.0 billion by 01 January 2020 and Rs. 2.5 billion by 01 January 2021. The changes are also aimed at implementing the BASEL compliance framework for LFCs.

Source: CBSL

Operating Environment

PESTEL (Political, Economic, Social, Technological, Environmental, Legal) Analysis

		Impact to the sector	Risks / Opportunities to the Company
Political	Relaxing of LTV restrictions for hybrid, electric and commercial vehicles	Favourable impact on the leasing portfolio and demand for hybrid leasing facilities increased during the year	Opportunities to tap into new market segments
	New regulations to increase core capital requirements of LFCs	Positive impact on the overall stability and credibility of the sector, with the weaker financial institutions that lack the capacity being rationalised or phased out	LBF remains well capitalised and has continued to maintain CAR above the stipulated minimum.
	Financial Customer Protection Framework (to be implemented in 2018)	Enhances the integrity of the NBFI sector and builds consumer confidence and trust in NBFI markets	Upgrade IT systems and networks to maintain customer privacy and data security in order to improve transparency on par with the banking sector
Economic	Interest rate volatility	Causes uncertainty and diminished confidence in the financial system	Frequent changes in interest rates destabilise the Company's deposit mobilisation strategies, bringing pressure on margins
	Weak growth in key sectors of the economy	Loss of market share	Restricted opportunities for lending leading to limited business growth and higher NPLs
Social	Growing demand for more flexible and convenient financial solutions	Raises the overall standard of the industry on par with global benchmarks	Opportunity to be the first-to-market with innovative, tailor-made financial products and services
Technological	Increasing trend towards digital technology and smart devices	Raises industry standards on par with global benchmarks	Opportunity for early adoption of technology that would strengthen brand position and provide a competitive edge
Environmental	Growing importance of climate change on business	Minimal impact on the business	Opportunity to increase the exposure to green projects
Legal	New Exchange Control Regulations permitting Sri Lankan companies, partnerships and individuals (Resident Persons) to invest in shares, units, debt securities and sovereign bonds outside Sri Lanka subject to certain limits. (upto USD 2,000,000 for listed companies)	Well managed the rules and regulations are imposed by the governing entities. During the year there were no verbal or written incidents on violating the rules and regulations	Opportunity to invest to set up a micro finance operation in Myanmar

Business Review

INVESTING

OUR STRATEGY

Our journey to reorientate the business to centre 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 bases among 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 from fixed deposits to promote the savings base.

KEY FOCUS AREAS OF THE RESEARCH

What is the uniqueness you have seen in L B Finance?

Analysis of the key points that are unique to LBF

Research by University of Kelaniya

OUR PRODUCT OFFERINGS

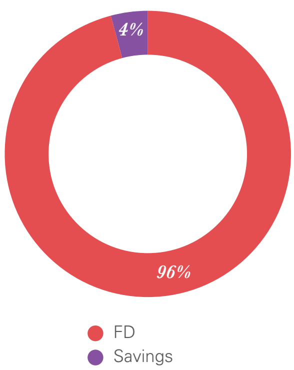
Business Review

Our journey to re-orientate the business to centre on our clients, 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, understanding that it is not our intent but how we execute will set us apart from our competitors.

DEPOSITS

LBF's deposit proposition offers investment solutions to individuals and corporate customers; ranging from customised fixed deposits (FDs) with varying tenures to savings products starting from birth through every stage of life. LBF has over the past four decades built a loyal customer base, many of whom have grown with the Company. The Company's market share of 10% continues to grow amidst the ongoing commitment to attract more new customers across Sri Lanka.

DEPOSIT MIX 2017/18



Performance for the year

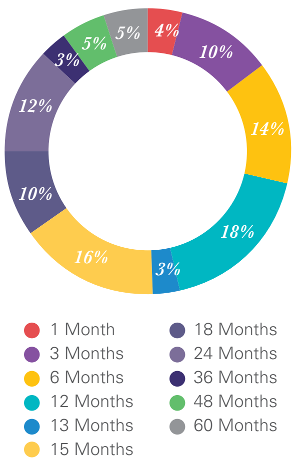
Fixed Deposits

Leveraging on its reputation, LBF has become the second largest fixed deposit base in the non-banking financial sector in the country.

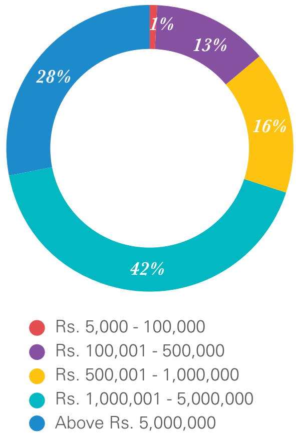
In the 2017/18 financial year, the Company's total deposit customer base grew by 18.25% to reach 296,377 customers as at 31st March 2018. In the year under review, the FD customer base reported a growth of 10.03% year-on-year, while renewal ratio remained well above at 75% throughout the year. The results for the year can be mainly attributed to a two-pronged approach to grow volumes, alongside efforts to retain existing customers.

In pursuing a volume-driven strategy, the main thrust for the year was centred on mobilising retail deposits, mainly FDs with a medium- to longer-tenure (six and 15 months). The move also serves as a risk rebalancing exercise to improve the fluidity of the deposit mix by gradually reducing the concentration on shorter-term (three month) FDs.

TENURE WISE FIXED DEPOSIT MIX 2017/18

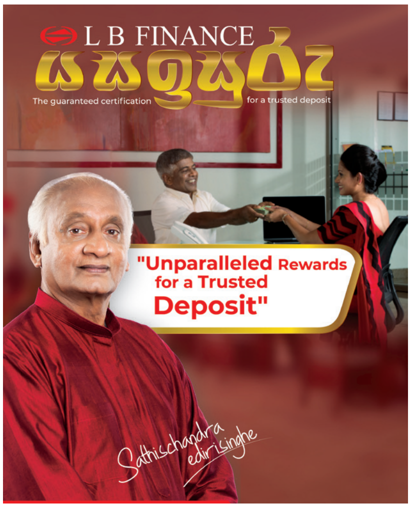


AMOUNT WISE FIXED DEPOSIT MIX 2017/18

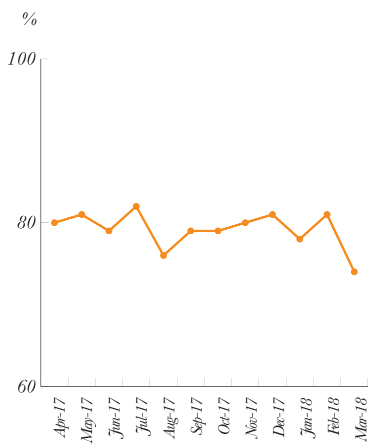


A special mass media promotional campaign was rolled out from September 2016 to June 2017 to promote six and 15 month FDs. This was supported by a number of internal campaigns to motivate the branch sales force towards driving volumes by reaching out to untapped customer segments particularly in regions outside the Western Province. The momentum created by these campaigns generated good results throughout the remainder of the year as well, with total FD volumes for 2017/18 growing significantly by 20.73% to Rs. 69.88 billion from Rs. 57.88 billion reported in the previous financial year.

The approach on customer retention was another key priority, prompting extensive training to enhance the capacity of the sales force in areas such as product knowledge, customer service, rate management, etc. In addition, branches were appointed to regularly reach out to past customers who have left LB, and continue to build rapport to encourage them to renew ties with the Company.



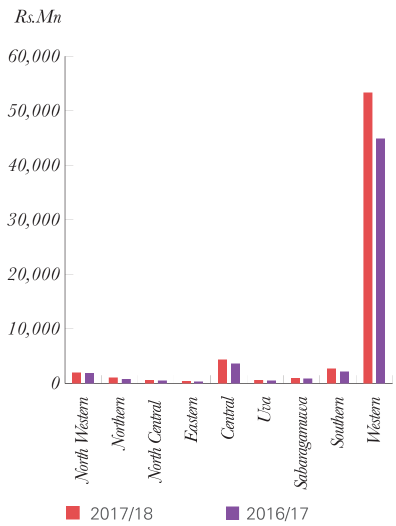
FD RENEWAL RATIO



Meanwhile, the escalation in the cost of funds caused by the rapid growth in the portfolio was a cause for concern, leading to a review of the Company's margin management methods. Consequently, a series of yield management strategies were rolled out in the second half of the year mainly to curb the volume of low-yielding (high-cost) deposits through better management of the AER (annual effective rate) for each individual deposit. Accordingly, branches were assigned strict parameters to ensure they maintain AER within stipulated limits. This was coupled with target–driven KPI's to motivate branches to focus on mobilising low-cost deposits. By reducing the interest cost on the current deposit base, LBF was able to cut interest costs of FDs compared to the previous year.

LBF's savings base grew to Rs. 2.95 billion in 2017/18, up by a commendable 25.24% from the Rs. 2.35 billion reported at the end of the previous year.

PROVINCE WISE FIXED DEPOSIT BASE



SAVINGS DEPOSITS

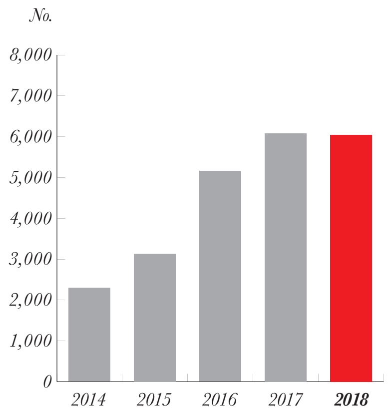
A strategic decision was taken to increase the share of savings base. Efforts in this regard were focused offering multiple benefits to promote the savings option as an effective investment tool. As reflected by LBF's tag line, the Company looked to promote the savings account proposition as a secure way to build a savings fund with a range of added benefits. Consequently, the kid's savings product was redesigned and re-launched to the market in March 2018 with a new look and feel including a greatly enhanced reward programme to encourage children to aim for savings milestones.

Led by a series of highly-focused promotional campaigns along with technology-enabled service enhancements to facilitate greater customer convenience, LBF's savings base grew to Rs. 2.95 billion in 2017/18, up by a commendable 25.24% from the Rs. 2.35 billion reported at the end of the previous year.

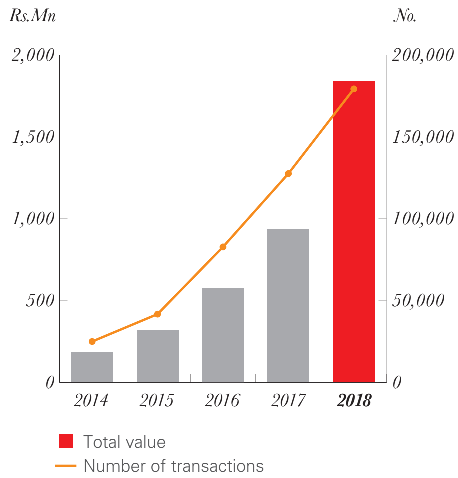
Business Review

In the 2017/18 financial year, the Company's total deposit customer base grew by 18.25% to reach 296,377 customers as at 31st March 2018.

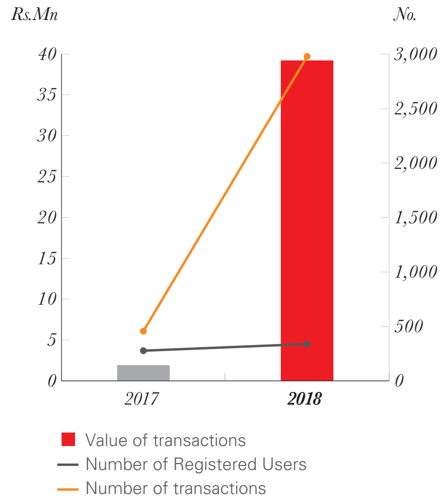
ATM CARDS ISSUED



ATM TRANSACTIONS



E-CONNECT TRANSACTIONS



Future goals and targets

- Fixed deposit and savings base growth of 25% and 30% respectively for 2018/19
- Conducting promotional campaigns at school-level
- Introduction of special gift schemes for kids and newborns savings accounts
- Develop and operationalise a daily savings collection model to tap into the daily savings of SMEs

FINANCING

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 solution 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 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 geographically segmenting our sales team 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.

Business Review

Loan value during last 5 years (Rs.'000)

	2017/18	2016/17	2015/16	2014/15	2013/14
Lease and auto finance	62,489,979	55,660,781	45,104,146	33,694,228	30,299,456
Gold loan	20,108,243	16,267,505	13,136,351	10,380,704	8,007,047
Mortgage loan	6,962,770	6,189,501	3,711,837	2,240,428	1,191,646
Vehicle loan	4,054,552	4,184,086	5,099,563	7,195,496	7,304,695
Power draft	2,658,607	2,117,675	1,455,258	563,910	341,405
FD loan	2,579,869	1,911,853	1,389,833	1,060,988	1,071,293
Power plus	992,195	1,576,682	696,623	31,065	-
Factoring	481,868	336,971	454,203	447,376	881,939
Margin trading	20,963	31,934	17,800	2,873	18,457
Daily loan	190,423	145,382	140,501	40,872	11,926
Other	1,805,617	727,372	347,890	300,338	64,830

OUR PRODUCT OFFERINGS

Widely renowned for its unmatched flexibility and competitive pricing terms LBF's customized leasing and auto finance solutions have been serving the needs of customers across the country for over four decades now.

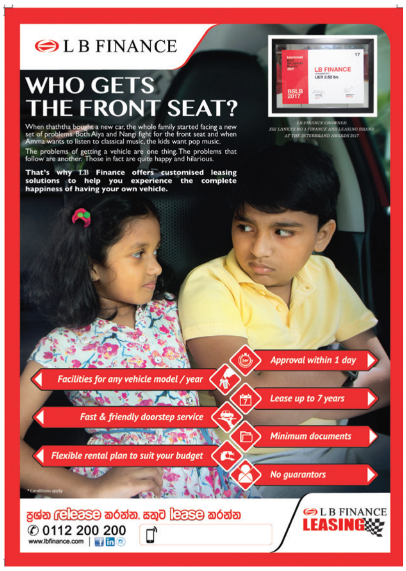
LEASING AND AUTO FINANCE

Widely-renowned for its unmatched flexibility and competitive pricing terms LBF's customised leasing and auto finance solutions have been serving the needs of customers across the country for over four decades now. Over the years, LBF's leasing model has evolved in response to the demands of the market and is now predominantly focused on offering vehicle-leasing solutions. Working closely with all major vehicle dealers in the country, LBF's vehicle-leasing solutions enable customers to benefit from the best possible deals for registered and unregistered vehicles. Today, ranked among the top leasing specialists in the country, LBF lays claim to approximately 8% share of Sri Lanka's vehicle leasing market.

Performance for the year

A challenging year for the vehicle leasing business brought on by a series of regulatory changes in the immediate operating environment. Key among them, the Monetary Board decision to tighten the loan-to-value (LTV) ratio on unregistered three-wheelers, motorcars and vans with effect from 01 January 2017, aimed at restricting the allowable lease value. The immediate drop in demand for unregistered vehicle leases following this new LTV ruling had a cascading impact on the vehicle leasing industry, causing the demand for vehicle leases to plummet. This was further exacerbated by the sharp increase in prices following the November 2016 budget decision to increase import duties on luxury vehicles, passenger cars and three-wheelers. Moreover, the higher interest rate environment that prevailed throughout 2017 proved to be a further deterrent for customers deciding to commit to new vehicle-leasing facilities. A culmination of these factors meant LBF was restricted in its ability to generate new business volumes through unregistered passenger cars and three-wheeler segments. To counteract the pressures brought on by the LTV, the Company moved to expand the coverage in the registered motor vehicle segment, where the impact of the LTV rule was lower.

In parallel the Company began pursuing alternative lending strategies, prompting renewed efforts to tap into the leasing market for energy-efficient vehicles (hybrid and electric vehicles as well low-capacity automobiles below 1,000CC). Leveraging on the duty concessions offered under these vehicle categories, aggressive branch-driven marketing campaigns were run targeting a wider audience in the Western Province and key



hub-towns across the country. The Company also began strengthening relationships with vehicle dealers across the country, as part of a broader strategy to position LBF as the preferred partner for vehicle leasing. As these initiatives gathered momentum, significantly higher volumes of vehicle leases were seen under this category from June 2017 onwards. Meanwhile swift efforts to capitalise on the surge in construction activity also delivered good results, marked by a sharp increase in LBF's construction vehicle portfolio.

Having pursued these alternative lending strategies, the Company was able to counteract to a large extent, the drop in unregistered vehicle volumes and consequently total vehicle-leasing volumes for 2017/18 reported a marginal decline of 1.08% compared to the previous year.

Notably, net interest margins remained on par with the previous year led by timely product re-pricing strategies to take account of market interest rate movements, while a cautious lending approach coupled with strict NPL management strategies were responsible for maintaining the quality of the portfolio throughout the year.

Summarised financial performance of leasing and hire purchase segment

	2017/18 Rs.'000	2016/17 Rs.'000	2015/16 Rs.'000
Interest income	14,083,195	10,852,921	8,742,046
Operating profit before tax	5,041,272	4,235,148	2,144,938
Portfolio value	62,489,686	55,660,963	45,104,836
Portfolio growth (%)	12.3	23.4	11.2
Market share (%)	8.0	10.1	8.0

Business Review

The variable rate Mortgage Loan product was re-branded and re-launched to the market as "L B Mulgala"

Future goals and targets

- With the relaxation of the LTV ratio and environmentally-friendly relation such as hybrid and electric vehicles, the Company will put more focus on this segment.
- Favourable duty structure on small vehicles with engine capacity less than 1,000 cc will also be pursued by the Company, which will place more focus on this segment.

MORTGAGE LOAN

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, or consolidate debts by mortgaging assets. This product caters to customer segments neglected by banks due to the small scale of facility requirement. Loans are granted to customers who have a confirmed income source and for businesses that have a potential to grow with additional financing.

Mortgage loans are further categorised into; fixed rate, variable rate and interest only options. Fixed rate mortgage loans come with a maximum tenure of up to seven years and mortgage loans under the variable rate category are associated with a long-term tenure up to 20 years and are offered mainly for personal and housing requirements.

The interest only loan scheme was introduced to customers who need to minimise the initial cash flow for a short period. The product terms are flexible and allow a grace period for the settlement of the lump-sum capital or the ability to convert that facility to a variable or fixed mortgage after the agreed period.

STRATEGIC PRIORITIES FOR 2017/18

- Broad-base the lending portfolio to reduce the concentration on unregistered vehicle leasing
- Pursue alternative lending strategies as a counter measure for the LTV challenge
- Proactive NIM Management
- Strict NPL Management

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 for the year

Focused efforts to tap into the country's booming construction and property industries, especially in the apartment and hotel segments have helped to grow the mortgage loan portfolio, which as at 31st March 2018 stood at Rs. 6,962 million.

Given the strong demand evident in the housing market, the variable rate mortgage loan product was re-branded and re-launched to the market as "L B Mulgala" in January 2018. The move generated considerable interest, with a notable market uptake observed within the first few months of its launch.

Meanwhile, to increase the outreach for the mortgage loan product, considerable resources were invested to expand the field force, coupled with extensive training to sharpen the skills of the team in marketing, customer screening and credit evaluation.

Future goals and targets

- Emphasise on deploying credit officers to all branches to execute mortgage loans
- Providing mortgage business oriented training to existing business staff
- To become a market leader for housing loan in NBFI sector

MICRO LEASE

LBF's micro leasing arm provides specialised leasing solutions for the lower income segments of the market, specifically focusing on assisting self-employed individuals and micro business through leasing of three-wheelers. The micro leasing arm also offers motorcycle-leasing facilities for salaried employees, offered at all LBF branches island-wide. Micro leasing has gained considerable traction in the past few years, enabling the Company to record a portfolio of Rs. 18,740 million.

Performance for the year

The year proved to be a challenging one for LBF's micro leasing business amidst the January 2017 Government sanctioned 25% LTV (loan-to-value) ratio for unregistered three-wheelers, permitting only 25% of the asset value to be leased.

The ruling resulted in an immediate drop in the demand for unregistered three-wheelers as many customers

found themselves unable to meet the 75% self-financing condition. The situation was further exacerbated with the introduction of an additional import tariff in the 2017 budget, which led to a spike in the price of unregistered three-wheelers.

These two factors together had a significant impact on the appetite unregistered three-wheelers, with all in the industry experiencing volume loss. LBF too witnessed a 65% year-on-year decline in the unregistered three-wheeler volumes.

With the core micro leasing business model under pressure, the strategic focus for the year then shifted towards promoting registered three-wheelers and unregistered two-wheelers, prompting aggressive branch-led efforts to grow island-wide volumes in these segments. A series of above-the-line campaigns were conducted across multiple channels together with promotional gift items and add-ons being included to induce potential customers. These were coupled with a number of operational improvements in order to streamline efficiency and expedite service delivery to the customer.

As part of the ongoing effort to widen LBF's reach in the three-wheeler leasing market, the scope of LB "Tuk Book" scheme was further expanded to enable owners of registered three-wheelers to obtain a facility of up to 70% against their vehicle value. The move delivered good results, as demonstrated by a strong uptake for the product witnessed in the year under review.

To grow the two-wheeler (motorcycle) volumes specific action was taken to deepen the penetration in the semi-urban market. A dedicated sales force was mobilised to promote the product by tapping into salaried employees attached to certain key sectors of the economy. Spearheaded by these measures, a surge in motorcycle leasing volumes were seen in the year under review, with the portfolio growing by 35.12% year-on-year to reach Rs. 3,330 million by end-March 2018 and increase of Rs. 865 million.

At the same time, extensive training was also conducted to encourage the sales force to undertake cross selling in order to drive volumes in both product segments.

Business Review

STRATEGIC PRIORITIES FOR 2017/18

» Broad base the lending portfolio to reduce the concentration on unregistered there-wheeler leasing

» Pursue alternative lending strategies as a counter measure for the LTV challenge

» Proactive NIM management

» Strict NPL Management

Meanwhile strict margin management strategies were employed to safeguard the bottom line, while the focus on asset quality was also intensified. Existing customer profiling mechanisms, background checks and credit evaluation systems were strengthened in a bid to ascertain credit quality of new customers, while close monitoring and continuous follow up on recoveries from existing customers ensured micro leasing NPLs stayed within accepted limits throughout the year.

Future goals and targets

» Targeted on fixed income earners

» Further strengthen the marketing campaign and individual focus marketing strategies

FACTORING

LBF offers flexible, tailor-made factoring solutions catering mainly to the SME sector. In addition to providing SMEs with access to finance, 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.

Performance for the year

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.

At the same time, ongoing efforts to rationalise the portfolio prompted the review of the current lending practices, with stricter protocols being introduced to control the lending ratio for high-risk customers. Despite these measures, however, a significant increase of 43% in lending volumes was seen for 2017/18 compared to the previous year, being the result of organic growth through increased exposure to existing customers.

Future goals and targets

» Maintain a quality portfolio

» Actively promote the product in other regions of the country

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 SMEs who do not posses 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 post-dated cheques covering the value of the facility. LBF will hold these post-dated cheques as security and extend financial assistance to SMEs to meet their short-term working capital requirements or to facilitate their business growth plans.

Performance for the year

In the year under review, the Power Plus portfolio recorded Rs. 992 million. Largely responsible for the results were the targeted lending initiatives to promote the Power Plus product to SMEs in commercial hub towns across the country. Additional efforts to leverage on prospective opportunities in fast-growing sectors of the economy, mainly manufacturing and construction sectors also contributed towards the growth reported in the year.

The focus on commercial hubs and fast-growing sectors was in line with the overall risk mitigation strategy adopted by the Company in order to control bad debts attributed to the product. Other steps taken in this regard included the imposition of sector-wise portfolio limits along with special emphasis on strengthening relationships with clients through LBF's dedicated CRM strategy.

Future goals and targets

» Targeting the emerging commercial hubs in the Western Province

» Improve the business focus on the construction sector

» Taking a more calculated and cautious lending approach

POWER DRAFT

Power Draft was introduced in April 2011 to enable individuals and SMEs to obtain an overdraft (O/D) facility against asset-backed collateral, with the value of the facility being used to determine the duration, usually up to maximum 12 months.

Performance for the year

The Power Draft portfolio grew from Rs. 2,117 million in 2016/17 to Rs. 2,658 million in 2017/18.

Future goals and targets

- Portfolio growth of 30% in 2018/19
- Increase market share to achieve market leadership

GOLD LOAN

LBF's flagship gold loan product is designed to satisfy the urgent financing needs of customers. The gold loan scheme is a one-month proposition that offers ultimate convenience, including the ability to settle and receive articles without prior notice. LBF's gold loan product holds market share of 54%, approximately making it the undisputed leader among peers in the NBFI sector.

To retain its dominance in the market LBF has invested in dedicated gold loan infrastructure, including 36 dedicated gold loans centres across the country in addition to a VIP centre. For added convenience, selected LBF gold loan centres are open on Sundays from 8.30 a.m to 6.00 p.m. Customers can also access the gold loan scheme at any of LBF's 123 branches island-wide, which stay open from Monday to Saturday till 6.00 p.m. including bank holidays. A specially trained gold loan officer is available to assist customers at each of these branches.

Additional benefits, including gift for gold loan transactions and SMS updates, are a few of the other special features that continue to draw more customers to the product.

Performance for the year

LBF's gold loan product continued its strong growth momentum, with the portfolio reaching Rs. 20.1 billion by end-March 2018, up from Rs. 16.26 billion reported at the end of the previous year. The Super Mega Campaign and massive promotional initiatives aimed at building customer trust in LBF's gold loan offering along with continuous localised promotional campaigns conducted at branch level were key drivers for the steady increase in volumes throughout the year under review.

Efforts to change the customer mindset and encourage them to migrate to the new scheme were spearheaded by the "Apitama Hariyana Apema Thanak" campaign launched in October 2017. Concurrently a number of internal processes were revamped to enhance efficiency and improve service delivery to the customer. Processing counters were increased at branches that were found to have long queues, while VIP counters were introduced at branches reporting high gold loan volumes. In addition, a new scheme was also introduced to give customers the flexibility to opt for a structured repayment plans. In another notable development, a new call centre was set up in Jaffna, dedicated specifically to service the needs of customers in the north of the country. Additional resources were also invested to strengthen the capacity of LBF's gold loan call centre in Mount Lavinia. To further enhance the capacity of the gold loan segment in the long-term, the Company commenced the groundwork to set up a new integrated ERP system due to be fully rolled out in the forthcoming year.

Meanwhile the ongoing focus on NPL management ensured that recoveries remained on track, with gold loan NPLs for 2017/18 at negligible levels due to tightened monitoring and follow-up mechanisms to minimise the numbers being transferred to the inactive customer base. Added emphasis on reducing the inactive customer base saw a special incentive scheme being offered to expedite recoveries from this segment, a move that led to reduction in the inactive customer base.

Training conducted specially for gold loan staff to improve the productivity	
No. of in-house trainings	44
No. of external outbound training	1

Gold Loan Campaigns for the year	
No. of promotional campaigns – On-site	496
No. of promotional campaigns – Mobile vehicle	196
Locations covered	All Island

Business Review

Future goals and targets

- Market development activities targeting fixed and middle income segments (Government officials)
- Increase overall market share up to 8%
- Expand geographical footprint for gold loan facilities

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 product is not restricted to high-earners only and is extended to any salaried employee who can furnish proof of employment. In the case of low-income earners with a limited financial track record, LBF takes additional steps to negotiate with their respective employers and offer bulk loans, which are backed by the employer's undertakings.

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.

STRATEGIC PRIORITIES FOR 2017/18

- Increase captive market share through branch-led efforts to grow volumes
- Improve service delivery to the customer
- Strengthen asset quality

Performance for the year

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.

One of the key initiatives taken by the newly-set-up marketing team was a massive promotional campaign to canvass factory workers at the Katunayake and Koggala Industrial Zones. The team also conducted a series of localised pocket campaigns in collaboration with the branches to promote the personal loan product in their respective geographies. These efforts contributed towards achieving average volumes of Rs. 75 million per month.

In line with the commitment made in the previous year, the 'Krutha Hastha' senior citizens product was also launched in 2017. Designed exclusively for pensioners, the 'Krutha Hastha' loan scheme enables pensioners to obtain a loan of up to a maximum of Rs. 2 million by assigning their pension to the Company. As with the mainstream personal loan product, the 'Krutha Hastha' product too was well received, gaining considerable traction across the country and generating over Rs. 90 million in volumes within the first six months of its launch.

Summarised financial performance of loans and receivables segment

	2017/18 Rs.'000	2016/17 Rs.'000	2015/16 Rs.'000
Interest income	8,253,343	6,349,685	5,179,323
Operating profit before tax	2,479,930	2,330,407	2,006,281
Portfolio value	39,855,105	33,488,779	26,449,169
Portfolio growth (%)	19	26.6	18.8
Market share (%)			
Gold loan	53.9	57.6	51.2
Other Loans and Receivables	4.0	3.6	3.9

LBF recorded a strong increase in Dirimaga volumes, leading to a 31% year-on-year increase in the portfolio from Rs. 145 million in 2016/17 to Rs. 190 million in 2017/18.

Future goals and targets

» Introduce a loyalty card for 'Krutha Hastha' customers

MICRO LOAN

The micro loan segment through the 'Dirimaga' loan scheme offers snap loans to registered micro entrepreneurs to facilitate their short-term working capital commitments.

Performance for the year

Leveraging on the immense popularity of the product, LBF intensified efforts to grow volumes in the year under review. By pursuing an organic growth strategy to tap into potential new customers around the country LBF recorded a strong increase in 'Dirimaga' volumes, leading to a 31% year-on-year increase in the portfolio from Rs. 145 million in 2016/17 to Rs. 190 million in 2017/18.

Meanwhile, investments in advanced technology aimed at expediting the collection process were responsible for a considerable reduction in the 'Dirimaga' NPL's reported for the year under review.

Future goals and targets

» Promoting budding entrepreneurs to the system

» Regularly monitoring micro entrepreneurs to develop to the next level

ISLAMIC FINANCING

In operation for the past eight years, LBF's Islamic Finance Unit has been operating under its 'Al-Salama' brand linked with the parent LB brand. The unit operates through dedicated Islamic financial services officers stationed at each LBF branch tasked with mobilising business in the respective areas.

Offering both savings and financing solutions, LBF's Islamic Financing has made its mark as a fully-fledged service provider geared to meet the needs of the market.

Performance for the year

The Islamic Finance Unit continued to make good progress throughout the year, with total Islamic Finance portfolio reaching Rs. 3,189 million at the close of the year, driven mainly by new volumes attributed to the Ijaarah - the core-lending product, which is in line with LBF's auto lease offering.

Building on the success achieved on Ijaarah, initial groundwork began to develop two new products for businesses 'Wakaala', a lending product that supports the working capital requirements of the SME sector and 'Musharaka', a product similar to an overdraft facility.

The Islamic Finance Unit's deposit book also grew significantly, with the portfolio growing by 102% year-on-year. The customer base increased by 27% compared to the previous year thanks to a robust increase in new customer acquisitions. The main deposit product 'Mudharabaha' reported fold growth bolstered by aggressive efforts to mobilise deposits in the first three quarters of the year by leveraging on positive market trends. Other steps taken in this regard included the deployment of additional branch staff at selected branches coupled with extensive training for the entire field sales force. Retention ratios of the 'Mudharabaha' one-year fixed deposit and Kids savings products remained stable, thanks to LBF's ongoing commitment to service excellence.

Future goals and targets

» Open two stand-alone Islamic Finance Units in Kandy City and Valachennai

Business Review

VALUE ADDED SERVICES

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 to be the major income source either immediately or in the very near future, and whether it will enable other services to reduce the risk of income generation 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 clients with simpler and more efficient payment systems 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 generating a significant amount processed 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 and money transfers of customers are accepted through our widespread branch network, moving beyond traditional boundaries to satisfy all our customer requirements.

OUR PRODUCT OFFERINGS

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 mobile telecommunication companies, Sri Lanka Telecom, National Water Supply and Drainage Board, Ceylon Electricity Board and Lanka Electricity Company.

Performance for the year

Utility payments collected through the Pay Hub was of Rs. 389 million in the year under review, up by 14% from Rs. 341 million in the previous year.

Since its launch six 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 goals and targets

- Expand the Pay Hub service to cover credit card settlements and insurance payments
- Increase the utility payment income by 25% in 2018/19

STRATEGIC PRIORITIES FOR 2017/18

- Growing core product volumes
- Improve service delivery to the customer
- Diversify the product portfolio

WESTERN UNION

Western Union (WU) money transfer system was re-launched in May 2017, following LBF's appointment as a sub-agent by WU's country representative MMBL Money Transfer (Pvt) Ltd. LBF has previously operated as a WU sub-agent.

Performance for the year

Following its re-launch in May 2017, a number of direct promotional activities were conducted across the Island to create visibility regarding LBF's WU service. Spearheaded by the branches, the main aim of the exercise was to reach out to potential customers at a grass root level and educate them on the level of convenience offered by LBF's WU money transfer service. These efforts led to a strong market uptake allowing LBF to record average monthly volumes of Rs. 143 million within the first few months of the launch.

Meanwhile, ongoing efforts to improve the flexibility of the offering saw the roll out of a free Visa debit card to existing customers at their request. In addition a special gift promotion scheme was launched for walk-in WU customers.

Future goals and targets

- Launch of a customer loyalty programme offering special discounts and benefits
- Increase the business volume by 50% and strive to become the market leader in WU transactions

FOREIGN CURRENCY OPERATION

Licensed with the CBSL, LBF's foreign currency operation differentiates itself by handling not only the main global currencies but also a range of lesser-known currencies. Unlike many peers who restrict their operations to only the main currencies, LBF's foreign currency operation buys and sells a total of 19 currencies.

The fact that LBF offers competitive rates and does not charge the customer a handling fee for buying and selling of currencies are two of the key differentiators that give the Company a leading edge in this mainstream market.

LBF currently offers foreign currency operation services at 64 of the 159 total outlets, with a specially trained officer available to assist customers at each of these branches.

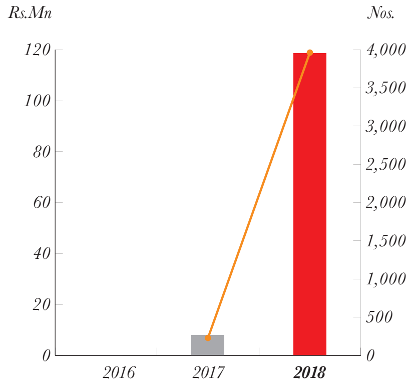
Business Review

Performance for the year

The key priority for LBF's foreign currency operation is to grow volumes. To achieve growth target for the 2017/18 year, several marketing campaigns were carried out to create visibility among different customer segments, including SMS announcements, leaflets, email, awareness building through the mobile propaganda van, as well as social media advertising.

Bolstered by these efforts, foreign currency operation volumes grew by a staggering rate in the year under review. The contribution made by the branch network too showed a marked improvement, following extensive training and awareness sessions to strengthen the capacity of branch staff and ensure compliance with CBSL sanctioned procedures in buying and selling of currencies.

FOREIGN CURRENCY OPERATIONS



Future goals and targets

» Launch of the foreign currency operation business and personal account

» Extend the foreign currency operation to the entire branch network

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 for the year

During the year, income from the rent-a-car service increased to Rs. 13 million, from Rs. 8 million in the previous year.

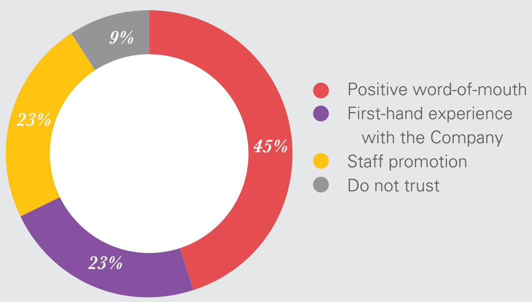
Future goals and targets

» Stringent fleet management to optimize returns from existing vehicle fleet

KEY FOCUS AREAS OF THE RESEARCH

Which factor built your trust on L B Finance?

Maintaining trust in a finance company remains a very sensitive matter and therefore the aim is to measure key trust indicators

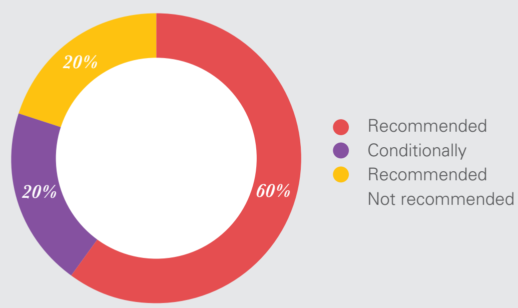


Research by University of Kelaniya

KEY FOCUS AREAS OF THE RESEARCH

Do you recommend L B Finance to another friend/family member?

Identifying the likelihood of a customer recommendation indicates customer confidence and trust in the brand



Research by University of Kelaniya

SUPPORT SERVICES

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. The function is also responsible for managing the Company's daily travelling and transport requirements as well as repair and maintenance of all Company-owned vehicles and management of outsourced travelling and transport services.

PROCUREMENT HANDLING

The duties of the procurement handling division include conducting regular evaluation of asset requirements and overseeing the acquisition and management assets such as vehicles, furniture and fittings, IT equipment and stationery.

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.

Business Review

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.

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Risk Management

RISK ENVIRONMENT

As a financial institution regulated by the Central Bank of Sri Lanka (CBSL), the Company is operating in an extremely competitive and volatile environment. Therefore 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 during FY 2016/17 on certain vehicle classes. Adverse weather conditions 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 growth, poor loan recoveries and overall deterioration in asset quality in the industry.

FY 2017/18 was characterised by changes proposed to the existing capital adequacy framework which if introduced would require a considerable capital charge for operational risks. Adoption of SLFRS 9 and connected higher provisioning requirements for expected loss will further challenge the industry profitability.

Recent negative public perception towards NBFIs following the collapse of a couple of LFCs has thrown extra challenges to the sector as a whole.

Worldwide spread of ransomware and cyber-attacks specially targeting financial institutions has emerged as a top risk.

GLOBAL & LOCAL LANDSCAPE

	Event	Impact on the Company	Risk mitigation strategies
GLOBAL	US Federal Reserve's approach towards key policy rates to increase the volatility in USD/LKR exchange rate	Low risk » Limited due to insignificant exposure to USD denominated borrowings	» Use dynamic risk mitigation techniques such as currency swaps to manage volatility
GLOBAL	Increasing trends in cyber attacks	Moderate risk » 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	» Development of a prevention mechanism by actively engaging with FINCSIRT » Engaging an external CERT for continuous assessment of cyber risk » Increase awareness among employees » Streamlining mechanism for early detection, response, recovery to mitigate and better manage consequences limiting the damage and ensuring business continuity
GLOBAL	Increase in rupee interest rates to match up the US interest rates	Moderate Risk » Increased cost of funds	» Diversify funding sources » Regular review of rate sensitive assets and liabilities
GLOBAL	Decline in precious metal (gold) prices	Low Risk » Increased defaults from gold loans	» Loan to value ratio is revised promptly in response to changes in market price » Stress tests are carried out regularly to assess the impact of a further decline in gold prices

Risk Management

	Event	Impact on the Company	Risk mitigation strategies
LOCAL	Increase in Government taxes and direction on lowering LTV	**Moderate risk** » Increase in corporate tax rates reduces the profitability of the Company and discourage investments » Reduced volumes from key revenue generating products	» Maintaining diversified lending portfolio to mitigate impact on lost opportunities in leasing/vehicle financing
LOCAL	Tight liquidity	**Moderate risk** » Increased cost of funds » Having to rely on external borrowings	» Regular review of rate sensitive assets and liabilities of the Company » Attractive interest rates offered to encourage savings deposits
LOCAL	Low economic growth than expected	**Low Risk** » Lower disposable income resulting in low savings » Increase in credit default risk	» Proactive credit risk management practices such as strengthening of loan review mechanism

RISK MANAGEMENT AT LB

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. 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 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, the management committee and the Board of Directors

KEY INITIATIVES IN FY 2017/18

- Conducted a 100% reliability testing of the enhanced Disaster Recovery (DR) site and successfully executed the Business Continuity Plan (BCP)
- Further improved the independent portfolio quality review by sharing the learnings with the Credit Committee for making necessary policy revisions
- Developed the Liquidity Crisis Management Plan to be followed during a deposit flight caused due to external factors and recommended minimum liquidity buffer to be maintained
- Broadened the scope of fraud detection and prevention mechanisms using exception reports and data analytics
- Evaluated the adequacy and effectiveness of the existing control environment on protecting confidential/sensitive information of LBF customers and recommended further preventive measures to strengthen the process
- Setting up and applying prudent limits in VaR model to control market risks related to gold loans portfolio
- Spearheaded the efforts in formulating a digitisation strategy for the Company to counter the emerging threats from FinTechs
- Centralised the customer complaints handling function to deliver a more efficient dispute management to minimise reputational risk
- Overseas expansion by incorporating a fully-owned subsidiary for microfinance lending in Myanmar which will help geographical diversification of risk further

PRIORITIES FOR FY 2018/2019

- Lead and guide the business units in making necessary arrangements to increase the readiness for the proposed new capital adequacy framework
- 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
- In-depth analysis of the maturity profile of liabilities (deposits and borrowings) to assess the accumulation of repayments in order to guide the liability sales function

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 risk 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 Management

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 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 new identified KRIs should be added to enhance effective risk monitoring.
C	Formulation of risk mitigation plans for qualitative and quantitative risk, 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 formulated a risk appetite statement which clearly defines the Company's risk appetite and strategic risk objectives.

Risk Appetite Criteria	Appetite	Regulatory Limit	Actual as at 31 March 2017	Actual as at 31 March 2018
Credit Risk				
Loans and Advances				
Non-Performing loans ratio - Gross	< 2.5%		2.1%	2.4%
Non-Performing loans ratio - Net	< 1.0%		-0.1%	-0.1%
Minimum safety margin for gold loans	15.0%		19.6%	19.3%
Maximum exposure to single borrower-secured - Individual	5.0%	15% of capital funds	2.7%	2.3%
Maximum exposure to single borrower-secured - Group	10.0%	20% of capital funds	2.7%	2.3%
Maximum exposure to aggregate unsecured financing	4.0%	5% of capital funds	3.3%	2.1%
Maximum exposure to single borrower-unsecured - Individual	0.5%	1% of Core capital	0.3%	0.2%
Liquidity Risk				
Liquid assets ratio	12.0%	10.2%	14.5%	14.7%
Deposits renewal ratio	75.0%		73.7%	74.4%
Maximum single depositor/group exposure	5.0% of Total Deposits		2.2%	1.0%
Maximum exposure to bulk deposits (Over Rs.50 million)	20.0% of Total Deposits		16.7%	14.9%

Risk Management

Risk Appetite Criteria	Appetite	Regulatory Limit	Actual as at 31 March 2017	Actual as at 31 March 2018
Capital Adequacy				
Core capital ratio	8.0%	5.0%	16.1%	17.3%
Total risk weighted capital ratio	12.0%	10.0%	17.1%	19.8%
Capital funds to deposits ratio	12.0%	10.0%	21.9%	24.0%
Market Risk				
% Impact on Net Interest Income from 100 bps shock	5.0%		4.2%	4.4%
% Impact on Net Interest Income from 200 bps shock	10.0%		8.5%	8.7%
% Impact on Net Interest Income from 300 bps shock	15.0%		12.7%	13.1%
% Impact on Net Interest Income from 400 bps shock	20.0%		17.0%	17.5%

RISK GOVERNANCE FRAMEWORK

The risk governance framework of the Company adopts the 'three lines of defence' approach in managing the risk within the defined framework. The three lines of defence framework operates as follows:

BOARD OF DIRECTORS

1st Line of Defence

HODs
Management committees

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 operation procedures
- Monitors risk management performance in operation
- Accountable for effectiveness of risk management in operation

2nd Line of Defence

IRMC
Audit Committee
RMD

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

3rd Line of Defence

Internal audit
External audit
Compliance function

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

Asset and Liability Committee (ALCO) is chaired by the Managing Director and comprises the 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 overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements.

Credit Committee

The Credit Committee comprises the Managing Director, Executive Directors, Chief Financial Officer and the Chief Risk Officer. Sanctioning of large exposures is 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 heads of IT and representatives from relevant departments. The Committee is responsible for providing leadership for the planning and management of IT investments on a company-wide basis.

It is the responsibility of the ITSC to ensure that the Company's Information Technology needs and objectives are being adequately addressed. The Committee helps 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. ITSC also looks into 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 in to our business strategy.

2ND LINE OF DEFENCE

Integrated Risk Management Committee (IRMC) - Board Sub-Committee

The Board has delegated its authority to the 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 Executive and Non-Executive Directors, Chief Financial Officer, Chief Risk Officer, Head of Treasury and the Compliance Officer. Meetings of IRMC are held quarterly, 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 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

3RD LINE OF DEFENCE

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.

Internal Audit

Internal Audit provides an independent, objective assurance designed to add value and improve an organisation's operations. The 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.

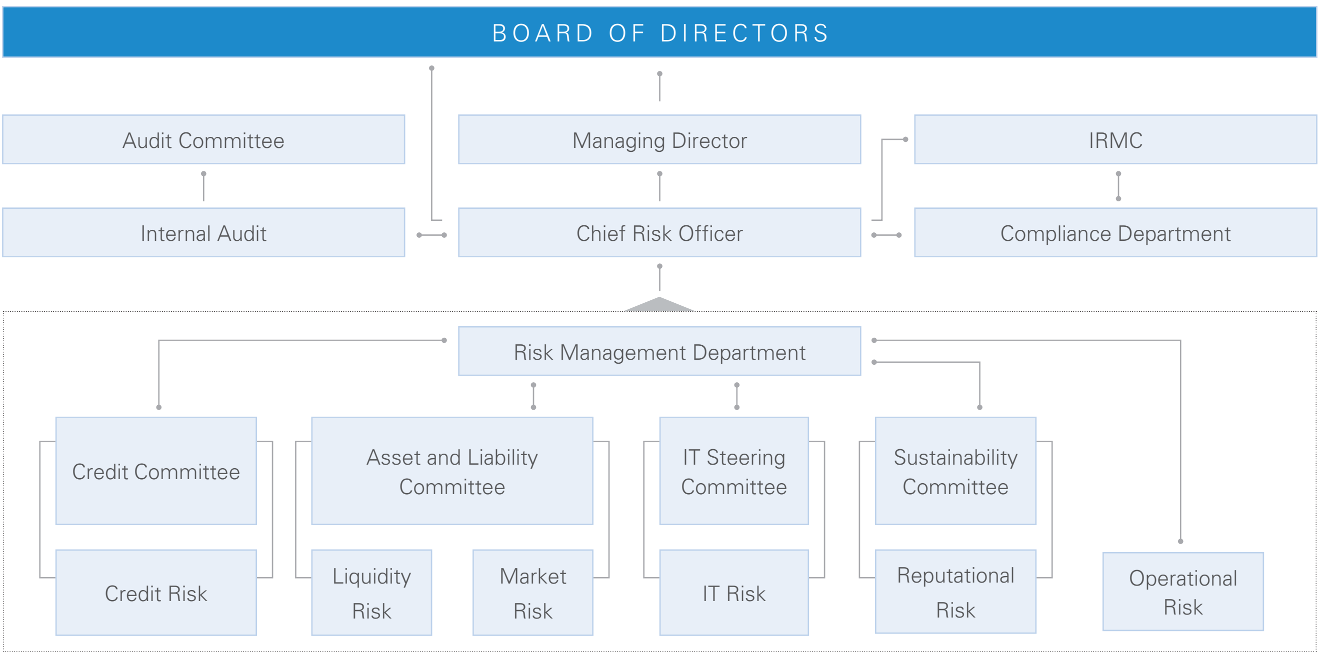
Compliance Function

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.

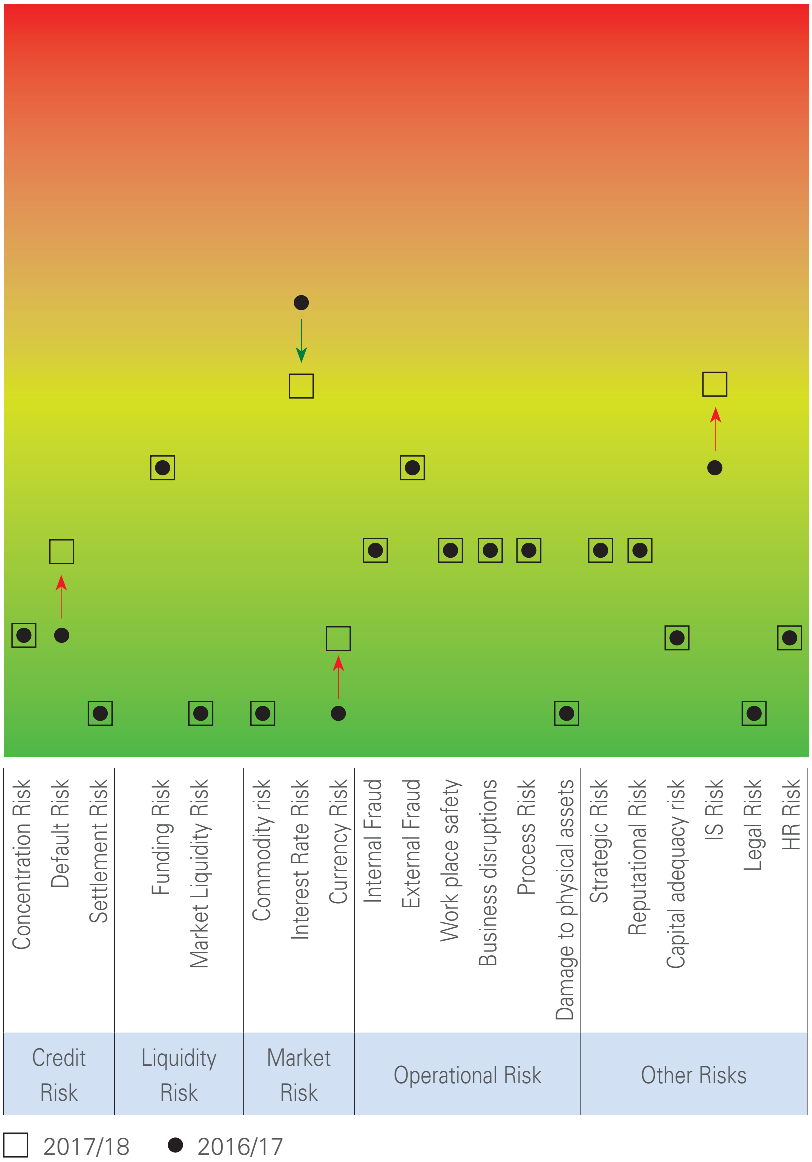
External Audit

External Audit is responsible for adding credibility and reliability to 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

Objective

Safeguard the asset quality and reduce exposures to high risk segments

Trend

↑

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.

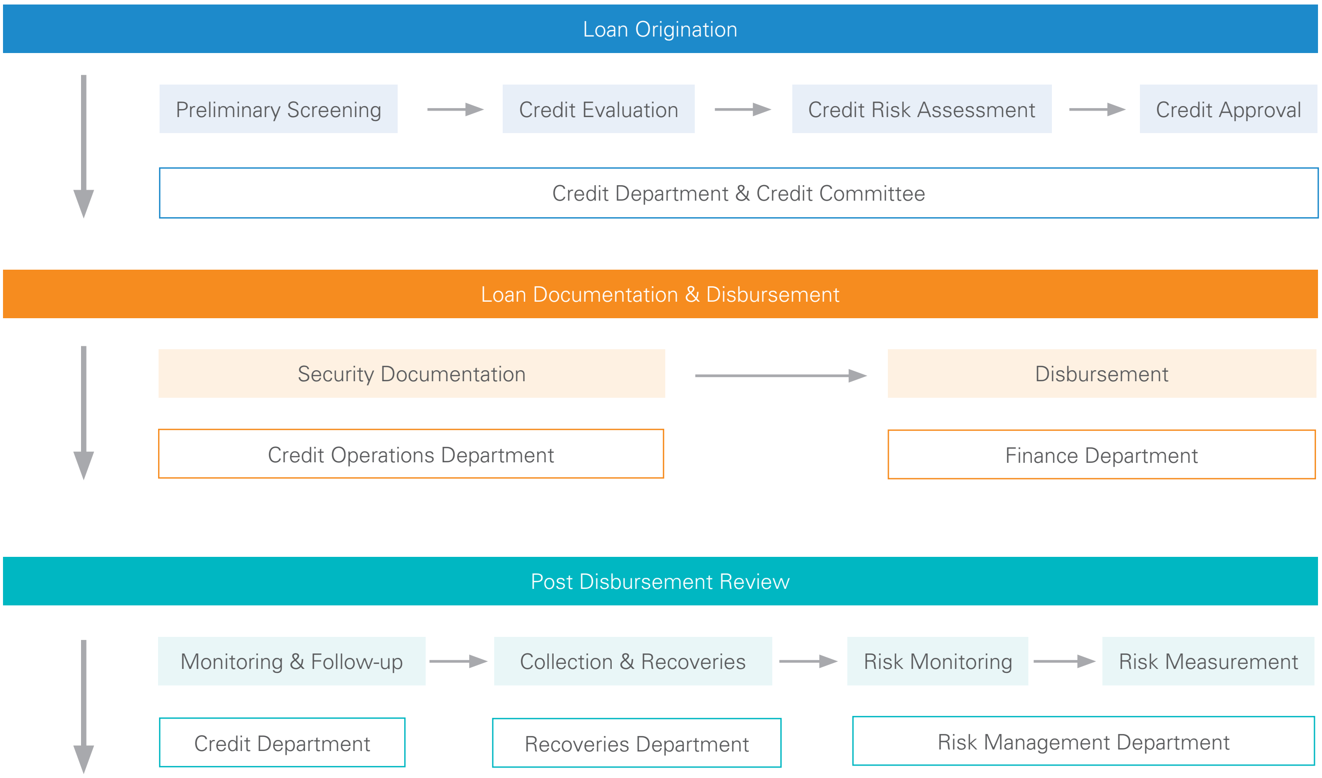
The Company has a well-structured credit process that spells out the guidelines and parameters within which the Company's credit decision process takes place. For managing risks arising from counterparty investments, the Company has formulated a comprehensive policy for treasury investments.

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.

Risk Management

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 collaterised 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 five 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

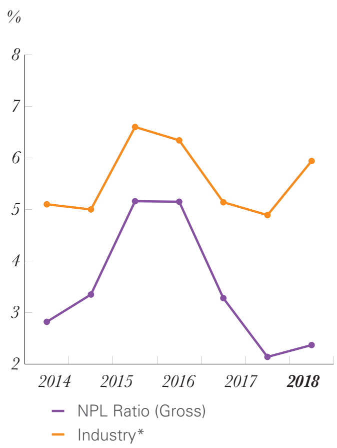
Default Risk – Moderate

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

Non-performing loans ratio is monitored on a regular basis at branch level, regional level and company level for different product categories. The Company's NPL ratio is also compared with similar sized peers and the industry for benchmarking.

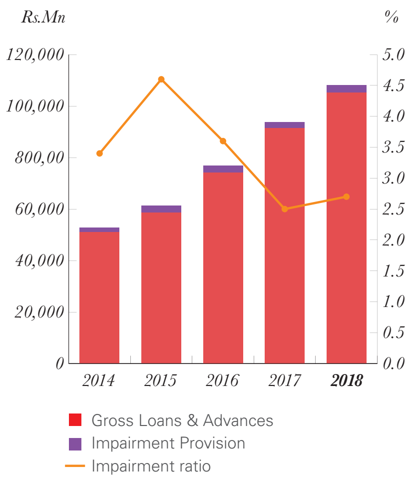
NPL RATIO



*Industry is comprised of LFCs and SLCs as at 31 December 2017 Source: CBSL

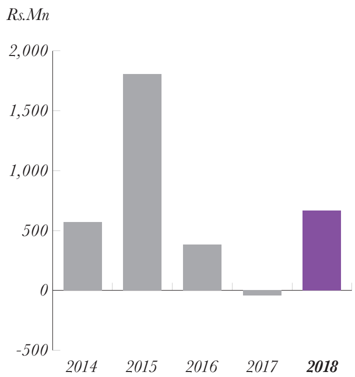
The asset quality of the industry as a whole deteriorated during the year under review. Company has maintained its outperformance against the industry in terms of maintaining a much stronger overall asset quality. Company's NPA ratio, expressed as a percentage of Industry NPA declined to 40% from 44% the year before.

GROSS LOANS & IMPAIRMENT PROVISION

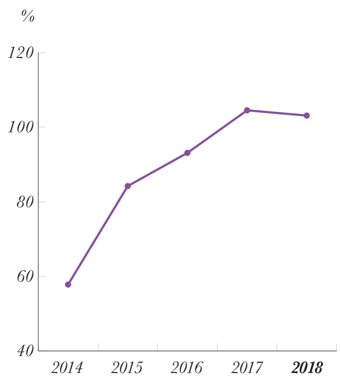


The provision for impairment as a percentage of gross loans and receivables has increased as a result of the marginal increase in the NPL ratio.

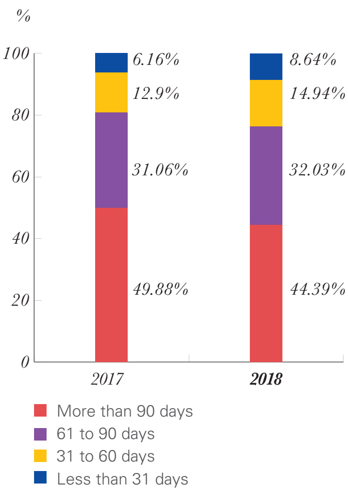
IMPAIRMENT CHARGE



PROVISION COVERAGE RATIO

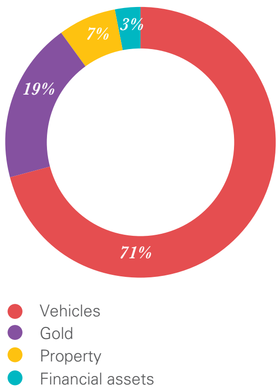


AGE ANALYSIS OF PAST DUE LOANS

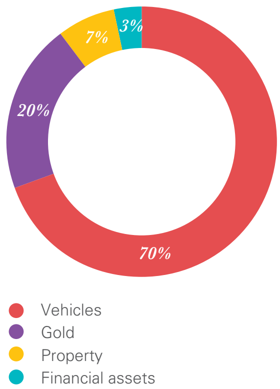


Risk Management

MAIN TYPES OF COLLATERALS 2017/18



MAIN TYPES OF COLLATERALS 2016/17



From total loans and advances 97.1 percent is secured by either physical or financial collaterals as at 31st March 2018.

Impairment Stress Test

Stressed scenario - Impairment charge increasing by stressed amounts impacting the Company's capital adequacy ratio.

Current Total Capital Adequacy Ratio – 19.8%

Scenario	1	2	3
Magnitude of Shock	10.0%	25.0%	50.0%
Capital Adequacy Ratio	19.5%	19.1%	18.5%

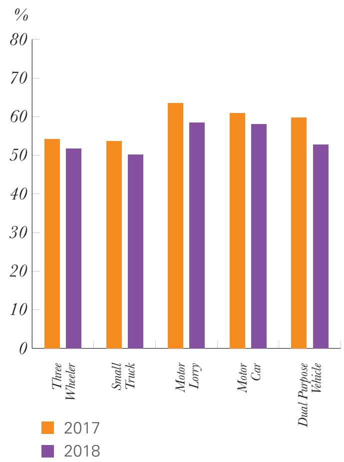
Top 20 Customers Stress Test

Stressed Scenario - Top 20 customers falling into NPL category impacting the capital adequacy ratio

Current Total Capital Adequacy Ratio – 19.8%

Scenario	1	2	3
Magnitude of Shock	Top 5	Top 10	Top 20
Capital Adequacy Ratio	18.8%	18.4%	17.7%

LTV OF MAIN VEHICLE TYPES



During FY 2017/18 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 88.4% of vehicle backed portfolio.

Mitigation Strategies

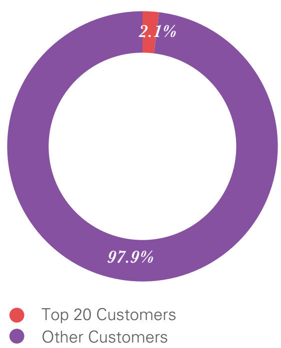
Risk Management Strategy	Risk Management Objective
Adherence to clearly defined credit procedures and guidelines	Prevention
Thorough investigation of the customers' background to assess creditworthiness	Prevention
Effective and timely recovery actions against delinquent borrowers	Reduction
Adherence to limits and guidelines defined in the Treasury Policy for Investments and Counterparty Limits	Prevention

Concentration Risk – Low

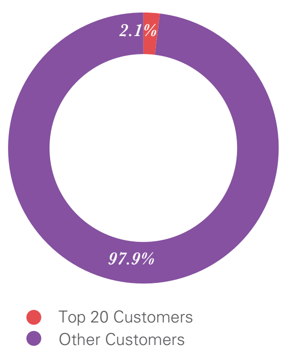
Concentration risk arises from uneven distribution of counterparties, business sectors or geographical regions.

Assessment

CREDIT EXPOSURE TO TOP 20 CUSTOMERS - 2017/18



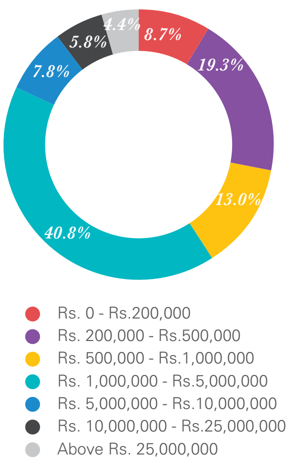
CREDIT EXPOSURE TO TOP 20 CUSTOMERS - 2016/17



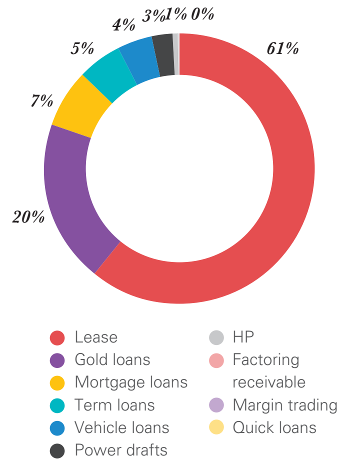
Size wise exposure

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 80.9% percent of the total portfolio.

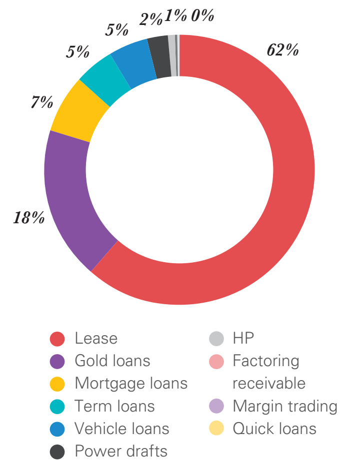
EXPOSURE BY CUSTOMER SIZE



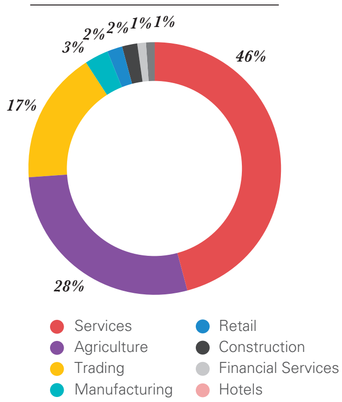
PRODUCT CONCENTRATION - 2017/18



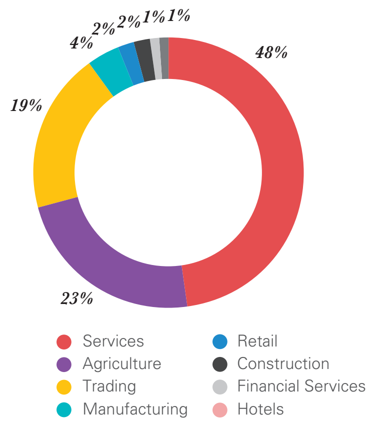
PRODUCT CONCENTRATION - 2016/17



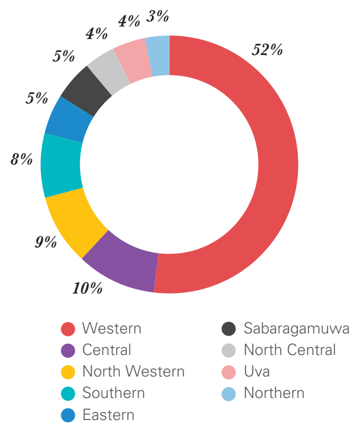
INDUSTRY CONCENTRATION - 2017/18



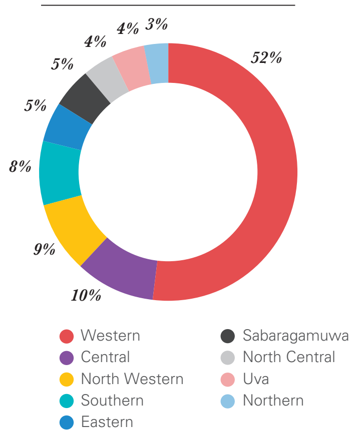
INDUSTRY CONCENTRATION - 2016/17



GEOGRAPHICAL CONCENTRATION - 2017/18



GEOGRAPHICAL CONCENTRATION - 2016/17



Risk Management

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

LIQUIDITY RISK

Objective

Safeguard against funding constraints that prevent growth and meet demands of depositors/investors

Trend

↔

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.

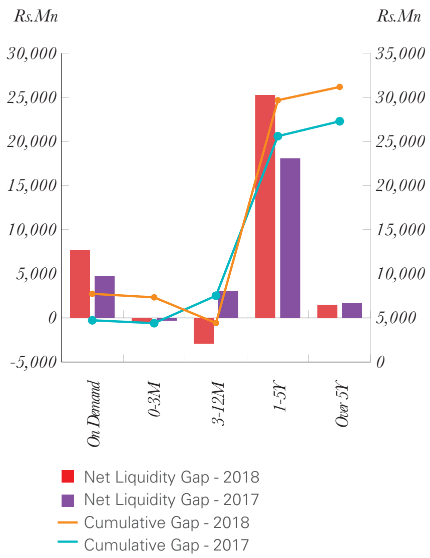
Market liquidity risk is the inability to easily exit a position. The Company's market liquidity risk is low if assets can be liquidated without moving the price too much.

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, or at least perceived to be, deteriorating, but also due to financial conditions as a whole are deteriorating.

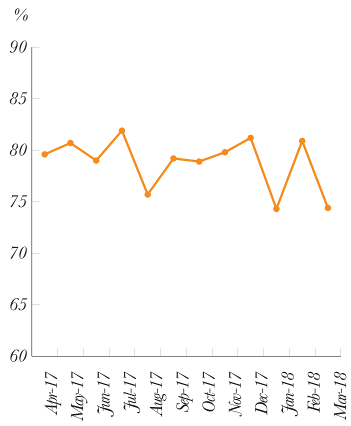
The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Company regularly monitors liquidity position and maintains an adequate buffer of liquid assets. 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

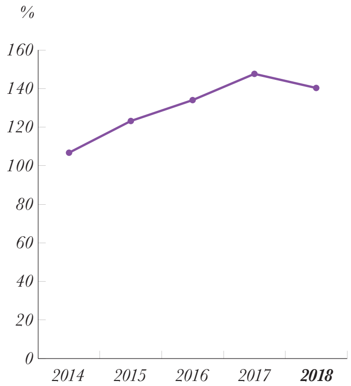
NET LIQUIDITY GAP BASED ON CONTRACTUAL MATURITIES



DEPOSIT RENEWAL RATIO

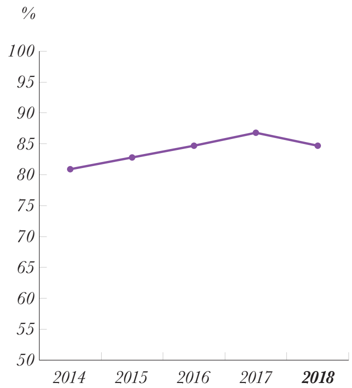


LOANS TO DEPOSIT RATIO



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

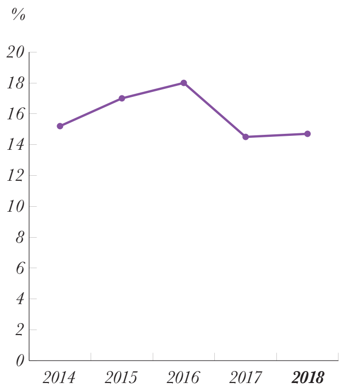


The consistency in the net loans to total assets ratio of the Company reflects that the Company has maintained the share of loans and advances in total asset base reflecting its focus on growing core business, i.e., loans and advances.

Liquid Asset Ratio

The Company strives to maintain an adequate liquid asset buffer to mitigate risk arising from a sudden liquidity shortage.

LIQUID ASSETS TO DEPOSITS



The statutory liquid assets ratio has been maintained above the regulatory requirement at all times.

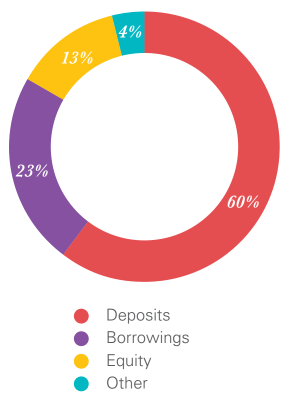
Stress Test on Liquid Asset Ratio

Stressed Scenario - Sudden fall in deposit base impacting liquid asset ratio.

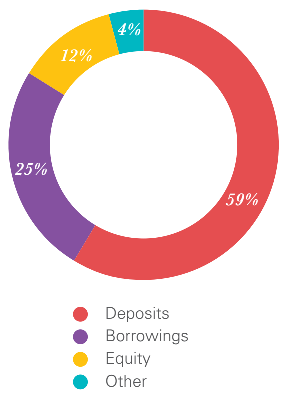
Current Statutory Liquid Asset Ratio – 14.7%

Scenario	1	2	3
Magnitude of Shock	2.5%	5.0%	10.0%
Statutory Liquid Asset Ratio	12.2%	10.4%	6.5%

TOTAL FUNDING MIX - 2017/18

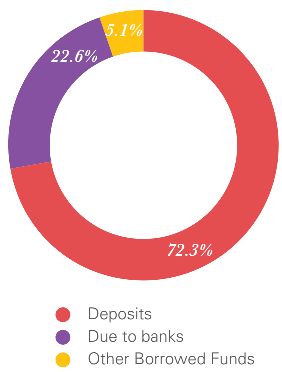


TOTAL FUNDING MIX - 2016/17

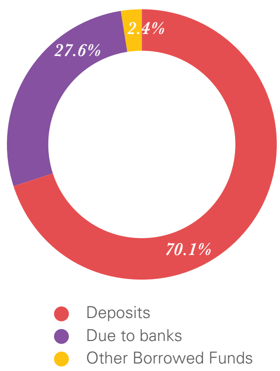


The previous graph depicts as at 31 March 2018, 83.5% of the Company's total assets are funded by either borrowings or public deposits as opposed to 83.9% as at 31 March 2017.

INTEREST BEARING LIABILITIES MIX 2017/18



INTEREST BEARING LIABILITIES MIX 2016/17



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

Risk Management

Risk Management Strategy	Risk Management Objective
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

Objective

Safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments, commodity prices

Trend

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, 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 Company's net interest income and net interest margin. 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.

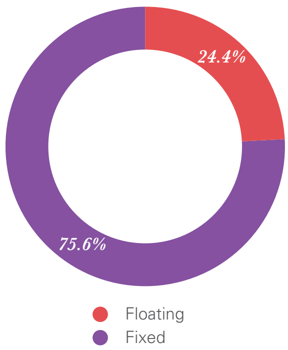
Assessment

Impact on the Company's net interest income due to fluctuations in market interest rates is closely monitored on an ongoing 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.

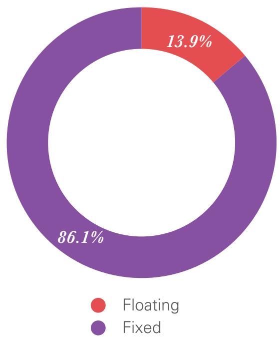
Stress test on NII from parallel interest rate shocks

Annual Impact on NII	2018		2017	
as at 31 March	Parallel Increase '000	Parallel Decrease '000	Parallel Increase '000	Parallel Decrease '000
1%	(15,114)	15,114	(8,696)	8,696
2%	(30,227)	30,227	(17,393)	17,391
3%	(45,341)	45,341	(26,089)	26,089

BORROWINGS - FIXED TO FLOATING MIX 2017/18



BORROWINGS - FIXED TO FLOATING MIX 2016/17



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 adjustment to the proportion of fixed rate borrowings in the funding mix	Diversification

Risk Management Strategy	Risk Management Objective
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

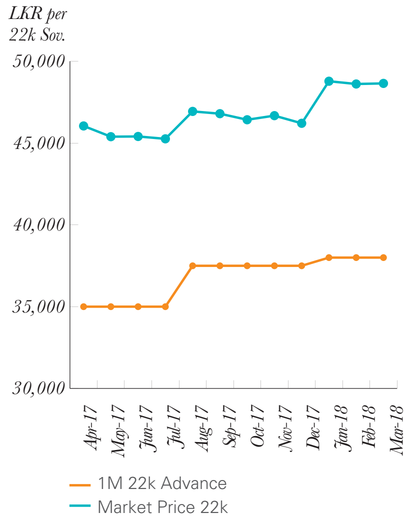
Commodity Price Risk - Low

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

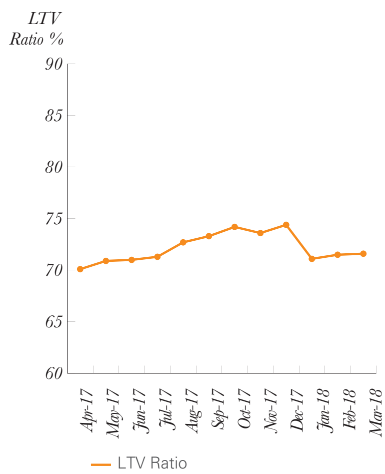
The Company has adopted a dynamic lending strategy to determine the Loan to Value ratio based on the global gold prices. Advance offered per gold sovereign is constantly adjusted in line with the gold market prices.

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 advanced 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

MANAGEMENT DISCUSSION AND ANALYSIS

Risk Management

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 1,323 per Troy Ounce (as at 31 March 2018)

Time Horizon	Confidence Level	Price at 99% VaR USD	Impairment '000	Impairment Increase '000
Daily	99%	1,301	2,795	801
Monthly	99%	1,219	6,651	4,657

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 – Low

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 materialise as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk. Company is exposed to two types of risk 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 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 equity investments. Although the Company's exposure to equity price risk is negligible, mark-to-market calculations are conducted monthly on HFT and AFS portfolios.

OPERATIONAL RISK

Objective

Improve the reliability and effectiveness of business operations and enhance organisational capability in ensuring safety of staff.

Trend

↑

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 control to identified high impact areas	Prevention
Staff training on technical aspects to comply with security regulations	Prevention
Conducting post completion audits after a successful implementation of system change/ modification	Mitigation
Disaster recovery planning and business continuity planning	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
Accessing the adequacy and effectiveness of the insurance coverage periodically	Prevention

OTHER RISKS

STRATEGIC RISK

Objective

To minimise risks associated with Company's business strategy, strategic objectives and strategy execution

Trend

◄►

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.

Risk Management

Mitigation Strategies

Risk Management Strategy	Risk Management Objective
Quarterly budget reviews	Mitigation
Monthly variance analysis on key income and expense items	Mitigation

REPUTATIONAL RISK

Objective

Safeguard the Company's brand value/goodwill against adverse internal and external events

Trend

↑

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 the management of reputation 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 reputation 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
- 32 CSR events were carried out during the year incurring a cost of Rs. 23.5 million
- 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 front-line 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 ADEQUACY

Objective

Maintain adequate capital buffers to withstand unexpected losses

Trend

↔

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.

As of 31 March 2018, the Company reported a Tier 1 ratio of 17.3% and a total of Tier I & II of 19.8% which remain comfortably above the CBSL's minimum capital requirements.

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

READINESS TO THE PROPOSED CAPITAL ADEQUACY FRAMEWORK

CBSL issued the first consultation paper on the new capital adequacy framework on 9 Aug 2017 and the second consultation paper was issued on 13 Oct 2017, further revising the capital adequacy framework.

From 1 Jan 2019 onwards LFCs/SLCs are required to maintain a Tier 1 ratio of 6% and a Total Capital ratio of 12% at all times. Following key amendments have been proposed under 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

The table below demonstrates a comparison between the existing and proposed capital adequacy frameworks.

As at 31 March 2018 ('000)	Existing CAR	New CAR
Risk Weighted Amount for Credit Risk	88,549,681	87,515,016
Risk Weighted Amount for Operational Risk	-	17,944,483
Total Risk Weighted Amount	88,549,681	105,459,498
Tier I Capital	15,348,896	15,233,171
Tier II Capital	2,168,550	3,183,838
Total Capital	17,517,446	18,417,009
Regulatory Minimum Tier I Ratio %	5.0%	6.0%
Company's Tier I Ratio %	17.3%	14.4%
Regulatory Minimum Total Capital Ratio %	10.0%	12.0%
Total Capital Ratio %	19.8%	17.5%

INFORMATION SECURITY RISK

Objective

Safeguard information asset and ensure business continuity

Trend

Company has identified information as a vital business resource and a key asset to the organization. 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 business relies heavily on Information Technology, it has emerged as the backbone of and the live wire of the organizations operations and innovations. As a result Information Security risk is recognized as a significant portion of the potential operational risk.

In this context, Company has recognized information, information systems and technical infrastructure as assets of paramount importance and value to the organization. Therefore, with the objective of identifying and managing all IT-related risks effectively and efficiently in a consistent manner across the organization, Company has rolled out a comprehensive Information Technology Risk Management Framework.

IT risk mitigation methodology involves prioritizing, 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

Risk Management

(ISMS), which was established according to the ISO/IEC 27001:2013 standard. With the implementation of ISMS, following information security objectives have been identified:

ISMS Objectives

- Establish safeguards to protect 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.

Company first obtained the ISO/IEC 27001 Information Security Standard in 2014 and received recertification in 2017, Company has continued to demonstrate its commitment towards information security by maintaining certification throughout the years.

As a part of IS Risk assessment and mitigation methodology, IS Audit & 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 key focus areas of IS Risk Management function in light of heightening threats of cyber-attacks which are continuously escalating in scale and sophistication. The Company obtains 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 obtains Information Security Operations Centre 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.
- Preforming 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 company wide awareness of Information Security risk management measures currently in pace	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

Objective

To minimize the cost of non-compliance and litigation

Trend

↔

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

Objective

To ensure the availability of skilled and competent human resources to successfully conduct business operations.

Trend

↔

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 employees/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

A Matter of Execution

CAPITAL REPORTS

Process Excellence
Customer-centricity
Driving Innovation
The Right Expertise
Holistic Value Creation

Financial Capital

MATERIAL DRIVERS

- Continuous performance management to improve top-line
- Disciplined cost management to improve cost to income ratio and thereby strengthen the bottom line
- Ongoing liquidity management to maintain a healthy fund position
- Delivering consistent shareholder return

WHY FINANCIAL CAPITAL VITAL TO LBF

Financial capital is important because it's that part of an assets which can be uses to repay it's depositors, customers and other claims as well as absorb "economic" shocks at troublesome time.

ACTION PLANS & OBJECTIVES	STATUS	PAGE
Focus more on non-traditional financial product	Loan and advances grew by 14.80%	212
Bring the NIM to the historical average level	NIM recorded at 11.15%	208
Structural cost transformation mechanism focus on physical, fiscal and funding level	Cost to income ratio recorded at 37.48%	209
Diversification of funding sources	Borrowings 23.84% of the funding base	212

Achieved In progress Not achieved

SNAPSHOT OF CAPITAL OUTCOMES

IMPACT AREA	WHAT YOU WILL FIND	WHERE TO FIND
Profit maximisation	ROE 30.52%	Overview of financial results PAGE 207
Risk capital	Capital adequacy (Tier I+II) 19.80%	
Credit risk	NPL 2.37%	Credit quality PAGE 211

Online version available

Rs.6.48 billion

HIGHEST-EVER PBT

DEPOSIT BASE REACHED

Rs.72.9 billion

(YOY 20.76%)

ASSET BASE SURPASSED

Rs.120 billion

(YOY 17.57%)

FITCH RATINGS REAFFIRMED

A-(lka) rating

WITH STABLE OUTLOOK

2.37%

NPL MAINTAINED BELOW THE INDUSTRY AVERAGE

IN A NUTSHELL

Accomplish financial excellence and generate year-on-year improvements in all key financial indicators

OUR NEXT STEPS

Objectives for 2018/19

- Re-engineering and resizing the Company Balance Sheet to optimise the risk and return equation

Objectives for 2020 & beyond

- Upgrade the credit rating to next level
- Shareholders value creation through minimum volatility of earnings

CHALLENGES

Implementation of SLFRS 9 Expected Credit Loss

PAGE 205

Cost optimisation

PAGE 205

Readiness for the new Inland Revenue Act

PAGE 205

Financial Capital

VALUE CREATION AMONG CAPITALS

How we manage and utilise our financial capital is fundamental to our ability to create sustained value for our stakeholders, particularly the financial stakeholders. Our ability to access cost-effective funding either through equity or debt is a key determinant of our commercial success. Our debt metrics have been further strengthened, and the Group's ability to manage its total cost of capital makes a significant contribution to sustainability and the ability to fund expansion of its distributable income.

FINANCIAL CAPITAL

- Return on Equity (ROE) 30.52%
- Return on average assets (ROA) 3.80%
- Earning per share (EPS) Rs 30.69

HUMAN CAPITAL

- Profit per employee Rs. 1.24 million
- Asset per employee Rs 35.11 million

INTELLECTUAL CAPITAL

- Rs 8.56 million worth of investment in training

NATURAL CAPITAL

- Rs 3.51 million on environment conservation projects

MANUFACTURED CAPITAL

- Invested Rs. 194.49 million in IT infrastructure

SOCIAL & RELATIONSHIP CAPITAL

- Growth in deposit base 20.76%
- Growth in lending portfolio 14.80%
- Rs. 11.08 billion economic value generated to depositors and lenders

BENEFIT TO

SHAREHOLDERS

EMPLOYEES

SOCIETY/ COMMUNITY

BUSINESS PARTNERS

CUSTOMERS

Strengths	Weaknesses
Strong operational ratios and NPL far better than industry	Low saving account base Causing cost of funds to be high
Strong and transparent balance sheet	Share prices does not reflect the true value
Diversified business model across lending, including all varieties of lending products	

SWOT ANALYSIS

Opportunities	Threats
Untapped micro finance industry locally and globally	Monetary polices focus on curtailing credit growth
CBSL's new capital rules will strengthen NBFI sector	Unstable players create NBFI market turbulence and low public confidence
Can increase the market share in the corporate sector	

HOW WE FACE THE CHALLENGES

Implementation of SLFRS 9 Expected Credit Loss

The work process started during 2016 and did the impact assessment for the financial year 2016/17 and 2017/18.

Cost Optimisation

Process improvements and organisation design to reduce complexity and improve productivity.

Readiness for the new Inland Revenue Act

Conduct impact analysis

L B Microfinance Myanmar

Financial Capital

OUR PHILOSOPHY

Strive to accomplish financial excellence and generate year-on-year improvements in all key financial indicators that enable LBF to fulfil the expectations of the providers of capital.

LBF's Financial Capital refers to the financial resources available to the Company, mainly the equity debt capital, retained earnings and short-term and long-term debt capital, including bank borrowings and deposits mobilised from the general public.

MANAGEMENT APPROACH

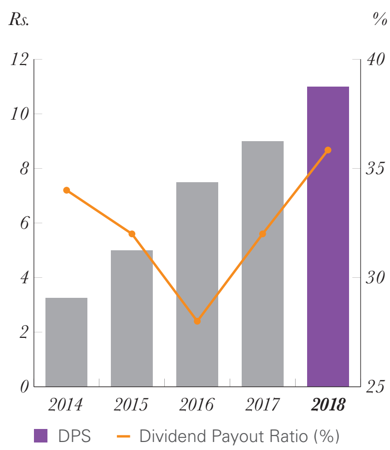
LBF's approach to Financial Capital management seeks to establish guidelines for the administration and control of the Company's funds in accordance with our goals and objectives and to make sound financial decisions to safeguard assets. The policies and procedures governing our financial management approach broadly include; risk management, strategic planning, budgeting, revenue management, cost control, internal control, treasury and liquidity management as well as asset quality management.

Our commitment to financial excellence encompasses accurate financial disclosures and reporting in line with the methodologies prescribed by all relevant financial reporting standards applicable to publicly listed companies in Sri Lanka. Over and above this, we also comply with additional requirements stipulated by the CBSL for financial services institutions. Please refer the Notes to the Financial Statements on page 324 for complete details of all applicable standards.

OVERVIEW OF FINANCIAL RESULTS

LBF recorded 8.50% year-on-year (YoY) increase in its net profit attributable to common shareholders to Rs. 4.25 billion in 2017/18. Net interest income reported a higher YoY growth of 21.41 percent to Rs. 11.90 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. 30.69. L B announced an interim dividend of Rs. 7 per share in March 2018 and expects to increase its payout to Rs. 11.00 per share for the financial year as against Rs. 9.00 per share distributed in 2017/18.

DIVIDEND PAYOUT RATIO



We are one of the largest non-banking financial institutions in Sri Lanka with a total asset base of Rs. 120.82 billion. Our total loan book expanded by Rs. 13.73 billion to Rs. 105.21billion and customer deposits increased by Rs. 12.54 billion to Rs. 72.94 billion in 2017/18. Growth was mainly derived from gold loan and leasing products. Non-performing loans as a percentage of gross loans increased slightly by 0.23% from 2.14% last year.

Capital base grew by Rs. 2.84 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.

Financial highlights	31 March 2018 Rs. '000	31 March 2017 Rs. '000
Total assets	120,820,780	102,763,035
Investments	8,294,898	7,658,682
Loans (net of impairment)	102,345,084	89,149,743
Deposits by the public	72,943,833	60,401,955
Interest bearing liabilities	27,990,870	25,822,363
Net profit after tax	4,250,721	3,918,204
Total comprehensive income	4,224,360	3,900,303
Return on equity	30.52%	34.09%
Cost to income ratio	37.48%	39.01%
Earnings per share (Rs.)	30.69	28.29
Dividend per share (Rs.)	11.00	9.00

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 39.01% in 2016/17 to 37.48% in 2017/18 due to higher net interest margins and operating income has grown at a faster rate than operating expense. Operating expenses grew by 15.35% YoY to Rs. 5.06 billion and total operating income grew by 20.41% YoY to Rs. 13.55 billion in 2017/18.

STRUCTURAL COST TRANSFORMATION

We are optimising our operations to be able to better serve our customers and lower costs. To build 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 and infrastructure investments are some leads for the structural cost transformation. These will be discussed in detail in other capital sections.

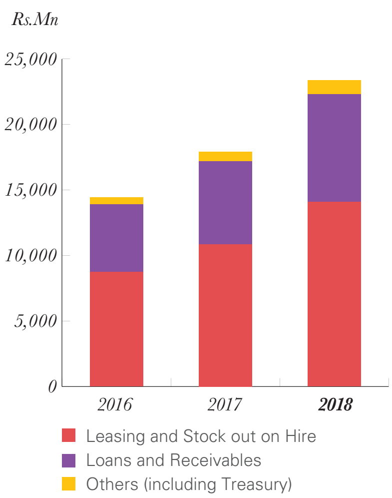
Financial Capital

FINANCIAL PERFORMANCE

INTEREST INCOME

Total Interest Income grew by 30.62% YoY to Rs. 23.40 billion in 2017/18 with improved business volumes and increasing rates. All the major business segments such as loans, leases and Treasury contributed to the growth. L B managed its risk and return at both product level and business levels.

GROSS INTEREST INCOME

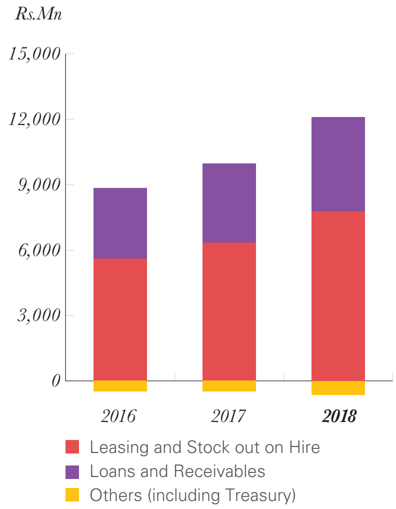


NET INTEREST INCOME

Net interest income grew by 21.41% to Rs. 11.90 billion in 2017/18 with increased loan volumes coupled with reduction in the deposit rates latter part of the year.

Total interest earning assets increased by 14.50% YoY to Rs. 113.50 billion while net interest margin (net interest income as a percentage of average earning assets) or NIM increased by 41 basis points as of March 2018. Year-on-year yields on lending assets increased by 145 basis points caused by gradual increase in lending rates. However rapid pace of re-pricing in the short-term deposit base as against loans, especially leases with longer-term tenure and fixed rates, impacted negatively on net interest margin. Though in the latter part of the year deposit had been repriced at a lower rate, in the early part of the year deposits had been repriced at a higher margin.

NET INTEREST INCOME

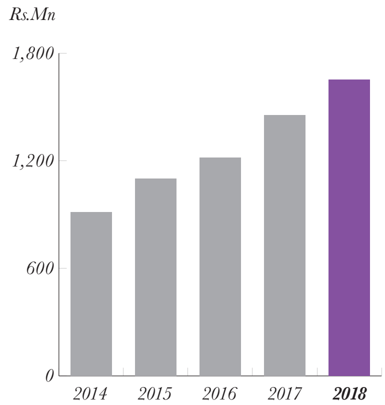


OTHER OPERATING INCOME

Other operating income (i.e. total income other than interest income) decreased 39.34% YoY to Rs. 148.20 million during the year. The reduction was mainly driven by a non-recurring profit from sale of land held for trading amounting to Rs. 185 million during 2016/2017. Meanwhile fees and commissions grew by 24.38% YoY to Rs. 1.50 billion directly as a result of higher transaction volumes.

Income from documentation charges increased by 25.57% YoY to Rs. 924.44 million during the period. All other fees have increased along with transaction volumes.

OTHER OPERATING INCOME



NON-INTEREST EXPENSES

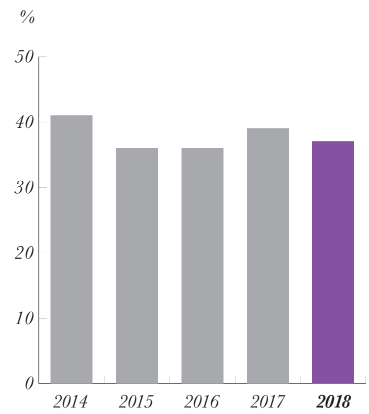
Non-interest expenses increased by 15.35% YoY to Rs. 5.06 billion in 2017/18 consistent with the business growth. Salaries and employee benefits increased 13.62% to Rs. 2.40 billion and represented 47.36% of the total operating expenses in 2017/18 (48.08% in 2016/17).

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 five new branches to its island-wide network.

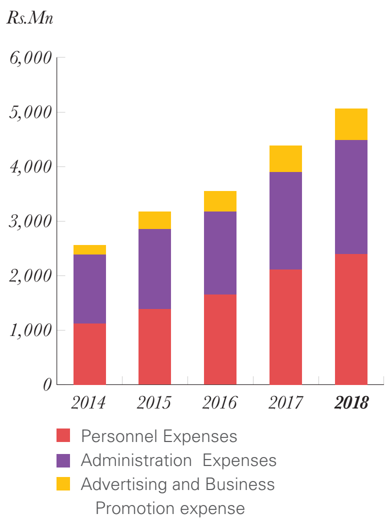
The Company managed to maintain its cost per employee and administration and establishment expenses per branch within the budgeted levels for the last five years consecutively.

Advertising and business promotion expenses increased 17.34% YoY to Rs. 579.03 million. We firmly believe that the continuous reminders and awareness will generate solid business growth. Business volume is one of the Key Performance Indicators (KPI) and the Company achieved a continuous volume growth even under stiff competition and in a highly-regulated environment. Our cost to income ratio has been improved by 1.53% during the year.

COST TO INCOME RATIO



EXPENSES COMPOSITION

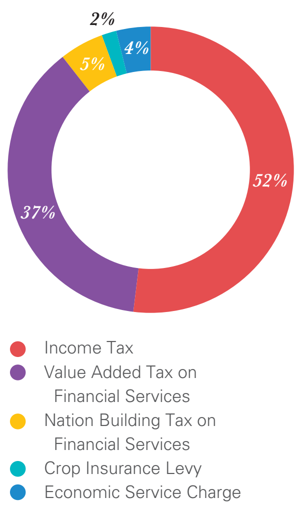


TAXES

Taxation includes both direct taxes such as income tax and financial service taxes and indirect taxes include Value Added Tax (VAT), Withholding Tax, PAYE Tax and Stamp Duty. The effective tax rate increased slightly by 1.07% from 33.31% to 34.38%.

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. 2.93 billion (2017: Rs. 2.73 billion) and tax collected from third parties and employees amounted to Rs. 1.08 billion (2017: Rs. 1.06 billion).

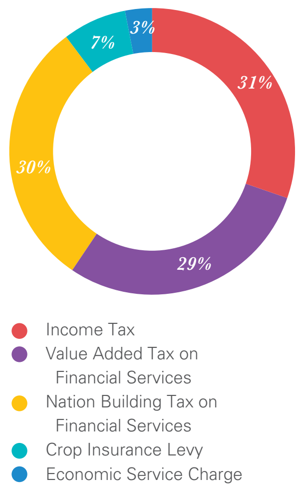
TAX INCURRED 2018



Tax incurred - 2018

Tax incurred	Rs. million
Income tax	1,638
Value added tax on financial services	1,179
Nation building tax on financial services	157
Crop insurance levy	54
Economic service charge	118

TAX COLLECTED 2018



Tax collected and paid - 2018

Tax collected and paid	Rs. million
Value added tax	330
Stamp duty	316
Withholding tax on dividend and interest	329
PAYE tax	78
Nation building tax	32

Financial Capital

Financial highlights	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000
Profit before taxes	7,814,383	6,901,944	5,918,067
VAT on financial services	1,336,693	1,027,101	593,452
Profit after VAT on financial services	6,477,690	5,874,843	5,324,616
Current income tax	1,658,320	1,595,055	1,479,084
Deferred income tax	568,648	361,584	127,739
Taxation charge	2,226,969	1,956,639	1,606,823
Effective tax rate (taxation charge/profit after VAT on FS)	34.38%	33.31%	30.18%

Total tax expense including VAT on financial services, NBT and income tax increased by 19.44% YoY to Rs. 3.56 billion in 2017/18. Income tax expense increased by 13.82% YoY to Rs. 2.23 billion while VAT on financial services increased by 30.14% YoY to Rs. 1.34 billion during the year. Increased VAT on financial services was mainly caused by increased taxable income subjected to VAT on financial services. This is related to the leasing portfolio, where new leases with no direct VAT, gradually replacing the old leases that were subjected to direct VAT. Income related to old leases was not subjected to VAT on financial services; however income related to new leases is liable to VAT on financial services. Taxable income component subjected to VAT on financial services in the total income from the leasing portfolio increased to 92% in 2017/18 from 85% in 2016/17. We believe that the current ratio of 92% is at its maximum level.

Deferred tax liability mainly arises due to the exponential growth in lease portfolio during the last three years. The lower tax base due to the higher amount of capital allowance claimed and the higher accounting base due to the lower amount of amortisation (EIR method) have created a temporary 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. In future for new lease disbursements capital allowance will not be available and the net interest income will be taxed. Hence temporary differences between the accounting lease base and tax lease base will not arise in the future (only for disbursements effective from 01-04-2018, current temporary difference will reverse over gradually).

Current deferred tax liability is Rs. 1.06 billion and deferred tax liability due to leases is Rs. 922.21 million which will be reversed within a six-year period.

	Current Rs. million	2019 Rs. million	2020 Rs. million	2021 Rs. million	2022 Rs. million	2023 and above Rs. million
Deferred tax liabilities (at the FY end)	922.21	227.56	-4.91	307.46	577.94	13.53

LOANS AND RECEIVABLES SEGMENT

(+19.72 PERCENT)

Gross loans and receivables grew by 19.72% or Rs. 6.71 billion to Rs. 40.72 billion in 2017/18 mainly driven by key loan segments – gold loans, and medium- and short-term loans, mortgages and power drafts. At present the Company does not promote vehicle loans due to the undifferentiated nature of Value Added Tax (VAT) implications when compared to leasing product after the removal of direct VAT from finance leases. Factoring portfolio in the loans and receivables increased by 58.88% on gross basis due to increase in the new client acquisition. Company is gradually withdrawing from the real estate business; hence the real estate loan portfolio continues to decline.

LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE SEGMENT

(+12.23 PERCENT)

Lease rentals receivable and stock out on hire grew by 12.23% or Rs. 7.03 billion to Rs. 64.50 billion, mainly driven by increased leasing volumes. Hire purchases are not aggressively promoted by the Company due to the undifferentiating nature of Value Added Tax (VAT) implications compared to leases.

TREASURY SEGMENT

(+31.22 PERCENT)

The Company maintained a higher average liquidity level (mandatory and excess) than the previous year driven by increased Treasury and bond yields, resulting in increased interest income from other financial assets. Treasury is not considered a profit centre or cost centre; however, it 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 will be used for the interest related to funding and profitability is calculated only for a hypothetical scenario and no real transaction.

CREDIT QUALITY

Credit quality of the Company loan book continued to improve with stringent strategic measures applied and successful follow-up procedures on collection. Non-performing loan ratio (i.e. non-performing loans as percentage of total loans) slightly increased to 2.37% in 2017/18 from 2.14% in 2016/17. 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 instalments in arrears, however L B defines NPL as a loan which is five instalments in arrears. Even with a strict definition, the Company's NPL ratio yet remains below the industry average of 5.94% compared to 2.30% in December 2017 (CBSL Annual Report 2017).

Net impairment was a charge of Rs. 667.63 million in 2017/18 as against a reversal of Rs. 42.26 million in 2016/17. It is noted that 2016/2017 was an exceptional year in which the Company was able to clear many long outstanding debts (NPL) during the year while it made several reversals (positive) to that year's impairment charge.

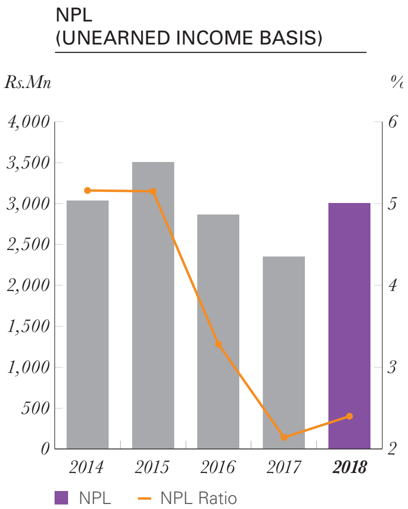
The improvement came due to a substantial increase in vehicle prices during that year and tough leasing regulations that encouraged customers to continue their existing leasing arrangements without any default (until adoption of the changes).

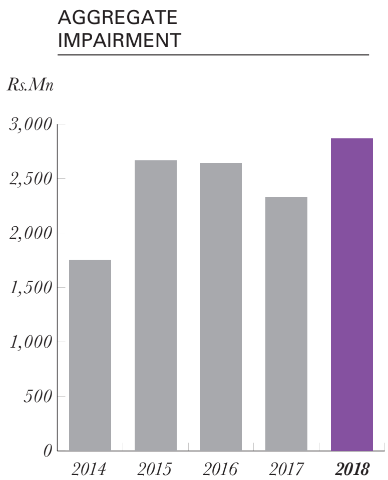
Financial highlights	**2018 Rs. '000**	**2017 Rs. '000**	**2016 Rs. '000**
Gross loans (with unearned income)	126,875,307	109,781,320	87,250,688
Unearned income	21,662,825	18,301,275	13,054,924
Gross loans (1)	105,212,482	91,480,045	74,195,764
Non-performing loans (with unearned income)	3,003,175	2,350,483	2,864,495
Unearned income	223,230	120,228	151,755
Gross non-performing loans	2,779,945	2,230,255	2,712,740
IFRS loan loss provision (2)	3,067,908	2,330,302	2,641,758
CBSL loan loss provision	2,345,999	1,802,697	2,186,693
Excess/(shortfall) loan loss provision compared to CBSL (including interest in suspense)	721,909	527,605	455,066
IFRS loan loss provision as a percent of gross loans (2/1)	2.92%	2.55%	3.56%
IFRS loan loss provision as a percent of non-performing loans	110.36%	104.49%	97.38%
Total regulatory loan loss provision as a percent of gross loans	2.23%	1.97%	2.95%
Total regulatory loan loss provision as a percent of non-performing loans	84.39%	80.83%	80.61%
Total assets	120,820,780	102,763,035	84,516,637
Net loans (After Impairment)	102,345,084	89,149,743	71,554,005
NPL: gross loans	2.64%	2.44%	3.66%
NPL: total assets	2.30%	2.17%	3.21%
NPL: gross loans-unearned income basis*	2.37%	2.14%	3.28%

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

It is noteworthy to mention that the Company has maintained 30.75 percent above to the CBSL mandatory provision.

Financial Capital





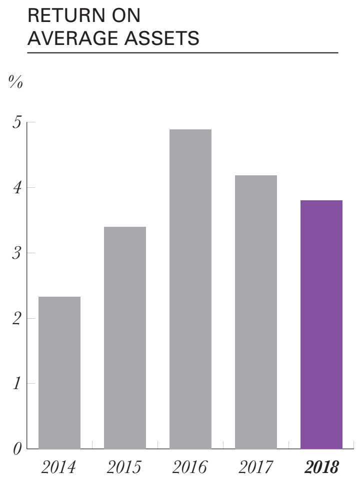
ASSETS

Total assets increased by 17.57% YoY to Rs. 120.82 billion while on a gross basis, loans, leases and stock out on hire grew by 15.01% YoY to Rs. 105.21 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. 11.39 billion, which is also well above the statutory liquidity requirement of Rs. 7.88 billion. We continued to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

Total asset mix	2018 Rs. '000	2017 Rs. '000
Cash resources	5,874,375	2,895,085
Loans	102,345,084	89,149,743
Securities	6,411,831	6,467,838
Other assets	6,189,490	4,250,369
	120,820,780	102,763,035



Property, Plant and Equipment

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

LIABILITIES

Total liabilities increased by 16.86% YoY to Rs. 105.47 billion in 2017/18, driven by increases in customer deposits.

Due to Customers

Customer deposits increased by 20.76% YoY to Rs. 72.94 billion in 2017/18 with a 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. 7.01 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)

During the year the Company issued Rs. 2.00 billion worth of subordinated and Rs. 1.00 billion worth of unsubordinated debentures, resulting in increasing total subordinated debentures to Rs. 4.00 billion. Subordinated debentures also help strengthening Tier 2 capital and 100 percent of the new subordinated debenture and 20% of the old subordinated debenture has been taken into Tier 2 capital computation (Total Rs. 2.4 billion).

SHAREHOLDERS' EQUITY

Total shareholders' equity rose to Rs. 15.35 billion in 2017/18 from Rs. 12.51 billion in the previous year. During the year the Company paid an interim dividend of Rs. 969.60 million.

CAPITAL MANAGEMENT

We are committed to maintain a strong capital base to support business expansion, provide a cushion against unforeseen risks, safeguard shareholder wealth and foster investor confidence. The policy allows taking advantage of emerging opportunities and invests further in the core business to enhance shareholder returns. The Company's capital management framework includes a capital adequacy assessment process to ensure that the Company can mitigate current and future risks and achieve its strategic objectives.

Capital Adequacy

For the year ended	Capital adequacy 2018	Capital adequacy 2017	Regulatory requirement (Current)	Excess over regulatory requirement
Tier 1	17.30%	16.12%	5%	9.69%
Tier 1+2	19.80%	17.06%	10%	7.14%

Regulatory Capital

Our core capital remained well in excess of the regulatory capital requirement in 2017/18. The CBSL has issued consultation papers (discussion stage) to change the minimum capital requirement and capital adequacy requirement for Licensed Finance Companies. The proposed change includes the inclusion of Operational Risk Capital (ORC) into the capital adequacy computation. The key highlights of the consultation papers as follows:

Capital Adequacy and Minimum Capital

For the year ended	Regulatory requirement (MAX 2019)	LBF Current Capital adequacy adjusted to the ORC	Regulatory Core Capital (MAX 2021)	Excess over regulatory requirement	
				Excess Regulatory Core Capital	Excess Capital Adequacy
Tier 1	7.00%	12.23%	2.50 billion	12.85 billion	10.30%
Tier 1+2	12.00%	15.23%	N/A	N/A	7.80%

It is noteworthy to mentioned that Company has adequate capital and capital adequacy even at the maximum regulatory level.

OFF-BALANCE SHEET ITEMS AND OTHER MATTERS

During the year the Company reported a 26.94% YoY increase in its total commitments and contingencies to Rs. 1.26 billion mainly due to increase in commitment for unutilised facilities on Power Drafts.

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.

L B MICROFINANCE MYANMAR COMPANY LIMITED (LBMM)

During the year the Company has started its Myanmar operations with an initial capital of Rs.153.37 million. LBMM recorded net loss of Rs. 5.70 million during the year and built a loans and advances portfolio of Rs. 38.88 million. Cash and cash equivalents at the end of the year was Rs. 115.92 million.

Financial Capital

FUTURE 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 5 months/rentals in arrears or objectively identified as credit deteriorated even if the rental in arrears even less than 5 (see Note 4.17 Allowance for Impairment Losses). Losses expected as a result of future events are not recognised. As the Company's definition of default is not likely to change materially and will align with the regulatory definition, the treatment of loans in stage 3 remains substantially the same as the current treatment of impaired loans under LKS 39.

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 rebutted the following presumption in SLFRS 9 and proved qualitatively and statistically the reasons for repudiation:

Rebut the presumption of 30 days and considers 90 days (three months) past due as the point of significant increase in credit risk.

- Up to 90 days of past due of a customer is generally only an administrative oversight and specifically it does not result due to the financial difficulties of the borrower. Hence the Company is of the view that the customers' credit risk does not significantly increase up to 90 days past due.
- Further we have evaluated the historical behaviour patterns of leasing customer portfolio to assess the reasonability of the rebutting the presumption.
- Rebut the presumption of 90 days and consider 150 days (five months) past due as the definition of default, which will align with the regulatory (CBSL) definition of default.
- Further, we have evaluated the historical behaviour patterns of our leasing customer portfolio to assess the reasonability of rebutting the presumption.

Probability of Default (PD) Estimation

We used internal information to estimate the PDs our loans, lease receivables, loan commitments and financial guarantees. The client has two credit statuses 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 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 subject to an annual review. The economic factor model predicts the industry NPL as an output and use some key economic factors as an input to the model.

The published global financial sector credit rating migration matrix is (S&P Ratings 2016/2017) used for fixed deposits with banks expected credit loss calculation and we do not expect credit losses for LKR denominated Government securities.

Multiplication of Value at Risk (VaR) and PDs at each value risk levels (i.e. Maturities) are used to calculate the expected credit loss for gold loans. Statistically quantified sensitivity analysis has been conducted using past price history and apply it to the current exposure. Given a quantified movement in commodity prices (LGD) and PDs in each drawdown the expected credit loss is computed.

Any Financial Asset which is fully secured through a cash collateral has not been taken into the expected credit loss calculation. Other than the above mentioned no other financial asset expected to be credit impaired.

Expected Life

All contractual terms had been considered when determining the expected life, including prepayment/early termination options and extension and roll over 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. Currently we are in the stage of automating the full process.

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

At transition, we expect the existing collective allowances against performing loans to 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.

The Colombo Stock Exchange has directed all Listed Companies to conduct an impact analysis under new implementation of SLFRS 9. We have complied with requirement and the impact is as follows:

	Rs. '000
Total expected loss as at 31st March 2018 for all products	990,757
(Minus) Collective provision for unimpaired loans	(763,030)
(Under)/Over provision as at 31st March 2018	(227,727)

SLFRS – 15

Revenue from Contracts with Customers

The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will impact the businesses that earn fee and commission revenues. The new standard is a control based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Majority of our revenue generating instruments meet the definition of financial instruments and remain out of scope. The areas of focus for the assessment will be fees and commission revenues from financial services. The new standard will require entities to capitalise the fees as well as contract cost and amortised on a systematic basis that is consistent with the pattern of transfer of the associated services, which will have an impact on operating profits. We do not see a significant impact on our current operating profit due to the new standard. Colombo Stock Exchange has instructed all Listed Companies to conduct an impact analysis under new implementation of SLFRS 15. We have complied with requirements and do not see significant impact on operating profits.

SLFRS – 16

Leases

The standard requires a lessee to recognise an asset for the right to use the leased item and a liability for the present value of its future lease payments. SLFRS 16 will result in leases being recorded on the Company's Balance Sheet, including those currently classified as operating leases except for short-term leases and leases with low value of the underlying asset. If we capitalised all our long-term operating leases as finance leases it will create land and building assets and long-term lease creditor liability. Currently the Company in the process of identifying the impact from the implementation.

GRI - 201 - 1

Financial Capital

ECONOMIC CONTRIBUTION

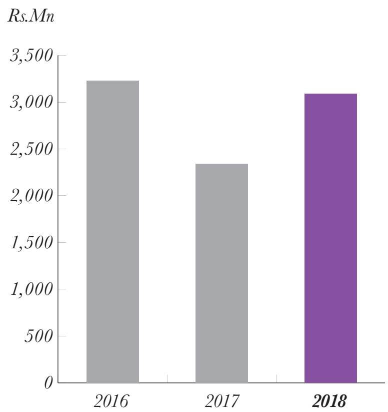
The Company's approach to value creation is armed with strategies focusing on operational excellence and sustainability. This is not merely short-term but long-term, with more value focused on triple bottom line, based on sustainable business practices.

ECONOMIC VALUE ADDED STATEMENT (EVA)

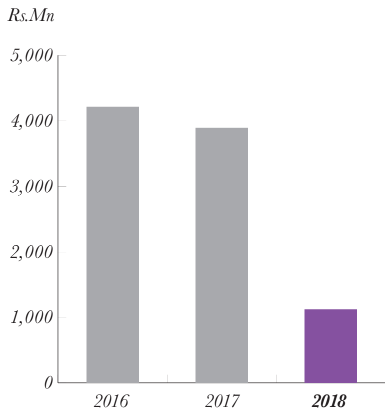
EVA is the incremental change in the rate of return over a company's cost of capital. Essentially, it is used to measure the value a company generates from funds invested and a positive EVA denotes the company is generating value.

For the year ended 31 March	2018 Rs. million	2017 Rs. million	2016 Rs. million
Invested Equity			
Shareholders' funds	15,348.90	12,509.68	10,479.31
Add: Cumulative loan loss provision/ provision for impairment	2,867.40	2,330.30	2,641.75
Total	18,216.30	14,839.98	13,121.06
Earnings			
Profit attributable to shareholders	4,224.36	3,900.30	3,729.02
Add: Loan losses and provisions/ impairment provision	667.63	(42.27)	382.43
Total	4,891.99	3,858.04	4,111.45
Economic cost % (Average Treasury Bill rate plus 2% risk premium)	10.90	10.85	8.36
Economic cost	1,801.57	1,516.89	881.26
Economic value added	3,090.42	2,341.15	3,230.19

ECONOMIC VALUE ADDED



MARKET VALUE ADDED



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 31 March	2018 Rs. million	2017 Rs. million	2016 Rs. million
Market capitalisation			
Market value of equity	16,469.35	16,400.09	14,696.36
Less: Equity owners' funds			
Shareholders' funds	15,348.90	12,509.68	10,479.31
Total equity owners' funds	15,348.90	12,509.68	10,479.31
Market value added	1,120.45	3,890.41	4,217.05

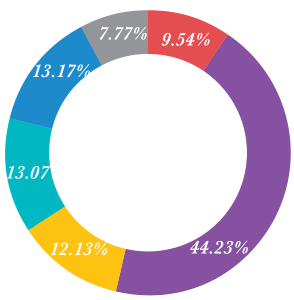
VALUE GENERATED AND DISTRIBUTED

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

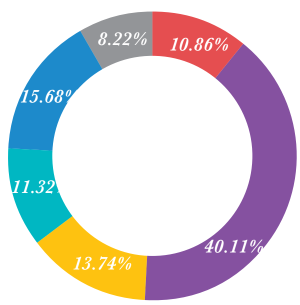
For the year ended 31 March	2018 Rs. million	%	2017 Rs. million	%	2016 Rs. million	%
Direct economic value generated						
Interest income	23,394.12		17,909.94		14,428.72	
Fee commission income	1,504.19		1,209.34		1,168.68	
Net gain/(loss) from trading	(0.30)		(0.15)		0.96	
Other operating income	148.20		244.30		48.09	
Economic value generated	25,046.20		19,363.43		15,646.46	
Economic value distributed to employees						
Employees salaries & benefits	2,389.35		2,102.36		1,826.37	
	2,389.35	9.54	2,102.36	10.86	1,826.37	11.67
To depositors and lenders						
Interest expenses	11,077.10		7,766.75		5,409.62	
	11,077.10	44.23	7,766.75	40.11	5,409.62	34.57
Payments to providers of capital						
Dividend to shareholders	1,523.66		1,246.63		1,038.86	
Interest to debenture holders	421.31		345.59		363.63	
	1,944.96	7.77	1,592.21	8.22	1,402.49	8.96
Payment to government						
Income tax expenses	1,658.32		1,595.06		1,479.08	
Super gain tax (SGT)	-		-		484.23	
VAT & NBT on financial services	1,336.69		1,027.10		593.45	
Crop insurance & levy	43.15		38.61		36.52	
	3,038.17	12.13	2,660.77	13.74	2,593.28	16.57
To community						
Social responsibility projects	23.51		14.54		17.27	
Donations	-		0.16		0.10	
	23.51	0.09	14.70	0.08	17.37	0.11
Operating costs						
Depreciation & amortisation set aside	384.23		343.22		332.42	
Impairment charge for loans and other losses	667.63		(42.27)		382.43	
Training cost	8.57		8.05		11.18	
Other operating expenses	2,213.96		1,882.3		1,319.48	
	3,274.39	13.07	2,191.25	11.32	2,045.51	13.07
Economic value retained	3,298.71	13.17	3,035.39	15.68	2,351.82	15.03
Economic value distributed	25,046.20	100.00	19,363.43	100.00	15,646.46	100.00

VALUE DISTRIBUTED - 2017/18



- To employees
- To depositors and lenders
- Payment to government
- Operating costs
- Economic value retained within the business
- Payments to providers of capital

VALUE DISTRIBUTED - 2016/17



Financial Capital

INVESTOR

LBF has crafted its business strategies in the best interest of its shareholders while carefully balancing its risk and return to maximise shareholder wealth. Investors are LBF's lifeblood. Therefore, LBF constantly keeps them posted on the Company's strategies, plans and performance, thereby gaining their trust and confidence in the Company.

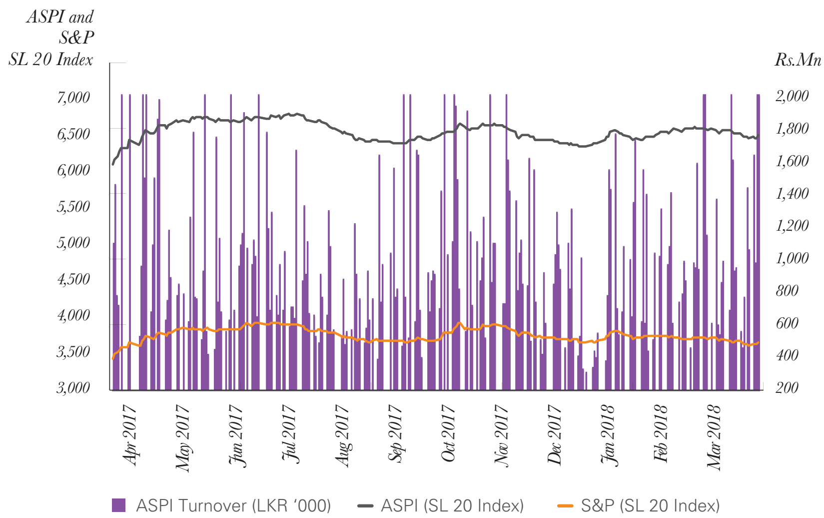
In the year under review total shareholders' equity extended by 23% to Rs. 15.35 billion from Rs. 12.51 billion in the previous year. The Company paid an interim dividend of Rs. 969.6 million for the year 2017/18 it has also proposed of final dividend of Rs. 4.00 per share in May 2018. This resulted in a total payout of Rs. 11.00 per share in 2017/18 financial year. Above average growth in the profitability helped LBF's share to outperform the market and sector indices during the financial period.

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. The Company makes use of electronic media for communication where appropriate.

The Colombo Stock Exchange

The Colombo Bourse remained subdued during the financial year 2017/18, due to uncertainties in the policy environment in the country and external shocks.All Share Price Index closed almost flat at 6,476.78 points compared to 2016/17. Standard and Poor (S&PSL 20) which tracks the performance of larger blue chip companies increased by 6.14% YoY to 3,650.1 points at the end of the financial year. The market has also continued to attract foreign investment throughout 2017/18, with Rs. 117 billion in foreign buying contributing to a net foreign inflow of Rs. 10. billion. An attractive market valuation (P/E), encouraging performance among listed entities, dividend payments, and Capital Gains Tax exemptions offered to share transactions are considered to be defining factors in attracting the level of foreign investor interest the market has witnessed in 2017. The daily average turnover of CSE increased by 42.24% YoY to Rs. 1,035.59 million in 2017/18, while daily share volume increased by 31.37% YoY to 36.8 million shares. Market capitalisation of listed companies expanded by 14% to Rs. 3.03 trillion at the end of the period.

ASPI & S&P SL 20 INDEX AND MARKET TURNOVER



Banking, Finance And Insurance Sector (BFI)

Banking, Finance and Insurance sector index increased by 15.31% YoY to 17,006.38 points during 2017/18. In the sector, average monthly turnover increased by 66.69% YoY to Rs. 7.9 billion, while average monthly volume increased by 50.65% YoY to 227.4 million shares in 2017/18. Investors valued the sector high with forecasted increase in earnings growth. Sector P/E increase from 6.17 times in 2016/17 to 6.87 times in 2017/18, while sector P/B increase from 1.03 times in 2016/17 to 1.07 times in 2017/18.

LBF SHARE

GENERAL INFORMATION

Total number of shares in issue as at 31 March 2018	138,514,284
Public shareholding as at 31 March 2018	21.89%
Beta value against ASPI as at 31 March 2018	0.78
Stock symbol	LFIN : N0000

Newswire codes of LBF share:

Bloomberg	LBFIN : SL
Dow Jones	LFINN
Reuters	LFIN. CM

ANNUAL PERFORMANCE

	2017/18	2016/17
Share Price		
Highest (Rs.)	145.00	134.00
Lowest (Rs.)	118.00	105.10
Closing (Rs.)	118.90	118.40
Number of transactions	2,766	5,616
Number of share traded	4,602,929	11,098,533
Value of shares traded (Rs. billion)	0.60	1.41
Number of days traded	217	240
Average daily turnover (Rs. million)	2.54	5.87
Market capitalisation (Rs. billion)	16.46	16.40

QUARTERLY PERFORMANCE 2017/18

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Share Price				
Highest (Rs.)	145.00	139.80	134.00	132.00
Lowest (Rs.)	118.20	128.50	121.20	118.00
Closing (Rs.)	135.10	129.70	122.10	118.90
Number of transactions	1,095	500	404	767
Number of share traded	2,006,221	1,495,804	658,563	442,341
Value of shares traded (Rs. million)	264.10	199.19	83.33	56.00
Number of days traded	56	59	51	51
Average daily turnover (Rs. million)	4.63	3.21	1.39	0.90

Financial Capital

STATED CAPITAL

The stated capital of the Company as at 31 March 2018 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.

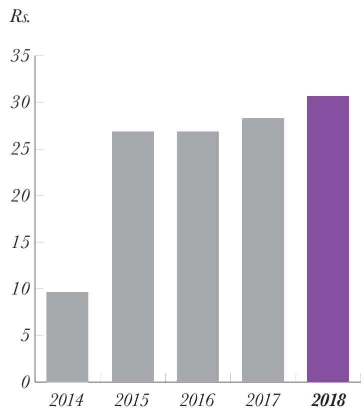
FINANCIAL CAPITAL ANALYSIS

Dupont analysis

EARNINGS PER SHARE (EPS)

The earnings per share (EPS) for the period increased to Rs. 30.69 in 2017/18 from Rs. 28.29 in 2016/17, as a result of increased profit attributable to shareholders.

MOVEMENT OF EPS



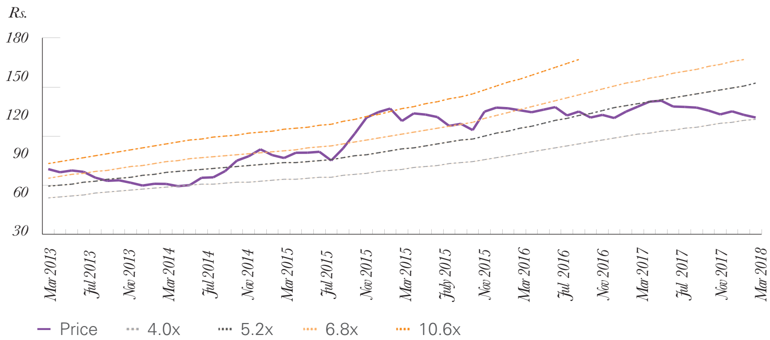
NET ASSET VALUE PER SHARE

As at the financial year ended 31st March 2018, the net assets value per share of the Company stood at Rs. 110.81, which reflected an increase of 22.7% compared to Rs. 90.31 the previous year.

PRICE EARNINGS RATIO (P/E)

The P/E ratio as at 31 March 2018 decreased to 3.87 times from 4.19 times as at 31st March 2017.

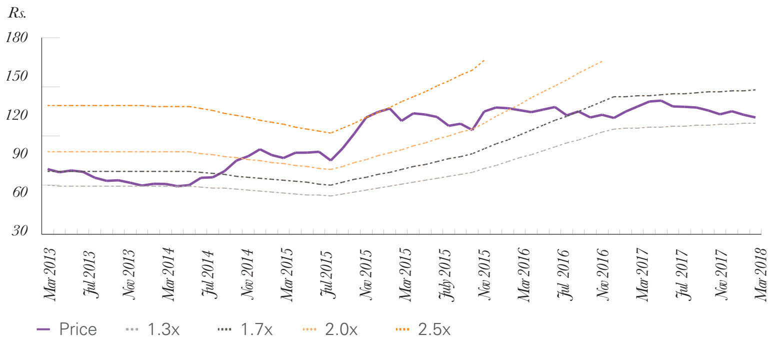
P/E MULTIPLE BAND CHART



PRICE TO BOOK VALUE (P/B)

The P/B ratio as at 31 March 2018 marginally decreased to 1.07 times from 1.31 times compared to the previous financial year due to increased shareholder wealth outpacing the share price growth

P/B MULTIPLE BAND CHART



TOTAL SHAREHOLDER RETURN

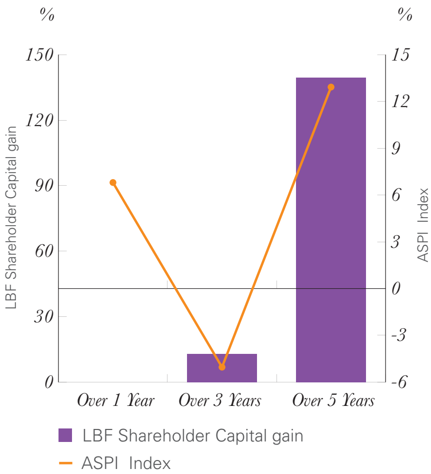
Total shareholder return (including both dividends and change in share price of the common share), recorded a 9.69% for the accounting period 2017/18 including gross dividend per share of Rs. 11. Return was lower than the previous year of 20.07% due to poor market performance. Share market index return was improved to 6.84% in 2017/18 from -0.16% in 2016/17. Our consistent dividend policy continues to be a key component of shareholders' return while above average growth in the business helped share price appreciation. Share price appreciated 0.42% in 2017/18. We remain focused on achieving sustainable, long-term earnings growth and maintaining stable dividend income streams to our shareholders.

Financial Capital

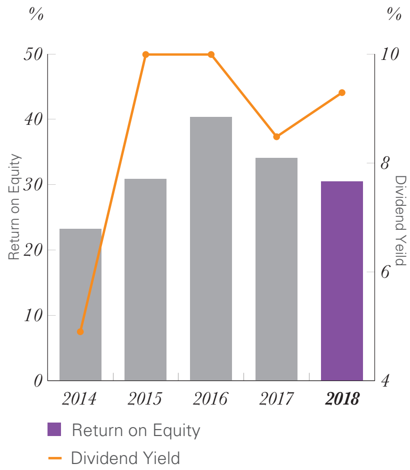
SHAREHOLDERS' RETURN

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

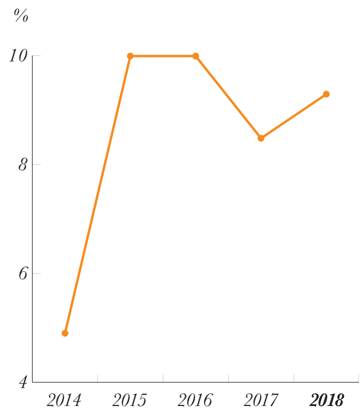
SHAREHOLDERS' RETURNS



RETURN ON EQUITY

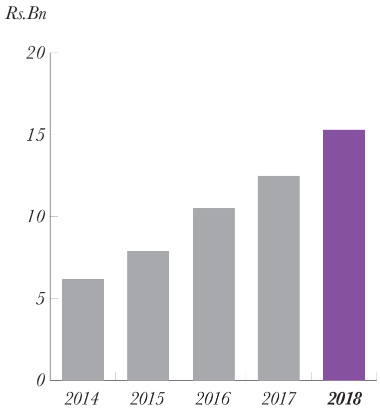


DIVIDEND YIELD



In 2017/18, the dividend yield of L B Finance PLC has increased to 9.29% which was 8.48% in 2016/17. The value states that the annual payment of dividends to shareholders of L B Finance PLC is 9.29% of the market price of its share. The dividend payout ratio which is 35.84% in 2017/18 (31.82% - 2016/17) shows out that the Company pays 35.84% of current earnings to its shareholders in the form of dividends and 64.16% of earnings is plugged back in the business for future growth.

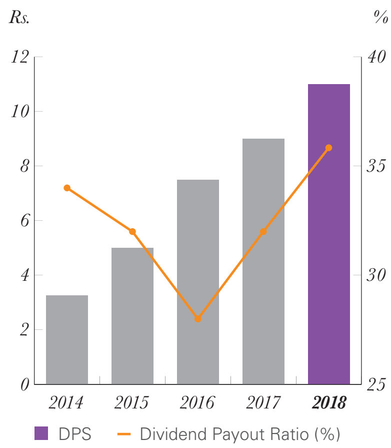
SHAREHOLDER EQUITY



DIVIDENDS

LBF's investor-friendly dividend policy balances 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. 4.00 per share (Interim dividend of Rs. 7.00 per share paid on 9 March 2017). The dividend payout ratio was increased to 35.84% in 2017/18 from 31.82% in 2016/17.

DIVIDEND PER SHARE AND DIVIDEND PAYOUT RATIO



LIQUIDITY

Average daily shares traded during the year decreased to 19,422 in 2017/18 from 46,243 shares in 2016/17. Total shares that changed hands during the year decreased to 4.6 million in 2017/18 from 11.10 million in 2016/17.

ANALYSIS OF SHAREHOLDERS

With reference to the distribution of shareholding, approximately 90.80% of the shares amounted to shareholding of over one million shares whilst it was 90.22% in the previous year. The total number of shareholders decreased to 2,006 in the year under review from 2,102 in the previous year. Local investors constituted to 97.06% of the investor base (97.94% in 2016/17).

Out of the total shareholder base 6.08% was individual shareholders (6.51% in 2016/17).

PUBLIC HOLDING

Public holding as at 31 March 2018 was 21.89% comprising 1,997 shareholders. This is a decrease when compared to the previous year's 21.94% public holding comprising 2,094 shareholders.

DISTRIBUTION OF SHAREHOLDINGS

	As at 31 March 2018				As at 31 March 2017			
	Number of shareholders	%	Number of shares held	%	Number of shareholders	%	Number of shares held	%
1 to 1,000	1,237	61.67	319,598	0.23	1,277	60.75	346,474	0.25
1,001 to 10,000	589	29.36	2,121,168	1.53	634	30.16	2,225,833	1.61
100,001 to 100,000	152	7.58	4,383,696	3.16	160	7.61	4,606,349	3.32
100,001 to 1,000,000	22	1.10	5,931,655	4.28	25	1.19	6,367,596	4.60
Over 1,000,000	6	0.30	125,758,167	90.80	6	0.29	124,968,032	90.22
Total	2,006	100	138,514,284	100.00	2,102	100.00	138,514,284	100

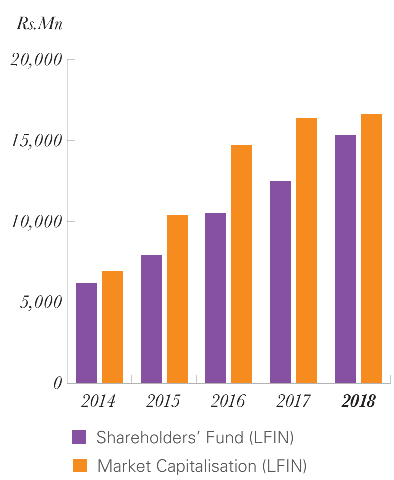
COMPOSITION OF SHAREHOLDINGS

	As at 31 March 2018			As at 31 March 2017		
Category	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
Local - Individual	1,862	8,285,590	5.98	1,949	8,571,568	6.19
Local - Institutional	120	126,156,613	91.08	123	127,083,242	91.75
Foreign - Individual	21	144,946	0.10	24	450,622	0.32
Foreign - Institutional	3	3,927,135	2.84	6	2,408,852	1.74
Total	2,006	138,514,284	100.00	2,102	138,514,284	100.00

MARKET CAPITALISATION

	Shareholders' funds Rs Mn	LFIN Market capitalisation Rs Mn	CSE Market capitalisation Rs Mn	LFIN Market capitalisation as % of CSE market capitalisation
2013	5,329	9,190	2,199,960	0.42%
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	16,469	3,032,710	0.54%

SHAREHOLDER FUND AND MARKET CAPITALISATION



Financial Capital

DIRECTORS' SHAREHOLDINGS

Names of Directors	No. of shares as at 31 March 2018	As a % of total shares	No. of shares as at 31 March 2017	As a % of total shares
Mrs. Shirani Jayasekara	-	-	-	-
Mr. K D D Perera	-	-	-	-
Mr. J A S S Adhihetty	106,120	0.077	106,120	0.077
Mr. Thosapala Hewage	-	-	-	-
Mr. N Udage	250,325	0.181	173,837	0.126
Mr. B D A Perera	-	-	-	-
Mr. R S Yatawara	-	-	-	-
Mrs. A K Gunawardhana	-	-	-	-
Mrs. Y Bhaskaran	-	-	-	-
Mr. M A J W Jayasekara	-	-	-	-

LARGEST SHAREHOLDERS OF THE COMPANY

Shareholders	As at 31 March 2018			As at 31 March 2017	
	Number of shares	Percentage holding (%)	Cumulative percentage holding (%)	Number of shares	Percentage of 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	393,821	0.284
5. SBI Ven Holdings Pte Ltd	1,600,000	1.155	90.790	1,600,000	1.155
6. AIA Insurance Lanka PLC A/C No.07	777,843	0.562	91.352	777,843	0.562
7. Sterling Holdings (Private) Limited	502,826	0.363	91.715	1,500,000	1.083
8. Janashakthi Insurance PLC (Policy Holders)	500,000	0.361	92.076	500,000	0.361
9. Mr. H A Van Starrex	465,601	0.336	92.412	573,408	0.414
10. Mr. K D A Perera	373,776	0.270	92.682	373,776	0.270
11. Hatton National Bank PLC / Mr. Karuna Ranaraja Ekanayaka Mudiyanselage Dharshan Maduranga Bandara Jayasundara	344,297	0.249	92.931	-	-
12. Mr. A A Page	314,800	0.227	93,158	314,800	0.227
13. Mr. N P De A Samaranayake	300,000	0.217	93.375	350,000	0.253
14. Mr. N Udage	250,325	0.181	93.556	173,837	0.126
15. People's Leasing & Finance PLC / Dr. H S D Soysa & Mrs G Soysa	230,816	0.167	93.723	-	-
16. J B Cocoshell (Pvt) Ltd	224,100	0.162	93.885	150,000	0.108
17. Mrs. P C Cooray	208,632	0.151	94.036	208,632	0.151
18. Guardian Fund Management Limited / The Aitken Spence and Associated Companies Executive Staff Provident Fund	180,000	0.130	94.166	-	-
19. Commercial Credit and Finance PLC	161,297	0.116	94.282	161,297	0.116
20. Mr. T Jeremiah	155,164	0.112	94.394	155,164	0.112
	130,747,644	94.394			
Others	7,766,640	5.606			
Total	138,514,284	100.00			

SUBMISSION OF INFORMATION TO COLOMBO STOCK EXCHANGE

Date of disclosure	Details of disclosure
16 February 2018	Interim Dividend Announcement
1 February 2018	Uploaded Interim Financial Statements as at 31-12-2017
11 December 2017	Debenture Issue 2017 allotment basis
07 December 2017	Debenture Issue 2017 subscription details
04 December 2017	Debenture Issue 2017 Open and over-subscribed
28 November 2017	Debenture Issue 2017 issue announcement
07 November 2017	Appointment of new director
31 October 2017	Appointment of new director
25 October 2017	Uploaded Interim Financial Statements as at 30-09-2017
20 October 2017	Setting up the subsidiary in Myanmar
22 September 2017	Appointment of Chairperson
29 August 2017	Dealings by Directors
28 August 2017	Change in Directorate
22 August 2017	Dealings by Directors
18 August 2017	Dealings by Directors
11 August 2017	Uploaded Interim Financial Statements as at 30th June 2017
3 July 2017	Annual General Meeting - dividend approved by shareholders
6 June 2017	Uploaded Annual Report - 2016/2017
31 May 2017	Dividend Announcement
28 April 2017	Change in Directorate

Financial Capital

DEBENTURES

In December 2017, LBF raised Rs. 3 billion (through Rs.1 billion on senior debenture and Rs. 2 billion on subordinated debenture) 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			**2017/18**
Issued date	11-Dec-17	11-Dec-17	29-Nov-13
Type of Debenture	Type A	Type B	Type A
Maturity date	11-Dec-22	11-Dec-22	29-Nov-18
CSE listing	Listed	Listed	Listed
Code	LFIN/11/ 12/22 -C2387 -A -12.75	LFIN/11/ 12/22 -C2388-B -13.5	LFIN/BC/28/ 11/ 18A14
Interest payment frequency	Bi-Annually	Bi-Annually	Monthly
Coupon Interest rate	12.75% p.a	13.25% p.a	14.00% p.a
Effective annual Yield (%)	13.16%	13.69%	14.93%
No. of Debentures	10,000,000	20,000,000	6,401,400
Amount (Rs. Mn)	1,000	2,000	640.14
Interest rate of comparable government security	10.06%	10.06%	10.06%
Market Price			
Highest (Rs)	Did not trade during the year	Did not trade during the year	Did not trade during the year
Lowest (Rs)			
Close (Rs)			
Yield to Maturity %	NA	NA	NA

CREDIT RATING – COMPANY

» The Company's credit rating A- (lka) was confirmed by Fitch Ratings Lanka Ltd in April 2017.

CREDIT RATINGS – DEBENTURES

» The credit ratings of the Company's Senior and Subordinated were A-(lka) and BBB+ (lka) respectively as per the 17 November 2017 of Fitch Ratings Lanka Ltd.

» The credit rating issued in respect of the debenture issued in 2013 at BBB+ (lka) remained unchanged during the year.

			2016/17	
29-Nov-13	29-Nov-13	29-Nov-13	29-Nov-13	29-Nov-13
Type B	Type C	Type A	Type B	Type C
29-Nov-18	29-Nov-18	29-Nov-18	29-Nov-18	29-Nov-18
Listed	Listed	Listed	Listed	Listed
LFIN/BC/28/11/ 18B14.5	LFIN/BC/28/11/ 18C15	LFIN/BC/28/11/ 18A14	LFIN/BC/28/11/ 18B14.5	LFIN/BC/ 28/11/ 18C15
Bi-Annually	Annually	Monthly	Bi-Annually	Annually
14.50% p.a	15.00% p.a	14.00% p.a	14.50% p.a	15.00% p.a
15.03%	15.00%	14.93%	15.03%	15.00%
7,570,100	6,028,500	6,401,400	7,570,100	6,028,500
757.01	602.85	640.14	757.01	602.85
10.06%	10.06%	12.60%	12.60%	12.60%
Did not trade during the year	100.50 100.50 100.50	Did not trade during the year	Did not trade during the year	Did not trade during the year
NA	13.52	NA	NA	NA

FUTURE ACTION

We are confident that our ability to improve the financial performance in 2018/19 and Beyond. Investment in technology to drive efficiency, manage evolving risks and benefit from growth opportunities will be critical for sustainable success. New regulatory requirements will make NBIF sector more resilient and improve the public confidence in financial system.

Intellectual Capital

MATERIAL DRIVERS

- Enhance knowledge base
- Position in the LB brand
- Invest in information system
- Reinforce culture and ethics

WHAT INTELLECTUAL CAPITAL MEANS TO LBF

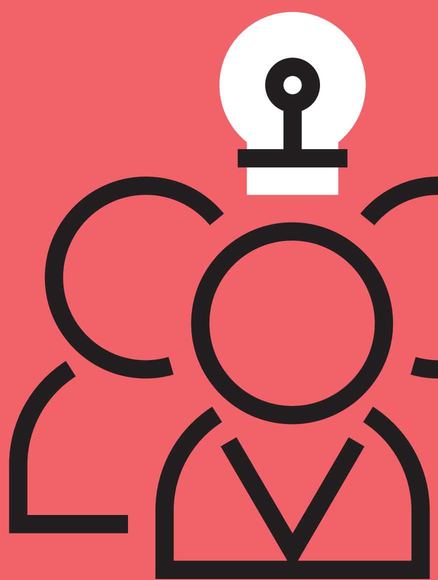
Our Intellectual Capital encompasses our culture, our governance frameworks, leadership structures, our processes, management philosophy and approach to risk management, as well as our brand and relationships with all stakeholders. In short, Intellectual Capital is our DNA – the unique characteristics that sets us apart.

ACTION PLANS & OBJECTIVES	STATUS	PAGE
Revamp core business modules with latest technology	10% Revamp completed (In progress)	235
ISO 27001: 2013 Information Security Management Standards certification	100% Completed (Achieved)	234
Recruited industry technical specialists	22 Specialist recruited (Achieved)	233
Strengthening brand equity	Ranked 17th interbrand best Sri Lankan brands 2017 (Achieved, In progress)	234

Achieved   In progress   Not achieved

SNAPSHOT OF CAPITAL OUTCOMES

IMPACT AREA	WHAT YOU WILL FIND	WHERE TO FIND
Corporate branding	17th among the top-twenty Best Sri Lankan Brands in 2017	Positioning the L B Brand PAGE 234
Disaster recovery system (DR)	Fully fledged DR system	Invest in information system PAGE 235



Online version available

Rs.4.24 billion

REACHED BRAND VALUE - LMD BRAND 2018

ISO 27001: 2013

INFORMATION SECURITY STANDARD RECERTIFIED

17th

AMONG THE TOP 20 BRANDS IN SRI LANKA - INTERBRAND 2017

81,474

FOLLOWERS ON SOCIAL MEDIA

e-Learning

INTRODUCTION OF A CLOUD BASED E-LEARNING PLATFORM

IN A NUTSHELL

Preserve and strengthen the symbiotic relationship between Knowledge, Brand value, Information power, Ethics and Corporate culture, in order to derive greater synergy for the business.

OUR NEXT STEPS

Objectives for 2018/19

- Use of cloud technology for business applications
- Enhance the technical and soft skills of employees

Objectives for 2020 and beyond

- Positioning among top 10 brands in Sri Lanka
- Introduce virtual financial solutions

CHALLENGES

Retention of knowledge

PAGE 231

Sustaining brand value

PAGE 231

Information security threat

PAGE 231

Intellectual Capital

VALUE CREATION AMONG CAPITALS

In an economy where there is an increasing reliance on intellectual capabilities, LBF is of the view that the source of our economic value no longer depends only on our 'bricks and mortar' distribution model, but equally on how we manage and use these assets to optimise outcomes. In a fiercely-competitive environment leveraging our intellectual capital therefore enables us to implement our strategy in the most effective and efficient way.

INTELLECTUAL CAPITAL

- 47 years of industry experience
- Complied with ISO 27001:2013 Standard
- Upgraded existing HR/ERP systems

FINANCIAL CAPITAL

- Rs. 8.56 million invested on training and development
- Rs. 194.49 million spent on IT investments

HUMAN CAPITAL

- 220 new opportunities for employee career growth
- 25,845 training hours on technical and soft skills development

NATURAL CAPITAL

- 6 new ideas were generated from environment conservation projects

MANUFACTURED CAPITAL

- Fully-fledged IT equipment to support customer services

SOCIAL & RELATIONSHIP CAPITAL

- Installed automated cash deposit machines
- Loyal customer base

BENEFIT TO

EMPLOYEES

BUSINESS PARTNERS

SOCIETY/ COMMUNITY

CUSTOMERS

SWOT ANALYSIS

Strengths	Weaknesses
Knowledge and expertise of employees	Legacy IT systems
Updated to latest information systems and platforms	Lack of integration between support systems
Strong brand reputation	

Opportunities	Threats
Customer attraction and retention through the latest technology	Information security
Introduce innovative financial products and services	Rapidly-changing technological development
Attract skilled employees to the company	Brain drain to competitors

MD receiving Interbrand Award 2017

HOW WE FACE THE CHALLENGES

Retention of knowledge

The knowledge and expertise of our people is at the heart of our business and underpins LBF's competitive position in the market. To ensure that we do not loose these valuable resources to our competitors, we remain proactive in our efforts to motivate employees and engage them to take ownership of the Company's future progress.

Sustaining the brand value

Sustaining brand value in an increasingly competitive market continues to be a challenge. To overcome these challenges, our brand strategy seeks to target the right positioning in the market. In addition, we look to build trust in our brand by conducting our operations in line with the highest ethical standards and in full compliance with all applicable regulations in the NBFI sector.

Information security threat

Information security is increasingly becoming a major concern for the Company, given the large volumes of sensitive information in our possession. To safeguard customer privacy we are in the process of evaluating suitable systems to invest in. In the meantime, we continue to train our employees and increase their awareness on how to manage customer privacy.

Intellectual Capital

OUR PHILOSOPHY

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.

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.

MANAGEMENT APPROACH

The main thrust in LBF's Intellectual Capital strategy is to preserve and strengthen the symbiotic relationship between each component, in order to derive greater synergy for the business.

To protect the strength of our brand, we have put in place brand guidelines that spell out how different elements of the brand should be used. The goal of our brand guidelines is to properly manage the perceptions of the Company by setting out clear directives to ensure that all parties (employees, channel partners, designers and marketing agencies) using the LB brand elements, do so consistently and in line with the core values represented by our brand.

Ensuring that our product knowledge, information systems and culture, continues to evolve in response to the growing demand of the market, is also one of our foremost priorities. Ongoing product research to determine the appropriateness of each product to the customer in the current market context as well as specific research to augment our knowledge on market intricacies, changing customer perceptions and identify emerging trends, all play a vital role in enabling LBF to stay ahead of peers by being first-to-market through the release groundbreaking new products. Our commitment is further extended by the application of stringent protocols to ensure responsible development of new products along with clear marketing guidelines that provide the necessary framework for the responsible promotion of our products to the market.

Moreover a formal Business Continuity Management System (BCMS) establishes the necessary framework to ensure continuous and reliable delivery of key products and services to customers in the event of a significant business disruption. The BCMS increases LBF's operational resiliency and enables the Company to effectively reduce business impact, respond and recover from

The other key area of focus for 2017/18 was the introduction of the cloud-based applications to add value to the gold loan product.

Runner-up - National Business Excellence Award

disruption and resume and return to business as usual in the event of a disruption. In this context, a Crisis Management Plan serves as a baseline for operationalising unit-wise business continuity management plans and provides the necessary direction for LBF's response, recovery and restoration of operations during a crisis, in turn safeguarding the interests of key stakeholders LBF's brand reputation.

Recent efforts to strengthen our competitive position saw the roll out of a new digitalisation strategy to transform LBF into a fully-fledged digitally enabled financial institution. Encompassing all mission-critical aspects of the business, the digital transformation agenda is a long-term undertaking that would further reinforce LBF's leadership position in the NBFI sector, paving the way for the Company to advance its national brand ranking.

Re-launch of L B sustainability website

PROGRESS REPORT 2017/18

In the year under review, LBF followed an inclusive approach towards strengthening brand leadership, with special emphasis on three strategic themes that would boost the Company's Intellectual Capital.

Enhance Knowledge Base

The Company firmly believes that knowledge is power and continues to work towards strengthening LBF's knowledge base. In doing so, it considers ongoing research

Intellectual Capital

as a crucial aspect of the business strategy, especially given the growing competitive pressures in the NBFI industry in the recent years.

While LBF's strategic planning and risk departments conduct regular research internally, the Company also engages the services of independent experts to commission specific need-based market research as needed by various business segments from time-to-time.

Among the ongoing research efforts is the mystery shopper programme through which we seek to determine the effectiveness of our investments in branch infrastructure and staff training. The main focus of the 2017/18, mystery shopper programme was to assess the degree of convenience offered by branch facilities and gauge the customer service offered by front-line branch staff.

In the year under review, LBF also commissioned a brand perception study to measure the public sensitivity to the LB brand. Conducted by an independent third party research specialist, the main objective of the study was to test brand awareness levels among the wider public and thereby establish LBF's positioning within the NBFI sector from the standpoint of existing and potential customers. Accordingly, the research sample included a mix of salaries employees (retail customers) and SME's.

Positioning the L B Brand

Brand management is recognized as a vital aspect of the Company's strategic focus, as it is a key value driver that underpins LBF's competitive position in the NBFI sector as well as stakeholder value creation capacity. Safeguarding the LBF's unique brand proposition is therefore is an absolute priority.

LBF'S DIGITAL JOURNEY

2011

- Fully-fledged end-to-end core financial application
- SMS alerts on transactions of Savings Accounts with ATM integration

2012

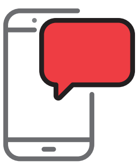
- Savings accounts with ATM integration and SMS alert on trasactions

2013

- Paperless Boardroom initiative
- Introduction of VISA Debit Card with added security features

2014

- SLIPS integration
- ISO 27001:2013 Certification



A consistent strategy aimed at strengthening brand image over the years, has enabled L B Finance to cement its position as one of the strongest brands in the non-bank financial sector of Sri Lanka. In fact Fitch Ratings has affirmed LBF A- (lka) with a stable outlook.

Further testifying to the success of the Company's brand strategy, LBF was placed 17th among the top 20 Best Sri Lankan Brands for 2017 under a brand ranking study done by Interbrand. The rankings, which were determined by financial performance, role of the brand and brand strength, saw LBF emerge as the only NBFI among the top 20 Local Brands.

Meanwhile LBF move up the ranks from 80th position in 2016 to 33rd place in LMD's Most Respected Entities for 2017. The Most Respected Entities special edition continues with the tradition of adopting the Olympic Ranking System, launched in 2015 to determine peer perceptions of corporate admiration. Accordingly, Sri Lanka's Most Respected Entities are awarded gold, silver and bronze medals to reflect their standing in the eyes of their peers.

LBF came in 26th position among the top 100 Most Valuable Brands in Sri Lanka for 2017.

Invest in Information Systems

LBF believes agile and responsive digital information systems are critical to stay ahead of the curve. Having commenced its digitalisation journey as far back as 2011, the Company is currently in the process of upgrading the existing MIS system to ensure the business is fully-equipped to optimize value to the customer.

2015

- Social media marketing and introduction of daily collection loans system

2016

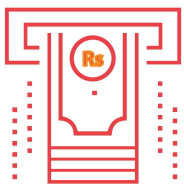
- Launch of LB e-connect - an online financial platform
- Mobile-based micro-finance solution to cater to people who do not have access to banks, ATMs etc.

2017

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

2018

- Introduction of cloud information technology platform for the gold loan product
- Installation of Cash Deposit Machines (CDM) machines
- Modification of sustainability website with new look
- Introduction of e-learning module to facilitate continuous and ongoing training



Intellectual Capital

Being one of the Company's core lending products, the move is aimed at bringing improvements in customer delivery times and cementing LB Gold Loans as the #1 choice in the market.

Making steady progress on its digital transformation strategy in the year under review, LBF ambitiously undertook to revamp the core financial system. The move, will see the roll out of new ERP modules that would systematically automate all aspects of the business and facilitate the seamless integration among all key business processes. Having already made significant investments to get the project off the ground, the focus for the year was mainly centred on improving the scalability of each module as well as sharpening the correlation between modules. To further strengthen capacity in this regard, a dedicated new software development team was set up to fine-tune key aspects of the project.

The other key area of focus for 2017/18 was the introduction of cloud-based applications to add value to the gold loan product. Being one of the Company's core lending products, the move is aimed at bringing improvements in customer delivery times and cementing LB gold loans as the #1 choice in the market.

Meanwhile having identified the need for strong Disaster Recovery (DR) infrastructure in order to support our growing operations, LBF took a decisive step to expand the capacity of the current Company's DR architecture in the year under review. The new upgrade greatly enhances the capability of the Company's DR infrastructure and enabling the DR site to support the business for an extended period of time in the event of an incident.

This was followed by a comprehensive business continuity drill to ascertain the effectiveness of the new DR infrastructure by testing the downtimes under each core component of the Business Continuity Management System. Conducted at the start of the workday on 20th February 2018, the results of the Business Continuity Plan (BCP) drill revealed that the Disaster Recovery site was live within a 10-minute window, critical systems within 15 minutes, and that support systems were engaged under 30 minutes. These minimal downtimes meant no drop in business volumes were reported during the DR drill, a fact that further underscores LBF's ability to promptly re-engage in the event of business disruption.

Key highlights of LBF's capacity upgrade

Initiative	Objective
ERP system	Process re-engineering to increase efficiency and reduce costs
DR architecture	Strengthen DR infrastructure to facilitate better business continuity planning and disaster recovery systems

Reinforce Culture and Ethics

LBF's unique corporate culture is based on six key elements, namely; excellence, ethics, professionalism, transparency, innovation and quality. These values permeate through the Company's culture and underpin every action and strategy relating to the delivery of the LB value proposition to the customer. In reinforcing the culture of service excellence, special emphasis is placed on training activities aimed at imbuing the right behaviour and attitudes among employees. Strict action to measure service quality, on an ongoing basis helps to determine service gaps and in turn reorient employee mindset and strengthen their commitment to the service excellence culture.

Ethical conduct is an integral part of LBF's corporate culture. In fact the commitment to ethical conduct has been the cornerstone of the Company's success – delivering strong returns and attracting and retaining customers, business partners and talented employees. Guided by its ethics policy, the Company is committed to operate all activities in full compliance laws and regulations affecting its businesses and employees. All employees have a duty to act in the best interest of the Company at all times and in doing so are expected to exercise the highest level of integrity, ethics and objectivity in their actions and relationships which may affect the Company. These principles are reinforced through the Employee Code of Conduct, while regular training is conducted to raise awareness and ensure employees do not misuse their authority or influence of their positions when representing the Company. LBF's whistleblowing policy encourages all employees to raise concerns, expose irregularities, uncover financial malpractices and prevent frauds without any fear of reprisal or adverse consequences. More details pertaining to ethical practices are contained under 'Corporate Governance' on page 46 and sustainability information on page 148.

FUTURE ACTION

Improve LBF's brand ranking

	Target position by 2020
Best Sri Lankan Brands	10th
LMD Most Respected Entities	20th
100 Most Valuable Brands in Sri Lanka (LMD)	Among the top 20

Manufactured Capital

MATERIAL DRIVERS

- Strengthening local footprint
- Unparalleled distribution channels
- Penetrate regional markets
- Expedite process automation

Our Manufactured Capital represent product and services deliverables and way of reaching customers within and beyond boundaries. We are tasked with allocating our Manufactured Capital to ensuring the highest and best use to sustain long-term value creation.

ACTION PLANS & OBJECTIVES	STATUS	PAGE
Expanding the customer access points	Opened 5 new branches (Achieved)	243
Business expansion to regional markets	Started Myanmar operation (Achieved)	245
Business process automation	Installed Cash Deposit Machines (In progress)	245
Upgrading customer touch-points	4 outlets upgraded and relocated (Achieved)	243

Achieved In progress Not achieved

SNAPSHOT OF CAPITAL OUTCOMES

IMPACT AREA	WHAT YOU WILL FIND	WHERE TO FIND
Transaction processing time	Reduce transaction processing time by 200%	Expedited process automation PAGE 245
Regional expansion	Started microfinance business operation in Myanmar	Penetrate regional market PAGE 245

Rs. 176.93 million
INVESTED IN IT INFRASTRUCTURE

Rs. 1,002.96 million
INVESTMENT IN FREEHOLD LAND AND BUILDING

5
NEW BRANCHES

3
CDM MACHINES INSTALLED

Rs. 44.97 million
INVEST ON MOTOR VEHICLES AND ACCESORIES

Online version available

IN A NUTSHELL

Invest in supporting infrastructure to enable the delivery of fit-for-purpose financial solutions to more customers across Sri Lanka.

OUR NEXT STEPS

Objectives for 2018/19

- Expansion of automated CDMs
- Enhance visibility and customer convenience through branch redesigns
- Expanding regional presence in Myanmar

Objectives for 2020 and beyond

- Digitalisation systems and operations

CHALLENGES

Technology adoptability for customers

PAGE 241

Discovering strategic locations

PAGE 241

Manufactured Capital

VALUE CREATION AMONG CAPITALS

Through the disciplined application of our business model – the active management of our service platform, including investing, financing and value added services– we optimise our manufactured capital, enabling us to provide sustained income and capital growth for all our stakeholders.

MANUFACTURED CAPITAL

- Opened 5 new branches
- Acquired property in Colombo 03
- Strategic relocation of 3 branches and gold loan centre
- Regional expansion to Myanmar

HUMAN CAPITAL

- We provided 220 new employment opportunities

INTELLECTUAL CAPITAL

- Enhanced brand loyalty via reaching the customer's doorstep
- Further enhanced customer privacy and assets security

SOCIAL & RELATIONSHIP CAPITAL

- Customer base increased by 14.85%
- 159 customer service centres
- Livelihood development through micro financing

NATURAL CAPITAL

- Used natural lighting as much as possible to reduce the cost and carbon emission
- Energy efficient equipments utilisation led to a reduction in energy consumption

FINANCIAL CAPITAL

- Built-up strong assets base
- Increased profitability

BENEFIT TO

EMPLOYEES

SOCIETY/ COMMUNITY

CUSTOMERS

SWOT ANALYSIS

Strengths	Weaknesses
Island-wide customer touch points	Inadequate parking facilities in city branches
Strengthen the regional presence	Space limitation in branch premises
Automated business processes	

Opportunities	Threats
Reaching untouched markets	Customer inadaptability for new technology
Introduce innovative products	Competitive landscape in regional markets
Reduce operational expenses	Rapidly-changing technology

Launching of cash deposit machines

HOW WE FACE THE CHALLENGES

Technology adoptability for customers

Customers are resistant to change from their existing practices.

At LBF we introduce customer-friendly technologies and encourage and teach them to be with technology and get the full benefits of its convenience. In order to do these, the understanding of customer behaviour and habits is key.

Discovering Strategic locations

Geographical outreach within the country is essential for our business growth. Identifying growth opportunities in competitive landscape is essential. We have recruited people with local experience and invest in knowledge and experienced corporate consultants.

Evaluation of global market trends, market opportunities and in-depth screening will help us to climb to a better position regionally.

Manufactured Capital

OUR PHILOSOPHY

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

LBF's Manufactured Capital is essentially the core infrastructure or touch-points comprising the network of LBF's own branches and gold loan centres, and the Company's call centres as well as key investments in technology and digital hardware that enable the Company to carry out its business and deliver the LBF brand promise to the market.

MANAGEMENT APPROACH

We strive to maintain 'make the branch visit a brand experience' culture. Outlets are the Company's main customer touch-points, much of our investments are centred on expanding branch network and layout in order to create measurable value to a broader customer base by facilitating enhanced accessibility and greater convenience. As a policy, we ensure that LBF branches are located strategically in cities and townships across the country so that they may serve as key touch-points for a wider geographical audience. An extension of this strategy includes setting up hub-centers in key cities to function as fit-for-purpose branches catering to the specific needs of the customers in a particular region.

To demonstrate our commitment to deliver a superior customer experience, we continue to review our existing branch layout in order to understand the need for change or improvement. Based on these findings, each year we invest in relocating / upgrading facilities at our branches. At the same time we have begun modernising the internal layout and external façade of our branches to reflect greater uniformity and clarity across the network. Alongside these efforts, we have launched a widespread digitalisation strategy to transform selected branches into fully equipped digital hubs. This also connects to our overall IT strategy, where we look to leverage on the latest digital technology to enhance the efficiency and effectiveness of internal processes in order to deliver a seamless customer experience every time.

Our strategy for the gold loan centres is to establish hub-units, in larger cities and with all other gold loan centres in that region to be anchored to the hub-unit. The call centres will play an increasingly important roll to LBF's service model, Company now allocates a significant capital expenditure each year to upgrade gold loan centre and branches.

In the year under review, LBF adopted a three-pronged strategy to develop Manufactured Capital.

INCREASE LOCAL FOOTPRINT

In line with our strategy to widen LBF's island-wide reach, a total of five new branches were opened in the year under review. The new branches set up in Mannar, Dharga Town, Bambalapitiya, Wadduwa and Karapitiya, are aimed at widening the reach in the Mannar, Kalutara, Colombo and Galle Districts, where the local economy has shown encouraging signs of development in the past few years. Capturing a modern look and feel and equipped with a range of advanced facilities, these latest branches are the first in a series of strategic hubs/super branches intended to reinforce LBF's position as the premier financial services institution in the country.

Meanwhile four of LBF's existing outlets in Kochchikade, Samanthurai, Gampola and Ragama were relocated to more customer-friendly localities that also offer greater visibility to LBF. Continuing with the ongoing facility upgrade programme.

To complement the aggressive efforts to promote the gold loan product, steps were taken to strengthen related infrastructure. The first phase of our project was to introduce VIP gold loan centre at Corporate Office.

Further emphasis on the gold loan product prompted the setting up of a new dedicated call centre in Jaffna specifically to cater to the Tamil speaking customers in the North and East regions of the country. This is the Company's fourth call centre, in addition to the call centres in Mount Lavinia, Delkanda and at City office.

Wadduwa branch opening

In the year under review, the Company invested in the branch network Rs. 1,492.36 million while the investment in IT infrastructure totalled Rs. 176.93 million. A further Rs. 44.97 million was invested in motor vehicles to accommodate the Company's expansion agenda. LBF also acquired a premium property within the Colombo city limits, a move that further strengthened the Company's strategic asset base during the year.

Since these investments amount to significant outflow of funds, it is imperative that we properly evaluate the expected outcomes so that the benefits can be reaped within the expected time frame. At the same time, we are also mindful of controlling the expenditure associated with the capital cost in order to maintain the overall cost efficiency of the Company.

New document archive facility in Maradana

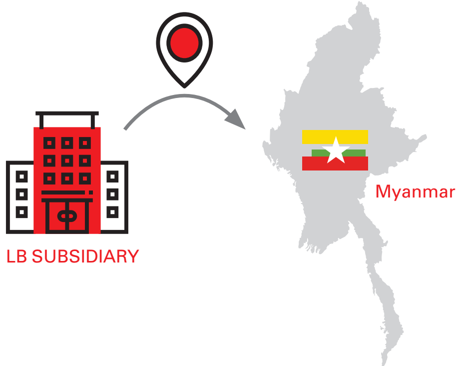
Manufactured Capital

OUR PRESENCE

123 Branches

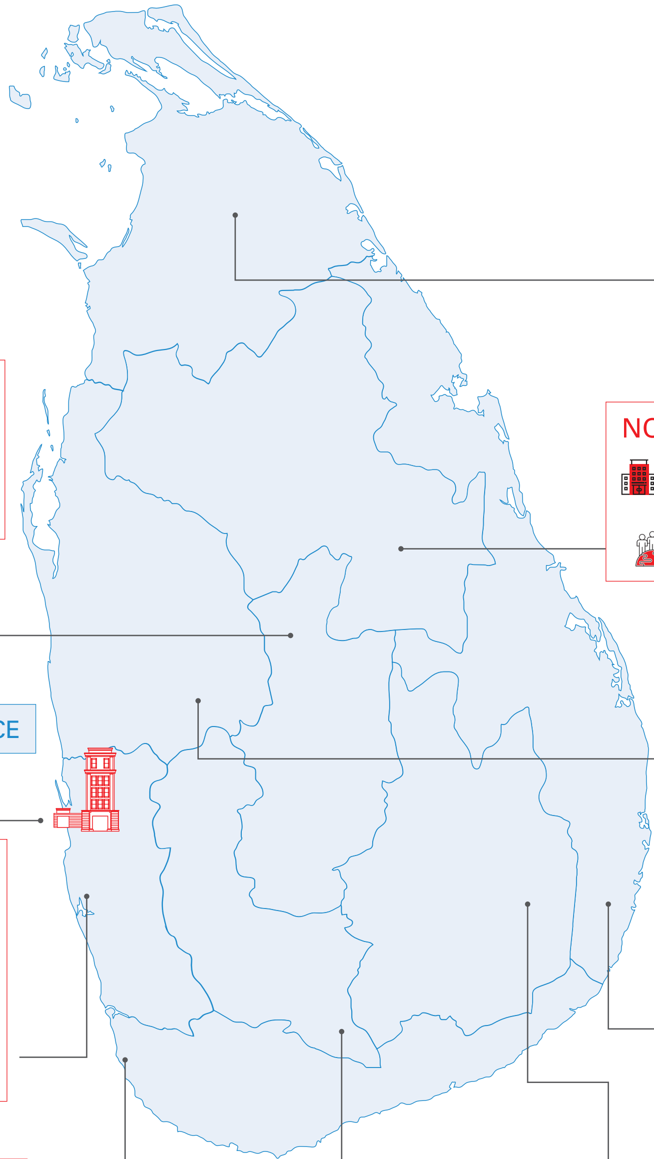
36 Gold loan centres

3,441 Employees



159 Locations

HEAD OFFICE



Province	Branches	Gold loan centres	Employees	LBF distribution of Loans (Rs. billion)	Population ('000)	GDP (Rs. billion)
NORTHERN PROVINCE	12		166	3	1,107	497
CENTRAL PROVINCE	15		303	10	2,690	1,254
NORTH CENTRAL PROVINCE	7		120	4	1,330	690
NORTH WESTERN PROVINCE	9		225	9	2,477	1,269
WESTERN PROVINCE	40	36	1,881	53	6,028	4,723
EASTERN PROVINCE	15		232	6	1,645	684
SOUTHERN PROVINCE	12		254	8	2,585	1,196
SABARAGAMUWA PROVINCE	6		155	5	2,009	897
UVA PROVINCE	6		105	4	1,333	691

Branches | Gold loan centres | Employees | Population ('000) | GDP (Rs. billion) | LBF distribution of Loans (Rs. billion)

PENETRATE REGIONAL MARKETS

Marking a significant milestone in its 47 year history, LBF expanded its footprint beyond Sri Lanka by setting up L B Microfinance Myanmar Company Limited (LBMF) in December 2017 as a Greenfield operation licensed to provide direct financial assistance to underserved farming communities in rural Myanmar to improve their livelihoods.

The inaugural LBMF branch was set up in Pyay, with plans underway to set up a second branch in the early part of the next financial year.

City office Colombo 03

EXPEDITE PROCESS AUTOMATION

Having understood that digitalisation remains an urgent need if LBF is to sustain its competitive edge. In 2011 the Company embarked on an ambitious all-encompassing digital transformation strategy that would ultimately automate all aspects of the business for the benefit of all LBF customers. The investment in CDMs marks the latest development in LBF's digital journey.

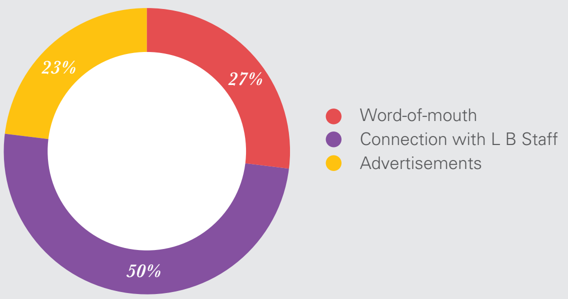
FUTURE ACTION

- Increasing the number of strategic hubs / super branches to anchor the Company's presence in key cities in Sri Lanka
- Expanding the number of gold loan centres in high-potential areas
- Open more branches in Myanmar to consolidate the regional presence
- Ongoing investment to upgrade IT infrastructure

KEY FOCUS AREAS OF THE RESEARCH

How you learn about L B Finance PLC as Financial Partner?

Understanding how customers hear about the Company, helps in determining LBF's main marketing thrust.



Human Capital

MATERIAL DRIVERS

- Recognised and reward high achievers
- Provide relevant and progressive learning opportunities
- Promote leader as a source of value
- Build a culture of engagement

Human Capital refers to our employees – our key resource and strategic differentiator. Their knowledge, skills, attitude and innovation enable us to realise our vision of being the best Sri Lankan financial company.

ACTION PLANS & OBJECTIVES	STATUS	PAGE
Reward high achievers	698 employees promoted	260
Enhance employee engagement	9,079 employee voluntary hours spent on CSR activities	263
Strengthen learning and development opportunities	25,845 Training hours	261
Generated new employment opportunities	1,313 new employees recruited	259

Achieved   In progress   Not achieved

SNAPSHOT OF CAPITAL OUTCOMES

IMPACT AREA	WHAT YOU WILL FIND	WHERE TO FIND
Employee recognition	698 employees promoted	Review of employee benefits and remuneration PAGE 252
Employee development	Average training per employees increased by 17%	Review of employee training PAGE 261

3,441
EMPLOYEES

25,845
EMPLOYEES TRAINING HOURS

Rs.8.56 million
TOTAL COST OF TRAINING

698
EMPLOYEES WERE PROMOTED

220
NEW EMPLOYMENT OPPORTUNITIES

Online version available

IN A NUTSHELL

Ensure our employees align their growth journey with that of the Company, and develop a sense of ownership and pride in being part of the LBF team.

OUR NEXT STEPS

Objectives for 2018/19

- Introducing flexi hours for selected employee sections
- Continuation of soft skill development programmes

Objectives for 2020 and beyond

- To be the best place to work in Sri Lanka

CHALLENGES

Training design and suitability
PAGE 249

Employee Attrition
PAGE 249

Developing soft skills of employees
PAGE 249

Human Capital

VALUE CREATION AMONG CAPITALS

Our employee value proposition, which deepens staff engagement, strives to cultivate and harness the power of our employees' passion and commitment. In this way, we always believe that investing in our employees creates unquantified values to LBF to go above and beyond.

HUMAN CAPITAL

- 220 new employment opportunities
- 6 leadership development programmes

FINANCIAL CAPITAL

- Rs. 2.03 billion financial benefits distribute to the employees
- Rs. 78.81 million staff welfare
- Rs. 8.56 million worth investment on training

INTELLECTUAL CAPITAL

- 23,279 soft skill development training hours
- Upgraded the front-end and back-end HR system

NATURAL CAPITAL

- 1,965 volunteering hour for environmental conservation projects
- 6 employee awareness programmes for energy conservation

MANUFACTURED CAPITAL

- Average number of employees per outlet increased to 21

SOCIAL & RELATIONSHIP CAPITAL

- 7,114 dedicated volunteers for community empowerment projects
- Loyal customer service via well trained customer representatives.
- Dedicated gold loan call centre for Jaffna region

BENEFIT TO

EMPLOYEES

SOCIETY/ COMMUNITY

CUSTOMERS

Strengths	Weaknesses
Multi-talented and experienced workforce	Millennial workforce commonly low employee engagement
Diversified ethnic groups with equal opportunities to be successful and achieve their potential	High internal competition turn to employee dis-satisfaction is not properly managed
Skillful and well-qualified management team	Aging workforce
Being one of the top brands in Sri Lanka with a positive conduct and value based environment	

SWOT ANALYSIS

Opportunities	Threats
Ability to attract skilled workforce locally and overseas	Brain drain to rivals
Availability of enough sources to attract	Changes in employee regulations and governance
Cater to new market segments	Reduction in newer generation willingness to perform sales jobs

Employee training

HOW WE FACE THE CHALLENGES

Training design and suitability

We always try to provide the best industry training experience. In the sense of training, the Company cannot provide or design a common training for all. In order to ensure that proper training is delivered to staff, the company conducts a TNA department-wise, and designs/facilitates and monitors training respectively.

Employee attrition

Talent audition and retention part is a major part of the HR process, therefore employee attrition is a big challenge for the company. To face these challenges LBF seeks to promote cross-divisional moves to enable employees to expand their skills and experience in order to have more rounded careers. Furthermore, this 'internal mobility' contributes to savings on redundancy and recruitment costs. Our continuous focus is to eliminate brain drain through our talent retention strategy where we build and engage colleagues with carefully drawn personal development plans (PDPs), recognition and rewards schemes.

LBF's approach to performance management comprises of three main steps: 1. defining expectations and setting objectives at the beginning of the year, 2. holding regular feedback conversations throughout, 3. reviewing performance at the end. The focus is on continuous and constructive conversations between employees and their managers.

Developing soft skills

Employees of the Company totally focus on the business growth. They work hard to ensure success of the Company. Therefore they encounter time constraints to develop their soft skills. By identifying this challenges the Company has taken many initiatives to enhance the soft skills of employees.

Human Capital

OUR PHILOSOPHY

Maximise the value of Human Capital by grooming employees as long-term strategic business partners equipped with the capacity to deliver on LBF's mission, values, and strategies and fulfill the expectations of customers, shareholders and all other stakeholders.

Simply put, our goal is to ensure our employees align their growth journey with that of the Company, and develop a sense of ownership and pride in being part of the LBF team.

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.

MANAGEMENT APPROACH

Stemming from this philosophy, LBF's overarching priority is to create an environment where employees remain committed, stay motivated, are consistently satisfied with the work they do and have realistic prospects for career advancement and fulfilling personal growth.

The dynamic environment in which the Company operates requires employees to be adaptable, results-driven, self-motivated, decisive and responsive team players. It is why we are continuously evolving our workforce management approach in an effort to gain access to the right people with the right capabilities to achieve our business objectives.

In order to attract and retain the best in-class talent pool, LBF's salary structures are benchmarked against industry standards and include a range of benefits (medical insurance, housing loan and vehicle loan entitlements) in addition to the basic salary. Over the years the Company has been attracting and hiring the top talent in the industry. Using a proven selection process that measures character, leadership and aptitude, applicants are identified and hired based on how well they fit our Company culture and envision their role in the Company's growth aspirations.

Our equality goals seek to ensure that all employees are provided with equal opportunities for development, advancement and promotion on merit and without prejudice. Moreover, in meeting the staffing needs of the branches, LBF has voluntarily committed to maintain a local hiring ratio of more than 90%.

In line with globally-accepted best practices, LBF has adopted the labour principles outlined by the UN Global Compact to create a work environment that is free from any form of prejudice, bias, harassment and violation.

Our Code of Conduct entrenches the right of all employees to be treated with fairness, equality and respect. Further, under LBF's inclusion strategy the discrimination of employees on the basis of gender, race, physical health, sexual orientation, individual belief systems and any other prejudicial grounds is prohibited. Employees are protected by local labour legislation and internal policies and practices ensure appropriate hours of work and statutory leave entitlements for permanent employees, while formal grievance procedures are in place to enable employees to lodge complaints. These compliance frameworks are monitored frequently to ensure compliance with labour legislation is up-to-date.

All LBF employees are entitled to a safe and healthy working environment, for we believe that health, wellness and fitness are fundamental for employees to effectively execute of their designated responsibilities. It is what inspires our commitment to ensuring the safety and security of our employees at all times. Our health and safety management systems are aligned to global standards, with a formal system in place to ensure that incidents are recorded, investigated and analysed in a structured and timely manner in order to identify root causes and prevent the recurrence of incidents.

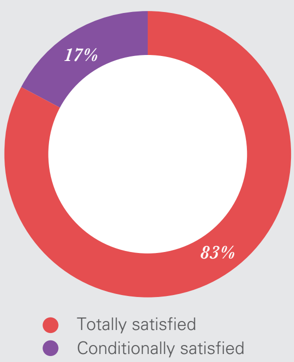
Toastmasters Club

In line with globally-accepted best practices, LBF has adopted the labour principles outlined by the UN Global Compact to create a work environment that is free from any form of prejudice, bias, harassment and violation.

KEY FOCUS AREAS OF THE RESEARCH

Overall Employee satisfaction with L B Finance PLC

Provides an insight into the Company's position as an employer of choice



GRI - 202 - 1, 401 - 2

Human Capital

PROGRESS REPORT 2017/18

In the year under review, the Company focused on strategic themes in seeking to create a fit-for-purpose Human Capital model that will accelerate LBF's long-term strategic agenda.

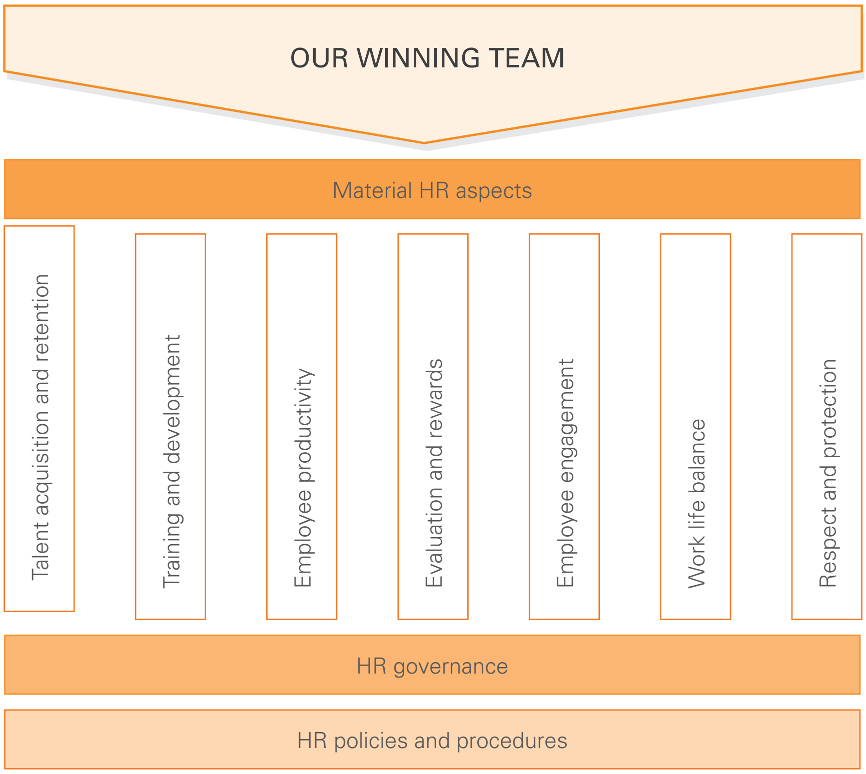
Talent acquisition and retention

LBF has a professional, well-thought-out and flexible recruitment process that ensures the Company recruits people for the jobs that suit their talents and capabilities. To preserve employee morale and ensure career growth, vacancies are filled through internal promotions wherever possible, while the Company maintains links to universities and professional bodies to facilitate entry-level recruitment. 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 aims and support the Company's values. The Company remains committed to ensuring that the recruitment and selection is conducted in a manner that is systematic, efficient and effective, and is also consistent with globally-accepted best practices equality and diversity.

REWARD HIGH ACHIEVERS

Remuneration and benefits

LBF's well-developed compensation structure rewards employees (full time) fairly according to their contribution to the Company. In addition to basic pay, LBF provides numerous other benefits such as performance-related bonuses, fuel and travelling allowances, vehicle allowances, loans and lease facilities below market interest rates, medical and insurance benefits, gratuity and reimbursement of membership of professional bodies.



The remuneration offered by LBF is either on par or above the sector and higher than the minimum wage rates prevailing in the country. Sharing success with LBF's employees has become a part of the Company culture, which has led to creating a strong bond between the Company and its employees. LBF's reward scheme provides compensation and benefits that are competitive within the market and the industry.

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

"TRIPLE E" APPROACH

EDUCATION

Develop the Company's employees' skills through learning experience

EXPERIENCE

Move employees across divisions and jobs enriching their work experience

EXPOSURE

Give them opportunities to interact with Senior Management and provide them with mentoring and training to prepare them for the positions they will hold

GRI - 404 - 3

Key value-adding initiatives for the year

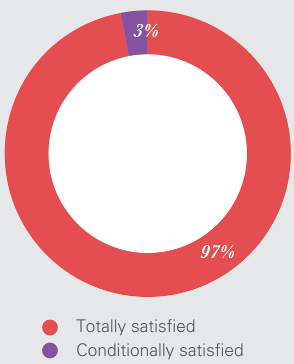
- Performance appraisals were completed for 95% of LBF's permanent employees through formal one-on-one meetings between employees and their respective managers
- 'Most Available Employee' under the 'Customer First' campaign
- 'Best Marketing Officer' campaign
- 'Best Starter' programme to capture the achievements of new recruits

Currently the Company does not seek or take into account stakeholder views regarding remuneration, including the results of votes on remuneration policies and proposals.

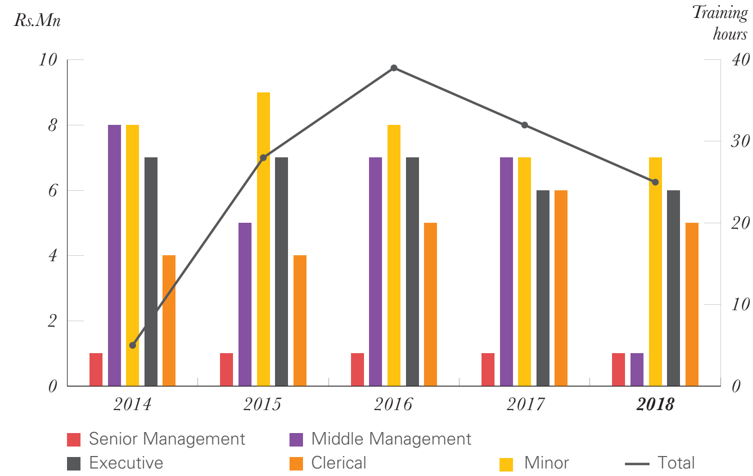
KEY FOCUS AREAS OF THE RESEARCH

Satisfaction with Growth Opportunities

Helps to establish the success of the Company's leadership development strategy



AVERAGE TRAINING HOURS BY EMPLOYEE CATEGORY



Evaluation and rewards

Recognition of exceptional performance is a key component of LBF's result-oriented focus. A performance management process is in place across the business, driven by a bi-annual performance review mechanism. The mid-year review conducted in October each year aims to highlight performance gaps and determine any also immediate training needs for the first six months of the year. Poor performers, especially those in marketing identified through this process, are supported through coaching and mentoring programmes in an effort to urge them to improve their performance outcomes in preparation for the year-end appraisal.

The year-end performance appraisal conducted in April each year assesses the employee's annual performance vis-à-vis pre-agreed divisional/business unit-level targets and objectives set at the start of the previous financial year. Performance incentives and annual salary increases are determined through this appraisal process.

In addition, LBF employees benefit from a range of incentives and rewards programmes that recognise specific achievements.

PROVIDE RELEVANT AND PROGRESSIVE LEARNING OPPORTUNITIES

LBF is committed to ensuring that all staff have access to learning and development opportunities, which enable them to be suitably knowledgeable and skilled to carry out their role within the Company, and to develop their talents in ways that fit with the Company's long-term strategic objectives.

Training and development

To give the Company a competitive advantage, LBF's training focus is mainly three-fold;

1. 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

Human Capital

2. 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 and regulatory environment, etc.
3. Management training, including supervisory skills and leadership development programmes

Training Model

In-House Training — External Training

Classification stage
- Service of employee
- Designation
- Duties and responsibilities
- Age of employees
- Branch and geographical area

DOCUMENTING DETAILS

Training need analysis
- This involves analysing the training need by using following methods
  - Observations
  - Questionnaires
  - Focus groups
  - KPI analysis
  - Supervisor consultation
  - Performance appraisals
  - Customer feedback

DOCUMENTING DETAILS

Training decision

Training design
- Establishing training objectives
- Trainer selection
- Evaluation methods establishment
- Facility arrangement
- Communication to relevant parties

Training delivery
- Delivering the expected knowledge to the audience
- Coordination and observation

Training effectiveness analysis
- Evaluating the reaction
- Feedback forms
- Evaluating the behaviour
- Mystery shopper
- Observations
- Supervisor comments
- Evaluating the results
- Target achievement analysis

DOCUMENTING DETAILS

The decision to invest in training is determined by the needs of the business as well as the staff member's individual needs. The annual performance appraisal mechanism (as described above) serves as basis for a comprehensive training needs analysis, with the responsibility for identifying training and development needs being shared between the employees and their respective managers. All employees are expected to play an active role in planning their own training schedule, participating in agreed development activities, and applying their learning tools in practice. Most skills training activities draw on the knowledge and expertise of LBF's own senior management. This ensures that the advice, guidance and cross-functional or on-the-job training is directly applicable to the work context and Company culture as well as highly relevant to each individual employee. All senior managers are assigned monthly training targets, and have the flexibility to meet them either individually or in collaboration with cross-functional colleagues.

LBF strongly believes in identifying and developing leadership within the Company. For employees who demonstrate the necessary capabilities and drive, special development plans are drawn up, enabling each of them to access meaningful growth opportunities by matching their personal strengths and interests with business needs.

TOWARDS A NEW LEARNING DIMENSION – THE CASE FOR INVESTING IN A DIGITAL WORKPLACE

Given the rapid pace at which LBF's business is growing and evolving, we believe that a digital workplace can materially change the way our employees work. In this fast-paced era, a digital workplace offers a simple, fast and effective solution. It operates as a single-source of information capable of servicing the critical need for speed, enabling employees to connect faster, communicate better, and collaborate for more effective results.

While the immediate benefit would be an improvement in work efficiency, the real value of a digital workplace is the competitive advantage to the Company.

LBF's digital workplace strategy is a long-term undertaking that aims to streamline business processes, promote employee collaboration and drive successful business outcomes to give the Company a definite edge over peers.

Taking the first steps towards implementing a digital workplace strategy, LBF launched a new e-learning platform – the Virtual Learning Academy in 2017 – as a part of an ongoing effort to encourage users to migrate from physical learning channels to a virtual learning environment.

Meanwhile, to counter the initial resistance to the new e-learning tool, the Company continued raising awareness among employees, with additional incentives being offered to motivate employees to use the e-learning tools offered through the Virtual Learning Academy.

Given our strong emphasis on result-oriented training, all investments in training and development are regularly reviewed to ensure not only that adequate resources are being provided but also that training and development activities are delivering the desired benefits to both the employee and the business. LBF's managers have a responsibility to monitor and evaluate the effectiveness of learning by encouraging formal feedback from employees under their supervision who have undergone training. As a follow-up to the formal feedback form, managers and employees meet separately to further discuss the qualitative aspects and cost effectiveness of most recent training programmes.

The effectiveness of specific initiatives, such as customer service training is assessed through our mystery shopper surveys conducted monthly by an independent third party service provider. The effectiveness of sales and marketing training are measured against individual achievement or surpassing of individual revenue targets.

PROMOTE LEADERS AS A SOURCE OF VALUE

LBF strongly believes in identifying and developing leadership within the Company. For employees who demonstrate the necessary capabilities and drive, special development plans are drawn up, enabling each of them to access meaningful growth opportunities by matching their personal strengths and interests with business needs. Employees are groomed through combination of on-the-job training, job-rotations and cross-functional assignments along with technical, functional and leadership skills training, to prepare them for future roles and leadership responsibilities.

LBF's senior management remains actively involved in the development of the Company's leadership pipeline, contributing through knowledge sharing and mentoring to help budding young managers acquire the rights skills and behavioural attitudes needed to take the Company to the next level.

GRI - 102 - 41

Human Capital

BUILD A CULTURE OF ENGAGEMENT

Employee Engagement

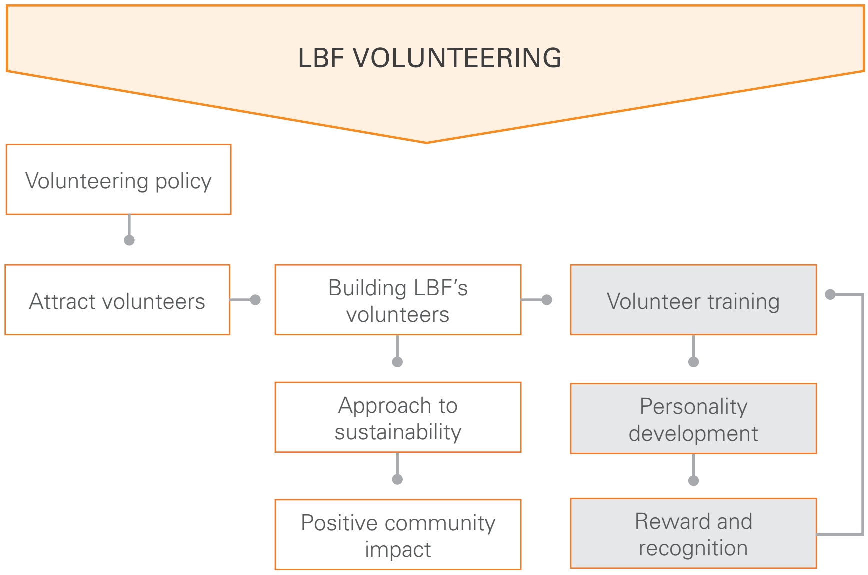
We believe there is a direct link between employee engagement and business performance and our ability to serve customers. We believe that reinforces LBF's commitment to promote a culture of engagement across the Company.

The responsibility for maintaining strong and ongoing dialogue with employees lies with the managers of each division or business unit. This process of listening to and learning from our employees builds mutual trust, and also provides the management with the opportunity to solicit new ideas, or identify solutions improvements that would pave the way for a more effective and productive working environment. The Company has also put in place a number of other formal and informal channels to keep employees abreast of new business strategies and directives issued by the Company's leadership.

LBF's employees also benefit from a range of activities designed to promote camaraderie and foster team spirit away from the formal work setting.

Employee volunteerism

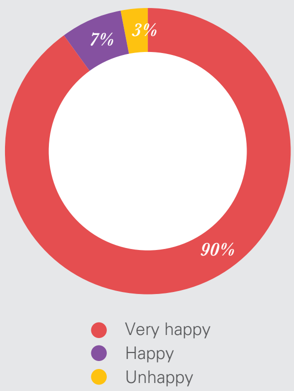
Employee volunteerism is a key component of LBF's employment proposition. The Company encourages its employees to spare their personal time and effort to work towards the greater good of society. LBF's volunteer programme is geared to making a sustainable social impact in the longer term and also increasing employee job satisfaction. The sustainability projects carried out by volunteers bears testament to the enthusiastic involvement of employees. LBF focuses and reports annually on the Company's volunteering and sustainability activities. This makes it easier for LBF as a Company to reach beyond business.



KEY FOCUS AREAS OF THE RESEARCH

Satisfaction with Working Environment

Helps to determine the success of the Company's commitment to create an inclusive work environment



Equal opportunities and diversity

Diversity is recognised and valued within LBF's culture. The Company has always believed that best diversity practices contribute to the positive results in the work environment.

Respect and protection

Labour practice and decent work practices

LBF respects the rights of workers and believes in providing them a safe and conducive working environment. The Company endeavours to provide satisfaction with working conditions and remuneration, physical safety, opportunities to contribute to society as well as giving them


Employee volunteering

FUTURE ACTION

- Build a digitally-enabled workforce
- Focus on competency-based/work-related training modules
- Enhance employee engagement activities
- Position LBF as an employer of choice
- Increase investment in e-learning modules

opportunities to come forward with their suggestions and express their opinions.

Freedom of association and collective bargaining

Due to the values, practices and policies that the Company upholds it has been able to eliminate the need for trade unions and collective bargaining agreements. During the year under review, the Company has not faced any type of industrial disputes.

Health and safety

LBF follows a Zero accident work practices. To facilitate the creation of a hazard-free environment the Company has introduced policies and procedures for all branches across the Island. These procedures range from simple precautions to situations that demand more complex applications. Basic safety instructions are prominently displayed at all locations, while a specialised Business Continuity Plan is in place for potential emergencies.

Further, as a service sector organisation, LBF's employees are not exposed to the risk of occupational diseases.

Career management and succession planning

LBF believes in business partnerships, more than employment developing and supporting employees in their careers. The Company's employee development and succession planning programme seeks to ensure the right talent is in place at the key positions. LBF's succession planning model is based on the identification of 'choke points', (things that can stop the business from running), and determining the critical/key positions associated with these "choke points". Different tools are used to earmark for training, potential employees with capabilities to take over these critical positions should the need arise.

Individual development plans are formulated for selected candidates, who are then rigorously trained in order to prepare them for their future roles.

GRI - 102 - 8, 405 - 1

Human Capital

GRAPHICAL REVIEW OF TOTAL EMPLOYEES

Total employees by region and gender

T - 1

Province	2017/18 Male	2017/18 Female	2017/18 total	2016/17 Male	2016/17 Female	2016/17 total
Central	209	94	303	178	76	254
Eastern	153	79	232	157	78	235
Northern	95	71	166	77	47	124
North-Central	93	27	120	103	31	134
North-Western	145	80	225	128	65	193
Sabaragamuwa	111	44	155	123	42	165
Southern	178	76	254	158	76	234
Uva	76	29	105	70	26	96
Western	1119	762	1,881	1,082	704	1,786
Total	2,179	1262	3,441	2,076	1,145	3,221

Employees by employment category (Including governance body) and gender

T - 2

	2017/18 Male	2017/18 Female	2016/17 Male	2016/17 Female
Board of Directors	7	3	7	4
Senior Management and above	21	3	19	3
Middle Management	259	30	217	27
Executive	819	557	732	469
Clerical	985	670	1,013	645
Minor	91	2	92	-
Total	2,182	1,265	2,070	1,148

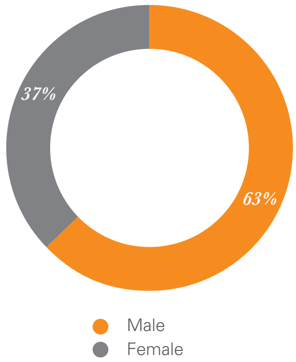
Analysis of employees by contract type and gender

T - 3

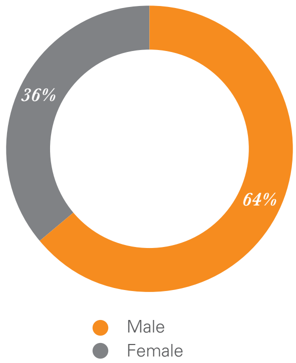
Employee type	2017/18 Male	2017/18 Female	2016/17 Male	2016/17 Female
Full-time employees (Permanent)	2,167	1,261	2,069	1,144
Employees on contract basis	12	1	7	1
Total	2,179	1,262	2,076	1,145

G - 1

EMPLOYEE ANALYSIS BY GENDER 2018

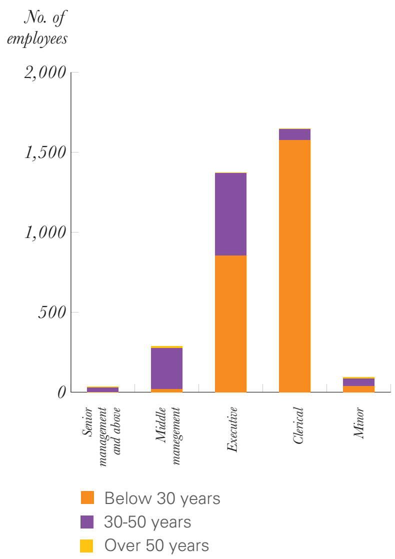


EMPLOYEE ANALYSIS BY GENDER 2017



G - 2

TOTAL NUMBER OF EMPLOYEES BY AGE GROUP AND CATEGROY - 2017/18



GRI - 401 - 1

GRAPHICAL REVIEW OF NEW EMPLOYEES HIRED

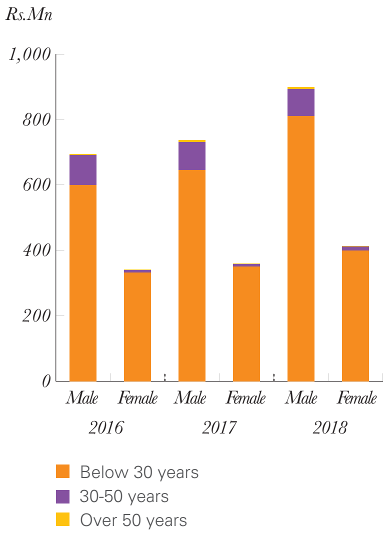
New employee hired by region and gender

T - 4

Province	2017/18 Male	Female	total	% Male	% Female
Central	86	32	118	7%	2%
Eastern	80	28	108	6%	2%
Northern	40	32	72	3%	2%
North-Central	36	13	49	3%	1%
North-Western	52	26	78	4%	2%
Sabaragamuwa	42	12	54	3%	1%
Southern	65	13	78	5%	1%
Uva	29	12	41	2%	1%
Western	470	245	715	36%	19%
Total	900	413	1,313	69%	31%

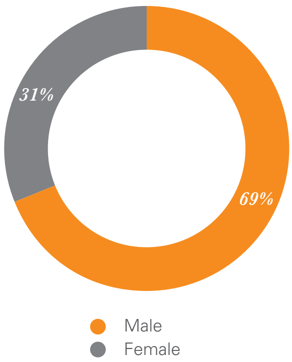
G - 4

NEW EMPLOYEE HIRED BY AGE CATEGORY AND GENDER

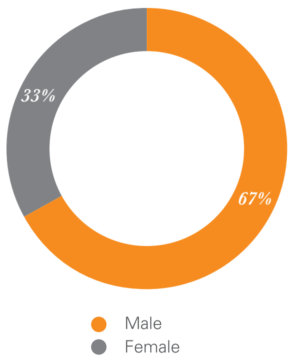


G - 3

NEW EMPLOYEES HIRED BY GENDER 2018



NEW EMPLOYEES HIRED BY GENDER 2017



GRAPHICAL REVIEW OF EMPLOYEES TURNOVER

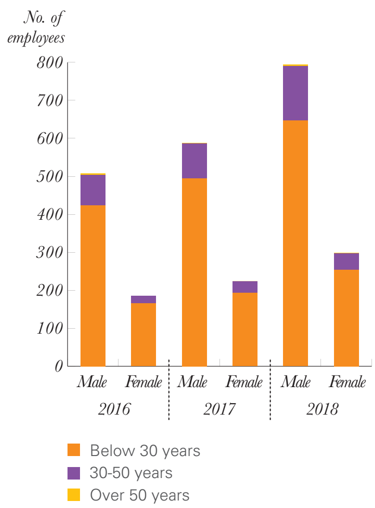
Employee turnover by region and gender

T - 5

Province	2017/18 Male	Female	total	% Male	% Female
Central	59	14	73	5%	1%
Eastern	96	28	124	9%	3%
Northern	26	14	40	2%	1%
North-Central	27	12	39	2%	1%
North-Western	47	10	57	4%	1%
Sabaragamuwa	52	10	62	5%	1%
Southern	51	11	62	5%	1%
Uva	22	8	30	2%	1%
Western	414	192	606	38%	18%
Total	794	299	1,093	73%	27%

G - 5

EMPLOYEE TURNOVER BY AGE CATEGORY AND GENDER



CAPITAL REPORTS

GRI - 201 - 3, 405 - 2

Human Capital

Employee turnover by reason

T - 6

Reason	2017/18 Male	2017/18 Female
Resignation	787	299
Retirement	5	-
Premature retirement	-	-
Deceased	-	-
Termination	2	-
Total	794	299

GRAPHICAL REVIEW OF EMPLOYEE BENEFITS AND REMUNERATION

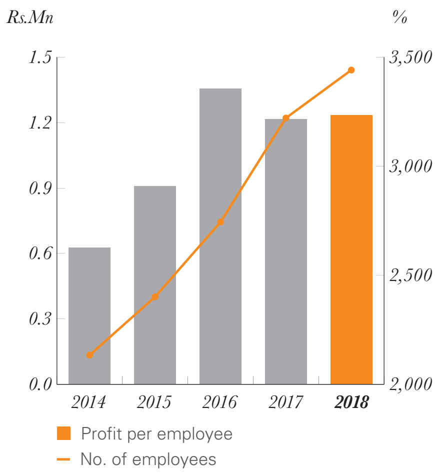
Category wise promotions

T - 7

Category	2017/18	2016/17	2015/2016
Board of Directors	-	-	1
Senior Management	2	2	2
Middle Management	86	52	60
Executive	606	512	256
Clerical	4	5	2
Total	698	571	321

G - 6

PROFIT PER EMPLOYEE



Standard benefits for full-time employees

T - 8

Employee benefits	2017/18	2016/17	2015/2016
Salaries and other related expenses	2,034.88	2,021.25	1,573.92
Employer's contribution to EPF	188.58	162.96	129.98
Employer's contribution to ETF	37.71	32.59	25.99
Gratuity	44.68	37.10	33.03
Total	2,305.85	2,253.90	1,762.92

Ratio of basic salary of women to men by employee category

T - 9

Category	2017/18 Female	2017/18 Male	2016/17 Female	2016/17 Male	2015/16 Female	2015/16 Male
Senior Management	1	3.03	1	2.41	1	2.42
Middle Management	1	0.94	1	0.93	1	0.91
Executive	1	1.03	1	1.03	1	1.05
Clerical	1	1.07	1	1.03	1	1.01

GRI - 404 - 1, 2

GRAPHICAL REVIEW OF EMPLOYEE TRAINING

Trainings carried out

T - 10

Type of training	2017/18 No of employees	2017/18 Direct cost (Rs.)	2016/17 No of employees	2016/17 Direct cost (Rs.)
Employee motivation	548	114,712	536	526,246
Marketing skills	455	448,279	-	-
First aid training	115	24,955	17	-
Grooming session	122	175,004	5	30,000
Internal customer service	44	-	-	-
Service excellence	430	426,751	510	960,139
Microsoft office packages	-	-	-	-
Internally-held technical training programmes	402	217,938	139	-
Outbound	61	472,191	113	529,689
Toastmasters (Speechcraft)	28	200,000	26	200,000
Soft skill training (internal/external programmes)	1,008	983,378	815	2,026,326
Managerial skills	319	268,814	-	-
Orientation	1,037	-	983	-
Information communication technology	76	530,943	-	-
Performance-oriented training	-	-	191	260,969
Training for security officers	80	-	-	-
Telephonic etiquette	110	49,973	-	-
Total	4,835	3,915,437	3,335	4,533,369

Average hours of training per employee by gender

T - 11

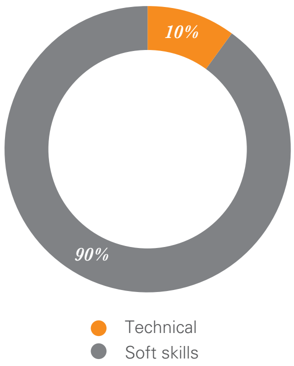
Employee category and type of programme	2017/18 Training Hours Male	Training Hours Female	Training Hours Total	No. of employees Male	No. of employees Female	No. of employees Total
Senior Management						
Technical	77.5	2.5	80	19	1	20
Soft skills	304.25	20.5	324.75	66	7	73
Middle Management						
Technical	596	10	606	128	1	129
Soft skills	2,102.55	362	2,464.55	514	78	592
Executive						
Technical	401.5	446	847.5	69	62	131
Soft skills	4,014.8	1,836.25	5,851.05	741	381	1,122
Clerical						
Technical	544.5	488	1032.5	105	91	196
Soft skills	8,975.45	5,471.65	14,447.1	1,569	917	2,486
Minor						
Technical	0	0	0	0	0	0
Soft skills	192	0	192	86	0	86
Total	17,209	8,637	25,845	3,297	1,538	4,835
Avg training hours per employee	7.9	6.8				

GRI - 401 - 3

Human Capital

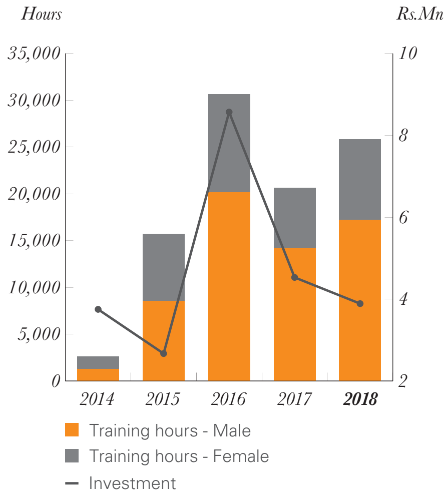
G - 1

TRAINING HOURS BY TYPE OF TRAINING 2018



G - 5

TRAINING HOURS BY GENDER AND INVESTMENT IN TRAINING



GRAPHICAL REVIEW OF EMPLOYEE – AGE GROUP AND GENDER

Total number of employees by age group and employee category

T - 12

Employee type	Below 30 years	30-50 years	Over 50 years
Senior management and above	1	26	8
Middle Management	21	256	12
Executive	854	515	6
Clerical	1578	66	5
Minor	38	47	8

GRAPHICAL REVIEW OF EMPLOYEE – OTHER INFORMATION

Category-wise promotions

T - 13

Category	2017/18	2016/17	2015/2016
Board of Directors	-	-	1
Senior Management	2	2	2
Middle Management	86	52	60
Executive	606	512	256
Clerical	4	5	2
Total	698	571	321

Return to work and retention rates after parental leave

T - 14

Description	2017/18	2016/17	2015/16
Total number of female employees	1,262	1,145	953
Total number of employees that took maternity leave	74	91	49
Number of employees who returned to work after maternity leave ended	58	57	44
Number of employees who returned to work after maternity leave ended and still employed twelve months after their return to work	49	53	19
Return to work rate	87.88	62.63	89.80
Retention rate	65.33	92.98	61.29

CLUB AND SOCIETIES

LBF Volunteering

Objective

To encourage and guide volunteering at LBF and to impact not only communities but also employee well-being

Key initiative

Rewarding and recognition of key performers surpassed the set target of 2,000 volunteering hours for this year

Date formed

11th November 2014

Number of members

182

Walking club

Objective

Promoting health and fitness among the employees

Key initiative

BMI monitoring and rewarding health screening

Date formed

7th February 2014

Number of members

122

Readers club

Objective

Providing a platform for expanding the scope of knowledge and innovative thinking

Key initiative

Launching the library with a wide collection of books

Date formed

8th March 2016

Number of members

83

Photographic Society

Objective

Make an enjoyment of photography accessible to all staff for stress management and promoting good mental health

Key initiative

Conduct a photography exhibition

Date formed

6th February 2014

Number of members

146

WORK-LIFE BALANCE

LB Night 2017

Vesak lantern competition

LB Got Talent 2017

Social and Relationship Capital

Financial services is embedded in the community and as a consequence LBF sees Social and Relationship Capital as the link between our business and society. By managing this capital, we are able to create and identify new opportunities to deliver enduring value and mutual benefit to the societies in which we operate.

MATERIAL DRIVERS

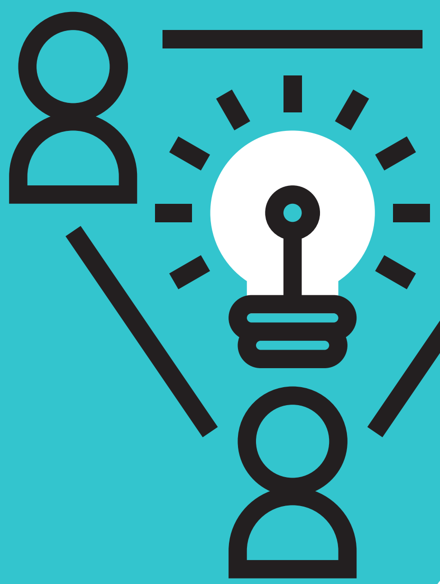
- Financial inclusion
- Knowledge and beyond
- Health and nutrition
- Empowering communities
- Understanding the customer needs
- Innovative product offerings
- Unparalleled distribution
- Effective communication
- Unmatched service

ACTION PLANS & OBJECTIVES	STATUS	PAGE
Empowering entrepreneurs	Encouraging and developing women entreprenurs	280
Engage in outcome-based community investment	Rs. 20.00 million community investments	280
Improving community outreach through employee volunteerism.	7,114 voluntary hours on community project	280
Improving customer experience	Innovative product offerings	270

Achieved In progress Not achieved

SNAPSHOT OF CAPITAL OUTCOMES

IMPACT AREA	WHAT YOU WILL FIND	WHERE TO FIND
Loyal customer base	Customer base increased by 14.85%	Customers PAGE 268
Community development	Investment in sustainable initiatives increased by 62%	Community progress report PAGE 280



Online version available

Rs.3,090.42 million

ECONOMIC VALUE GENERATED TO COMMUNITY

27

TOTAL FINANCIAL SOLUTIONS

9,079

VOLUNTEER HOURS ON CSR PROJECTS

Rs.23.51 million

INVESTED ON SUSTAINABLE DEVELOPMENT PROJECTS

Rs.3,038.17 million

PAID TO THE GOVERNMENT

IN A NUTSHELL

Responsible management of business operations to maximize value created for customers, suppliers and the community.

OUR NEXT STEPS

Objectives for 2018/19

- SME with special emphasis on youth and women entrepreneurs
- Appointing CSR ambassador in every region to execute CSR vision on LBF
- Enhancing customer experience through latest technology advancement

Objectives for 2020 & beyond

- Offering tailor made financial solutions for untouched markets within and beyond the country.

CHALLENGES

Volatility in macroeconomic factors

PAGE 267

Intense market competition

PAGE 267

Customer satisfaction

PAGE 267

Social and Relationship Capital

VALUE CREATION AMONG CAPITALS

Financial products and services are our commodity, but people are our business. We differentiate ourselves through a dedicated people-centric approach to business, focusing on excellence in the context of relationships. We nurture this culture internally and extend it externally in the way we engage with and add value to the lives of our stakeholders.

SOCIAL & RELATIONSHIP CAPITAL

- Value distributed to deposit customers Rs. 11,077.10 million
- Total 73,532 number of facilities granted

FINANCIAL CAPITAL

- Tax paid to the government Rs.3,038.17 billion
- Rs.23.51 million in sustainable initiatives

HUMAN CAPITAL

- 7,114 volunteering hours spent on community development projects
- 45% employees serve customers outside the Western Province

NATURAL CAPITAL

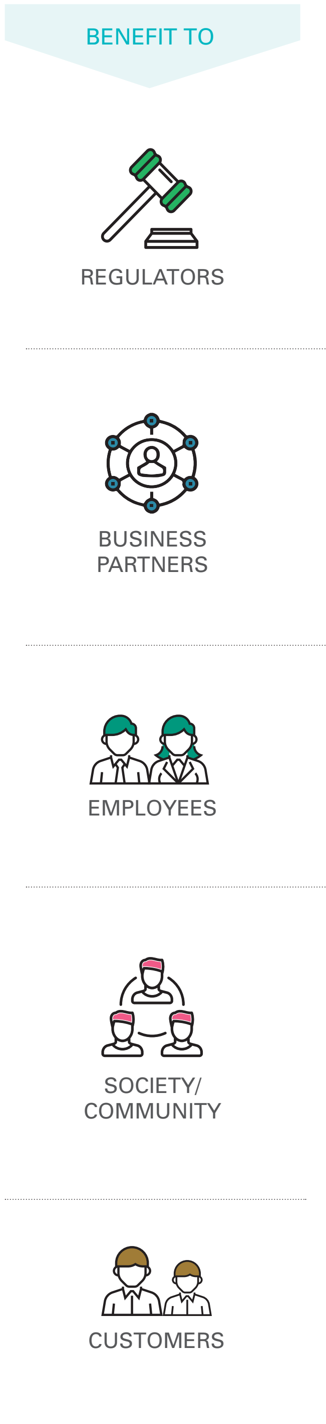
- Rs. 3.5 million invested in environmental conservation projects carried out during the year

MANUFACTURED CAPITAL

- Rs. 1.35 million investment on property, plant and equipment upgrade

INTELLECTUAL CAPITAL

- Brand value of Rs. 4,236 million LMD Brand 2018
- 81,474 social media followers
- Total 2,978 e-connect transactions



SWOT ANALYSIS

Strengths	Weaknesses
Strong and loyal customer base	Insufficient information on social development needs
Long-term business relationship with business partners	Inadequate market survey information.
Strong brand perception among the community	

Opportunities	Threats
Branch expansion in remote areas	Market share-oriented competition
Encourage and empower women and youth entrepreneurs	Similar products are introduced by rivals
Enhancing community welfare benefit at needy areas	Government policy changes

Stock Market Challenge 2017

HOW WE FACE THE CHALLENGES

Volatility in macroeconomic factors

With a volatile local socioeconomic environment in the prevailing climate of uncertainty, we need to think more systemically, embrace the complexity of the forces shaping our macro environment and influencing our business and, in doing so, gain a fresh perspective. The 2017/18 year challenged us to rethink the way we operate, taking the opportunity to thoroughly examine our external environment and then look inward, assessing how much organisational muscle we can muster, not only to weather the complexity around us, but to ensure that we're positioned to create and capture opportunities.

Intense market competition

We believe that customers want destinations that provide more than just financial experience. Our strategy is to focus on creating outstanding places for modern consumer lifestyles that differentiate us from our competitors, and at the same time our strategic drive to grow our brand is a means of setting us apart. This drive will encourage us to solidify the LBF brand promise in an increasingly competitive marketplace.

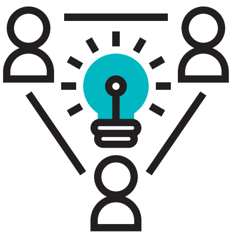
Customer satisfaction

Spaces that deliver on their customers' needs and keep up with the latest trends at market-related technologies to satisfy the customer are essential. Due to competition in the market and industry, our customer satisfaction strategy leads with customer retention procedures. Therefore customer satisfaction is major challenge. At LBF we have sought to modernise the traditional work experience, creating a space that meets operational efficiency and client expectations to deliver the optimum finance solution wherever needed.

Social and Relationship Capital

OUR PHILOSOPHY

Ensure consistently high customer satisfaction through the delivery of best-in-class products and services that will delight the customer every single time, leading to higher uptake of our products and enabling LBF to increase market share.



Each year we make significant investments to enhance the customer experience by leveraging on opportunities to provide simple, fast and easy financial solutions for our customers.

MANAGEMENT APPROACH

Customers are at the heart of LBF's business strategy and a central part of our brand promise. To develop strong relationships with our customers, we are committed to fulfilling their every financial need via a broad range products made accessible through a variety of channels and coupled with the 'best-in-class' customer service.

Each year we make significant investments to enhance the customer experience by leveraging on opportunities to provide simple, fast and easy financial solutions for our customers. Led by our product responsibility framework, we make sure that all LBF products go through a rigorous evaluation process prior to their release to the market. We use this process mainly to establish the appropriateness of our products in meeting the financial needs of the customer and to implement strict guidelines and follow-up procedures to prevent the misuse of our products in a manner that could compromise customers' health and safety.

At the same time, we are focused on leading the way in the digital age and in recent years have introduced innovations that offer 'best-in-class' digital customer service. Our aim is to create a seamless experience for customers, whether they are visiting a branch, using a computer or a mobile device on the go.

We continue to engage in proactive efforts to reorient our business model and ensure that all operations become more customer-centric, which has prompted the adoption of a service culture that puts the customer at the focal point of everything we do. Renewing our commitment to the customer, January 2018 was declared as the "Customer-First" month with extensive training along with a series of workshops being held throughout the month to enhance service levels of front-line customer contact staff. As a follow-up to this initiative, we commissioned a study to assess how satisfied our customers are with LBF's products, service and outreach, vis-à-vis industry peers and the banking sector. The study, conducted by the University of Kelaniya through a structured questionnaire coupled with follow-up phone interviews saw 22 customers and 20 non-customers in several areas across the country being surveyed.

We continue to engage in proactive efforts to reorient our business model and ensure that all operations become more customer-centric, which has prompted the adoption of a service culture that puts the customer at the focal point of everything we do.

CAPITAL REPORTS

CUSTOMER RESEARCH

Each year LBF commissions an independent perception study to measure the Company's positioning within Sri Lanka's financial services industry. Using a combination of qualitative and quantitative research tools the annual study serves as a comparative indicator to identify changes in customer perceptions and behaviour patterns.

Objective of the research

1. Consumer awareness on L B Finance and its product
2. Perception of existing customers of L B Finance and its service
3. Perception of non-L B Finance customers of their banks and L B Finance
4. General public satisfaction/ perception over banks and finance Companies
5. Perception of L B Finance employees on the Company

Methodology

Preliminary Qualitative Study; a questionnaire structured to obtain detailed information relating to the objectives of the study.

Quantitative Survey Study:

The second part of the study is designed based on the findings of the preliminary findings of the qualitative study.

Research Conducted by:

University of Kelaniya

GRI - 418 - 1

Social and Relationship Capital - Customers

In the year under review, LBF followed a broader strategic approach to optimise the customer experience vis-à-vis four strategic themes.

Being privy to large volumes of sensitive customer information, we fully understand the need to safeguard customer information. As a leading financial institution we strongly believe in the responsible use of such information collected from individuals and businesses. Accordingly, we have put in place policies and procedures designed to safeguard customer privacy and protect the confidentiality of personal information. In this regard we have adopted the ISO 27001:2013 Information Security Management System and comply with the CBSL confidentiality requirements. To prevent a potential data breach, we have also established additional checks and balances to allow access to information only to personnel who are authorised to do so. Further we provide employees with privacy training, promote privacy awareness, and have implemented ongoing monitoring and testing of privacy risk and compliance with applicable privacy laws. In this regard there were no substantiated complaints concerning breaches of customer privacy and loss of customer data.

Fair dealing is integral to our culture and underpins LBF's efforts towards becoming more open and transparent with our customers. We are committed to conducting our business in an honest and ethical manner and therefore do not engage any form of anti-competitive behaviour, and maintain a zero-tolerance approach towards bribery and corruption. We expect all employees to adhere to these principles when representing the Company and offer regular training to reinforce these tenets. Company also adopted a gift policy.

In the year under review, LBF followed a broader strategic approach to optimise the customer experience vis-à-vis four strategic themes.

INNOVATIVE PRODUCTS OFFERINGS

LBF's leadership position in the NBFI sector is the result of the Company's vibrant product portfolio that is geared to service the needs of individual (retail) customers and support the growth of small businesses across the country. Ranging from simple financial products to complex tailor-made solutions, LBF products are structured responsibly in order to provide customers with right solutions, at the right time and at the right price.

GRI - 102 - 2

SEGMENT PROFILE OF PRODUCT PORTFOLIO

	KIDS	GENERAL	SENIOR CITIZEN
A safe place to save, invest and manage funds » Accepting customers' deposits, and raising funds » Investment management products	**Kids' Savings** A unique savings account that enables parents to save for their children and offer attractive rates of interest and gift schemes.	**Fixed deposits** Fixed deposits yield the highest return on investment with an array of attractive benefits **Regular savings** A rewarding way to get into the habit of saving and be rewarded with multiple benefits. **Salary plan** A perfect savings scheme for the salaried, self-employed and professionals.	**Fixed deposits** **Senior citizen savings** A savings product with a relatively high yield and privileged services and benefits for the deserving senior citizens.

Provide funds for purchases and growth

» Financing through leasing & hire purchase

» Fulfilling individual financial requirements

» Arrangements of funds for day-to-day business requirements

Individual needs

» Micro financial requirements

Leasing and Hire purchase
Flexible financial solutions provided by convenient leasing and hire purchase services.

Auto lease
Offering the Ijara contracts for vehicles

Mortgage loans
Convenient and flexible financing with longer tenures of repayment to build/own your dream house.

Vehicle loans
Help to finance your dream vehicle with flexible terms.

Micro lease
Became more popular with three wheeler leasing and motor cycle leasing, which includes a total hassle free leasing service to finance a vehicle of the customer's choice.

Factoring
Allows a smooth cash flow facilitating the customer to innovate and develop his business.

Power plus
Improves the daily funding requirements for smooth operation.

Social and Relationship Capital - Customers

LBF's leadership position in the NBFI sector is the result of the Company's vibrant product portfolio that is geared to service the needs of individual (retail) customers and support the growth of small businesses across the country.

	KIDS	GENERAL	SENIOR CITIZEN
		Power draft A solution for working capital requirement. **Gold loans** Provide best value for gold at competitive interest rates for urgent cash requirements. **Margin trading** Service is a flexible financial tool, which provides leverage for stock market investors, to grow the share portfolio. **Personal loans** Uniquely designed product to suit various requirements for upgrading lifestyles. **Dirimaga** Micro loan for all entrepreneurs to take their business to the next level.	
Providing value addition services to the customer		**PayHub** Customers can pay utility bills anytime with convenience, with real time payment updates. **Money transfer** Customers can pay utility bills anytime with convenience, with real time payment updates. Web-based remittance product supported by the latest technology. **Rent a car** A quick and easy way to satisfy customers' travelling needs.	

Ongoing enhancements to the product suite saw the children's savings product being redesigned in the year under review, to appeal to a new generation of parents keen to begin savings for their children's future. Renamed as 'Little Heroes', the product was re-launched to the market in March 2018, with a new look and feel including a greatly enhanced reward programme to encourage children to aim for savings milestones. Other developments included the rebranding of the L B Housing loan scheme and re-launched to the market as 'L B Mulgala' and the re-launch of 'L B Yasaisuru' FD product.

To enjoy our product and services visit www.lbfinance.com

UNPARALLELED DISTRIBUTION

LBF's customers have access to the Company's products through a range of channels foremost among them is our network of 123 fully-fledged branches. Located strategically across the island, LBF branches are easily accessible and offer customers the full gamut of the Company's products. In the year under review, the Company installed cash deposit machines at 3 branches across the network, enabling customers to make direct deposits without the hassle of queuing up at the branch counter.

Meanwhile LBF's partnership with Sampath Bank gives the Company's savings customer's ready access to accounts through 391-strong Sampath Bank ATM network as well as through Visa-enabled ATM's across the country.

As part of a broad-based strategy to keep pace with the rapidly-changing customer dynamic, we have more recently begun leveraging on technology in a deliberate push towards mobile and internet banking to present our customers a whole new level of convenience that gives them the option to move away from the traditional brick-and-mortar branch model.

Signalling our commitment to this, in 2016 we launched LB e-Connect, an innovative and secure online financial platform that gives the customer the ability to transact in real-time.

In the year under review, the Company set up a Greenfield micro finance operation in Myanmar in an effort to assist small-scale agricultural farmers in rural Myanmar.

EFFECTIVE COMMUNICATION

Being more accessible and transparent to our customers remains a key part of LBF's value proposition. Our communication strategy seeks to provide customers with comprehensive product information that enables them to make informed financial decisions that will positively impact their lives.

All our advertisements and promotional material adhere to the regulations stipulated by the Central Bank of Sri Lanka and are subject to monitoring by the Senior Management. The stipulated guidelines and ethical considerations govern all branding and advertising. All required information is contained in the advertisements enabling customers to make informed decisions about our products and services while designated customer relationship officers are available for clarifications and customer support.

LBF's recent decision to eliminate clutter from all promotional activities prompted a revamp of the marketing strategy to focus on sending a clear and concise message to the target audience.

This was coupled with efforts to deepen the public relations exposure by optimising LBF's media coverage across all print and electronic channels. Other efforts to increase ground-level visibility included the introduction of a mobile promotional vehicle to conduct localised pocket campaigns across the island. Additionally we leveraged on social media platforms such as Facebook, Twitter, and Linkedin to expand our digital presence and increase engagement with our customers.

Social and Relationship Capital - Customers

As part of our communication strategy, we have put in place various channels to urge our customers to reach out to us. Ongoing improvements to these channels saw the commissioning of dedicated call centre in Jaffna in 2017/18, mainly for gold loan customers in the north and east regions of the country.

Meanwhile resources at LBF's main call centre in Mount Lavinia were also strengthened during the year, with the roll-out of a new CRM system to improve the traceability of inbound calls. The system is equipped to promptly redirect the call to relevant authorities, resulting in a vast improvement in response times. With over 95% of inbound calls being inquiries, the call centre logged in a total of 962 inquiries for the year under review.

For customers to report complaints, we have established a dedicated complaint hotline that connects directly to the Complaint Management Unit (CMU). The CMU records and analyses all complaints to determine and correct service gaps in order to minimise recurring complaints and ultimately enhance the customer experience. The CMU presents a monthly report to the Managing Director at the end of each month summarising the nature of complaints received, action taken towards complaint resolution as well as the steps taken to prevent recurrence in the future.

LBF's in-house market research unit conducts regular post-complaint surveys to determine if customers are satisfied with the way in which their complaint was managed. In the year under review, post-complaint surveys were conducted, with the findings indicating that over 90% of the customers were satisfied with LBF's complaint management process.

UNMATCHED SERVICE

At LBF, it is customary to put our customers at the forefront of everything we do. Underpinned by this premise, the Company strives to maintain the highest standards of customer service at all times, at each of our customer touch-points. Our aim is to provide customers with a positive experience every time, paving the way for LBF to be perceived as the financial institution with the best and most consistent in-class customer service in Sri Lanka's NBFI sector.

With customer service considered to be of paramount importance to LBF, we regularly ask our customers to rate our service levels. The feedback we received from our customers in 2017/18, indicate that more than 90% of them are satisfied with our service. Nonetheless, we remain committed to improve the service we offer and the consistency with which we offer it relative to our peers. Furthermore, LBF differentiates itself from peers by offering a range of value added services to customers. These include rent-a-car services at concessionary rates and the pay hub system, where customers can pay utility bills at any LBF branch. The pay hub is a service that has been introduced purely for the benefit of the customer. Since its introduction, the popularity of the pay hub concept has steadily and in the year under review, the pay hub service tabled an average of 26,000 transactions per month, up from the monthly average of 22,000 tabled in the previous year.

PRODUCT RESPONSIBILITY

All our advertisements and promotional material adhere to the regulations stipulated by the Central Bank of Sri Lanka and are subject to monitoring by the Senior Management. The stipulated guidelines and ethical considerations govern all branding and advertising. All information required is contained in the advertisements enabling

GRI - 102 - 2

Ensuring industry-leading customer service standards - The Mystery Shopper Programme

As part of a proactive approach to continuously enhancing service levels, LBF has taken steps to implement an ongoing mystery shopper programme with the intention of;

1. Determining the effectiveness of the branch facilities and identifying the need for improvements
2. Rating the customer service levels offered by LBF's frontline staff comparative to peers

Topics covered

- Product knowledge & customer service
- Customer handling & follow-up
- Branch branding

Executed by an independent third party, 156 mystery shopper programmes were conducted in 2017/18 covering more than 50% of the branch network.

customers to make informed decisions about our products and services while a designated customer relationship officer is available for clarifications and customer support. All advertising and promotions related to deposit products adhere to the Central Bank-mandated requirements and are subject to monitoring by the Senior Management. The given guidelines and ethical considerations govern all LBF's branding and advertising. All necessary and requested information is provided to the customers while a designated customer relationship officer is available for clarifications and customer support. In the year under review, the marketing communications, including advertising, labelling and promotions undertaken were compliant with regulations and voluntary codes concerning advertising. During the year the Company has not promoted or advertised banned or disputed products or services which are not included under the product portfolio.

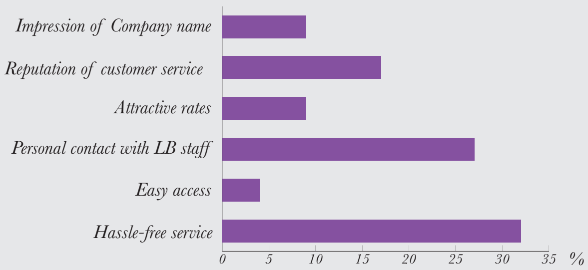
FUTURE ACTION

- Invest to expand the digital product portfolio
- Increase the number of touch-points through geographical expansion of the LBF footprint in Sri Lanka and Myanmar.
- Strengthen relationship with customers with the introduction of customer loyalty programmes
- Enhance direct customer engagement activities

KEY FOCUS AREAS OF THE RESEARCH

What are the specific reasons you selected L B Finance as your finance company?

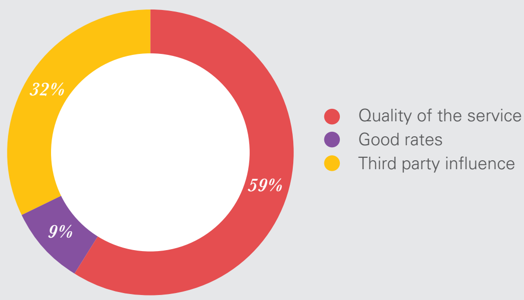
The reason for selection would provide an indication of LBF's competitive advantage as a retail-driven financial services institution.



KEY FOCUS AREAS OF THE RESEARCH

Why do customers select L B Finance over the commercial banks?

Understanding why customers would select LBF over a bank, which provides similar products and services, helps to strengthen the Company's commitment to create a differentiated value proposition



GRI - 102 - 9, 10

Social and Relationship Capital - Business Partners

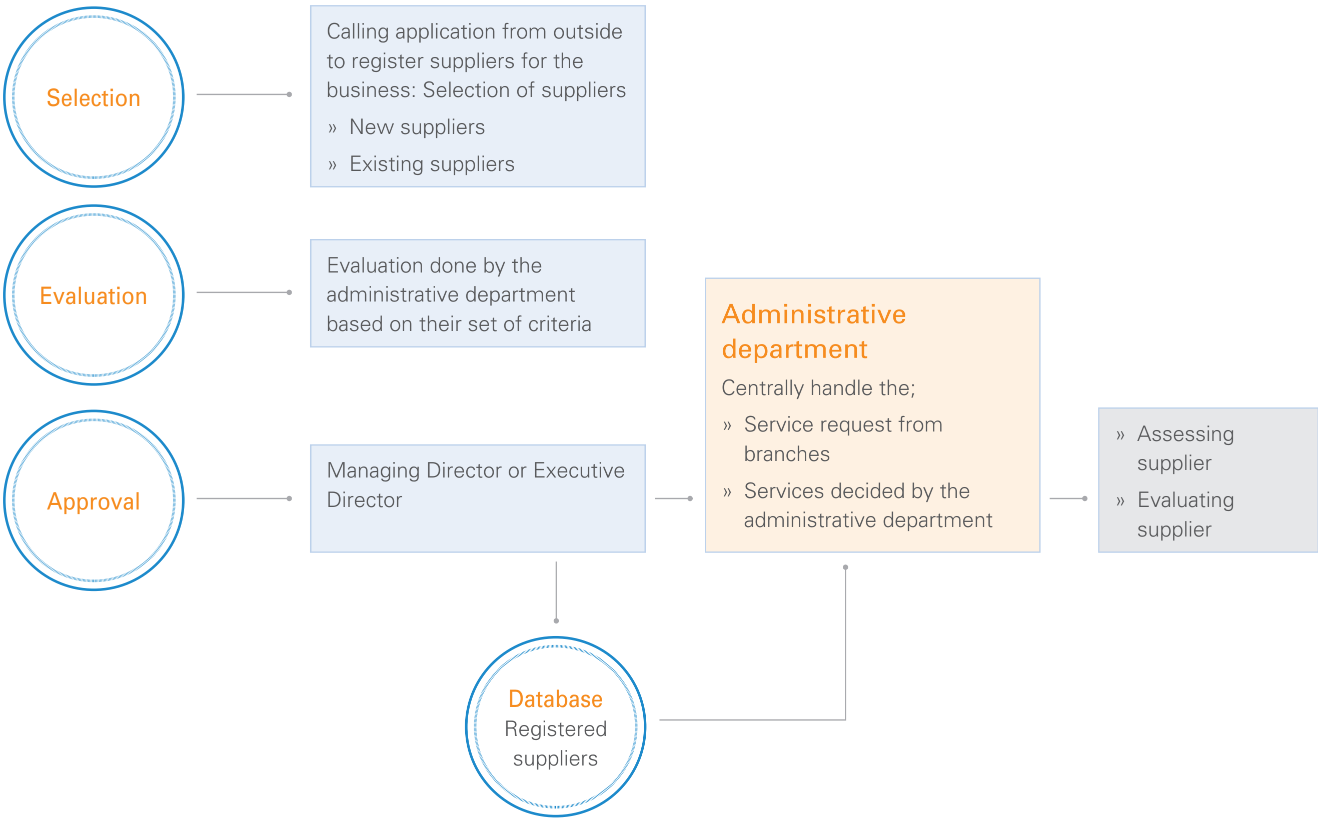
CREATE VALUE

Our business partners are a key component of LBF's value chain. Their contribution to the business covers the provision of various products and services required for the day-to-day functioning of our business as a financial services institution.

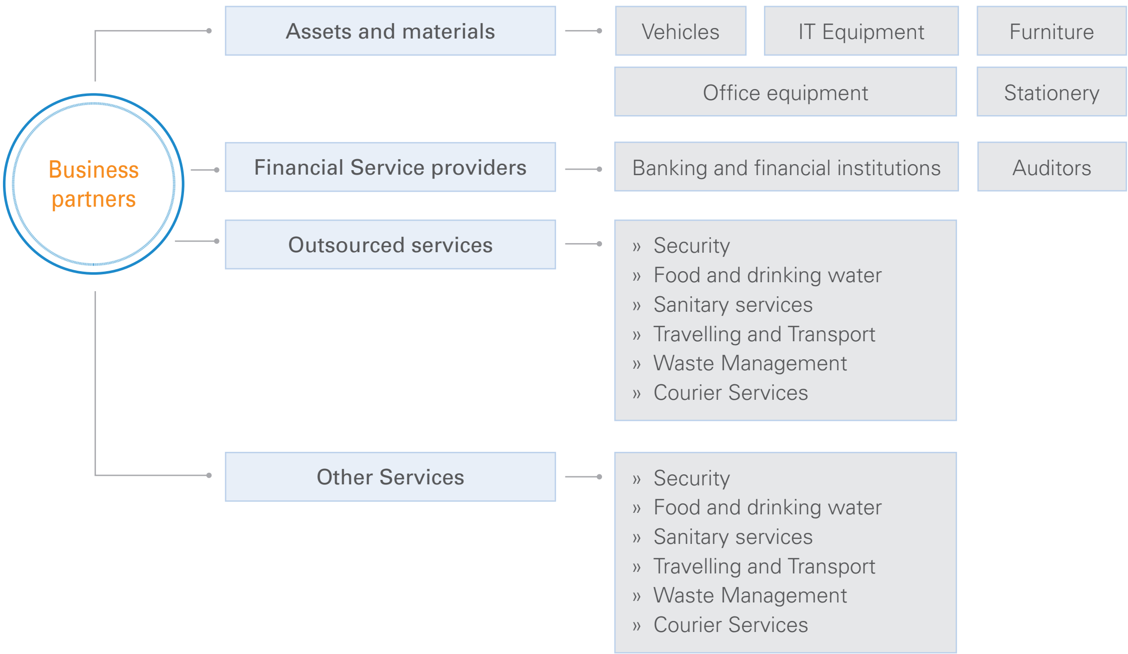
Given their role as part of our value chain, we remain committed to maintain professional, transparent, and fair relationships with all our business partners. Wherever possible and practical, we engage the services of locally based suppliers and services providers on the condition that they qualify with the Company's supplier standards.

Potential suppliers are required to fulfill certain criteria to become eligible as a LBF business partner. As a priority all are first vetted to ensure they meet LBF's high standards for quality and reliability along with timely and efficient delivery. Suppliers are further required to complete a self-assessment form to indicate their track record for social and environmental compliance.

SUPPLY CHAIN



TYPES OF BUSINESS PARTNERS & THEIR INFLUENCE



BUSINESS PARTNER ENGAGEMENT

To facilitate greater engagement with business partners, LBF provides sponsorships for promotional events organised by them. In addition, we also participate in mutually beneficial initiatives, for instance the promotion of products of business partners.

We request regular feedback from our business partners to assess the overall business partner experience and identify areas for further improvement.

Type of suppliers	No. of new suppliers registered during the year
Asset and material	26,609
Outsourced services	1,917
Financial services providers	17
Total	28,543

Outlook

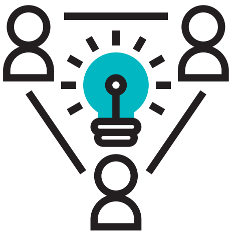
We strive to continuously maintain and improve relationships with business partners as part of the overall commitment to shared growth.

Going forward, we will look to invest in new technology to further increase the level of engagement with business partners. We will also work towards establishing a more structured knowledge sharing mechanism to encourage business partners to align with LBF's ethics and governance framework.

Social and Relationship Capital - Community

OUR PHILOSOPHY

As a responsible corporate citizen, LBF is committed to making a clear and positive contribution that can make a real difference to the community.



Providing our employees with the opportunity to volunteer in the community is an important part of our community investment approach, for it is through employee volunteerism that many of our programmes are brought to life.

MANAGEMENT APPROACH

LBF's values guide our broader conduct and the role we play as a corporate citizen. We look to address community priorities that align with our business objectives and consider the impact of our day-to-day decisions on society, thereby driving the shared benefit concept to create positive long-term outcomes for all our stakeholders.

Through our branches, LBF receives numerous appeals for community assistance and for years has been responding to these requests by investing in projects and initiatives that improve the quality of life for the communities across Sri Lanka. In recent times however, we have adopted a more structured approach and begun investing in projects that are capable of delivering real results to the community as measured in terms of the country's economic and social sustainability goals. As such LBF's Social Investment Framework now focuses on contributing towards five of the UN Sustainability Development Goals (SDGs);

GOAL 1
No Poverty

GOAL 2
No Hunger

GOAL 3
Good Health and Well-being

GOAL 4
Quality Education

GOAL 11
Sustainable Cities and Communities

The Company's CSR and Sustainability Committee overseas all LBF's community investment programmes and is tasked with identifying, evaluating, planning and executing activities in line with the LBF's Social Investment Framework.

Providing our employees with the opportunity to volunteer in the community is an important part of our community investment approach, for it is through employee volunteerism that many our programmes are brought to life. In fact we consider our community programmes to be a tripartite agreement between the Company, employee and the community. We encourage all LBF employees to participate in the Company's community projects and offer them guidance to ensure proper conduct in line with LBF's values when in carrying out such projects.

We encourage all LBF employees to participate in the Company's community projects and offer them guidance to ensure proper conduct in line with LBF's values when in carrying out such projects.

O/L seminar programme

SOCIAL INVESTMENT FRAMEWORK

SOCIETY

Knowledge and beyond	Share expertise	Build partnerships	Financial assistance
EDUCATION AND SPORTS	ECONOMIC EMPOWERMENT	GOOD HEALTH AND CARE	HUMAN NEEDS AND DISASTER RESPONSE
Promote education, sport and support programs to build a talent pipeline while improving team spirit.	Promote skills development, job creation, entrepreneurship, and financial inclusion in underserved communities.	Use outlets and people to make a positive impact to good health and care in work place and society and enable health professionals to share expertise.	Help first culture is natural extension of everyone. LBF supports communities affected by disasters and support relief efforts by way of providing basic necessities.

GRI - 203 - 1, 2

Social and Relationship Capital - Community

Our commitment	Our action 2017/18	Priorities for 2018/19
Contribute to grass-root level economic growth through increased access to financial services that support Small- and Medium-scale Enterprises, with a specific focus on empowering women and youth entrepreneurs and small farmers in Sri Lanka and Myanmar.	We supported over 200 Small- and Medium-scale Entrepreneurs across Sri Lanka and Myanmar through guiding and developing mechanisms. These efforts were indirectly responsible for the creation of 250 jobs to the nation. Established collaborative partnerships to test new financing models to support the growth and development of small farmers and retailers in Sri Lanka and Myanmar.	SME-supporting priorities allocated to women and youth entrepreneurs. Conducting MSME training and workshop for budding entrepreneurs.
Engage in outcome-based community investment.	A year-on-year increase of over 140% in community investment programmes focusing on capacity building, education, health and general well-being of communities across Sri Lanka.	Partnering community-based social organisation to extend community investment. Engage with media/Government organisations to uphold education infrastructure in Sri Lanka.
Improving community outreach through employee volunteerism.	We reached almost 28,000 beneficiaries exceeding the target set for the year, led by a 294% increase in employee volunteer hours compared to the previous year.	Enhance employee engagement for CSR activities by appointing a CSR ambassador in every region to execute the CSR vision.

PROGRESS REPORT 2017/18

Stemming from the focus on the SDGs, the table below illustrates LBF's community investment programmes for 2017/18.

Focus area		Total investment	No. of beneficiaries	Employee voluntary hours
Financial inclusion	2 ZERO HUNGER; 1 NO POVERTY	92,175	5	44
Knowledge and beyond	4 QUALITY EDUCATION	6,262,896	12,100	5,650
Healthcare and nutrition	3 GOOD HEALTH AND WELL-BEING	6,307,621	6,324	793
Empowering communities	11 SUSTAINABLE CITIES AND COMMUNITIES	6,291,080	10,154	562

PROJECT IMPACT ASSESSMENT KEY

Very good	Good	Below expected level	Poor results	Project in vain

FINANCIAL INCLUSION

With financial inclusion being declared a critical national priority for Sri Lanka to achieve middle-income economy status by 2020, LBF as a leading financial services institution has been actively involved in broadening access to financial services and empowering individuals and small businesses across Sri Lanka to reach their full economic potential. Our 'Dirimaga' micro loan scheme and micro leasing programme are targeted outreach initiatives aimed at assisting individuals and SMEs in underserved communities around the country to secure their livelihoods and improve their quality of life. We conducted CSR initiatives within the country to upkeep the social standards of the community with the aim of minimising poverty and hunger in Sri Lanka.

PROJECT | **01**

Providing aid to build a house in Vallipunam

PROJECT SCOPE	OBJECTIVES
Assist in the construction of a house for an underprivileged family in the Puthukkudirippu area.	» Uplifting the standard of living of the community. » Provide a helping hand to lower income community as a responsible corporate citizen.

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Family in Puthukkudirippu area	03 employees and 84 volunteer hours

IMPACT ASSESSMENT
(Derived through Community Feedback)

✓

PROJECT | **02**

Financial aid for a needy family Ranala

PROJECT SCOPE	OBJECTIVES
Financial assistance to an underprivileged family	» Uplifting the lives of low-income communities.

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Family in Ranala	05 employees and 44 volunteer hours

IMPACT ASSESSMENT
(Derived through Community Feedback)

✓

Social and Relationship Capital - Community

KNOWLEDGE AND BEYOND

At LBF, we are of the view that education is the only way to ensure lasting social change. As such we focus on enhancing the knowledge base of underserved youth through the provision of vocational skills training programmes that enable them to remain gainfully employed and contribute towards growth and development of their local economies. Further, we also provide targeted financial assistance from time to time, to improve the infrastructure facilities at underserved rural schools across Sri Lanka.

PROJECT | **01**

Helping Ruth Children's Home

PROJECT SCOPE	OBJECTIVES
An ongoing project to support the needs of the Ruth Children's home Athtidiya, in Colombo. Efforts for the year included the provision of a fully equipped air-conditioned Computer Lab. The Company has further undertaken to pay for a teacher and also for the monthly Electricity bill.	» Increasing IT literacy level of under-privileged children who do not have access to technology. » Improving facilities of children's homes available in the country, which do not have Government Aid.

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Students of Children home	10 employees and 112 volunteer hours

IMPACT ASSESSMENT
(Derived through Community Feedback)

☺	☺	😐	☹	⊗
	✓			

PROJECT | **02**

Sponsoring for CPS boys development Centre

PROJECT SCOPE	OBJECTIVES
The Company has undertaken to bear the cost of the annual tuition fees for children residing in two child development centres run by the Child Protection Society (CPS) in Maharagama and Kottawa. The Company has agreed to meet the cost of tuition fees.	» Increasing standards of education of underprivileged children. » Partnering with social welfare organisations to overcome social inequalities

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Society at large	06 employees and 34 volunteer hours

IMPACT ASSESSMENT
(Derived through Community Feedback)

☺	☺	😐	☹	⊗
	✓			

PROJECT | **03**

Stock Market Challenge 2017-Islandwide quiz competition

PROJECT SCOPE

LB finance sponsored for 'Stock Market Challenge-2017' quiz competition Event, which was organised by the University of Kelaniya. Schools from all over the country attended the competition. The competition was conducted to test the participants' knowledge on national and international stock markets. Awards, cash prizes and scholarship opportunities were provided for students.

OBJECTIVES

- Improving knowledge of the stock market among school students
- Encouraging greater participation in the stock market in the future

BENEFICIARIES

School students all over the country

EMPLOYEE VOLUNTEERISM

07 employees and 84 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

PROJECT | **04**

Contributing enhance education quality and uplift the education standard

PROJECT SCOPE

- Sponsorship for University of Kelaniya Annual General Convocation
- Distribution of school materials for needy students

OBJECTIVES

- Helping talented youth to achieve their educational goals.
- Helping children of poor families to pursue their education.
- Motivating students to pursue education

BENEFICIARIES

- School students
- Families of low income

EMPLOYEE VOLUNTEERISM

04 employees and 24 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

Social and Relationship Capital - Community

PROJECT | 05

School equipment for visually impaired students

PROJECT SCOPE

Contributing towards the project by the Sri Lanka Federation of the Visually Handicapped to help visually impaired children in state schools and special schools to purchase school equipment.

OBJECTIVES

- Provide access to better quality education for differently-abled persons.
- Improve infrastructure facilities of specialised schools for differently abled.

BENEFICIARIES

Visually impaired community

EMPLOYEE VOLUNTEERISM

08 employees and 63 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

✓

PROJECT | 06

Project for 150 Pre Schools

PROJECT SCOPE

An ongoing project to distribute stationery items, furniture and financial assistance to underprivileged primary schools across the country.

OBJECTIVES

- Provide support to the development of preschools around the country that are hardly maintained due to lack of resources
- Increase the quality of education provided by preschools of the country in every region.
- Increase the literacy and primary education of community.

BENEFICIARIES

Preschool students all over the country

EMPLOYEE VOLUNTEERISM

20 employees and 3,840 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

✓

PROJECT | **07**

O/L Seminar programme

PROJECT SCOPE	OBJECTIVES
An ongoing effort, the project involves conducting workshops and training sessions for CGE O/L students in underprivileged schools across the country. The project is conducted in partnership with the University of Colombo.	» Providing subject knowledge for ordinary level exam sitting students » Providing required motivation and guidance for school students to successfully complete their secondary education

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Ordinary Level Examination-facing students all over the country	28 employees and 686 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

☺	☺	😐	☹	⊗
	✓			

HEALTH AND NUTRITION

In support of the country's ambition to become a healthier nation, LBF commits considerable resources each year towards raising the standard of community health. Our projects are targeted initiatives for the benefit of specific segments of the community. LBF's role is mainly that of a funding partner, with all healthcare projects being carried out in collaboration with ministry-approved healthcare specialists to ensure optimum results.

PROJECT | **01**

Gift of Life

PROJECT SCOPE	OBJECTIVES
Providing financial assistance for children requiring congenital heart surgeries and are on the hospital waiting lists due to lack of funds. Patients are selected by the hospital authority based on their waiting list.	» Providing aid to lower income families to overcome their financial difficulties. » Ensure the healthy living of the community

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
» Heart patients of lower income families » Society at large	03 employees and 28 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

☺	☺	😐	☹	⊗
	✓			

Social and Relationship Capital - Community

PROJECT | **02**

Annual Blood Donation

PROJECT SCOPE	OBJECTIVES
An annual commitment by LBF for the past 06 years, where employees voluntarily donate blood.	» Contribute towards the country's healthcare resources » Increase and motivate employee engagement in CSR activities.

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Society at large	152 employees and 384 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

✓

PROJECT | **03**

Helping Colombo East Base Hospital

PROJECT SCOPE	OBJECTIVES
» The upgrade of the Paediatric Unit of Colombo East Base Hospital under this project through the provision of furniture for the hospital including desks and chairs.	» Improve the infrastructure facilities of the hospital to improve the quality of service provided to the community

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Society at large	06 employees and 142 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

✓

PROJECT | **05**

Helping Lady Ridgeway Hospital

PROJECT SCOPE	OBJECTIVES
Providing support to upgrade the administrative infrastructure at the Lady Ridgeway Hospital.	» Improve the infrastructure facilities of the hospital to improve the quality of service provided to the community

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Society at large	12 employees and 93 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

✓

PROJECT | **04**

Sponsoring Commando Basketball Team

PROJECT SCOPE	OBJECTIVES
An ongoing project to sponsor the sports gear and coach fee for the Army Commando Force Basketball team	» Assist the government in safeguarding the tri-forces. » Motivation of sports activities lead to a healthy living

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Commando Basketball team members	04 employees and 56 volunteer hours

IMPACT ASSESSMENT
(Derived through Community Feedback)

✓

PROJECT | **06**

Purchase of Wheel Chairs and Clutches for disabled soldiers

PROJECT SCOPE	OBJECTIVES
Financial assistance for the supply of wheelchairs and crutches for army soldiers who have lost their legs during the war.	» Improving the quality of life for differently-abled persons by reducing the limitations faced by them » Ensuring healthy living within the community

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Soldiers from the three forces	03 employees and 27 volunteer hours

IMPACT ASSESSMENT
(Derived through Community Feedback)

✓

PROJECT | **07**

Helping Armor Ladies Club

PROJECT SCOPE	OBJECTIVES
Financial assistance for the supply prosthetics to army soldiers who lost their legs during the war	» Improving the quality of life for differently-abled persons by reducing the limitations faced by them » Ensuring healthy living within the community

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Disabled army soldiers/ army soldiers' families	03 employees and 31 volunteer hours

IMPACT ASSESSMENT
(Derived through Community Feedback)

✓

Social and Relationship Capital - Community

EMPOWERING COMMUNITIES

We believe in making a meaningful contribution to society beyond our financial performance. In this context we look to empower communities by investing in capacity building initiatives that bridge social disparities and create an equitable platform for a sustainable societal progress.

PROJECT | **01**

First aid training for three-wheel drivers

PROJECT SCOPE

A project to provide first aid training to three-wheeler drivers to minimise accidental deaths from casualties while transporting victims after road accident situations. The training was conducted by Red Cross Society; Matara traffic police also provided a great contribution. Participants were provided with special first aid kit and a sticker to create awareness about the drivers' training.

OBJECTIVES

- Reduce the mortality rate resulting from road accidents.
- Raise general awareness regarding the importance of practicing road safety regulations

BENEFICIARIES

Society at large

EMPLOYEE VOLUNTEERISM

20 employees and 162 volunteer hours

IMPACT ASSESSMENT

(Derived through Community Feedback)

😊	🙂	😐	☹️	⊗
	✓			

GRI - 413 - 1

PROJECT | **02**

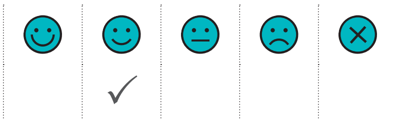
CSR Project of Building Rehabilitation Centre

PROJECT SCOPE	OBJECTIVES
A project to build a drug rehabilitation centre in Rumassala in the Galle district, the project is ongoing.	» Provide assistance and guidance to rehabilitate drug users to become productive members of society. » Minimising the negative impact caused by drug addiction to the general public

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Society at large	06 employees and 315 volunteer hours

IMPACT ASSESSMENT

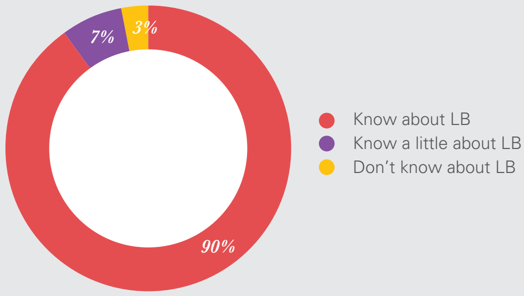
(Derived through Community Feedback)



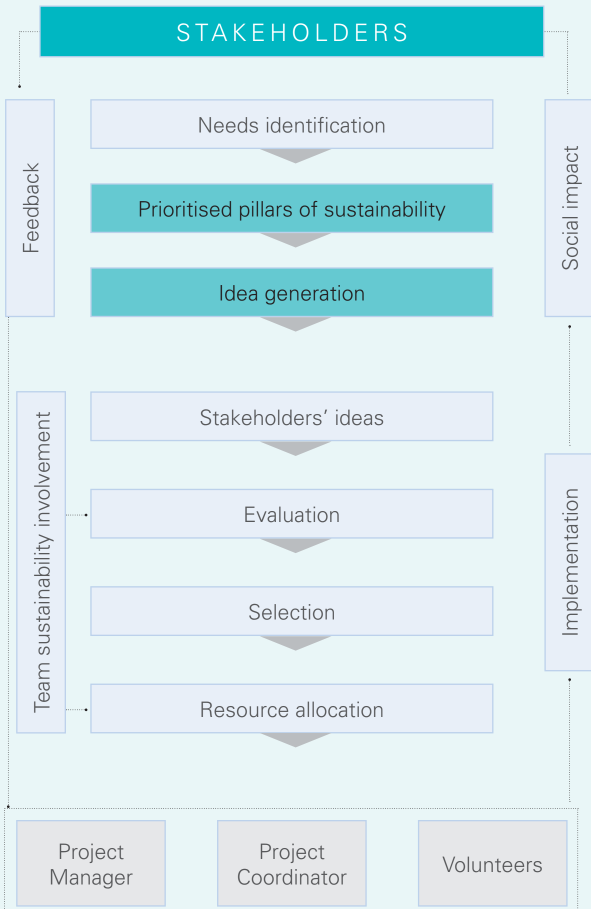
KEY FOCUS AREAS OF THE RESEARCH

Awareness about L B Finance – Non L B Customers

Helps to determine the effectiveness of the Company's brand visibility strategy



CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABILITY GOVERNANCE



Natural Capital

MATERIAL DRIVERS

- Energy management
- Water management
- Material management
- Waste management
- Emission measurement
- Green lending
- Environmental awareness and CSR

We operate in an environment where there are immediate constraints on the availability of resources, such as electricity, and growing concerns about future supply constraints of other natural resources, such as clean air and water. In this context, the case for more sustainable business practices is clear; driving our business to reduce our consumption or impact on our natural resources is our logical strategy.

ACTION PLANS & OBJECTIVES	STATUS	PAGE
Reduction of carbon footprint of the company	Reduced carbon footprint by 26.09% (Achieved)	301
Maintain the carbon neutrality status	3,223 tCO_2e tons set-off (Achieved)	301
Moving to paperless working environment	2,978 online transactions (In progress)	233
Encourage green lending	450 green facilities granted (Achieved) (In progress)	302

Achieved In progress Not achieved

SNAPSHOT OF CAPITAL OUTCOMES

IMPACT AREA	WHAT YOU WILL FIND	WHERE TO FIND
Energy Management	Total energy consumption reduced by 23%	Energy consumption PAGE 297
Waste management	Paper waste disposal reduced by 49%	Waste management PAGE 299

Online version available

68
SAVED FULLY GROWN TREES

126,421 Litres
WATER SAVED

3,978 Kg
PAPERS RECYCLED

15,912 KWh
SAVED ELECTRICITY

FIRST CARBON NEUTRAL COMPANY AMONGST FINANCIAL INSTITUTIONS IN SRI LANKA

IN A NUTSHELL

Reduce our direct impact on the environment by promoting responsible environmental management activities across all of our operations.

OUR NEXT STEPS

Objectives for 2018/19

- Promote paperless e-solutions amongst customers
- Maintain carbon neutrality status

Objectives for 2020 and beyond

- Introduce green branch concept
- Focus of self-carbon credit generating project

CHALLENGES

Reduction of carbon footprint against the growth of the company

PAGE 293

Encouraging customers into green lending

PAGE 293

Restructuring of operations in an eco-friendly manner.

PAGE 293

Natural Capital

VALUE CREATION AMONG CAPITALS

Our environmental strategy, therefore, focuses on facilitating the reduction of the Company's environmental footprint. We also wish to share positive practices and influence over all stakeholders towards greater environment focus and sustainable activities.

NATURAL CAPITAL

- 6 environmental projects
- 450 green financing facilities

FINANCIAL CAPITAL

- Rs. 3.51 million spent on green initiatives

INTELLECTUAL CAPITAL

- Reached 2,978 e-connect online customers

MANUFACTURED CAPITAL

- Replaced energy inefficient computers
- Enhance usage of digital hoardings

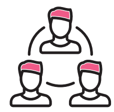
HUMAN CAPITAL

- 1,965 volunteering hours on green activities
- Implemented an e-learning platform
- Introduced environmental CSR practices for employees and their families

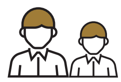
SOCIAL & RELATIONSHIP CAPITAL

- Expansion of social media presence
- Usage of digital media for advertising and promotions

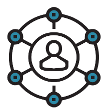
BENEFIT TO



SOCIETY/ COMMUNITY



CUSTOMERS



BUSINESS PARTNERS

SWOT ANALYSIS

Strengths	Weaknesses
First carbon neutral company amongst financial institutions in Sri Lanka	Continuation of the paper based business processes
Properly placed environmental management system and environmental pledge	
Long-term collaboration and partnership with environmental conservation institutions/ partners	

Opportunities	Threats
Introduced innovative green lending products	High competition in the industry for green financial solutions
Reduce the wastage through process automation	Changes in the environmental regulations for the business
Mutual benefit by partnering with environmental conservation institutions	

Plant distribution programme

HOW WE FACE THE CHALLENGES

Reduction of carbon footprint against the growth of the Company

We always try to reduce our carbon footprint of the Company, but when we expand our business we have to set up new branches island-wide. This leads to enhancing the carbon footprint. However we always conduct awareness campaigns, employee encouragement, ecofriendly business practices and energy management procedures in the organisation to reduce the carbon footprint.

Encourage customers towards green lending

As a financial institution our main income source is generated from leasing facilities, therefore per month we grant higher leasing facilities, which makes a harmless influence to society. Having identified this challenge to the environment, we encourage customers to go for hybrid vehicles and electric vehicles and we offer concessionary rates for such loan facilities.

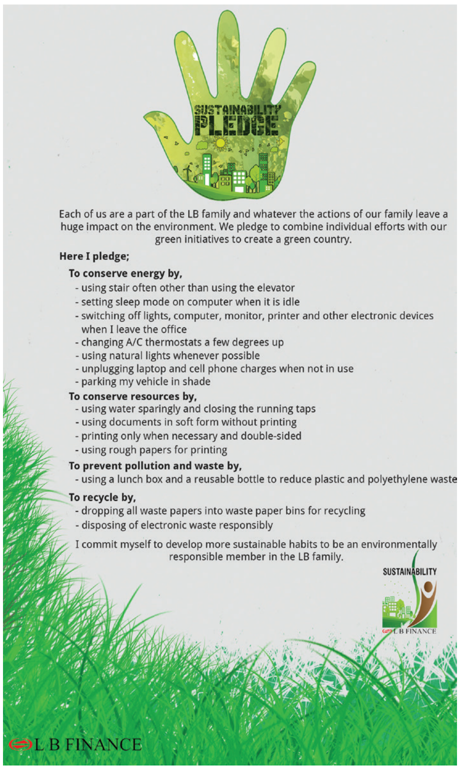
Restructuring the operations in an eco-friendly way

We always try go for the digital work and office environment, therefore we shift manual systems to automated systems. However when we follow through with the procedure, a few systems cannot be converted to automation (eg; legal documentation).

Natural Capital

OUR PHILOSOPHY

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.



MANAGEMENT APPROACH

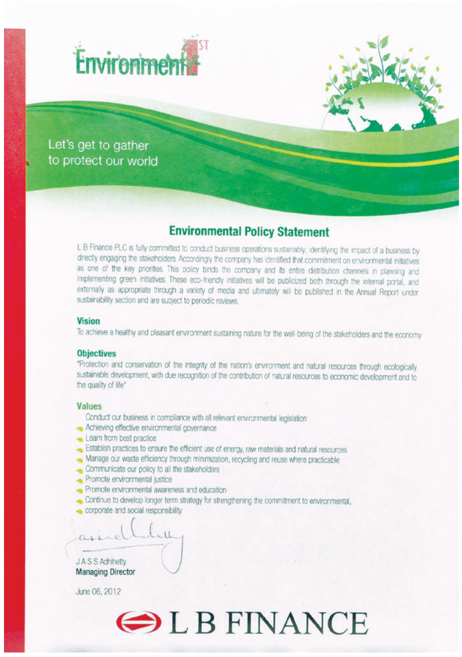
We are aware that LBF operates in an environment where there are immediate constraints on the availability of resources, such as electricity, alongside growing concerns about sustenance of other natural resources, namely clean air and water. It is what inspires LBF to promote the responsible use of energy, water and other materials such as paper, with due regard to the scarcity of natural resources and the environmental impact resulting from the utilisation and application of such resources in conducting our business activities.

Our efforts in this regard are operationalised through a holistic Environment Management System (EMS), which has been designed to support global initiatives aimed at protecting the environment and conserving natural resources. Our EMS is pivoted on two key pillars;

1) an Input Management strategy to control the direct impact of our business activities through the management of energy, water, and materials,

2) an Output Monitoring Plan to gauge the effectiveness of our efforts through the measurement of emissions and the carbon footprint calculation process.

Emphasising our commitment, October 2017 was declared Environmental Awareness Month, with a series of events organised to raise environmental awareness among employees


Environment

Let's get to gather
to protect our world

Environmental Policy Statement

L B Finance PLC is fully committed to conduct business operations sustainably; identifying the impact of a business by directly engaging the stakeholders. Accordingly the company has identified that commitment on environmental initiatives as one of the key priorities. This policy binds the company and its entire distribution channels in planning and implementing green initiatives. These eco-friendly initiatives will be publicized both through the internal portal, and externally as appropriate through a variety of media and ultimately will be published in the Annual Report under sustainability section and are subject to periodic reviews.

Vision

To achieve a healthy and pleasant environment sustaining nature for the well-being of the stakeholders and the economy

Objectives

"Protection and conservation of the integrity of the nation's environment and natural resources through ecologically sustainable development, with due recognition of the contribution of natural resources to economic development and to the quality of life"

Values

Conduct our business in compliance with all relevant environmental legislation
- Achieving effective environmental governance
- Learn from best practice
- Establish practices to ensure the efficient use of energy, raw materials and natural resources
- Manage our waste efficiency through minimization, recycling and reuse where practicable
- Communicate our policy to all the stakeholders
- Promote environmental justice
- Promote environmental awareness and education
- Continue to develop longer term strategy for strengthening the commitment to environmental,
- corporate and social responsibility

J A S S Adhihetty
Managing Director

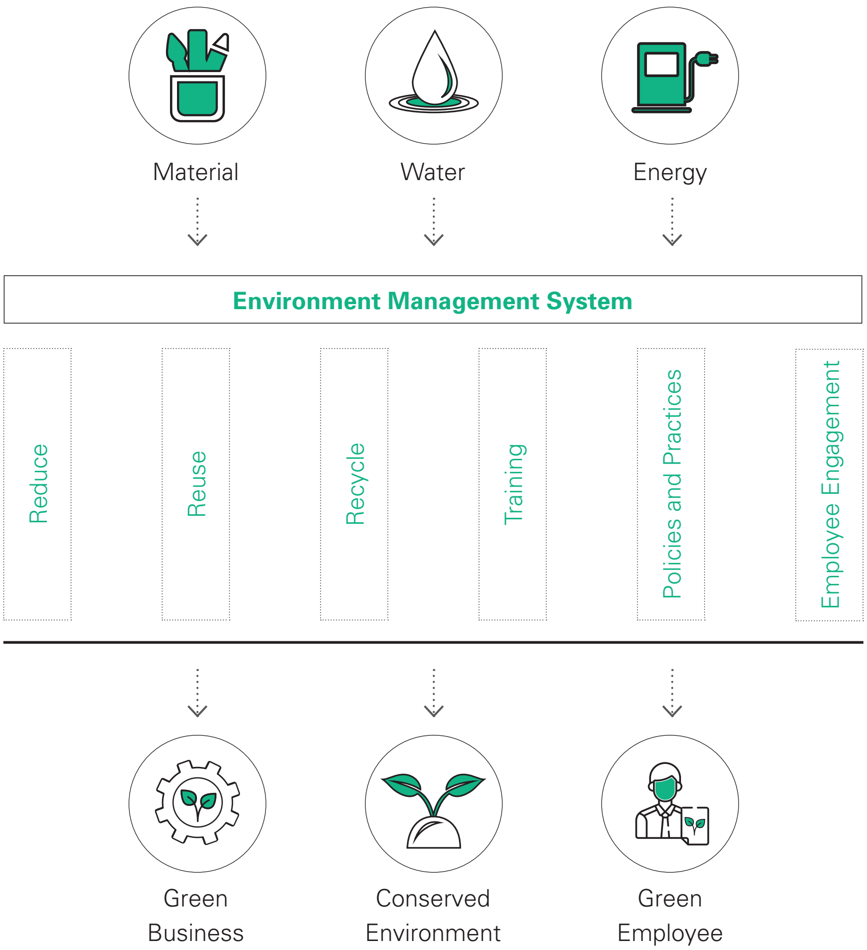
June 06, 2012

L B FINANCE

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

In recent years we have also come to realise that as a financial institution, we are in a position to play a broader role in bringing about social change that would result in favourable outcomes for the environment. Spearheaded by the Company's green financial initiative, we strive to enhance LBF's credentials as a truly green organisation.

Emphasising our commitment, October 2017 was declared Environmental Awareness Month, with a series of events organised to raise environmental awareness among employees, improve employee engagement in environmental activities and encourage green practices among employees and their families.



GRI - 102 - 11, 302 - 1

Natural Capital

Being a service organisation, LBF is not directly exposed to the adverse effects of climate change. Nonetheless as a responsible corporate citizen, we feel it is important to take necessary action to mitigate the impacts of climate change eventhough our product portfolio does not have any harmful impact towards the environment. In this regard, we carry out specific environmental conservation activities to raise awareness among the general public and also invest in specific initiatives designed to address pressing environmental issues that require attention from time to time. Given our limited expertise on environmental matters, we rely on the knowledge and expertise of specialised environmental bodies to ensure that our efforts achieve the desired results. Over the years our projects have involved partnerships with Biodiversity Sri Lanka, the Department of Wild Life, the Central Environmental Authority, Sri Lanka Climate Fund, Climate Smart Initiatives (Pvt) Limited and the Young Zoologists' Association of Sri Lanka.

Over the years our projects have involved partnerships with Biodiversity Sri Lanka, the Department of Wild Life, the Central Environmental Authority, Sri Lanka Climate Fund, Climate Smart Initiatives (Pvt) Limited and the Young Zoologists' Association of Sri Lanka.

In the year under review, LBF focused on specific target-driven activities in line with the Company's Input and Output Management model, to minimise the impact on the environment and thereby reduce the loss of Natural Capital caused by the business.

INPUT MANAGEMENT

Energy Management

LBF's total direct energy requirements are met through electricity purchased from the national grid. Over the years, LBF's consumption and usage of electricity has increased considerably in line with the growth in the business and expansion of LBF's island-wide footprint. Energy management has therefore become a critical priority under our EMS, with energy efficiency and the measurement of carbon output for each operation being the key metrics of our energy management programme. Moreover, we believe that for our energy management programme to be a success, it requires the commitment and active participation of all employees.

Energy Consumption

Energy type	2018/17	2016/17	Change %
Diesel	1,982.80 GJ	2,339.57 GJ	(15)
Petrol	4622.90 GJ	6,200.48 GJ	(25)
Electricity	15,786.79 GJ	15,180.55 GJ	4
LP Gas	-	–	-
Total	18,231.87 GJ	23,720.60 GJ	(36)

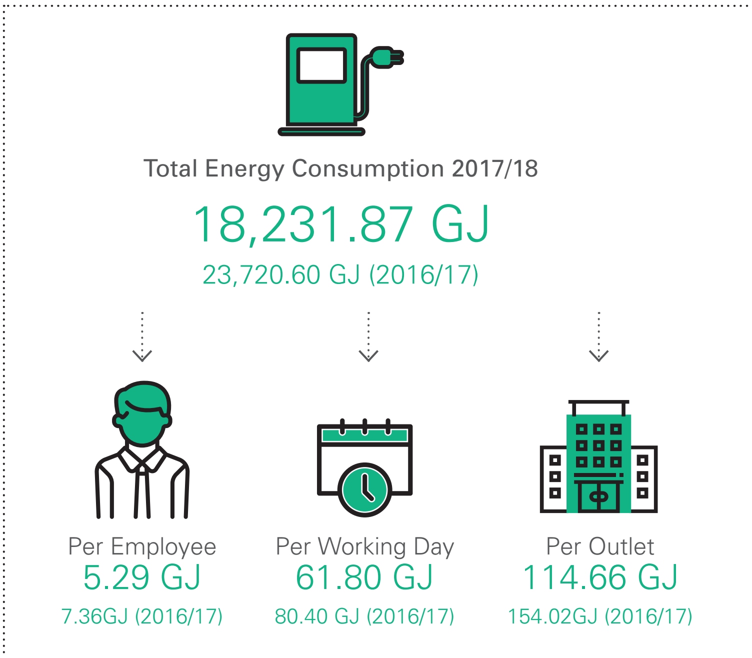
The energy consumption ratios for 2017/18 show an decreasing trend compared to last year, being the result of the tight management of energy usage of the Company.

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
	Email campaign on the benefits of energy saving
Employee engagement	Use of energy reduction methods at office and home
Policies and practices	Commitment of employees to the Sustainability Pledge
	Regulate the operating time of equipment

Energy Consumption Indicator

	2017/18	2016/17
Total energy consumption	18,231.87 GJ	23,720 GJ
Per Employee	5.29 GJ	7.36 GJ
Per Working Day	61.80 GJ	96.43 GJ
Per Outlet	114.66 GJ	154.03 GJ



We believe that for our energy management programme to be a success, it requires the commitment and active participation of all employees.

Water Management

Being a service organisation, water is used primarily for utility and sanitation needs of LBF's employees as well as customers, suppliers and contractors who patronise our branches. Municipal water is the primary source of water used by LBF, although the Company has in recent times taken steps to ease the burden on the Municipal supply by tapping into ground water sources, where possible and practical. LBF has invested to install on-site tube wells at 16 branches on the network.

As a scarce resource, we recognise that initiatives aimed at conserving water will undoubtedly contribute to more sustainable water availability in the long-term. Hence our EMS includes a comprehensive Water Management Plan to encourage all employees to commit towards responsible water management and usage as part of their day-to-day work routines.

Natural Capital

Water Consumption

Water source	2017/18	2016/17
Municipal water supplies	29,891,91m^3	30,273 m^3
Other sources	-	615 m^3
Total	29,891,91m^3	30,888 m^3

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 energy saving tips
Reuse	Usage of rain water for air conditioner cooling
Policies and Procedures	Commitment of employees to sustainability pledge

As a scarce resource, we recognise that initiatives aimed at conserving water will undoubtedly contribute to more sustainable water availability in the long-term.

Total Water Consumption 2017/18

29,891.91 m^3

30,388 m^3 (2016/17)

Per Employee
8.69m^3
9.43 m^3 (2016/17)

Per Working Day
101.32 m^3
103.01 m^3 (2016/17)

Per Outlet
187.99 m^3
197.32m^3 (2016/17)

Material Management

Given the nature of LBF's business operations as a financial services organisation, the Company does not use large quantities of materials, except for the use of paper as part of the day-to-day operations. However this too is not significant, compared to the scale of the business. Nonetheless LBF accepts its responsibility for even the small environmental impact resulting from the use of paper and has taken all possible steps through the EMS to manage the effective usage of paper. At present the Company does not use any recycled material as input.

Material Consumption

	Unit	2017/18 Quantity	2017/18 Value (Rs.)	2016/17 Quantity	2016/17 Value (Rs.)	2015/16 Quantity	2015/16 Value (Rs.)
Stationery Materials							
Paper	Kgs	176,302.3	48,440,553	173,639	47,708,803	137,255	42,284,121
Files	Kgs	6,330	1,820,901	4,786	1,376,545	4,759	1,325,810
Toners	Pieces	2,775	21,495,050	1,923	14,464,88	1,320	9,583,010
Ribbon	Pieces	2,132	2,375,934	1,660	1,838,056	1,379	1,679,895
Other	Pieces	354,643	7,987,065	289,560	6,521,307	274,945	5,324,540

OUTPUT MANAGEMENT

Waste Management

Given the nature of our business as a financial services institution, the Company does not use large quantities of materials. As such it is only the use of paper and limited e-waste that have direct environmental impact. While the usage of paper is not significant compared to the scale of the business, our EMS nonetheless provides strict guidelines for the effective usage of paper. The responsible disposal of waste forms an important part of our commitment to the environment. Accordingly we work with registered waste disposal partners to ensure all waste (paper and e-waste) generated as a result of our day-to-day operations, are disposed of in line with Central Environment Authority (CEA) guidelines. Accordingly we partner with, Think Green (Pvt) Limited, Neptune Papers (Pvt) Limited and Asia Recycling (Pvt) Limited, all licensed recyclers registered with the CEA.

At present the Company does not use any recycled material as an input for the day-to-day operations.

Year	Recycled paper (Kgs)	Saved (equivalent) No. of fully grown trees	Litres of oil	KWh of electricity	Litres of water	Cubic metres of land fill
2017/18	3,978	68	6,981	15,912	126,421	12
2016/17	7,938	135	13,931	31,752	252,270	24
2015/16	32,065	545	56,274	128,260	1,019,026	96
2014/15	9,336	160	16,385	37,344	296,698	28
2013/14	2,378	40	4,173	9,512	75,573	7

GRI - 305 - 6

Natural Capital

Main focus	Our actions
Refuse	Create a paperless environment through a digitalised document management system to store documents
	The centralized web portal has significantly contributed in creating a paperless work environment which contains organisational policies, procedures, news, photo gallery and other downloadable documents
	Introduce the Paperless Boardroom concept
	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

Emission Measurement

Being a financial institution, LBF's direct emissions (Scope 1) resulting from business activities are minimal. The Company does however share in the indirect responsibility for emissions (Scope 2) due to electricity purchased in the course of business as well as for emissions caused by employees commuting to and from work (Scope 3). As part of its Carbon Footprint Calculation process (outlined below), the Company tracks, measures and analyses the year-on-year progress made with regard to Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions. Through this process we have been able to determine performance gaps and identify weak points, qualifying necessary corrective action to be implemented via the EMS.

In the year under review, there were no significant air emissions or emission of ozone depleting substances, pollutants and other hazardous compounds that were attributed to 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.

Carbon Footprint Calculation

Underpinning the commitment towards becoming a carbon neutral organisation, LBF embarked on its Carbon Footprint Calculation journey in 2013. The process aims to establish an accurate measurement of our GHG emissions based on the energy, water and paper consumption in the day-to-day operations of the business. In this way, the process serves as a mechanism for the identification of new opportunities for emission reduction; in turn enabling the Company to continuously fine-tune its carbon management strategy by establishing KPIs that would accelerate the journey towards achieving Carbon Neutral status. The Carbon footprint calculation process also gives us a good understanding of the impacts of climate change, enabling LBF to stay ahead of the curve through the deployment of a pre-emptive climate action strategy. The calculation methodology followed is that of the internationally accepted GHG protocol. Accordingly LBF has reported on GHG emissions against three WBCSD/WRI scopes; which offer technical guidance for ISO 14064 - 1:2006, standards for the verification of organisational level GHG assertion.

GRI - 302 - 3, 4,
305 - 1, 2, 3, 4, 5, 7

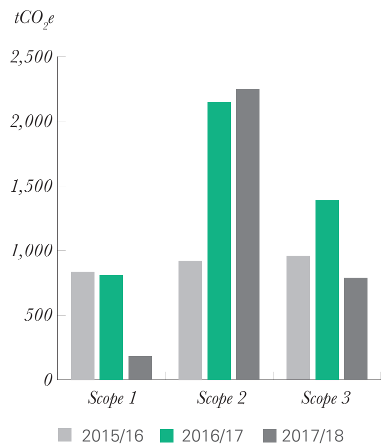
Scope	Tonnes of CO2 equivalent 2017/18	Tonnes of CO2 equivalent 2016/17	Tonnes of CO2 equivalent 2015/16
Scope 1 - Direct GHG emissions	182	808.23	838.36
Scope 2 - Indirect GHG emissions	2,251	2,150.58	920.74
Scope 3 – Other indirect GHG emissions	790	1,391.28	958.27
Total carbon footprint	3,223	4,360.72	2,717.38

Scope	CO_2	N_2O	CH_4
Scope 1	179	0.02	0.009
Scope 2	2,239	0.04	0.04
Scope 3	771	0.2	0.03

Energy consumption
$0.94tCO_2e$
per employee

Energy consumption
$20.27tCO_2e$
per outlet

GHG EMISSIONS
YEAR WISE COMPARISON



LBF's total GHG emissions for 2015/16, 2016/17 and 2017/18 was 2,717.38, 4,360.72 and 3,223tCO2e respectively. Overall GHG emissions in 2017/18 decreased by 26% against 2016/17.

Action on carbon emission management during the year

The Company took the following actions within the year and followed the existing practices in a tight manner.

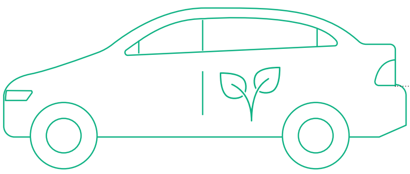
Main focus	LBF's ongoing actions on controlling emissions
Reduce	Moving away from high-energy consuming equipment in favour of energy saving equipment
	Promote the use the common transport as opposed to private transport
	Regulating usage during peak times
	Providing integrated transport solutions for business duties
Awareness	Email campaign on energy saving mechanisms in the office Encourage all customers, corporate entities and the general public to contribute in shifting Sri Lanka to 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

Natural Capital

Green Lending

Efforts by the Company to support a more environmentally-conscious society is led by the LBF Green Lending initiative, a dedicated leasing facility for the promotion of hybrid vehicles. With their fuel efficient, low emission profile, hybrid vehicles help customers to reduce their own personal carbon footprint.

Year	No. of green financing facilities	Amount granted (Rs. million)
2017/18	450	1,159.00
2016/17	800	2,471.36
2015/16	368	1,081.61
2014/15	443	1,260.95
2013/14	146	396.75



No. of green financing facilities 450

Amount granted (Rs. Million) 1,159.00

ENVIRONMENTAL AWARENESS AND CSR

Focus area	Total Investment	No. of beneficiaries	Employee voluntary
Preserving nature	3,497,500.00	Not quantifiable	27 employees
Mitigation of environmental impacts	487,005	Not quantifiable	207

LIFE ON LAND PROJECTS

PROJECT | 01

Tree Planting Programme (ongoing project)

PROJECT SCOPE

Distribution of tree saplings among customers and the community

OBJECTIVES

- Encourage stakeholders to align with the Company's environmental goals
- Inspire good behaviour and green ethics
- Conserving flora and fauna and protection of biodiversity within identified areas

BENEFICIARIES

612 school students and customers in Rathnapura, Panadura and Kegalle areas

EMPLOYEE VOLUNTEERISM

8 employees (56 volunteer hours)

IMPACT ASSESSMENT

(Derived through Community Feedback)

	✓			

PROJECT | 02

Environmental Preservation

PROJECT SCOPE

Commissioning of a gantry near the corporate office depicting "Don't leave them to fade away"

OBJECTIVES

Create awareness and emphasise on the importance of environmental conservation

BENEFICIARIES

Society at large

EMPLOYEE VOLUNTEERISM

12 employees (44 volunteer hours)

IMPACT ASSESSMENT

(Derived through Community Feedback)

	✓			

L B FINANCE conservation

Natural Capital

PROJECT | 03

Internal competition on environmental conservation and protection

PROJECT SCOPE

Organised for the children of LBF employees, where competitors were allowed to present any artwork (painting, artwork, poems etc.) on environmental conservation and protection. Submissions were judged on multiple age categories as well as an open category to encourage employees also to compete. Winners under each category were awarded cash prices.

OBJECTIVES

- Creating awareness among the employees and their families
- Inculcate green practices to develop employees and their families as the green partners of the Company
- Motivate the environmental friendly attitudes among employees and their families

BENEFICIARIES

50 Employees and their families

EMPLOYEE VOLUNTEERISM

90 employees (215 volunteer hours)

IMPACT ASSESSMENT

(Derived through Community Feedback)

	✓			

PROJECT | 04

Distribution of outfits to forest rangers (ongoing project)

PROJECT SCOPE

Distribution of protective jackets to wildlife officers stationed at the 7 wildlife parks.

OBJECTIVES

- Motivate forest rangers to ensure they work towards protection of animals at the wild life park
- Support environment protection activities

Year	Project location
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

BENEFICIARIES

Society at large

EMPLOYEE VOLUNTEERISM

15 employees (265 volunteer hours)

IMPACT ASSESSMENT

(Derived through Community Feedback)

	✓			

PROJECT | **05**

Installation of signed board at national parks across Sri Lanka (ongoing initiative)

PROJECT SCOPE	OBJECTIVES
A joint environmental conservation project conducted in partnership with the Young Zoologists' Association to install display boards with messages of caution at the entrance to national parks	Create awareness among visitors

Year	Project location
2017/18	Wasgamuwa
2016/17	Udawalawe, Wilpattu, Minneriya, Horton Plains and Bundala

BENEFICIARIES	EMPLOYEE VOLUNTEERISM
Society at large	15 employees (76 volunteer hours)

IMPACT ASSESSMENT
(Derived through Community Feedback)

✓

FUTURE ACTION

FUTURE ACTION

LBF's commitment towards environmental sustainability has grown stronger over the years and the Company has reached a number of notable milestones, which prove our dedication and commitment. Currently our organisational strategy is aligned with the environmental conservation and all strategic decisions are made with significant consideration on our impact on the environment. The Company believes that through this dedication it would be able to make a difference in society to make a sustainable tomorrow. Moving forward, the next steps in LBF's environmental strategy will be;

» Investing in renewable energy to meet branch energy requirement, in turn targeting a 30% reduction in LBF's Scope 2 emissions

» Introduce new products to expand the green lending portfolio

» Engage more stakeholders in carbon neutral activities

A Matter of Performance

FINANCIAL REPORTS

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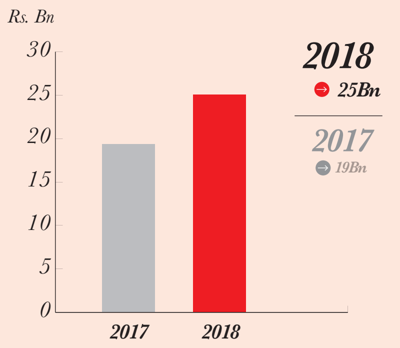
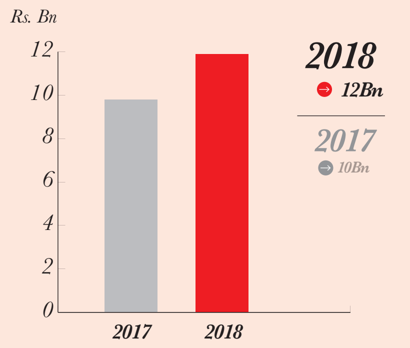
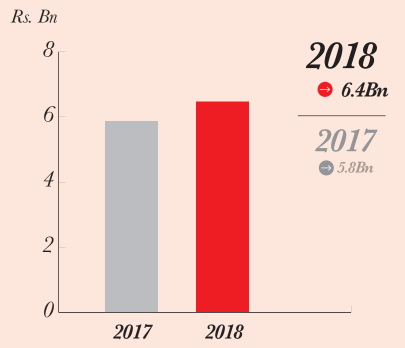
INCOME



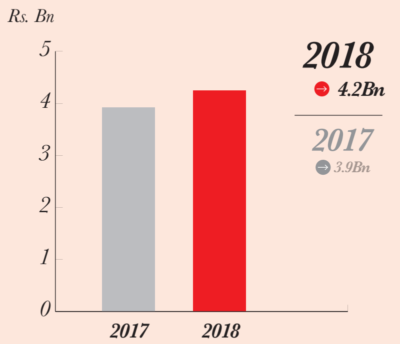
NET INTEREST INCOME



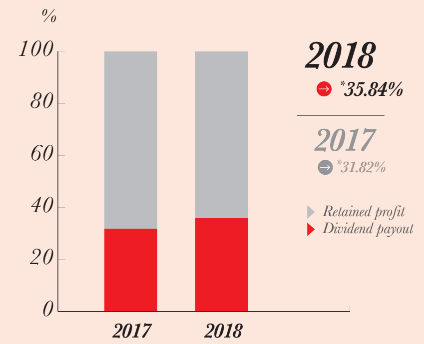
PROFIT BEFORE TAX (PBT)



PROFIT AFTER TAX (PAT)



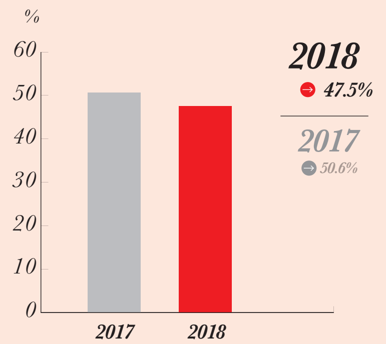
DIVIDEND PAYMENT VS RETAINED PROFIT



*Dividend payout ratio

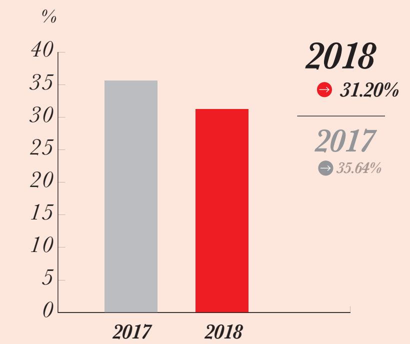
Profitability Ratios

GROSS PROFIT MARGIN*



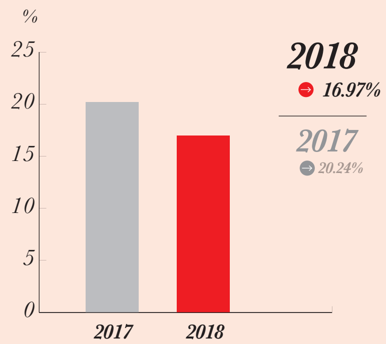
*Net interest income as a % of Income

OPERATING PROFIT MARGIN*



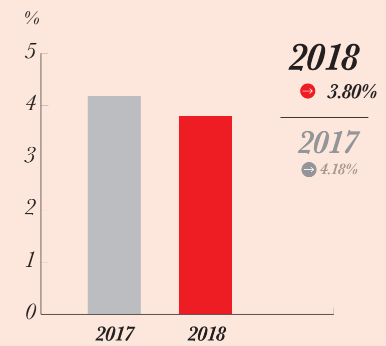
*Operating profit before tax as a % of Income

NET PROFIT MARGIN*

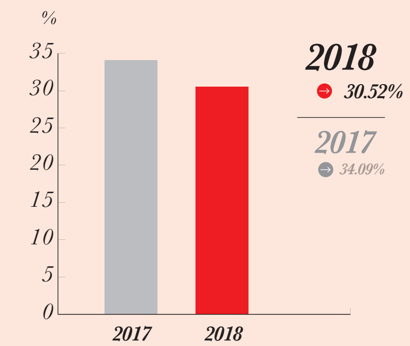


*Profit after tax as a % of Income

RETURN ON ASSETS (ROA)

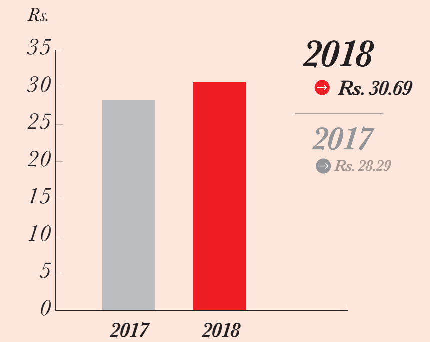


RETURN ON EQUITY (ROE)

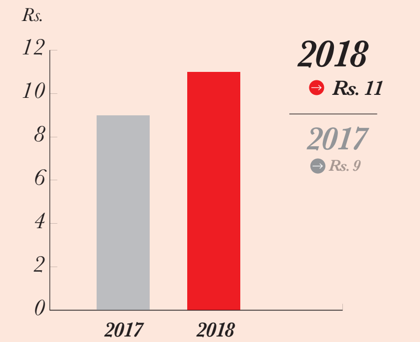


Equity Ratios

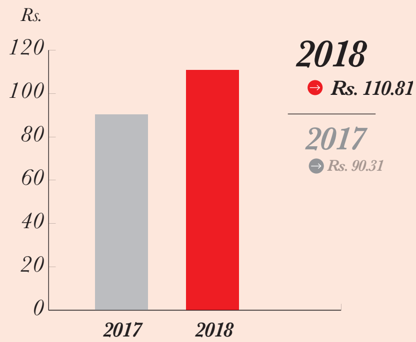
EARNINGS PER SHARE (EPS)



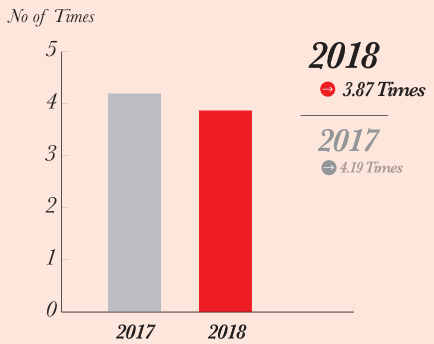
DIVIDEND PER SHARE (DPS)



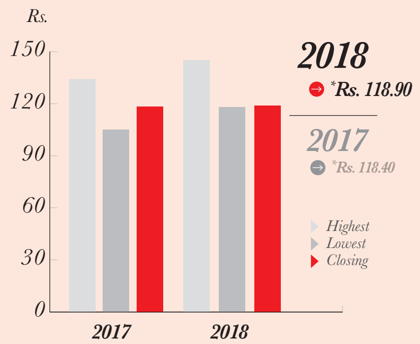
NET ASSETS VALUE PER SHARE



PRICE EARNINGS RATIO



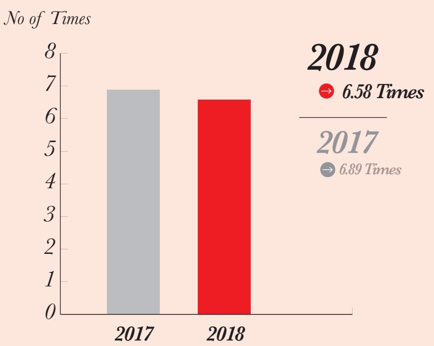
MARKET VALUE PER SHARE



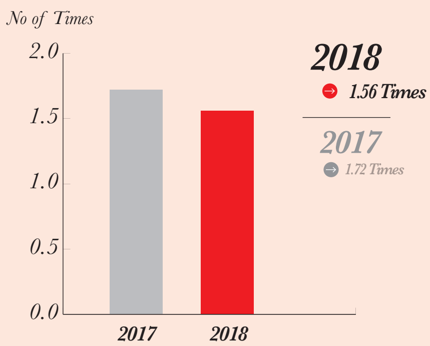
*Closing share price

Debt Ratios

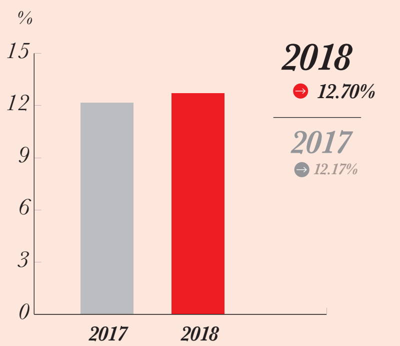
DEBT TO EQUITY RATIO



INTEREST COVER



EQUITY ASSETS RATIO



Financial Calendar

2017/18	
Publication of interim Financial Statements for the quarter ended 31 March 2017	25 April 2017
Authorisation for issue of audited Financial Statements for 2016/17	23 May 2017
Publication of Annual Report for the financial year ended 31 March 2017	6 June 2017
Held 44th Annual General Meeting of the Company	30 June 2017
Payment of final dividend of Rs. 3.00 per share for the financial year ended 31 March 2017	11 July 2017
Publication of interim Financial Statements for the quarter ended 30 June 2017	28 July 2017
Publication of interim Financial Statements for the quarter ended 30 September 2017	24 October 2017
Publication of interim Financial Statements for the quarter ended 31 December 2017	30 January 2018
Payment of interim dividend of Rs. 7.00 per share for the financial year ended 31 March 2018	9 March 2018

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
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*

Submission of the interim Financial Statements in terms of the rule 7.4 of the CSE	**2017/18 submitted on**	**2018/19 to be submitted on or before**
For the 3 months ended 30 June, (unaudited)	28 July 2017	15 August 2018
For the 3 and 6 months ended 30 September, (unaudited)	24 October 2017	15 November 2018
For the 3 and 9 months ended 31 December, (unaudited)	30 January 2018	15 February 2019
For the 3 months and year ended 31 March, (unaudited)	11 May 2018	30 May 2019

Publication of the six month Financial Statements as per requirements of the Central Bank of Sri Lanka	**2017/18 published in newspapers on**			**2018/19 to be published on or before**
	English	**Sinhala**	**Tamil**	
For the year ended 31 March, (audited)	27 June 2017	27 June 2017	28 June 2017	30 June 2018
For the 6 months ended 30 September, (unaudited)	14 November 2017	14 November 2017	14 November 2017	30 November 2018

*Subject to confirmation by Shareholders

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 and improvements recommended wherever necessary.

The Company adopts the improvements in Sri Lanka Accounting Standards and continuously improves the Financial Statement closure process, investments and borrowing procedures, disclosures with regard to financial risk management, fair value and management information.

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

Sumith Adhihetty
Managing Director

1 June 2018

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 313 to 315 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 110 and 112 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 te 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

1 June 2018

Independent Auditors' Report

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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT 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 2018, 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 2018, 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.

Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and receivables and lease rentals receivable and stock out on hire As at 31 March 2018, loans and receivables and lease rentals receivable and stock out on hire (net of impairment) amounted to Rs. 39,894,276 (Rs.'000) and Rs. 62,489,686 (Rs.'000) respectively. These collectively contributed 85% to the Group's total assets. The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental. Note 4.18 to the Financial Statements more fully describes the assumptions to which this estimate is most sensitive. We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.	To assess the reasonableness of the allowance for impairment, we performed the following procedures, among others: » We understood & evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events; » We test - checked the underlying calculations and data used in such calculations; » In addition to the above, focused procedures were performed as follows: **Individual allowance for impairment:** For a sample of loans & leases, checked the management's assessment of effectiveness of controls over the identification of customers for whom an impairment event has occurred. Further, for such customers, we test – checked the appropriateness of management's calculation over the estimation of recoverable amount. **Collective allowance for impairment:** For loss rates used by management, we assessed the appropriateness of the loss emergence period and the observation period including consistency with historical loss experience; assessed the reasonableness of the assumptions on effects arising from macro – economic factors; » We assessed the adequacy of the related financial statement disclosures as set out in note(s) 4.16, 4.17, 4.18 and 5.1 to 5.4.

Other information included in the Group's 2018 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.

Auditor's 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.

» 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 auditor's report is 1884.

22 May 2018
Colombo

Financial Statements - Table of Contents

SECTION 01

Income Statement

Year ended 31 March	Note	Page No.	Company 2018 Rs. '000	Company 2017 Rs. '000	Change %	Group 2018 Rs. '000
Income	4.1.1	332	25,046,202	19,363,428	29	25,046,339
Interest income	4.1.2	332	23,394,115	17,909,935	31	23,395,887
Less: Interest expenses	4.1.6	333	11,498,408	8,112,337	42	11,498,460
Net interest income	4.1.8	334	11,895,707	9,797,598	21	11,897,427
Fee and commission income	4.2	334	1,504,188	1,209,340	24	1,504,599
Net trading income	4.3	335	(299)	(148)	>(100)	(299)
Other operating income	4.4	335	148,198	244,301	(39)	146,152
Total operating income			13,547,794	11,251,091	20	13,547,879
Less: Impairment charge/(reversal) for loans and other losses	4.5	336	667,628	(42,265)	>100	668,005
Less: Gold loan auction losses			2,995	2,200	36	2,995
Net operating income			12,877,171	11,291,156	14	12,876,879
Less: operating expenses						
Personnel expenses	4.6	337	2,397,919	2,110,405	14	2,400,735
Depreciation of property, plant and equipment	4.23	369	365,599	326,128	12	365,684
Amortisation of intangible assets	4.24	376	18,636	17,090	9	19,053
Other operating expenses	4.7	338	2,280,634	1,935,589	18	2,282,693
Total operating expenses			5,062,788	4,389,212	15	5,068,165
Operating profit before tax on financial services			7,814,383	6,901,944	13	7,808,714
Less: Tax on financial services	4.8	339	1,336,693	1,027,101	30	1,336,693
Profit before taxation			6,477,690	5,874,843	10	6,472,021
Less: income tax expense	4.9.1 (a)	340	2,226,969	1,956,639	14	2,226,969
Profit for the year			4,250,721	3,918,204	8	4,245,052
Profit attributable to:						
Equity holders of the Company			4,250,721	3,918,204	8	4,245,069
Non-controlling interest			-	-	-	(17)
Profit for the year			4,250,721	3,918,204	8	4,245,052
Earnings per share: Basic/diluted (Rs.)	4.10	342	30.69	28.29	8	30.65
Dividend per share	4.11	343				
Dividend per share: Gross (Rs.)			11.00*	9.00	22	
Dividend per share: Net (Rs.)			9.74*	8.10	20	

*Calculated based on interim dividend paid and proposed final dividend, which is to be approved at the Annual General Meeting.

Accounting policies and notes from pages 324 to 413 form an integral part of these Financial Statements.

Statement of Comprehensive Income

Year ended 31 March	Note	Page No.	Company 2018 Rs. '000	Company 2017 Rs. '000	Company Change %	Group 2018 Rs. '000
Profit for the year			4,250,721	3,918,204	8	4,245,052
Other Comprehensive Income that will be reclassified to Income Statement						
Net gains/(losses) from translating the Financial Statements of the foreign operations			-	-	-	5,247
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	(20,391)	>100	3,604
Reclassification adjustment for impairment on equity securities			4,456	5,672	(21)	4,456
Net fair value gains/(losses) on re-measuring equity securities			8,060	(14,719)	>100	8,060
Other Comprehensive Income that will be reclassified to Income Statement			8,060	(14,719)	>100	13,307
Less: deferred tax charge/(reversal) on above items			-	-	-	-
Net Other Comprehensive Income that will be reclassified to the Income Statement			8,060	(14,719)	>100	13,307
Other Comprehensive Income that will never be reclassified to Income Statement						
Actuarial gains and losses on defined benefit plans	4.32.3	386	(47,807)	(4,420)	>(100)	(47,807)
Less: deferred tax charge/(reversal) on actuarial gains and losses	4.9.1 (b)	341	(13,386)	(1,238)	>(100)	(13,386)
Net Other Comprehensive Income that will never be reclassified to Income Statement			(34,421)	(3,182)	>(100)	(34,421)
Other Comprehensive Income for the year, net of tax			(26,361)	(17,901)	(47)	(21,114)
Total Comprehensive Income for the year, net of tax			4,224,360	3,900,303	8	4,223,938
Attributable to:						
Equity holders of the Company			4,224,360	3,900,303	8	4,223,939
Non-controlling interest			-	-	-	(1)
Total Comprehensive Income for the year, net of tax			4,224,360	3,900,303	8	4,223,938

Accounting policies and notes from pages 324 to 413 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	Page No.	Company 2018 Rs. '000	Company 2017 Rs. '000	Change %	Group 2018 Rs. '000
Assets						
Cash and cash equivalents	4.14	356	5,874,375	2,895,085	>100	5,990,295
Financial investments - held for trading	4.15	357	9,682	10,068	(4)	9,682
Loans and receivables	4.16	358	39,855,398	33,488,779	19	39,894,276
Lease rentals receivable and stock out on hire	4.17	360	62,489,686	55,660,963	12	62,489,686
Financial investments - available for sale	4.19	364	121,624	118,021	3	121,624
Other financial assets	4.20	367	6,772,554	6,721,526	1	6,766,710
Other non-financial assets	4.21	368	815,808	305,048	>100	816,463
Investment in Subsidiary	4.22	369	152,915	-	100	-
Property, plant and equipment	4.23	369	4,680,619	3,514,356	33	4,681,849
Intangible assets	4.24	376	48,119	49,189	(2)	52,861
Total assets			120,820,780	102,763,035	18	120,823,446
Liabilities						
Due to banks	4.25	378	22,838,038	23,778,147	(4)	22,838,038
Due to customers	4.26	380	72,943,833	60,401,955	21	72,946,011
Debt instruments issued and other borrowed funds	4.27	381	5,152,832	2,044,216	>100	5,152,832
Other financial liabilities	4.28	382	1,761,418	2,007,402	(12)	1,761,418
Other non-financial liabilities	4.29	383	852,715	673,436	27	853,165
Current tax liabilities	4.30	383	633,058	691,091	(8)	633,058
Deferred tax liabilities	4.31	384	1,058,750	503,488	>100	1,058,750
Post employment benefit liability	4.32	385	231,240	153,621	51	231,240
Total liabilities			105,471,884	90,253,356	17	105,474,512
Equity						
Stated capital	4.33	388	838,282	838,282	-	838,282
Reserves	4.34	388	4,270,522	3,412,318	25	4,275,753
Retained earnings	4.35	389	10,240,092	8,259,079	24	10,234,440
Total equity attributable to equity holders of the Company			15,348,896	12,509,679	23	15,348,475
Non-controlling interest	4.36	389	-	-	-	459
Total equity			15,348,896	12,509,679	23	15,348,934
Total liabilities and equity			120,820,780	102,763,035	18	120,823,446
Commitments and contingencies	6.5	411	1,261,981	994,135	27	1,261,981
Net asset value per share (Rs.)	6.6	412	110.81	90.31	23	110.81

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 324 to 413 form an integral part of these Financial Statements.

22 May 2018
Colombo

Statement of Changes in Equity - Company

	Note	Page No.	Stated capital Rs. '000	Retained earnings Rs. '000	Statutory reserve Rs. '000	Available for sale reserve Rs. '000	Total equity Rs. '000
Balance as at 1 April 2016			838,282	6,970,499	2,641,042	29,496	10,479,319
Net profit for the year			-	3,918,204	-	-	3,918,204
Other Comprehensive Income, net of tax			-	(3,182)	-	(14,719)	(17,901)
Total Comprehensive Income for the year, net of tax			-	3,915,022	-	(14,719)	3,900,303
Transactions with owners, recognised directly in equity, contributions and distributions to owners							
Transfers during the year			-	(756,499)	783,641	(27,142)	-
Final dividend for 2015/16	4.11	343	-	(1,038,857)	-	-	(1,038,857)
Interim dividend for 2016/17	4.11	343	-	(831,086)	-	-	(831,086)
Total transactions with equity holders			-	(2,626,442)	783,641	(27,142)	(1,869,943)
Balance as at 31 March 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	4.34	388	-	(850,144)	850,144	-	-
Final dividend for 2016/17	4.11	343	-	(415,543)	-	-	(415,543)
Interim dividend for 2017/18	4.11	343	-	(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

Figures in brackets indicate deductions.

Accounting policies and notes from pages 324 to 413 form an integral part of these Financial Statements.

Statement of Changes in Equity - Group

	Note	Page No.	Stated capital Rs. '000	Retained earnings Rs. '000	Statutory reserve Rs. '000	Available for sale reserve Rs. '000	Foreign currency translation reserve Rs. '000	Total equity attributable to equity holders of the company Rs. '000	Non-controlling interest Rs. '000	Total equity Rs. '000
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	4.34	388	-	(850,144)	850,144	-	-	-	-	-
Final dividend for 2016/17	4.11	343	-	(415,543)	-	-	-	(415,543)	-	(415,543)
Interim dividend for 2017/18	4.11	343	-	(969,600)	-	-	-	(969,600)	-	(969,600)
Non-controlling interest contribution for Subsidiary share issues	4.36	389	-	-	-	-	-	-	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

Figures in brackets indicate deductions.

Accounting policies and notes from pages 324 to 413 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 7 (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.

			Company		Group
Year ended 31 March			**2018**	**2017**	**2018**
	Note	**Page No.**	**Rs. '000**	**Rs. '000**	**Rs. '000**
Cash flows from/(used in) operating activities					
Profit and Other Comprehensive Income before taxation			6,437,944	5,855,704	6,437,522
Adjustments for -					
Depreciation of property, plant and equipment	4.23	369	365,599	326,128	365,684
Amortisation of intangible assets	4.24	376	18,636	17,090	19,053
Impairment charges/(reversal) for loans and other losses	4.5	336	667,628	(42,265)	668,005
Gold loan auction losses			2,995	2,200	2,995
Diminution/(appreciation) in value of investments			(3,219)	20,968	(3,219)
Loss/(profit) on disposal of property, plant and equipment	4.4	335	(4,334)	(11,191)	(4,334)
Provision/(reversal) for defined benefit plans	4.32.1	385	92,496	41,550	92,496
Foreign currency exchange (gain)/loss			-	-	2,046
Dividend received			(1,972)	(3,666)	(1,972)
Interest income on investing activities			(955,142)	(637,386)	(955,142)
Notional tax credit on interest on treasury bills and bonds	4.1.9	334	(56,809)	(50,263)	(56,809)
Withholding tax attributed to fixed deposits			(47,398)	(19,282)	(47,398)
Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations			-	-	(5,247)
Operating profit before changes in operating assets and liabilities			6,516,424	5,499,588	6,513,680
(Increase)/decrease in operating assets					
(Increase)/decrease in loans and receivables			(6,768,837)	(7,040,802)	(6,808,092)
(Increase)/decrease in lease rentals receivable and stock out on hire			(7,094,809)	(10,523,719)	(7,094,809)
(Increase)/decrease in other financial assets			131,507	(2,510,968)	137,351
(Increase)/decrease in other non-financial assets			(724,702)	354,969	(722,153)
			(14,456,841)	(19,720,520)	(14,487,703)
Increase/(decrease) in operating liabilities					
Increase/(decrease) in due to customers			12,541,878	7,022,153	12,544,056
Increase/(decrease) in other financial liabilities			(245,984)	137,461	(245,984)
Increase/(decrease) in other non-financial liabilities			179,279	75,629	179,743
			12,475,173	7,235,243	12,477,815
Cash generated from operations			4,534,756	(6,985,689)	4,503,792
Retirement benefit liabilities paid	4.32.1	385	(14,877)	(14,788)	(14,877)
Income tax paid			(1,400,524)	(1,687,940)	(1,400,524)
Net cash from/(used in) operating activities			3,119,355	(8,688,417)	3,088,391

Figures in brackets indicate deductions.

Accounting policies and notes from pages 324 to 413 form an integral part of these Financial Statements.

Statement of Cash Flows

Year ended 31 March	Note	Page No.	Company 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
Cash flows from/(used in) investing activities					
Acquisition of property, plant and equipment	4.23	369	(1,537,335)	(1,809,158)	(1,538,653)
Acquisition of intangible assets	4.24	376	(17,566)	(31,513)	(22,739)
Proceeds from sale of property, plant and equipment			9,807	25,159	9,807
Sale/(purchase) of financial investments - available for sale			2	-	2
Investment in Subsidiary	4.22	369	(152,915)	-	-
Interest received			772,607	569,545	772,607
Dividend received			1,972	3,666	1,972
Net cash flows from/(used in) investing activities			(923,428)	(1,242,301)	(777,004)
Cash flows from/(used in) financing activities					
Net cash flow from syndicated loans and other bank facilities			(1,190,197)	8,864,917	(1,190,197)
Net cash flow from debt issued and other borrowings			3,108,615	(557,066)	3,108,615
Capital contribution from non-controlling interest of a newly incorporated Subsidiary	4.36	389	-	-	460
Dividends paid	4.11.1	343	(1,385,143)	(1,869,943)	(1,385,143)
Net cash flows from/(used in) financing activities			533,275	6,437,908	533,735
Net increase/(decrease) in cash and cash equivalents			2,729,202	(3,492,810)	2,845,122
Cash and cash equivalents at the beginning of the year			1,859,817	5,352,627	1,859,817
Cash and cash equivalents at the end of the year	4.14.3	356	4,589,019	1,859,817	4,704,939
Operational cash flows from interest					
Interest received			23,211,581	17,842,094	23,213,352
Interest paid			10,454,626	7,910,612	10,454,677

Figures in brackets indicate deductions.

Accounting policies and notes from pages 324 to 413 form an integral part of these Financial Statements.

Notes to the Financial Statements

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 2018 was 3,441 (2017 : 3,221).

Corporate information is presented on page 444 of this Annual Report.

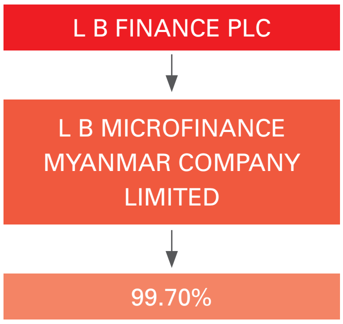
For purposes of this report, 'L B Finance', the 'Company', 'we', 'our', 'us' or similar references mean L B Finance PLC.

2.2 CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements as at and for the year ended 31 March 2018, 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

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, Micro Finance, 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 2018 - 99.70%) 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 2018 (including comparatives for 31 March 2017) were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 22 May 2018.

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 Flow, 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 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 held at fair value through profit or loss (FVTPL) and available for sale (AFS).
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation.

2.8 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.

2.9 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 on pages from 416 to 418 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

2.10 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.

2.11 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Income

Notes to the Financial Statements

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).

2.12 COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation. The details of such reclassification have been provided in Note 6.8.

2.13 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 MARCH 2018

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 adopted by the Group yet.

Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments)

Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) will replace Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments - Recognition and Measurement) for annual periods beginning on or after 1 January 2018 with early adoption permitted. In 2016 the Company set up a multidisciplinary implementation team with members from its Risk, Finance and Operations teams to prepare for Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) implementation. The Project is jointly sponsored by the Chief Financial Officer and Chief Risk Officer.

Classification and measurement

From a classification and measurement perspective, Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

(a) Business model assessment

Company determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Company'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 into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectation, the Company 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.

(b) Contractual cash flow characteristic test

As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether those meet 'Solely the Payment of Principle and Interest' (SPPI) criteria.

Principle 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 principle 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 Company 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.

In contrast to contractual exposures that introduce a more than deminimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at 'Fair Value through Profit or Loss'.

Impairment of financial assets

Overview of Expected Credit Loss principle (ECL)

Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) principally changes the Company's loan loss provision method by replacing the incurred loss approach as per Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments - Recognition and Measurment) with a forward looking ECL Approach. ECL allowance is based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12 month expected credit loss (12mECL).

12mECL is the portion of LTECL that represents the ECL which results from default events of a financial instrument which may arise within 12 months after the reporting date.

The Company has established a policy to perform an assessment, at the end of each reporting period to identify whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process Company groups loans into Stage 1, Stage 2, Stage 3 as described below;

Stage 1 : When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include the facilities which are reclassified from Stage 2 since the credit risk has improved. Assessment of Stage 1 is performed collectively.

Stage 2 : When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, which are reclassified from stage 2 since the credit risk has improved. Assessment of stage 2 is performed collectively.

Stage 3 : When a loan is considered to be credit impaired/contain objective evidences of incurred loss, the Company records an allowance for the LTECL. Stage 3 assessment will be performed individually.

Significant increase in credit risk

The Company 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 12mECL or LTECL. The Company considers an exposure to have a significant increase in credit risk by rebutting the presumption of 30 days and considers 90 days (three months) pass due as the point of significant increase in credit risk.

Individually significant impairment assessment and loans which are not impaired individually

Company 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 has been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company 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, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets

Notes to the Financial Statements

which belong to Stage 3. All assets which belong to Stage 1 and 2 will be assessed collectively for impairment.

Company groups 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 non default (Rebut the presumption of 90 days and consider 150 days (five months) past due as the definition of 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 principle 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 percentage 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.

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.

Compared to existing accounting requirements, Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) is expected to require higher impairments earlier in a debt asset's life and the recognition of losses on off-balance sheet facilities. Together this will result in a higher overall balance sheet impairment requirement. This difference is expected, on transition to Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments), to be recognised at the time of the implementation. It is anticipated that the impact will be significant to the Company. We have calculated the potential impact of the new requirement based on 31 March 2018 figures. The increase in total balance sheet impairment provision is as follows;

As at 31 March 2018	Rs. '000
Total expected loss (SLFRS 9)	990,757
Less - Collective provision for unimpaired loans (LKAS 39)	763,029
Increase in total balance sheet impairment provision	227,728

Amendments to Sri Lanka Accounting Standard - LKAS 28 (Investments in Associates and Joint Ventures)

The amendments address the conflict between Sri Lanka Accounting Standard - SLFRS 10 (Consolidated Financial Statements) and Sri Lanka Accounting Standard - LKAS 28 (Investments in Associates and Joint Ventures) in dealing with the loss of control of a Subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers)

Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers) is effective for periods beginning on or after 1 January 2018 with early adoption permitted. Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers) defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers) and will be regulated by the other applicable standards (e.g., SLFRS 9 and SLFRS 16).

Revenue under Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers) will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing, as well as any uncertainty of revenue and corresponding cash flows with customers. The Company does not anticipate early adoption of Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers).

Implementation of the Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers) is not expected to have an impact on the Financial Statements since majority of our revenue generating instruments meet the definition of financial instruments under Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments).

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). Earlier application is permitted for entities that apply Sri Lanka Accounting Standard – SLFRS 15 (Revenue from Contracts with Customers).

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 Sri Lanka Accounting Standard - LKAS 12 (Income tax), 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.

2.14 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Group are consistent with those used in the previous financial year.

2.15 SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The preparation of Financial Statements of the Group in conformity with Sri Lanka Accounting Standards requires the management to make assumptions, judgements 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

4.18 Allowance for Impairment Losses

4.19 Impairment of Financial Investments - Available for Sale

4.22 Investment in Subsidiary

4.23 Useful life time of the Property, Plant and Equipment

4.24 Useful life time of the Intangible Assets

4.31 Deferred Taxation

4.32 Post Employment Benefit Liability

6.5 Commitments and Contingencies

6.9 Events Occuring after the Reporting Date

Notes to the Financial Statements

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 loses 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 the 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 OCI 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 the 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.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitment that are measured at FVTPL. The Group recognises a provision in accordance with the Sri Lanka Accounting Standard – LKAS 37 (Provisions, Contingent Liabilities and Contingent Assets), if the contract was considered to be onerous. Liabilities arising from financial guarantees and loan commitments are included within provisions.

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.

Notes to the Financial Statements

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.

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR method). 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 4.18.5 to these Financial Statements. Interest from overdue rentals have been accounted for on a cash received basis.

4.1.1 Income

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Interest income	23,394,115	17,909,935	23,395,887
Fee and commission income	1,504,188	1,209,340	1,504,599
Net trading income	(299)	(148)	(299)
Other operating income	148,198	244,301	146,152
	25,046,202	19,363,428	25,046,339

4.1.2 Interest Income

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Loans and receivables (Note 4.1.3)	8,251,407	6,349,685	8,253,179
Lease rentals receivable and stock out on hire (Note 4.1.4)	14,083,358	10,853,318	14,083,358
Other financial assets	1,059,350	706,932	1,059,350
	23,394,115	17,909,935	23,395,887

4.1.3 Interest income - loans and receivables

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Gold loans	4,319,109	3,365,389	4,319,109
Vehicle loans	909,041	966,816	909,041
Medium and short-term loans	989,088	639,946	990,860
Mortgage loans	1,376,270	952,613	1,376,270
Quick loans	6,113	7,620	6,113
Power drafts	540,318	349,279	540,318
Margin trading	4,518	3,490	4,518
Factoring receivable	106,411	64,440	106,411
Real estate loans	539	92	539
	8,251,407	6,349,685	8,253,179

4.1.4 Interest income - lease rentals receivable and stock out on hire

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Lease rentals receivable	13,953,681	10,406,296	13,953,681
Stock out on hire	129,677	447,022	129,677
	14,083,358	10,853,318	14,083,358

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
4.1.5 Interest income from Sri Lanka Government Securities	568,092	502,635	568,092

4.1.6 Interest expenses

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Due to banks	2,589,652	1,888,152	2,589,652
Due to customers	8,487,449	5,878,599	8,487,501
Debt issued and other borrowed funds	421,307	345,586	421,307
	11,498,408	8,112,337	11,498,460

Notes to the Financial Statements

4.1.7 Interest expenses (Product-wise breakdown)

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Bank overdrafts	663	4,532	663
Syndicated loans and other bank facilities	2,588,989	1,883,619	2,588,989
Fixed deposits	8,268,964	5,674,988	8,268,964
Certificates of deposit	10,990	15,373	10,990
Savings deposits	207,495	188,239	207,547
Unsecured debentures	421,307	345,586	421,307
	11,498,408	8,112,337	11,498,460

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
4.1.8 Net interest income	11,895,707	9,797,598	11,897,427

4.1.9 Notional tax credit for withholding tax on Government Securities on secondary market transactions - Company

The Inland Revenue Act No 10 of 2006 and the amendments thereto, 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.

Accordingly, the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in these Financial Statements with the resulting notional tax credit amounted to Rs. 56,809,154/- (2017 - Rs. 50,263,497/-).

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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Credit-related fees and commissions	924,436	736,196	924,847
Service charge	579,752	473,144	579,752
	1,504,188	1,209,340	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 investments - held for trading is recognised when the Group's right to receive the payment is established.

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Dividend income from financial investments - held for trading	86	430	86
Appreciation/(depreciation) in market value of financial investments - held for trading	(385)	(578)	(385)
	(299)	(148)	(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 investments - available for sale 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
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Dividend income from financial investments - available for sale	1,886	3,236	1,886
Reclassification adjustment for impairment on equity securities	(4,456)	(5,672)	(4,456)
Profit/(loss) on disposal of property, plant and equipment	4,334	11,191	4,334
Real estate income (net of cost)	3,291	200,103	3,291
Income on operating lease	122,422	16,889	122,422
Sundry income	20,721	18,554	18,675
	148,198	244,301	146,152

Notes to the Financial Statements

4.5 IMPAIRMENT CHARGE/(REVERSAL) FOR LOANS AND OTHER LOSSES

Accounting policy

The Group recognises the changes to the impairment provision for loans and other losses which are assessed as per the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). 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 recognised on a cash basis.

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Loans and receivables (Note 4.18.1)	415,476	6,290	415,853
Lease rentals receivable and stock out on hire (Note 4.18.1)	364,809	94,016	364,809
Other losses	2,318	(8,848)	2,318
Recovery of written-off debts	(114,975)	(133,723)	(114,975)
	667,628	(42,265)	668,005

4.5.1 Impairment charge/(reversal) for loans and other losses (Detailed breakdown) - Company

	2018			
	Direct write offs	Charge for the year	Reversal for the year	Net amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables	19,947	527,229	(131,700)	415,476
Lease rentals receivable and stock out on hire	5,124	729,999	(370,314)	364,809
Other losses	-	5,271	(2,953)	2,318
	25,071	1,262,499	(504,967)	782,603
Recovery of written-off debts				(114,975)
				667,628

	2017			
	Direct write offs	Charge for the year	Reversal for the year	Net amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and receivables	12,090	194,234	(200,034)	6,290
Lease rentals receivable and stock out on hire	7,546	501,664	(415,194)	94,016
Other losses	-	-	(8,848)	(8,848)
	19,636	695,898	(624,076)	91,458
Recovery of written-off debts				(133,723)
				(42,265)

4.5.2 Impairment charge/(reversal) for loans and other losses (Detailed breakdown) - Group

	2018			
	Direct Write Offs Rs. '000	Charge for the Year Rs. '000	Reversal for the Year Rs. '000	Net amount Rs. '000
Loans and receivables	19,947	527,606	(131,700)	415,853
Lease rentals receivable and stock out on hire	5,124	729,999	(370,314)	364,809
Other losses	-	5,271	(2,953)	2,318
	25,071	1,262,876	(504,967)	782,980
Recovery of written-off debts				(114,975)
				668,005

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
	2018 Rs. ‘000	2017 Rs. ‘000	2018 Rs. ‘000
Salaries and other related expenses	2,034,887	1,798,757	2,037,703
Employer’s contribution to Employees' Provident Fund	188,583	162,964	188,583
Employer’s contribution to Employees' Trust Fund	37,717	32,593	37,717
Gratuity charge/(reversal) for the year	44,689	37,130	44,689
Staff training	8,565	8,046	8,565
Staff welfare expenses	78,817	68,625	78,817
Amortisation of staff loan day 01 difference	4,661	2,290	4,661
	2,397,919	2,110,405	2,400,735

Notes to the Financial Statements

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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Directors' emoluments	16,399	17,738	16,399
Auditors' remuneration	2,950	2,750	2,950
Audit-related expenses	2,597	2,461	2,597
Non-audit fees to auditors	1,045	790	1,045
Professional and legal expenses	46,025	48,057	46,025
Deposit insurance premium	93,017	74,336	93,017
General insurance expenses	152,248	118,501	152,248
Office administration and establishment expenses	1,344,162	1,138,865	1,346,221
Advertising and business promotional expenses	579,039	493,479	579,039
Crop insurance levy expenses	43,152	38,612	43,152
	2,280,634	1,935,589	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.

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 financial year ended 31 March 2018 was 15%.

VAT rates applied during the financial year ended 31 March 2017 were as follows;

Period	Rate
1 April 2016 - 1 May 2016	11%
2 May 2016 - 11 July 2016	15%
12 July 2016 - 31 October 2016	11%
1 November 2016 - 31 March 2017	15%

Nation Building Tax (NBT) on financial services

As per provisions of the Nation Building Tax Act (NBT) 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.

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Value Added Tax on financial services	1,179,435	896,389	1,179,435
Nation Building Tax on financial services	157,258	130,712	157,258
	1,336,693	1,027,101	1,336,693

Notes to the Financial Statements

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 10 of 2006 and the amendments thereto at the rates specified in Note 4.9.2 to the Financial Statements.

Accounting estimates

The Group is subject to income taxes and other taxes. Significant judgment was required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. The Company recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and other 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 the Financial Statements.

4.9.1 The major components of income tax expenses for the years ended 31 March are as follows;

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
4.9.1 (a) Income Statement			
Current income tax			
Income tax for the year	1,633,990	1,563,183	1,633,990
Under/(over) provision of current taxes in respect of previous years	24,331	31,872	24,331
Deferred tax			
Deferred taxation charge/(reversal) (Note 4.31)	568,648	361,584	568,648
	2,226,969	1,956,639	2,226,969

	Company 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
4.9.1 (b) Other Comprehensive Income			
Deferred tax			
Deferred taxation charge/(reversal) (Note 4.31)	(13,386)	(1,238)	(13,386)
	(13,386)	(1,238)	(13,386)
4.9.1 (c) Total tax expense for the financial year	2,213,583	1,955,401	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 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
Accounting profit before income taxation	**Tax rate**	6,477,690	5,874,843	6,472,021
Income tax expense at the statutory income				
L B Finance PLC	28%	1,813,753	1,644,956	1,813,753
L B Microfinance Myanmar Company Limited	25%	-	-	-
Tax effect of non-deductible expenses		391,012	283,972	391,012
Tax effect of allowable credits		(1,575)	(3,134)	(1,575)
Tax effect of exempt income		(552)	(1,027)	(552)
Adjustments of taxes in respect of prior years		24,331	31,872	24,331
		2,226,969	1,956,639	2,226,969
Charge/(reversal) for deferred tax		568,648	361,584	568,648
Effective tax rate		34.38%	33.31%	34.41%
Effective tax rate (excluding deferred tax)		25.60%	27.15%	25.62%
Accounting profit before tax on financial services		7,814,383	6,901,944	7,808,714
Effective tax rate (excluding tax on financial services)		28.50%	28.35%	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;

	2018	2017
L B Finance PLC	28%	28%
L B Microfinance Myanmar Company Limited	25%	-

Notes to the Financial Statements

4.9.4 Summary of the taxes paid during the year

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Direct taxes			
Income tax	1,400,524	1,687,940	1,400,524
Value added tax on financial services	1,199,539	803,195	1,199,539
Nation building tax on financial services	156,343	125,598	156,343
Crop insurance levy	53,570	40,681	53,570
Economic service charge	118,364	69,956	118,364
	2,928,340	2,727,370	2,928,340
Indirect taxes (collected and paid)			
Value added tax	330,323	413,938	330,323
Nation building tax	32,017	27,469	32,017
Stamp duty	315,992	291,797	315,992
Withholding tax on dividend and interest	329,024	261,726	329,024
Paye tax	77,908	66,169	77,908
	1,085,264	1,061,099	1,085,264
Total taxes paid during the financial year	4,013,604	3,788,469	4,013,604

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 share details used in the basic earning per share computation

	Company		Group
	2018	2017	2018
Amounts used as the numerators:			
Profit after tax for the year attributable to equity holders (Rs. '000)	4,250,721	3,918,204	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
Basic/diluted earnings per ordinary share (Rs.)	30.69	28.29	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 to the Financial Statements as an event after the reporting period in accordance with the Sri Lanka Accounting Standard - LKAS 10 (Events Occurring after the Reporting Period).

	Company	
	2018	**2017**
	Rs. '000	**Rs. '000**
4.11.1 Declared and paid during the year		
Dividends on ordinary shares:		
Final dividend for 2017 - Rs. 3.00 per share (First and final dividend for 2016 - Rs. 7.50 per share)	415,543	1,038,857
Interim dividend for 2018 - Rs. 7.00 Per share (Interim dividend for 2017 - Rs. 6.00 per share)	969,600	831,086
	1,385,143	1,869,943
4.11.2 Proposed for approval at Annual General Meeting		
(not recognised as a liability as at 31 March)		
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

4.12 FINANCIAL INSTRUMENTS

Accounting policy

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.

Notes to the Financial Statements

'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' 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, 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 based on the rights of set off relating to the financial instruments and cash collateral is as follows;

Company & Group

As at 31 March 2018	Gross amounts Rs. '000	Gross amounts set off on the statement of financial position Rs. '000	Net amounts presented on the statement of financial position Rs. '000	Cash collateral Rs. '000	Financial instrument collateral Rs. '000	Net amount 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 customers	72,943,833	-	72,943,833	-	2,579,869	70,363,964

Company

As at 31 March 2017	Gross amounts Rs. '000	Gross amounts set off on the statement of financial position Rs. '000	Net amounts presented on the statement of financial position Rs. '000	Cash collateral Rs. '000	Financial instrument collateral Rs. '000	Net amount Rs. '000
Financial assets						
Lease rentals receivable and stock out on hire	55,660,963	-	55,660,963	-	28,007,463	27,653,500
Financial liabilities						
Due to customers	60,401,955	-	60,401,955	-	1,911,853	58,490,102

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.

Notes to the Financial Statements

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. The 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		2018				2017			
		Fair value measurement using				Fair value measurement using			
		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
	Note	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 investments held for trading	4.15								
Quoted equities		9,682	-	-	9,682	10,068	-	-	10,068
Financial investments available for sale	4.19								
Quoted equities		121,319	-	-	121,319	117,716	-	-	117,716
Unquoted equities		-	-	305	305	-	-	305	305
		121,319	-	305	121,624	117,716	-	305	118,021

There were no transfers into and transfers out of the hierarchy levels during 2017 and 2018.

Details of valuation methodologies and assumptions are disclosed in the relevant Note to the Financial Statements.

Notes to the 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	Note	2018				
		Fair value measurement using				
		Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	Total fair value	Carrying value at amortised cost
	Note	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		793,796	-	-	793,796	793,796
Balances with banks		1,861,273	-	-	1,861,273	1,861,273
Treasury bills repurchase agreements		-	3,219,306	-	3,219,306	3,219,306
		2,655,069	3,219,306	-	5,874,375	5,874,375
Loans and receivables (net of allowance for impairment losses)	4.16					
Gold loans		-	-	20,108,243	20,108,243	20,108,243
Vehicle loans		-	-	4,017,216	4,017,216	4,054,552
Medium and short-term loans		-	-	5,522,094	5,522,094	5,558,771
Mortgage loans		-	-	7,004,345	7,004,345	6,962,770
Quick loans		-	-	7,673	7,673	9,624
Power drafts		-	-	2,599,730	2,599,730	2,658,607
Margin trading		-	-	20,963	20,963	20,963
Real estate loans		-	-	-	-	-
Factoring receivable		-	-	481,868	481,868	481,868
		-	-	39,762,132	39,762,132	39,855,398
Lease rentals receivable and stock out on hire (net of allowance for impairment losses)	4.17					
Lease rentals receivable		-	-	63,287,175	63,287,175	62,279,090
Stock out on hire		-	-	211,085	211,085	210,596
		-	-	63,498,260	63,498,260	62,489,686
Other financial assets	4.20					
Treasury bills repurchase agreements		-	3,532,441	-	3,532,441	3,532,441
Investment in fixed deposits		-	2,879,390	-	2,879,390	2,879,390
Insurance premium receivable		-	326,628	-	326,628	326,628
Due from Subsidiary		-	5,844	-	5,844	5,844
Sundry debtors		-	28,251	-	28,251	28,251
		-	6,772,554	-	6,772,554	6,772,554

	2017				
	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
	740,728	-	-	740,728	740,728
	1,091,593	-	-	1,091,593	1,091,593
	-	1,062,764	-	1,062,764	1,062,764
	1,832,321	1,062,764	-	2,895,085	2,895,085
	-	-	16,267,505	16,267,505	16,267,505
	-	-	4,189,209	4,189,209	4,184,086
	-	-	4,309,221	4,309,221	4,343,401
	-	-	5,986,998	5,986,998	6,189,501
	-	-	17,714	17,714	17,706
	-	-	2,096,227	2,096,227	2,117,675
	-	-	31,934	31,934	31,934
	-	-	-	-	-
	-	-	326,388	326,388	336,971
	-	-	33,225,196	33,225,196	33,488,779
	-	-	55,318,502	55,318,502	54,815,791
	-	-	874,780	874,780	845,172
	-	-	56,193,282	56,193,282	55,660,963
	-	3,787,538	-	3,787,538	3,787,538
	-	2,680,300	-	2,680,300	2,680,300
	-	244,385	-	244,385	244,385
	-	-	-	-	-
	-	9,303	-	9,303	9,303
	-	6,721,526	-	6,721,526	6,721,526

Notes to the Financial Statements

4.13.2 (b) Financial assets measured at amortised cost - Group

As at 31 March	Note	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
Cash and cash equivalents	4.14					
Notes and coins held		793,847	-	-	793,847	793,847
Balances with banks		1,977,142	-	-	1,977,142	1,977,142
Treasury bills repurchase agreements		-	3,219,306	-	3,219,306	3,219,306
		2,770,989	3,219,306	-	5,990,295	5,990,295
Loans and receivables (net of allowance for impairment losses)	4.16					
Gold loans		-	-	20,108,243	20,108,243	20,108,243
Vehicle loans		-	-	4,017,216	4,017,216	4,054,552
Medium and short-term loans		-	-	5,560,972	5,560,972	5,597,649
Mortgage loans		-	-	7,004,345	7,004,345	6,962,770
Quick loans		-	-	7,673	7,673	9,624
Power drafts		-	-	2,599,730	2,599,730	2,658,607
Margin trading		-	-	20,963	20,963	20,963
Real estate loans		-	-	-	-	-
Factoring receivable		-	-	481,868	481,868	481,868
		-	-	39,801,010	39,801,010	39,894,276
Lease rentals receivable and stock out on hire (net of allowance for impairment losses)	4.17					
Lease rentals receivable		-	-	63,287,175	63,287,175	62,279,090
Stock out on hire		-	-	211,085	211,085	210,596
		-	-	63,498,260	63,498,260	62,489,686
Other financial assets	4.20					
Treasury bills repurchase agreements		-	3,532,441	-	3,532,441	3,532,441
Investment in fixed deposits		-	2,879,390	-	2,879,390	2,879,390
Insurance premium receivable		-	326,628	-	326,628	326,628
Due from Subsidiary		-	-	-	-	-
Sundry debtors		-	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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Increase/(decrease) in interest rate			
1bp up	(9,119)	(7,651)	(9,119)
1bp down	9,120	7,652	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 2018 and 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of financial instrument	Company Fair values as at 31 March 2018 Rs. '000	Group Fair values as at 31 March 2018 Rs. '000	Valuation technique	Significant unobservable input	Range of estimates for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans and receivables*	39,762,132 (2017) 33,225,196	39,801,010	Discounted cash flow	Spread	2-13% (2017 : 2-11%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	2-6% (2017 : 2-5%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	25-100% (2017 : 25-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.03-3.4% (2017 : 0.03-3.4%)	Correlates with the current interest rates.
Lease rentals receivable and stock out on hire*	63,498,260 (2017) 56,193,282	63,498,260	Discounted cash flow	Spread	7.5-10.5% (2017 : 7-9%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	2-6% (2017 : 2-5%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	25-100% (2017 : 25-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.5-3.85% (2017 : 0.5-3.85%)	Correlates with the current interest rates.

*Net of allowance for impairment losses

There were no transfers into and transfers out of the hierarchy levels during 2017 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 in 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.

Notes to the Financial Statements

4.13.2 (c) Financial liabilities measured at amortised cost - Company

As at 31 March	Note	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
Due to banks	4.25					
Bank overdrafts		-	1,285,356	-	1,285,356	1,285,356
Syndicated loans and other bank facilities		-	21,520,515	-	21,520,515	21,552,682
		-	22,805,871	-	22,805,871	22,838,038
Due to customers	4.26					
Fixed deposits		-	-	70,561,713	70,561,713	69,888,343
Certificates of deposit		-	-	100,772	100,772	100,772
Savings deposits		-	-	2,954,718	2,954,718	2,954,718
		-	-	73,617,203	73,617,203	72,943,833
Debt instruments issued and other borrowed funds	4.27					
Unsecured debentures		-	5,270,741	-	5,270,741	5,152,832
		-	5,270,741	-	5,270,741	5,152,832
Other financial liabilities	4.28					
Trade payables		-	462,654	-	462,654	462,654
Insurance premium payable		-	632,727	-	632,727	632,727
Unclaimed balances		-	529,475	-	529,475	529,475
Advances collected from customers		-	38,889	-	38,889	38,889
Sundry creditors		-	97,673	-	97,673	97,673
		-	1,761,418	-	1,761,418	1,761,418

	2017				
	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
	-	1,035,268	-	1,035,268	1,035,268
	-	21,681,004	-	21,681,004	22,742,879
	-	22,716,272	-	22,716,272	23,778,147
	-	-	57,754,227	57,754,227	57,888,811
	-	-	153,987	153,987	153,987
	-	-	2,359,157	2,359,157	2,359,157
	-	-	60,267,371	60,267,371	60,401,955
	-	2,095,361	-	2,095,361	2,044,216
	-	2,095,361	-	2,095,361	2,044,216
	-	743,139	-	743,139	743,139
	-	555,153	-	555,153	555,153
	-	549,243	-	549,243	549,243
	-	81,440	-	81,440	81,440
	-	78,427	-	78,427	78,427
	-	2,007,402	-	2,007,402	2,007,402

Notes to the Financial Statements

4.13.2 (d) Financial liabilities measured at amortised cost - Group

As at 31 March		2018				
		Fair value measurement using				
	Note	Quoted prices in active markets Level 1 Rs. '000	Significant observable inputs Level 2 Rs. '000	Significant unobservable inputs Level 3 Rs. '000	Total fair value Rs. '000	Carrying value at amortised cost Rs. '000
Due to banks	4.25					
Bank overdrafts		-	1,285,356	-	1,285,356	1,285,356
Syndicated loans and other bank facilities		-	21,520,515	-	21,520,515	21,552,682
		-	22,805,871	-	22,805,871	22,838,038
Due to customers	4.26					
Fixed deposits		-	-	70,561,713	70,561,713	69,888,343
Certificates of deposit		-	-	100,772	100,772	100,772
Savings deposits		-	-	2,956,896	2,956,896	2,956,896
		-	-	73,619,381	73,619,381	72,946,011
Debt instruments issued and other borrowed funds	4.27					
Unsecured debentures		-	5,270,741	-	5,270,741	5,152,832
		-	5,270,741	-	5,270,741	5,152,832
Other financial liabilities	4.28					
Trade payables		-	462,654	-	462,654	462,654
Insurance premium payable		-	632,727	-	632,727	632,727
Unclaimed balances		-	529,475	-	529,475	529,475
Advances collected from customers		-	38,889	-	38,889	38,889
Sundry creditors		-	97,673	-	97,673	97,673
		-	1,761,418	-	1,761,418	1,761,418

Sensitivity analysis of financial liabilities measured at amortised cost under level 3 category

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Increase/(decrease) in interest rate			
1bp up	(6,329)	(6,902)	(6,329)
1bp down	6,303	6,903	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 2018 and 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

	Company	Group				
Type of financial instrument	**Fair values as at 31 March 2018 rs. '000**	**Fair values as at 31 March 2018 rs. '000**	**Valuation technique**	**Significant unobservable input**	**Range of estimates for unobservable input**	**Fair value measurement sensitivity to unobservable inputs**
Due to Customers	73,617,202 (2017) 60,267,371	73,619,380	Discounted cash flow	Spread	0-2.8% (2017 : 2.6-2.7%)	A significant increase in the spread would result in a lower fair value
				Expected premature rate	0.13-0.52% (2017 : 0.13-0.52%)	Correlates with the current interest rates

There were no financial liabilities recorded at fair value as at 31 March 2017 and 2018.

There were no transfers into and transfers out of the hierarchy levels during 2017 and 2018.

Valuation methodologies and assumptions

Due to customers

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 of 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 Customers 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.

Notes to the Financial Statements

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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Notes and coins held	793,796	740,728	793,847
Balances with banks	1,861,273	1,091,593	1,977,142
Treasury bills repurchase agreements (less than 03 months)	3,219,306	1,062,764	3,219,306
	5,874,375	2,895,085	5,990,295
Fair value	5,874,375	2,895,085	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 2018 and 31 March 2017 was Rs. 3,538,494,000/- and Rs. 1,222,642,000/- 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
	2018	2017	2018
	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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents	5,874,375	2,895,085	5,990,295
Bank overdrafts (Note 4.25)	(1,285,356)	(1,035,268)	(1,285,356)
Net cash and cash equivalents	4,589,019	1,859,817	4,704,939

4.15 FINANCIAL INVESTMENTS - HELD FOR TRADING

Accounting policy

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, the Central Bank and other authenticated public sources. We use the last traded price to value our quoted equities.

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Equity securities - quoted (Note 4.15.1)	9,682	10,068	9,682

4.15.1 Equity securities - Quoted

As at 31 March	Company & Group 2018			Company 2017		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
Bank, finance and insurance						
Seylan Bank PLC (Non-Voting)	93,032	1,685	5,126	93,032	1,685	5,089
		1,685	5,126		1,685	5,089
Beverages, food and tobacco						
Bairaha Farms PLC	17,600	425	2,369	17,600	425	2,819
		425	2,369		425	2,819
Manufacturing						
Lanka Walltiles PLC*	19,740	790	1,942	19,740	790	1,836
		790	1,942		790	1,836
Trading						
Hayleys PLC*	1,222	207	245	1,222	207	324
		207	245		207	324
Total		3,107	9,682		3,107	10,068

*Investments made in related parties

Notes to the Financial Statements

4.16 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)/reversal on loans and other losses' in the Income Statement.

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Gold loans	20,139,332	16,289,996	20,139,332
Vehicle loans	4,208,804	4,391,058	4,208,804
Medium and short-term loans	5,703,635	4,393,290	5,742,903
Mortgage loans	7,365,157	6,410,140	7,365,157
Quick loans	11,336	18,015	11,336
Power drafts	2,734,171	2,139,041	2,734,171
Margin trading	20,964	31,934	20,964
Factoring receivable	537,288	338,455	537,288
Real estate loans	976	1,850	976
Gross loans and receivables	40,721,663	34,013,779	40,760,931
Allowance for impairment losses (Note 4.18)	(866,265)	(525,000)	(866,655)
Net loans and receivables subject to fair value (Note 4.16.2)	39,855,398	33,488,779	39,894,276
Fair value	39,762,132	33,225,196	39,801,010

4.16.1 Loans and receivables include loans granted to employees, the movement of which is as follows;

	Company & Group	Company
	2018	2017
	Rs. '000	Rs. '000
As at the beginning of the year	324,475	278,028
Loans granted during the year	244,225	234,944
Repayments during the year	(211,758)	(188,497)
As at the end of the year	356,942	324,475

4.16.2 Contractual maturity analysis of loans and receivables

As at 31 March 2018 - Company	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total 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 2017 - Company	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Gold loans	16,289,996	-	-	16,289,996
Vehicle loans	1,958,357	2,390,736	41,965	4,391,058
Medium and short-term loans	3,477,833	915,457	-	4,393,290
Mortgage loans	1,537,482	3,717,090	1,155,568	6,410,140
Quick loans	17,355	660	-	18,015
Power drafts	1,252,114	886,927	-	2,139,041
Margin trading	31,934	-	-	31,934
Factoring receivable	318,247	20,208	-	338,455
Real estate loans	1,850	-	-	1,850
Gross loans and receivables	24,885,168	7,931,078	1,197,533	34,013,779
Allowance for impairment losses (Note 4.18)				(525,000)
Net loans and receivables				33,488,779

As at 31 March 2018 - Group	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total 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.

Notes to the Financial Statements

4.17 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 (charge)/reversal on loans and other losses' in the Income Statement.

	Company & Group 2018			Company 2017		
	Lease Rs. '000	Hire purchase Rs. '000	Total Rs. '000	Lease Rs. '000	Hire purchase Rs. '000	Total Rs. '000
Gross rentals receivables	85,706,799	455,939	86,162,738	74,523,266	1,251,200	75,774,466
Unearned income	(21,644,208)	(18,617)	(21,662,825)	(18,177,121)	(124,155)	(18,301,276)
Net rentals receivables	64,062,591	437,322	64,499,913	56,346,145	1,127,045	57,473,190
Rentals received in advance	(9,094)	-	(9,094)	(6,925)	-	(6,925)
Allowance for impairment losses (Note 4.18)	(1,774,407)	(226,726)	(2,001,133)	(1,523,429)	(281,873)	(1,805,302)
Total net rentals receivable subject to fair value (Note 4.17.2)	62,279,090	210,596	62,489,686	54,815,791	845,172	55,660,963
Fair value			63,498,260			56,193,282

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 2018 Rs. '000	Company 2017 Rs. '000
As at the beginning of the year	70,833	94,925
Lease and hire purchase facilities granted during the year	47,754	38,187
Repayments during the year	(54,415)	(62,279)
As at the end of the year	64,172	70,833

4.17.2 Contractual maturity analysis of lease rentals receivable and stock out on hire

As at 31 March 2018 - Company & Group

	Lease				Hire purchase			
	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Gross rentals receivable	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 receivable	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

As at 31 March 2017 - Company

	Lease				Hire purchase			
	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Gross rentals receivable	29,472,322	45,033,659	17,285	74,523,266	910,754	340,283	163	1,251,200
Unearned income	(8,820,103)	(9,355,719)	(1,299)	(18,177,121)	(93,574)	(30,580)	(1)	(124,155)
Net rentals receivable	20,652,219	35,677,940	15,986	56,346,145	817,180	309,703	162	1,127,045
Rentals received in advance	-	-	-	(6,925)	-	-	-	-
Allowance for impairment losses	-	-	-	(1,523,429)	-	-	-	(281,873)
Total net rentals receivable	-	-	-	54,815,791	-	-	-	845,172

Our lease rentals receivable and stock out on hire are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

Notes to the Financial Statements

4.18 ALLOWANCE FOR IMPAIRMENT LOSSES

Accounting estimates

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 five 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 even though 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 contacts 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.

Accounting policy

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.

		Loans and receivables			Lease rentals receivable and stock out on hire			Total		
		Company		Group	Company		Group	Company		Group
		2018	2017	2018	2018	2017	2018	2018	2017	2018
		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	525,000	723,963	525,000	1,805,302	1,917,795	1,805,302	2,330,302	2,641,758	2,330,302
	Charge/(reversal) for the year	415,476	6,290	415,853	364,809	94,016	364,809	780,285	100,306	780,662
	Amounts written off	(74,211)	(205,253)	(74,211)	(168,978)	(206,509)	(168,978)	(243,189)	(411,762)	(243,189)
	Exchange rate variance on foreign currency provisions	-	-	13	-	-	-	-	-	13
	As at 31 March	866,265	525,000	866,655	2,001,133	1,805,302	2,001,133	2,867,398	2,330,302	2,867,788
4.18.2	Individual impairment	697,505	414,698	697,505	1,406,864	1,347,445	1,406,864	2,104,369	1,762,143	2,104,369
	Collective impairment	168,760	110,302	169,150	594,269	457,857	594,269	763,029	568,159	763,419
	Total	866,265	525,000	866,655	2,001,133	1,805,302	2,001,133	2,867,398	2,330,302	2,867,788
4.18.3	Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	1,546,030	711,404	1,546,030	3,771,230	1,771,225	3,771,230	5,317,260	2,482,629	5,317,260
	Gross amount of loans collectively assessed for the impairment	39,175,633	33,302,376	39,214,901	60,728,683	55,701,965	60,728,683	99,904,316	89,004,341	99,943,584
	Gross receivables	40,721,663	34,013,780	40,760,931	64,499,913	57,473,190	64,499,913	105,221,576	91,486,970	105,260,844

The recorded loans and receivables that were impaired at 31 March 2018 and 2017 were 3.80% of receivables, and 2.09% of receivables, respectively. Lease rentals receivable and stock out on hire that were impaired at 31 March 2018 and 2017 were 5.85% of receivables, and 3.08% of receivables, respectively.

Notes to the Financial Statements

4.18.4 Product-wise analysis of the allowance for impairment losses

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Gold loans	31,089	22,490	31,089
Vehicle loans	154,252	206,972	154,252
Medium and short term-loans	144,864	51,741	145,254
Mortgage loans	402,387	220,639	402,387
Quick loans	1,711	309	1,711
Power drafts	75,564	21,366	75,564
Margin trading	1	-	1
Factoring receivable	55,421	1,483	55,421
Real estate loans	976	-	976
Loans and receivables	866,265	525,000	866,655
Leases	1,774,407	1,523,429	1,774,407
Hire purchase	226,726	281,873	226,726
Lease rentals receivable and stock out on hire	2,001,133	1,805,302	2,001,133
Total allowance for impairment losses	2,867,398	2,330,302	2,867,788

4.18.5 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.

4.19 FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

Accounting policy

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, the Central Bank 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.

Accounting estimates

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 records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' 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 2018 Rs. '000	Company 2017 Rs. '000
Equity securities- quoted (Note 4.19.1)	121,319	117,716
Equity securities- unquoted (Note 4.19.2)	305	305
	121,624	118,021

4.19.1 Equity securities- quoted

As at 31 March	2018			2017		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
Manufacturing						
Blue Diamonds Jewellery Worldwide PLC	-	-	-	74	1	-
Central Industries PLC	8,184	150	322	8,184	150	360
Ceylon Grain Elevators PLC	44	5	3	44	5	3
Dankotuwa Porcelain PLC	32,512	1,012	224	32,512	1,012	195
Royal Ceramics Lanka PLC*	31,320	843	3,301	31,320	843	3,727
Samson International PLC	5,899	930	519	5,899	930	583
		2,940	4,369		2,941	4,868
Hotels and travels						
The Fortress Resorts PLC*	4,051,100	81,990	42,537	4,051,100	81,990	46,993
Aitken Spence Hotel Holdings PLC	308	6	10	308	6	11
Hotel Sigiriya PLC	700	30	44	700	30	68
Palm Garden Hotels PLC	-	-	-	36	3	1
		82,026	42,591		82,029	47,073

Notes to the Financial Statements

4.19.1 Equity securities- quoted (contd.)

As at 31 March	2018			2017		
	Number of shares	Cost Rs. '000	Market value Rs. '000	Number of shares	Cost Rs. '000	Market value Rs. '000
Stores and supplies						
Hunters & Company PLC	10	3	5	10	3	4
		3	5		3	4
Bank, finance and insurance						
Commercial Bank of Ceylon PLC	275	15	37	275	15	36
Merchant Bank of Sri Lanka & Finance PLC	-	-	-	61	6	1
Seylan Bank PLC	2,538	155	220	2,538	155	221
Sampath Bank PLC	5	-	2	5	-	1
Softlogic Finance PLC	2,090,000	79,656	73,150	2,090,000	79,656	64,788
		79,826	73,409		79,832	65,047
Beverages, food and tobacco						
Keells Food Products PLC	500	21	65	500	21	73
Lanka Milk Foods PLC	5,500	250	870	5,500	250	644
Convenience Foods (Lanka) PLC	22	1	10	22	1	7
		272	945		272	724
Total		165,067	121,319		165,078	117,716

*Investments made in related parties

4.19.2 Equity securities - unquoted

As at 31 March	2018			2017		
	Number of shares	Cost Rs. '000	Fair value Rs. '000	Number of shares	Cost Rs. '000	Fair value 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 2018 Rs. '000	Company 2017 Rs. '000
As at 1 April	305	305
Remeasurement recognised in OCI	-	-
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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Treasury bills repurchase agreements (Note 4.20.1)	3,532,441	3,787,538	3,532,441
Investment in fixed deposits (Note 4.20.2)	2,879,390	2,680,300	2,879,390
Insurance premium receivable	326,628	244,385	326,628
Due from Subsidiary	5,844	-	-
Sundry debtors	28,251	9,303	28,251
	6,772,554	6,721,526	6,766,710
Fair value	6,772,554	6,721,526	6,772,554

4.20.1 The collateral value of repurchase agreements reflected on the Statement of Financial Position under Other Financial Assets as at 31 March 2018 and 31 March 2017 was Rs. 4,116,121,000/- and Rs. 4,571,900,000/- respectively.

4.20.2 Investment in fixed deposits

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Counterparty External Credit Rating*			
AA+	-	200,065	-
AA	-	201,923	-
AA-	1,974,473	1,135,635	1,974,473
A+	164,849	535,935	164,849
A-	576,337	-	576,337
BBB	-	444,791	-
BB+	163,731	161,951	163,731
	2,879,390	2,680,300	2,879,390

*Fitch Ratings Lanka Ltd.

Notes to the Financial Statements

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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Real estate stock	-	581	-
Vehicle stock	18,574	-	18,574
Deposits, advances and prepayments	744,466	263,663	745,121
Gold stock	1,514	5,805	1,514
Stationery stock	8,769	9,145	8,769
Withholding tax receivable	16,599	7,589	16,599
Sundry debtors	6,151	6,069	6,151
Pre-paid staff cost (Note 4.21.1)	19,735	12,196	19,735
	815,808	305,048	816,463

Gold stock

The gold inventory is valued at lower of cost and net realizable 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 realizable 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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
As at the beginning of the year	12,196	3,497	12,196
Adjustment for new grants and settlements	12,200	10,989	12,200
Charge to personnel expenses	(4,661)	(2,290)	(4,661)
As at the end of the year	19,735	12,196	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 re-assesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights are 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 2018		Company 2017	
	Holding %	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000
L B Microfinance Myanmar Company Limited	99.7	152,915	152,915	-	-

The L B Microfinance Myanmar Company Limited was incorporated as a 99% (99.7% - 31 March 2018) 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.

Notes to the Financial Statements

4.23 PROPERTY, PLANT AND EQUIPMENT (Contd..)

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 the 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 2018 are as follows;

Asset category	Period (years)	Depreciation % per annum
Freehold buildings	50	2%
Leasehold properties and improvements	6.67	15%
Computer equipment	5	20%
Motor vehicles	5 - 8	12.50 - 20%
Office equipment	5	20%
Furniture and fittings	5 - 6.67	15 - 20%
Air conditioning equipment	5	20%
Telephone system	5	20%
Fire protection equipment	5	20%
Fixtures and fittings	3	33.33%

The above rates are compatible with the rates used by all Group entities.

Accounting estimates

Useful life-time 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 - 2018

	Freehold land	Freehold building	Furniture and fittings	Office equipment	Motor vehicles and accessories	Computer equipment	Air conditioning equipment	Telephone system	Fire protection equipment	Leasehold improvements	Fixtures and fittings	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
Cost												
Balance as at 1 April 2017	1,733,299	778,527	264,230	408,095	369,446	382,763	222,543	78,647	17,447	838,684	47,297	5,140,978
Additions	1,001,672	1,294	25,767	100,331	44,975	176,926	38,592	2,707	7,044	100,960	37,067	1,537,335
Transfers	-	8,560	-	(158)	-	-	-	-	158	(8,560)	-	-
Disposals/write-offs	-	-	(1,709)	-	(10,044)	(467)	(4,163)	(196)	-	(276)	-	(16,855)
Balance as at 31 March 2018	2,734,971	788,381	288,288	508,268	404,377	559,222	256,972	81,158	24,649	930,808	84,364	6,661,458
Accumulated depreciation and impairment losses												
Balance as at 1 April 2017	-	67,075	151,649	291,316	140,292	274,449	131,860	72,716	14,229	451,938	31,098	1,626,622
Charge for the year	-	15,746	35,063	50,088	46,303	61,522	31,358	2,502	1,781	107,602	13,634	365,599
Impairment loss	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	14	-	(5)	-	-	-	-	5	(14)	-	-
Disposals/write-offs	-	-	(1,525)	-	(5,031)	(343)	(4,155)	(52)	-	(276)	-	(11,382)
Balance as at 31 March 2018	-	82,835	185,187	341,399	181,564	335,628	159,063	75,166	16,015	559,250	44,732	1,980,839
Net book value as at 31 March 2018	2,734,971	705,546	103,101	166,869	222,813	223,594	97,909	5,992	8,634	371,558	39,632	4,680,619

Notes to the Financial Statements

4.23.2 Company - 2017

	Freehold land	Freehold building	Furniture and fittings	Office equipment	Motor vehicles and accessories	Computer equipment	Air conditioning equipment	Telephone system	Fire protection equipment	Leasehold improvements	Fixtures and fittings	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
Cost												
Balance as at 1 April 2016	495,226	630,627	228,568	349,694	309,015	335,018	169,559	75,641	15,978	727,540	33,269	3,370,135
Additions	1,238,073	147,900	36,617	58,510	94,047	47,745	54,281	3,006	1,469	113,482	14,028	1,809,158
Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(955)	(109)	(33,616)	-	(1,297)	-	-	(2,338)	-	(38,315)
Balance as at 31 March 2017	1,733,299	778,527	264,230	408,095	369,446	382,763	222,543	78,647	17,447	838,684	47,297	5,140,978
Accumulated depreciation and impairment losses												
Balance as at 1 April 2016	-	53,723	120,733	243,578	121,579	230,404	100,793	64,707	11,588	351,475	26,261	1,324,841
Charge for the year	-	13,352	31,724	47,738	41,264	44,045	32,055	8,009	2,641	100,463	4,837	326,128
Impairment loss	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(808)	-	(22,551)	-	(988)	-	-	-	-	(24,347)
Balance as at 31 March 2017	-	67,075	151,649	291,316	140,292	274,449	131,860	72,716	14,229	451,938	31,098	1,626,622
Net book value as at 31 March 2017	1,733,299	711,452	112,581	116,779	229,154	108,314	90,683	5,931	3,218	386,746	16,199	3,514,356

4.23.3 Group - 2018

	Freehold land	Freehold building	Furniture and fittings	Office equipment	Motor vehicles and accessories	Computer equipment	Air conditioning equipment	Telephone system	Fire protection equipment	Leasehold improvements	Fixtures and fittings	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
Cost												
Balance as at 1 April 2017	1,733,299	778,527	264,230	408,095	369,446	382,763	222,543	78,647	17,447	838,684	47,297	5,140,978
Additions	1,001,672	1,294	26,086	100,644	45,063	177,524	38,592	2,707	7,044	100,960	37,067	1,538,653
Transfers	-	8,560	-	(158)	-	-	-	-	158	(8,560)	-	-
Exchange rate variance	-	-	-	-	-	-	-	-	-	-	-	-
Disposals/write-offs	-	-	(1,709)	-	(10,044)	(467)	(4,163)	(196)	-	(276)	-	(16,855)
Balance as at 31 March 2018	2,734,971	788,381	288,607	508,581	404,465	559,820	256,972	81,158	24,649	930,808	84,364	6,662,776
Accumulated depreciation and impairment losses												
Balance as at 1 April 2017	-	67,075	151,649	291,316	140,292	274,449	131,860	72,716	14,229	451,938	31,098	1,626,622
Charge for the year	-	15,746	35,082	50,103	46,308	61,568	31,358	2,502	1,781	107,602	13,634	365,684
Impairment loss	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	14	-	(5)	-	-	-	-	5	(14)	-	-
Exchange rate variance	-	-	1	-	-	2	-	-	-	-	-	3
Disposals/write-offs	-	-	(1,525)	-	(5,031)	(343)	(4,155)	(52)	-	(276)	-	(11,382)
Balance as at 31 March 2018	-	82,835	185,207	341,414	181,569	335,676	159,063	75,166	16,015	559,250	44,732	1,980,927
Net book value as at 31 March 2018	2,734,971	705,546	103,400	167,167	222,896	224,144	97,909	5,992	8,634	371,558	39,632	4,681,849

Notes to the Financial Statements

4.23.4 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.1,537,334,911/- (2017 - Rs.1,809,158,235/-). Cash payments amounting to Rs.1,537,334,911/- (2017 - Rs.1,809,158,235/-) was paid during the year for purchases of property, plant and equipment.

4.23.5 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 2018, the net carrying value amount of those assets was Rs. 76,777,437/- (2017 - Rs. 2,136,680/-), on which the accumulated depreciation as at 31 March 2018 was Rs. 12,666,606/- (2017 - Rs. 2,794,120/-).

Summary of future operating lease receivable was as follows;

As at 31 March 2018	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Future operating lease receivable	28,176	89,283	-	117,459

As at 31 March 2017	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Future operating lease receivable	2,822	3,292	-	6,114

4.23.6 Borrowing costs - Company

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the financial year 2018 (2017 – Nil).

4.23.7 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. 990,384,154/- (2017 - Rs. 663,751,092/-).

4.23.8 Lease commitments - Company

The Company leases land, buildings, and equipment under agreements that expire over various contractual periods. Minimum operating lease commitments as follows;

As at 31 March 2018	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Minimum operating lease commitments	234,267	822,087	574,458	1,630,812

As at 31 March 2017	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Minimum operating lease commitments	188,404	650,787	393,572	1,232,763

Operating lease expense for the years ended 31 March was as follows;

	2018 Rs. '000	2017 Rs. '000
Operating lease expense	220,074	192,102

4.23.9 Information on the freehold land and buildings - Company

As at 31 March			2018			2017
	Extent (perches)	Buildings (square feets)	Revalued amount	Net book value	Revalued amount as a % of net book value	Net book value
Location			Rs. '000	Rs. '000		Rs. '000
Kollupitiya No 20, Dharmapala Mawatha, Colombo 03.	52.82	65,000	1,525,000	906,946	168	919,496
Kollupitiya No 676, Galle Road, Colombo 03.	149.35	51,410	3,733,750	1,964,097	190	1,351,260
Kandy No 226, D S Senanayaka Street, Kandy.	7.05	3,674	61,000	10,466	583	10,527
Kandy Moragaspitiyawatta Road, Balagolla, Kengalla.	110.00	-	43,800	29,919	146	21,544
Kandy No 47/10A, Luwiss Pieris Mawatha, Buwelikada, Kandy.	42.40	-	35,000	34,085	103	33,974
Maradana No 104/1, Vipulasena Mawatha, Colombo 10.	50.60	-	320,850	44,768	717	43,044
Nuwara Eliya No 35/4, Upper Lake Road, Nuwara Eliya.	359.00	-	245,000	64,906	377	64,906
Wellawatta No 51A, W A Silva Mawatha, Colombo 06.	14.23	-	156,107	156,107	100	N/A*
Panadura No 37, Jayathilake Mawatha, Panadura.	42.00	-	104,224	104,224	100	N/A*

Valuation of freehold land and buildings of the Company was carried out as at 31 March 2018 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 2018.

Notes to the Financial Statements

4.23.10 Title restriction on property, plant and equipment - Company

There were no restrictions existing on the title of the property, plant and equipment of the Company as at the reporting date.

4.23.11 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.

4.23.12 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.

4.23.13 Temporarily idle property, plant and equipment - Company

There were no temporarily idle property, plant and equipment as at the reporting date.

4.23.14 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 amortized, but are tested for impairment annually or more frequently if events or circumstances indicate the asset may be impaired. The only finite-lived intangible asset is the computer software of the Group. There is no indefinite-lived intangibles 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.

4.24 INTANGIBLE ASSETS (Contd.)

Intangible assets mainly represent the cost of computer software and the useful life time is as follows;

Intangible asset category	Period
Computer software	5 years

Computer software

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Cost			
Cost as at the beginning of the year	146,647	115,134	146,647
Additions and improvements	17,566	31,513	22,739
Exchange rate variance	-	-	-
Cost as at the end of the year	164,213	146,647	169,386
Amortisation and impairment losses			
Amortisation as at the beginning of the year	97,458	80,368	97,458
Charge for the year	18,636	17,090	19,053
Impairment loss	-	-	-
Exchange rate variance	-	-	14
Accumulated amortisation as at the end of the year	116,094	97,458	116,525
Net book value as at 31 March	48,119	49,189	52,861

Amortisation for intangible assets is forecasted to be Rs.17 million for the Company and Rs.18 million for the Group in 2019 and each year thereafter.

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.

Notes to the Financial Statements

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 2018 Rs. '000	Company 2017 Rs. '000
Bank overdrafts	1,285,356	1,035,268
Syndicated loans and other bank facilities (Note 4.25.1)	21,552,682	22,742,879
	22,838,038	23,778,147
Fair value	22,805,871	22,716,272

4.25.1 (a) Syndicated loans and other bank facilities

	As at 1 April 2017 Rs. '000	*Loans obtained Rs. '000	Interest recognised Rs. '000	Repayments Capital Rs. '000	Repayments Interest Rs. '000	As at 31 March 2018 Rs. '000
Syndicated loans						
Syndication 1	201,312	-	21,468	(70,313)	(22,268)	130,199
Syndication 2	2,035,087	-	167,223	(675,000)	(168,157)	1,359,153
Syndication 3	2,883,201	-	281,060	(660,000)	(281,990)	2,222,271
Syndication 4	2,260,744	-	300,806	(341,250)	(295,097)	1,925,203
Syndication 5	-	1,491,938	171,970	(100,000)	(105,472)	1,458,436
Syndication 6	-	1,984,408	3,614	-	-	1,988,022
	7,380,344	3,476,346	946,141	(1,846,563)	(872,984)	9,083,284
Term loans						
Bank of Ceylon 1	873,949	-	63,495	(500,000)	(61,246)	376,198
Bank of Ceylon 2	4,161,370	-	387,217	(1,250,000)	(378,288)	2,920,299
Commercial Bank 1	1,780,043	-	128,480	(666,000)	(129,032)	1,113,491
Commercial Bank 2	813,721	-	75,252	(250,000)	(75,532)	563,441
Commercial Bank 3	2,003,419	-	283,425	(333,000)	(283,517)	1,670,327
Commercial Bank 4	-	500,000	4,411	(500,000)	(4,411)	-
Commercial Bank 5	-	1,000,000	4,997	-	-	1,004,997
Nations Trust Bank 1	402,293	-	10,572	(400,000)	(12,865)	-
Nations Trust Bank 2	1,001,151	-	131,430	(210,000)	(131,160)	791,421
Hatton National Bank 1	1,174,211	-	81,282	(399,960)	(83,689)	771,844
Hatton National Bank 2	1,124,089	-	141,405	(300,000)	(140,821)	824,673
Hatton National Bank 3	-	800,000	64,909	(140,000)	(61,302)	663,607
Union Bank	301,979	-	23,947	(125,000)	(23,766)	177,160
Habib Bank	300,107	-	20,217	(300,000)	(20,324)	-
Public Bank 1	180,286	-	18,565	(40,000)	(18,608)	140,243
Public Bank 2	99,950	-	10,659	(20,000)	(10,607)	80,002
Seylan Bank	945,686	-	121,563	(250,008)	(123,544)	693,697
Standard Chartered Bank 1	200,281	-	6,247	(200,000)	(6,528)	-
Standard Chartered Bank 2	-	250,000	15,966	(250,000)	(15,966)	-
Standard Chartered Bank 3	-	300,000	2,959	(300,000)	(2,959)	-
DFCC Bank	-	748,750	45,852	(78,125)	(38,479)	677,998
	15,362,535	3,598,750	1,642,850	(6,512,093)	(1,622,644)	12,469,398
	22,742,879	7,075,096	2,588,991	(8,358,656)	(2,495,628)	21,552,682

*Net of transaction cost

The Group has unutilised borrowing facilities of Rs. 2,407,119,207/- as at 31 March 2018 (2017 - Rs. 2,194,629,312/-).

Details of the assets pledged as security for liabilities are disclosed in Note 6.7 to these Financial Statements.

Notes to the Financial Statements

4.25.1(b) Contractual maturity analysis of syndicated loans and other bank facilities - Company & Group

As at 31 March 2018	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total 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

Contractual maturity analysis of syndicated loans and other bank facilities - Company

As at 31 March 2017	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Syndicated loans	1,787,033	5,593,311	-	7,380,344
Term loans	5,285,015	10,077,520	-	15,362,535
	7,072,048	15,670,831	-	22,742,879

We do not have pre-termination options for syndicated loans and other bank facilities.

4.26 DUE TO CUSTOMERS

Accounting policy

Due to customers 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 in the Income Statement.

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Fixed deposits	69,888,343	57,888,811	69,888,343
Certificates of deposit	100,772	153,987	100,772
Savings deposits	2,954,718	2,359,157	2,956,896
	72,943,833	60,401,955	72,946,011
Fair value	73,617,203	60,267,371	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 up to a maximum of Rs. 600,000/- for each depositor. The Company has paid Rs. 93,016,500/- as the premium of the said Insurance scheme during the current financial year (2017 - Rs. 74,336,024/-).

4.26.2 Contractual maturity analysis of customer deposits - Company

As at 31 March 2018	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total 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

As at 31 March 2017	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Fixed deposits	42,553,415	15,335,396	-	57,888,811
Certificates of deposit	153,987	-	-	153,987
Savings deposits	2,359,157	-	-	2,359,157
	45,066,559	15,335,396	-	60,401,955

4.26.3 Contractual maturity analysis of customer deposits - Group

As at 31 March 2018	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total 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 the effective interest rate method.

	Company & Group 2018 Rs. '000	Company 2017 Rs. '000
Unsecured debentures (Note 4.27.1)	5,152,832	2,044,216
Fair value	5,270,741	2,095,361

Notes to the Financial Statements

4.27.1 Unsecured debentures

The terms and features of unsecured redeemable subordinated debentures are as follows;

Category	Interest payable	Features	Amortised cost Rs. '000	Face value Rs. '000	Interest rate	Issued date	Redemption date
Type A	Monthly	Listed	639,497	640,140	14.00% p.a	29 November 2013	29 November 2018
Type B	Biannually	Listed	783,288	757,010	14.50% p.a	29 November 2013	29 November 2018
Type C	Annually	Listed	624,519	602,850	15.00% p.a	29 November 2013	29 November 2018
Type A	Biannually	Listed	1,034,167	1,000,000	12.75% p.a	11 December 2017	11 December 2022
Type B	Biannually	Listed	2,071,361	2,000,000	13.25% p.a	11 December 2017	11 December 2022
			5,152,832	5,000,000			

4.27.2 Contractual maturity analysis of debt instruments issued and other borrowed funds - Company & Group

As at 31 March 2018	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Unsecured debentures	2,163,729	2,989,103	-	5,152,832

Contractual maturity analysis of debt instruments issued and other borrowed funds - Company

As at 31 March 2017	Within one year Rs. '000	1 - 5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Unsecured debentures	46,275	1,997,941	-	2,044,216

We do not have pre-termination options for debt instruments issued and other borrowed funds.

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
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Trade payables	462,654	743,139	462,654
Insurance premium payable	632,727	555,153	632,727
Unclaimed balances	529,475	549,243	529,475
Advances collected from customers	38,889	81,440	38,889
Sundry creditors	97,673	78,427	97,673
	1,761,418	2,007,402	1,761,418
Fair value	1,761,418	2,007,402	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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Accrued expenses	667,097	516,348	667,097
Stamp duty payable	101,434	75,317	101,434
EPF/ETF payable	36,127	33,468	36,127
Withholding tax payable	9,257	15,360	9,257
Crop insurance levy payable	12,202	9,667	12,202
Sundry creditors	26,598	23,276	27,048
	852,715	673,436	853,165

4.30 CURRENT TAX LIABILITIES

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Income tax	468,362	508,963	468,362
Value Added Tax (VAT)	146,024	167,529	146,024
Nation Building Tax (NBT)	18,672	14,599	18,672
	633,058	691,091	633,058

Notes to the Financial Statements

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 utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be 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 relates 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
	2018	2017	2018	2018	2017	2018	2018	2017	2018
	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	922,285	354,983	922,285	567,302	341,254	567,302	-	-	-
Depreciation of property, plant and equipment	221,934	191,519	221,934	30,415	26,586	30,415	-	-	-
	1,144,219	546,502	1,144,219	597,717	367,840	597,717	-	-	-
Deferred tax assets									
Defined benefit obligation - income statement	(47,238)	(38,891)	(47,238)	(8,347)	(6,256)	(8,347)	-	-	-
Defined benefit obligation - other comprehensive income (OCI)	(17,509)	(4,123)	(17,509)	-	-	-	(13,386)	(1,238)	(13,386)
Carried forward impairment provision	(20,722)	-	(20,722)	(20,722)	-	(20,722)			
	(85,469)	(43,014)	(85,469)	(29,069)	(6,256)	(29,069)	(13,386)	(1,238)	(13,386)
Deferred income tax charge/ (reversal)	-	-	-	568,648	361,584	568,648	(13,386)	(1,238)	(13,386)
Net deferred tax liability/(asset)	1,058,750	503,488	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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Balance at the beginning of the year	153,621	126,859	153,621
Amount charged/(reversed) for the year	92,496	41,550	92,496
Payments made during the year	(14,877)	(14,788)	(14,877)
Balance at the end of the year	231,240	153,621	231,240

4.32.2 Amounts recognised in the Income Statement

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Current service cost for the year	25,932	21,907	25,932
Interest cost on the net defined benefit liability for the year	18,757	15,223	18,757
	44,689	37,130	44,689

Notes to the Financial Statements

4.32.3 Amounts recognised in the Other Comprehensive Income (OCI)

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Liability (gains)/losses due to changes in assumptions	39,594	7,889	39,594
Liability experience (gains)/losses arising during the year	8,213	(3,469)	8,213
	47,807	4,420	47,807

4.32.4 Defined benefit obligation reconciliation

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Benefit obligation at end of prior year	153,621	126,859	153,621
Current service cost for the year	25,932	21,907	25,932
Interest cost on the net defined benefit liability for the year	18,757	15,223	18,757
Liability (gains)/losses due to changes in assumptions	39,594	7,889	39,594
Liability experience (gains)/losses arising during the year	8,213	(3,469)	8,213
Payments made during the year	(14,877)	(14,788)	(14,877)
	231,240	153,621	231,240

4.32.5 Average future working life time as per the assumptions made is 14.6 years as of 31 March 2018 (14.6 years as of 31 March 2017).

4.32.6 Assumptions

		2018 Rs. '000	2017 Rs. '000
Discount rate		10.50%	12.21%
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 2018 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 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.

		2018		2017	
Increase/ (decrease) in discount rate	Increase/ (decrease) in salary increment	Sensitivity effect on Statement of Comprehensive income - increase/ (reduction) in results for the year Rs. '000	Sensitivity effect on retirement benefit obligation - increase/(reduction) in the liability Rs. '000	Sensitivity effect on Statement of Comprehensive Income - increase/ (reduction) in results for the year Rs. '000	Sensitivity effect on retirement benefit obligation - increase/ (reduction) in the liability Rs. '000
1%		24,619	(24,619)	14,886	(14,886)
-1%		(29,641)	29,641	(17,744)	17,744
	1%	(28,788)	28,788	(17,498)	17,498
	-1%	24,385	(24,385)	14,931	(14,931)

4.32.8 The expected benefit payout in the future years for retirement gratuity

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Within the next 12 months	16,847	7,674	16,847
Between 2 and 5 years	106,747	100,490	106,747
Beyond 5 years	207,961	188,341	207,961
	331,555	296,505	331,555

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the Company at the end of the financial year and include benefits attributable to estimated future employee service.

Notes to the Financial Statements

4.33 STATED CAPITAL

4.33.1 Issued and fully paid-ordinary shares

	Company & Group 2018 No. of shares	Company & Group 2018 Rs. '000	Company 2017 No. of shares	Company 2017 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 2017 Rs. '000	Movement/ transfers Rs. '000	As at 31 March 2018 Rs. '000	As at 1 April 2017 Rs. '000	Movement/ transfers Rs. '000	As at 31 March 2018 Rs. '000
Statutory reserve	3,424,683	850,144	4,274,827	3,424,683	850,144	4,274,827
Available for sale reserve	(12,365)	8,060	(4,305)	(12,365)	8,060	(4,305)
Foreign currency translation reserve	-	-	-	-	5,231	5,231
	3,412,318	858,204	4,270,522	3,412,318	863,435	4,275,753

4.34.1 Statutory reserve

	Company & Group 2018 Rs. '000	Company 2017 Rs. '000
Balance as at 1 April	3,424,683	2,641,042
Transfers made during the financial year	850,144	783,641
Balance as at 31 March	4,274,827	3,424,683

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 2018 Rs. '000	Company 2017 Rs. '000
Balance as at 1 April	(12,365)	29,496
Fair value gains and losses arising on re-measuring available for sale financial assets/transfers made during the financial year	8,060	(41,861)
Balance as at 31 March	(4,305)	(12,365)

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 Foreign currency translation reserve

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 April	-	-	-
Net gains/(losses) from translating the Financial Statements of the foreign operations	-	-	5,231
Balance as at 31 March	-	-	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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 April	8,259,079	6,970,499	8,259,079
Dividend paid	(1,385,143)	(1,869,943)	(1,385,143)
Profit for the year	4,250,721	3,918,204	4,245,069
Other Comprehensive Income not to be reclassified to Income Statement	(34,421)	(3,182)	(34,421)
Transfers during the year (Note 4.34)	(850,144)	(756,499)	(850,144)
Balance as at 31 March	10,240,092	8,259,079	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	
	2018	2017
	Rs. '000	Rs. '000
Balance as at 1 April	-	-
Non-controlling interest contribution for Subsidiary share issues	460	-
Profit for the year	(17)	-
Other Comprehensive Income net of tax	16	-
Balance as at 31 March	459	-

Notes to the Financial Statements

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 that the Group's risk management policies are 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

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 the 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.

Notes to the Financial Statements

5.2.1 Analysis of credit risk exposure

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the net exposure to credit risk.

As at 31 March	Company 2018 Maximum exposure to credit risk Rs. '000	Company 2018 Net exposure Rs. '000	Company 2017 Maximum exposure to credit risk Rs. '000	Company 2017 Net exposure Rs. '000	Group 2018 Maximum exposure to credit risk Rs. '000	Group 2018 Net exposure Rs. '000
Cash and cash equivalents	5,874,375	-	2,895,085	-	5,990,295	-
Financial investments - held for trading	9,682	9,682	10,068	10,068	9,682	9,682
Loans and receivables (gross)*	40,721,663	4,491,173	34,013,780	3,482,632	40,760,931	4,530,441
Lease rentals receivable and stock out on hire (gross)	64,499,913	2,771,264	57,473,190	2,487,179	64,499,913	2,771,264
Financial investments - available for sale	121,624	121,624	118,021	118,021	121,624	121,624
Other financial assets**	6,772,554	3,240,113	6,721,526	2,933,988	6,766,710	3,234,269
Total financial assets	117,999,811	10,633,856	101,231,670	9,031,888	118,149,155	10,667,280

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 ('POD') percentage or the outstanding receivable balances multiplied by the average recovery value ('ARV') percentage to determine the fair value adjustment.

*At 31 March 2018, the net credit risk exposure of Gold Loans was Rs. 2,438,259/- (2017 - Rs. 26,755,013/-)

**Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2018, the net carrying value amount of those investments was Rs. 2,879,390,261/- (2017 - Rs. 2,680,299,656/-).

5.2.2 Credit quality by class of financial assets

As at 31 March 2018 - Company

	Neither past due nor impaired * Rs. '000	Past due but not impaired * Rs. '000	Individually impaired Rs. '000	Total 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)	27,215,418	33,513,265	3,771,230	64,499,913
Financial investments - available for sale	79,087	-	42,537	121,624
Other financial assets	6,772,554	-	-	6,772,554
Total financial assets	64,373,364	48,266,650	5,359,797	117,999,811

*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 Rs. '000	31 - 60 days Rs. '000	61 - 90 days Rs. '000	More than 90 days Rs. '000	Total 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 they do not need to be individually impaired.

As at 31 March 2017 - Company

	Neither past due nor impaired* Rs. '000	Past due but not impaired* Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Assets				
Cash and cash equivalents	2,895,085	-	-	2,895,085
Financial investments - held for trading	10,068	-	-	10,068
Loans and receivables (gross)	24,488,771	8,813,605	711,404	34,013,780
Lease rentals receivable and stock out on hire (gross)	28,097,326	27,604,638	1,771,226	57,473,190
Financial investments - available for sale	71,028	-	46,993	118,021
Other financial assets	6,721,526	-	-	6,721,526
Total financial assets	62,283,804	36,418,243	2,529,623	101,231,670

*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 Rs. '000	31 - 60 days Rs. '000	61 - 90 days Rs. '000	More than 90 days Rs. '000	Total Rs. '000
Loans and receivables (gross)	4,909,714	2,281,769	907,507	714,615	8,813,605
Lease rentals receivable and stock out on hire (gross)	13,255,637	9,031,058	3,790,098	1,527,845	27,604,638
	18,165,351	11,312,827	4,697,605	2,242,460	36,418,243
	49.88%	31.06%	12.90%	6.16%	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 they do not need to be individually impaired.

Notes to the Financial Statements

As at 31 March 2018 - Group

	Neither past due nor impaired * Rs. '000	Past due but not impaired * Rs. '000	Individually impaired Rs. '000	Total 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 Rs. '000	31 - 60 days Rs. '000	61 - 90 days Rs. '000	More than 90 days Rs. '000	Total 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 they 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 environments 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 the 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 2018 - Company

Sector-wise breakdown	Cash and bank balances Rs. '000	Financial investments - held for trading Rs. '000	Loans and receivables** Rs. '000	Lease rentals receivable and stock out on hire** Rs. '000	Financial investments - available for sale Rs. '000	Other financial assets Rs. '000	Total financial assets 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 Rs. '000	Lease rentals receivable and stock out on hire Rs. '000	Total 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

Notes to the Financial Statements

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 2017 - Company

Sector-wise breakdown	Cash and bank balances Rs. '000	Financial investments - held for trading Rs. '000	Loans and receivables ** Rs. '000	Lease rentals receivable and stock out on hire ** Rs. '000	Financial investments - available for sale Rs. '000	Other financial assets Rs. '000	Total financial assets Rs. '000
Agriculture	-	-	9,925,535	10,331,041	-	-	20,256,576
Manufacturing	-	-	1,796,166	1,666,701	-	-	3,462,867
Construction	-	-	557,711	1,190,251	-	-	1,747,962
Financial services	2,895,085	-	653,822	355,608	-	6,721,526	10,626,041
Trading	-	10,068	5,684,954	11,669,019	118,021	-	17,482,062
Retail	-	-	2,191,593	-	-	-	2,191,593
Government	-	-	-	-	-	-	-
Hotels	-	-	251,975	491,977	-	-	743,952
Services	-	-	12,427,023	29,956,366	-	-	42,383,389
Total	2,895,085	10,068	33,488,779	55,660,963	118,021	6,721,526	98,894,442

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 2017 - Company

Province	Loans and receivables Rs. '000	Lease rentals receivable and stock out on hire Rs. '000	Total Rs. '000
Central	2,665,387	5,807,452	8,472,839
Eastern	1,765,429	3,123,383	4,888,812
North Central	713,031	3,110,343	3,823,374
North Western	2,172,545	5,726,921	7,899,466
Northern	2,379,071	493,903	2,872,974
Sabaragamuwa	946,872	3,806,386	4,753,258
Southern	1,636,204	5,842,761	7,478,965
Uva	537,616	2,512,212	3,049,828
Western	20,672,624	25,237,602	45,910,226
Total	33,488,779	55,660,963	89,149,742

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 Rs. '000	Financial investments - held for trading Rs. '000	Loans and receivables ** Rs. '000	Lease rentals receivable and stock out on hire ** Rs. '000	Financial investments - available for sale Rs. '000	Other financial assets Rs. '000	Total financial assets 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 Rs. '000	Lease rentals receivable and stock out on hire Rs. '000	Total 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

Notes to the Financial Statements

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 the 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 the Treasury Department, Fixed Deposits, the Chief Financial Officer and the Chief Risk Officer. The Committee meets regularly and makes 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 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 bank balances	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 customers	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 (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 2017.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2017 - Company	On demand Rs. '000	Less than 3 months Rs. '000	3-12 Months Rs. '000	1-5 Years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Financial assets						
Cash and bank balances	1,832,321	1,068,480	-	-	-	2,900,801
Financial investments - held for trading	10,068	-	-	-	-	10,068
Loans and receivables	5,181,951	12,278,167	10,179,661	11,291,205	1,672,490	40,603,474
Lease rentals receivable and stock out on hire	2,747,306	7,368,090	20,393,168	45,372,840	17,450	75,898,854
Financial investments - available for sale	118,021	-	-	-	-	118,021
Other financial assets	253,688	1,271,163	5,539,367	-	-	7,064,218
Total financial assets	10,143,355	21,985,900	36,112,196	56,664,045	1,689,940	126,595,436
Financial liabilities						
Due to banks	1,035,268	2,014,722	7,261,927	18,159,846	-	28,471,763
Due to customers	2,364,447	20,222,029	25,526,034	18,152,979	-	66,265,489
Debt instruments issued and other borrowed funds	-	77,288	212,525	2,259,940	-	2,549,753
Other financial liabilities	2,007,402	-	-	-	-	2,007,402
Total financial liabilities	5,407,117	22,314,039	33,000,486	38,572,765	-	99,294,407
Total net financial assets/(liabilities)	4,736,238	(328,139)	3,111,710	18,091,280	1,689,940	27,301,029

Notes to the Financial Statements

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 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 bank balances	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
Due to customers	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 2018 - Company & 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

As at 31 March 2017 - 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
Contingent liabilities						
Guarantees issued to banks and other institutions	-	4,460	13,000	-	-	17,460
Import LC and ordinary guarantees	58,370	-	-	-	-	58,370
Total contingent liabilities	58,370	4,460	13,000	-	-	75,830
Commitments						
Commitment for unutilised facilities	918,305	-	-	-	-	918,305
Total commitments	918,305	-	-	-	-	918,305
Total commitments and contingencies	976,675	4,460	13,000	-	-	994,135

Notes to the Financial Statements

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 the 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 the 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 re-prices 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

This is the risk of loss based on market changes in the value of equity or a participation portfolio.

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	2018		2017	
Impact on NII (Rs.)	Parallel increase 100 bps	Parallel decrease 100 bps	Parallel increase 100 bps	Parallel decrease 100 bps
Annual impact	(-) 15,113,659	(+) 15,113,659	(-) 8,696,490	(+) 8,696,490

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 & 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 Rs. '000	3-12 Months Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 years Rs. '000	Non-interest bearing Rs. '000	Total Rs. '000
Financial assets							
Cash and bank balances	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 customers	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

Notes to the Financial Statements

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 categorised by the earlier of contractual repricing or maturity dates.

As at 31 March 2017 - Company	Up to 3 months Rs. '000	3-12 Months Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 years Rs. '000	Non-interest bearing Rs. '000	Total Rs. '000
Financial assets							
Cash and bank balances	2,154,357	-	-	-	-	740,728	2,895,085
Financial investments - held for trading	-	-	-	-	-	10,068	10,068
Loans and receivables	19,394,409	7,849,872	4,449,085	1,754,476	40,937	-	33,488,779
Lease rentals receivable and stock out on hire	7,454,751	13,327,015	26,974,534	7,889,024	15,639	-	55,660,963
Financial investments - available for sale	-	-	-	-	-	118,021	118,021
Other financial assets	1,253,721	5,214,117	-	-	-	253,688	6,721,526
	30,257,238	26,391,004	31,423,619	9,643,500	56,576	1,122,505	98,894,442
Financial liabilities							
Due to banks	8,912,848	4,113,681	9,081,695	1,669,923	-	-	23,778,147
Due to customers	21,912,580	23,153,979	12,630,928	2,704,468	-	-	60,401,955
Debt instruments issued and other borrowed funds	26,294	19,981	1,997,941	-	-	-	2,044,216
Other financial liabilities	-	-	-	-	-	2,007,402	2,007,402
	30,851,722	27,287,641	23,710,564	4,374,391	-	2,007,402	88,231,720
Interest sensitivity gap	(594,484)	(896,637)	7,713,055	5,269,109	56,576	(884,897)	10,662,722

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 2018 - Group	Up to 3 months Rs. '000	3-12 Months Rs. '000	1-3 Years Rs. '000	3-5 Years Rs. '000	Over 5 years Rs. '000	Non-interest bearing Rs. '000	Total Rs. '000
Financial assets							
Cash and bank balances	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 customers	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 with Directions on Risk Weighted Capital Adequacy Ratio issued by the CBSL. Licensed Finance Companies in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Capital Ratio (Tier 1) of at least 5%.

As of 31 March 2018, the Company has maintained Risk Weighted Capital Adequacy Ratio above the CBSL's capital requirements.

Notes to the Financial Statements

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.

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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Short-term employment benefits	322,391	305,271	322,391
Directors' fees and expenses	16,399	17,738	16,399
Post employment benefits	-	-	-
	338,790	323,009	338,790

In addition to the above, the Company has also paid non-cash benefits such as vehicles and fuel to Key Management Personnel inline 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
		2018	2017	2018
	Reported under	Rs. '000	Rs. '000	Rs. '000
Statement of financial position				
Liabilities				
Fixed deposits	Due to customers	732,312	637,021	732,312
Savings deposits	Due to customers	5,097	8,046	5,097
		737,409	645,067	737,409
Income statement				
Interest expense on customer deposits	Interest expenses	53,643	46,475	53,643
		53,643	46,475	53,643
Other transactions				
Deposits accepted during the year		221,261	518,401	221,261
Dividend paid on shareholdings		4,232	4,024	4,232
		225,493	522,425	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 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
Statement of financial position				
Assets				
Investment in equity securities	Financial investments - held for trading	245	324	245
Lease rentals receivable	Lease rentals receivable and stock out on hire	8,150	393	8,150
Leasehold improvements	Property, plant and equipment	19,936	-	19,936
		28,331	717	28,331
Liabilities				
Fixed deposits	Due to customers	9,361	1,814	9,361
Income statement				
Interest income on lease and vehicle loans	Interest income	113	-	113
Income on operating lease	Other operating income	19,866	4,212	19,866
Interest expense on customer deposits	Interest expenses	622	23,911	622
Dividend income	Other operating income	-	-	-
		20,601	28,123	20,601
Other transactions				
Deposits accepted during the year		900	800	900
		900	800	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 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
Income statement				
Interest expense on customer deposits	Interest expense	-	13,317	-
Other transactions				
Dividend paid on shareholdings		716,824	967,712	716,824
		716,824	967,712	716,824

Notes to the Financial Statements

Transactions with Subsidiary

	Reported under	Company 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
Statement of financial position				
Assets				
Investment in equity securities	Investment in Subsidiary	152,915	-	-
Due from Subsidiary	Other financial assets	5,844	-	-
		158,759	-	-

Transactions with Fellow Subsidiaries and Associate Companies of the Parent

	Reported under	Company 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
Statement of financial position				
Assets				
Leasehold improvements	Property, plant and equipment	8,972	3,456	8,972
Investment in equity securities	Financial investments - held for trading	1,942	1,836	1,942
Investment in equity securities	Financial investments - available for sale	45,838	50,720	45,838
		56,752	56,012	56,752
Liabilities				
Fixed deposits	Due to customers	67,473	87,709	67,473
		67,473	87,709	67,473

	Reported Under	Company 2018 Rs. '000	Company 2017 Rs. '000	Group 2018 Rs. '000
Statement of Comprehensive Income				
Interest income on lease and saving deposits	Interest income	-	888	-
Dividend income	Other operating income	-	356	-
Real estate income (net of cost)	Other operating income	-	184,629	-
Interest expense on customer deposits	Interest expenses	7,540	5,455	7,540
Bank charges	Other operating expenses	-	228	-
		7,540	191,556	7,540
Other transactions				
Deposits accepted during the year		-	65,000	-
Dividend paid on shareholdings		314,272	424,268	314,272
Sale of real estate land		-	345,800	-
		314,272	835,068	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 the Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by the Central Bank of Sri Lanka.

Details of the regulatory capital requirements and compliance level are disclosed in Note 5.5 to the Financial Statements.

6.2.1 Capital management

Objective

The primary objective of the Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and maintains 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.

	Company						Group		
As at 31 March	2018			2017			2018		
	Within 12 months Rs. '000	After 12 months Rs. '000	Total Rs. '000	Within 12 months Rs. '000	After 12 months Rs. '000	Total Rs. '000	Within 12 months Rs. '000	After 12 months Rs. '000	Total Rs. '000
Assets									
Cash and bank balances	5,874,375	-	5,874,375	2,895,085	-	2,895,085	5,990,295	-	5,990,295
Financial investments - held for trading	9,682	-	9,682	10,068	-	10,068	9,682	-	9,682
Loans and receivables	29,573,537	10,281,861	39,855,398	24,673,547	8,815,232	33,488,779	29,602,883	10,291,393	39,894,276
Lease rentals receivable and stock out on hire	24,328,849	38,160,837	62,489,686	20,781,767	34,879,196	55,660,963	24,328,849	38,160,837	62,489,686
Financial investments - available for sale	121,624	-	121,624	118,021	-	118,021	121,624	-	121,624
Other financial assets	6,772,554	-	6,772,554	6,721,526	-	6,721,526	6,766,710	-	6,766,710
Other non-financial assets	706,126	109,682	815,808	262,973	42,075	305,048	706,781	109,682	816,463
Investment in Subsidiary	-	152,915	152,915	-	-	-	-	-	-
Property, plant and equipment	-	4,680,619	4,680,619	-	3,514,356	3,514,356	-	4,681,849	4,681,849
Intangible assets	-	48,119	48,119	-	49,189	49,189	-	52,861	52,861
Total assets	67,386,747	53,434,033	120,820,780	55,462,987	47,300,048	102,763,035	67,526,824	53,296,622	120,823,446
Liabilities									
Due to banks	10,014,113	12,823,925	22,838,038	8,107,315	15,670,832	23,778,147	10,014,113	12,823,925	22,838,038
Due to customers	57,696,763	15,247,070	72,943,833	45,066,559	15,335,396	60,401,955	57,697,261	15,248,750	72,946,011
Debt instruments issued and other borrowed funds	2,163,729	2,989,103	5,152,832	46,275	1,997,941	2,044,216	2,163,729	2,989,103	5,152,832
Other financial liabilities	1,761,418	-	1,761,418	2,007,402	-	2,007,402	1,761,418	-	1,761,418
Other non-financial liabilities	852,715	-	852,715	673,436	-	673,436	853,165	-	853,165
Current tax liabilities	633,058	-	633,058	691,091	-	691,091	633,058	-	633,058
Deferred tax liabilities	-	1,058,750	1,058,750	-	503,488	503,488	-	1,058,750	1,058,750
Retirement benefit liability	-	231,240	231,240	-	153,621	153,621	-	231,240	231,240
Total liabilities	73,121,796	32,350,088	105,471,884	56,592,078	33,661,278	90,253,356	73,122,744	32,351,768	105,474,512
Maturity gap	(5,735,049)	21,083,945	15,348,896	(1,129,091)	13,638,770	12,509,679	(5,595,920)	20,944,854	15,348,934
Cumulative gap	(5,735,049)	15,348,896	-	(1,129,091)	12,509,679	-	(5,595,920)	15,348,934	-

Notes to the Financial Statements

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 2017 or 2018.

There were no transactions between reportable segments in 2017 or 2018.

	Leasing and stock out on hire		Loans and receivables		Others		Total	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Interest income	14,083,194	10,852,921	8,253,343	6,349,685	1,059,350	707,329	23,395,887	17,909,935
Less: interest expenses	6,323,456	4,520,043	3,925,159	2,704,706	1,249,845	887,588	11,498,460	8,112,337
Net interest income/(expenses)	7,759,738	6,332,878	4,328,184	3,644,979	(190,495)	(180,259)	11,897,427	9,797,598
Fee and commission income	372,877	312,817	671,928	529,260	459,794	367,263	1,504,599	1,209,340
Net trading income and other operating income	36,338	21,955	(534)	632	110,049	221,566	145,853	244,153
Total operating income	8,168,953	6,667,650	4,999,578	4,174,871	379,348	408,570	13,547,879	11,251,091
Less: impairment (charge)/reversal on loans and losses	266,087	(32,411)	399,600	(1,009)	2,318	(8,845)	668,005	(42,265)
Less: gold loan auction losses	-	-	2,995	2,200	-	-	2,995	2,200
Net operating income	7,902,866	6,700,061	4,596,983	4,173,680	377,030	417,415	12,876,879	11,291,156
Less: other costs	2,658,552	2,285,180	1,942,640	1,687,008	82,236	73,806	4,683,428	4,045,994
Less: depreciation	203,041	179,733	174,413	156,265	7,283	7,220	384,737	343,218
Operating profits before taxes	5,041,273	4,235,148	2,479,930	2,330,407	287,511	336,389	7,808,714	6,901,944
Less: taxes							3,563,662	2,983,740
Profits for the year							4,245,052	3,918,204
Less: non controlling interest							(17)	-
Profit attributable to equity holders of the company							4,245,069	3,918,204
Segmental assets	65,499,301	57,838,331	41,930,487	34,798,806	13,393,658	10,125,898	120,823,446	102,763,035
Segmental liabilities	57,250,824	50,797,482	36,669,639	30,562,635	11,554,049	8,893,239	105,474,512	90,253,356
Cash flows from operating activities	1,674,240	(4,890,120)	1,071,793	(2,942,172)	342,358	(856,125)	3,088,391	(8,688,417)
Cash flows from investing activities	5,316	14,160	3,403	8,520	775,669	575,690	784,388	598,370
Cash flows from financing activities	289,342	3,623,461	185,227	2,180,079	59,166	634,368	533,735	6,437,908
Capital expenditure								
Property, plant and equipment	(834,115)	(1,018,252)	(533,973)	(612,638)	(170,565)	(178,268)	(1,538,653)	(1,809,158)
Intangible assets	(12,326)	(17,737)	(7,892)	(10,671)	(2,521)	(3,105)	(22,739)	(31,513)

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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Guarantees issued to banks and other institutions	6,500	17,460	6,500
Import LC and ordinary guarantees	38,069	58,370	38,069
Total contingent liabilities	44,569	75,830	44,569

6.5.2 Commitments

	Company		Group
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Commitment for unutilised facilities	1,217,412	918,305	1,217,412
Total commitments	1,217,412	918,305	1,217,412
Total commitments and contingencies	1,261,981	994,135	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
	2018	2017	2018
	Rs. '000	Rs. '000	Rs. '000
Cases pending against the company (Values claimed)	89,518	139,324	89,518

Notes to the Financial Statements

6.6 NET ASSET VALUE PER SHARE

	Company		Group
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000
Amounts used as the numerators:			
Total equity attributable to equity holders	15,348,896	12,509,679	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
Net asset value per share (Rs.)	110.81	90.31	110.81

6.7 ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of liability	Carrying amount pledged			Included under
		Company		Group	
		2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	
Lease rentals receivable and stock out on hire*	Bank loans, overdrafts and syndicated loans	26,511,882	28,007,463	26,511,882	Lease rentals receivable and stock out on hire
Freehold land and building	Syndicated loans	130,199	201,312	130,199	Property, plant and equipment
		26,642,081	28,208,775	26,642,081	

*The receivables and cash flows that have been included in bank loans, overdrafts and syndicated 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 and Stock out on Hire which have been pledged as at reporting date is Rs. 34,938,094,911/- (2017 - Rs. 36,631,551,282/-).

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 - 2017/18

Subsequent to the reporting date, the Board of Directors of the Company recommended the payment of a final dividend of Rs. 4/- per share for the year ended 31 March 2018. This final dividend is yet to be approved at the Annual General Meeting to be held on 28 June 2018. 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 2018. 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 7 - (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 2018 are disclosed below together with the comparative figures for the year ended 31 March 2017.

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 Rs. '000	Debt instruments issued and other borrowed funds 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

	Company	
	Syndicated loans and other bank facilities Rs. '000	Debt instruments issued and other borrowed funds Rs. '000
Balance as at 1 April 2016	13,877,962	2,601,282
Net cash flows from financing activities	8,811,722	-
Non cash changes		
Foreign exchange movements	-	-
Net accrual for interest expense	53,195	(557,066)
Balance as at 31 March 2017	22,742,879	2,044,216

Supplementary Information

Income Statement in US$

	Company		Group
Year ended 31 March	2018	2017	2018
	US$. '000	US$. '000	US$. '000
Income	160,553	127,643	160,553
Interest income	149,962	118,062	149,974
Less: Interest expenses	73,708	53,476	73,708
Net interest income	76,254	64,586	76,265
Fee and commission income	9,642	7,972	9,645
Net trading income	(2)	(1)	(2)
Other operating income	950	1,610	937
Total operating income	86,844	74,167	86,844
Less: impairment charge/(reversal) for loans and other losses	4,280	(279)	4,282
Less: gold loan auction losses	19	15	19
Net operating income	82,545	74,431	82,543
Less: operating expenses			
Personnel expenses	15,371	13,912	15,389
Depreciation of property, plant and equipment	2,344	2,150	2,344
Amortisation of intangible assets	119	113	122
Other operating expenses	14,619	12,759	14,633
Total operating expenses	32,453	28,934	32,488
Operating profit before tax on financial services	50,092	45,497	50,055
Less: Tax on financial services	8,569	6,771	8,569
Profit before taxation	41,523	38,726	41,486
Less: Income tax expense	14,275	12,898	14,275
Profit for the year	27,248	25,828	27,211
Profit attributable to:			
Equity holders of the company	27,248	25,828	27,211
Non-controlling interest	-	-	(0)
Profit for the year	27,248	25,828	27,211
Earnings per share: basic/diluted (US$)	0.20	0.19	0.20
Dividend per share			
Dividend per share: Gross (US$)	0.07*	0.06	
Dividend per share: Net (US$)	0.06*	0.05	

Exchange rate of US$ was Rs. 156.00 as at 31 March 2018 (Rs. 151.70 as at 31 March 2017)

* Calculated based on interim dividend paid and proposed final dividend, which is to be approved at the Annual General Meeting.

Statement of Comprehensive Income in US$

Year ended 31 March	Company		Group
	2018	2017	2018
	US$. '000	US$. '000	US$. '000
Profit for the year	27,248	25,828	27,211
Other Comprehensive Income that will be reclassified to Income Statement			
Net gains/(losses) from translating the Financial Statements of the foreign operations	-	-	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	(134)	23
Reclassification adjustment for impairment on equity securities	29	37	29
Net fair value gains/(losses) on re-measuring equity securities	52	(97)	52
Other Comprehensive Income that will be reclassified to Income Statement	52	(97)	86
Less: Deferred tax charge/(reversal) on above items	-	-	-
Net Other Comprehensive Income that will be reclassified to Income Statement	52	(97)	86
Other Comprehensive Income that will never be reclassified to Income Statement			
Actuarial gains and losses on defined benefit plans	(306)	(29)	(306)
Less: Deferred tax charge/(reversal) on actuarial gains and losses	(86)	(8)	(86)
Net Other Comprehensive Income that will never be reclassified to Income Statement	(220)	(21)	(220)
Other Comprehensive Income for the year, net of tax	(168)	(118)	(134)
Total Comprehensive Income for the year, net of tax	27,080	25,710	27,077
Attributable to:			
Equity holders of the company	27,080	25,710	27,077
Non-controlling interest	-	-	(0)
Total Comprehensive Income for the year, net of tax	27,080	25,710	27,077

Exchange rate of US$ was Rs. 156.00 as at 31 March 2018 (Rs. 151.70 as at 31 March 2017)

Statement of Financial Position in US$

Year ended 31 March	Company 2018 US$. '000	Company 2017 US$. '000	Group 2018 US$. '000
Assets			
Cash and cash equivalents	37,656	19,084	38,399
Financial investments - held for trading	62	66	62
Loans and receivables	255,483	220,757	255,733
Lease rentals receivable and stock out on hire	400,575	366,915	400,575
Financial investments - available for sale	780	778	780
Other financial assets	43,414	44,308	43,376
Other non-financial assets	5,230	2,011	5,234
Investment in Subsidiary	980	-	-
Property, plant and equipment	30,004	23,166	30,012
Intangible assets	308	324	339
Total assets	774,492	677,410	774,510
Liabilities			
Due to banks	146,398	156,745	146,398
Due to customers	467,589	398,167	467,603
Debt instruments issued and other borrowed funds	33,031	13,475	33,031
Other financial liabilities	11,291	13,233	11,291
Other non-financial liabilities	5,466	4,439	5,469
Current tax liabilities	4,058	4,556	4,058
Deferred tax liabilities	6,787	3,319	6,787
Post employment benefit liability	1,482	1,013	1,482
Total liabilities	676,102	594,947	676,119
Equity			
Stated capital	5,374	5,526	5,374
Reserves	27,375	22,494	27,409
Retained earnings	65,641	54,443	65,605
Total equity attributable to equity holders of the Company	98,390	82,463	98,388
Non controlling interest	-	-	3
Total equity	98,390	82,463	98,391
Total liabilities and equity	774,492	677,410	774,510
Commitments and contingencies	8,090	6,553	8,090
Net asset value per share (US$)	0.71	0.60	0.71

Exchange rate of US$ was Rs. 156.00 as at 31 March 2018 (Rs. 151.70 as at 31 March 2017)

Decade at a Glance

Key Indicators		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/ 17	2017/ 18
Operating results											
Net interest margin	%	10.31	11.60	12.87	11.43	10.22	10.38	12.67	12.17	10.91	11.15
Cost to income	%	51.72	42.87	41.27	41.75	42.30	41.29	35.88	35.89	39.01	37.37
Interest spread	%	7.92	9.32	11.77	10.84	9.49	9.45	11.55	11.09	9.59	9.65
Financial position											
Total assets to equity	No.of times	10.38	9.79	10.81	10.75	10.18	9.80	8.52	8.07	8.21	7.87
Debt to equity	No.of times	8.54	7.97	9.64	9.48	8.89	8.54	7.15	6.73	6.89	6.58
Equity to deposits	%	14.12	14.06	13.32	14.60	13.75	13.46	17.45	19.63	20.71	21.04
Investor information											
Return on equity (ROE)	%	30.93	32.20	47.45	52.64	36.62	23.23	30.88	40.40	34.09	30.52
Return on average assets (ROA)	%	2.91	3.21	4.51	4.85	3.51	2.33	3.40	4.89	4.18	3.80
Equity to assets	%	9.64	10.21	9.08	9.31	9.83	10.21	11.74	12.40	12.17	12.70
Net assets value per share	Rs.	10.28	12.68	18.37	28.65	38.47	44.81	57.23	75.66	90.31	110.81
Earnings per share (EPS)	Rs.	2.74	3.61	7.37	12.37	12.29	9.67	15.75	26.84	28.29	30.69
Dividend per share (DPS)	Rs.	3.00	5.00	3.50	5.00	6.50	6.50	10.00	7.50	9.00	11.00*
Dividend cover	No.of times	3.46	2.89	4.21	4.95	3.78	2.98	3.15	3.58	3.14	2.79
Dividend yield	%	13.33	26.32	11.29	2.86	4.82	4.90	9.99	9.99	8.48	9.25
Dividend payout	%	28.89	34.62	23.76	20.20	26.45	33.59	31.74	27.94	31.82	35.84
Price earning ratio (PE)	No.of times	1.73	4.29	5.94	5.45	5.40	5.17	4.77	3.95	4.19	3.87
Price to book value (PBV)	No.of times	0.46	1.22	4.77	2.35	1.72	1.12	1.31	1.40	1.31	1.07
Market price per share	Rs.	19.00	62.00	175.10	134.90	132.70	100.10	150.20	106.10	118.40	118.90
Market capitalisation	Rs. million	624	2,147	12,127	9,343	9,190	6,933	10,402	14,696	16,400	16,469
Interest cover	No.of times	1.25	1.39	1.69	1.66	1.42	1.26	1.56	1.92	1.72	1.56
Growth											
Income	%	28.84	15.39	33.19	44.26	43.23	19.88	8.51	5.81	23.76	29.35
Interest income	%	64.81	15.18	29.99	42.01	44.25	20.78	7.65	5.42	24.13	30.62
Interest expense	%	69.86	0.49	7.5	46.87	67.39	20.05	(16.65)	(2.96)	40.52	41.74
Net interest income	%	56.09	42.76	59.71	37.69	22.31	21.72	38.76	11.86	13.20	21.41
Profit before tax	%	56.33	58.16	89.89	46.19	3.63	(26.05)	78.33	59.81	10.33	10.26
Profit after tax	%	74.71	39.09	104.01	67.98	(0.69)	(21.27)	62.84	70.37	5.39	8.49
Total assets	%	30.39	22.77	62.93	52.15	27.17	12.16	11.06	25.13	21.59	17.57
Lending portfolio	%	30.67	23.58	61.46	55.03	22.09	9.99	13.75	27.87	24.59	14.80
Deposit base	%	30.77	30.67	62.23	34.10	42.58	18.98	(1.44)	17.50	13.16	20.76
Equity	%	38.47	30.1	44.85	55.97	34.29	16.48	27.72	32.20	19.37	22.70
Employee											
Profit before tax per employee	Rs.'000	802	986	1319	1541	1229	875	1,387	1,940	1,823	1,883
Profit after tax per employee	Rs.'000	519	561	807	1020	828	627	908	1,354	1,216	1,235
Total assets per employee	Rs.'000	20,244	19,325	22,359	25,395	26,385	28,497	28,131	30,800	31,904	35,112
No. of branches		21	27	34	65	89	97	100	110	118	123
No. of gold loan centres		36	48	58	47	37	37	35	36	36	36
Total no. of outlets		57	75	92	112	126	134	135	146	154	159
No. of employees		692	890	1,264	1,679	2,055	2,134	2,401	2,744	3,221	3,441
Employees per outlet		12	12	14	15	16	16	18	19	21	22

* Includes proposed final dividend of Rs. 4.00 per share.

Financial Statements

Financial statements prepared under SLASs - Company

	2008/09 Rs. '000	2009/10 Rs. '000	2010/11 Rs. '000
Income statement			
Gross income	3,580,173	4,130,993	5,501,885
Interest income	3,431,950	3,953,032	5,138,718
Interest expenditure	2,238,847	2,249,805	2,418,480
Net interest income	1,193,103	1,703,227	2,720,239
Other operating income	122,326	174,285	353,647
Operating expenditure	647,561	839,479	1,171,025
Profits before taxation	555,315	878,290	1,667,820
Tax on financial services	112,552	159,744	235,040
Provision for taxation	195,707	378,129	647,452
Net profits	359,608	500,161	1,020,368
Balance sheet			
Assets			
Cash and amounts due from banks	217,642	277,083	347,446
Placements with other banks	550,496	364,918	302,584
Treasury bills and other bills eligible for re-discounting with Central Bank	799,698	1,165,157	1,622,158
Real estate stock	211,241	246,928	237,520
Loans and advances	2,834,414	4,193,815	7,543,231
Lease rentals receivable and stock out on hire	9,006,955	10,440,329	16,332,007
Investment securities	6,226	5,994	28,594
Trading portfolio	-	-	211,818
Other debtors, deposits and prepayments	141,619	104,271	675,235
Vehicle stock	41,939	156,502	519,706
Intangible assets	9,311	7,333	9,682
Property, plant and equipment	189,920	237,613	432,359
Total assets	14,009,461	17,199,943	28,262,340
Liabilities			
Deposits from customers	9,558,370	12,489,789	19,619,681
Borrowings	1,527,997	1,065,377	3,526,374
Debentures	450,000	450,000	450,000
Trade payables and accrued charges	846,978	916,729	1,529,035
Tax payable	67,751	352,626	396,413
Deferred taxation	186,703	141,728	93,249
Provision and other liabilities	21,565	27,262	33,870
Total liabilities	12,659,364	15,443,511	25,648,622
Shareholders' funds			
Share capital	491,996	491,996	838,282
Reserves	858,101	1,264,436	1,775,436
Total shareholders' funds	1,350,097	1,756,433	2,613,718
Total liabilities and shareholders' funds	14,009,461	17,199,944	28,262,340

Financial statements prepared under LKASs and SLFRSs - Company

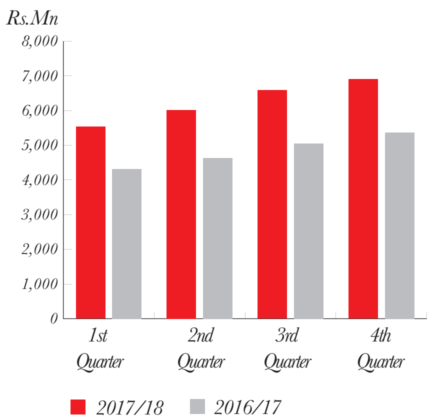
	2011/12 Rs. '000	2012/13 Rs. '000	2013/14 Rs. '000	2014/15 Rs. '000	2015/16 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000
Income statement							
Income	7,937,072	11,368,252	13,628,497	14,787,757	15,646,467	19,363,428	25,046,202
Interest income	7,297,591	10,526,829	12,714,089	13,687,070	14,428,729	17,909,935	23,394,115
Interest expenses	3,551,986	5,945,707	7,137,897	5,949,496	5,773,255	8,112,337	11,498,408
Net interest income	3,745,605	4,581,122	5,576,191	7,737,574	8,655,474	9,797,598	11,895,707
Other operating income	639,481	841,422	914,408	1,100,686	1,217,737	1,453,493	1,652,087
Total operating income	4,385,086	5,422,544	6,490,600	8,838,260	9,873,212	11,251,091	13,547,794
Impairment charges / (reversal) for loans and other losses	116,023	400,307	570,332	1,804,838	382,435	(42,265)	667,628
Gold loan auction losses	-	201,802	1,371,959	214,928	29,358	2,200	2,995
Operating expenses	1,680,998	2,117,628	2,559,981	3,171,408	3,543,352	4,389,212	5,062,788
Profit before tax	2,588,065	2,526,559	1,868,390	3,331,853	5,324,615	5,874,843	6,477,690
Tax on financial services	149,952	176,249	119,936	315,232	593,452	1,027,101	1,336,693
Income tax	874,071	824,443	528,361	1,149,727	1,606,822	1,956,639	2,226,969
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
Statement of financial position							
Assets							
Cash and cash equivalents	1,954,237	4,019,673	1,865,100	6,067,670	6,051,899	2,895,085	5,874,375
Financial investments - held for trading	6,740	7,323	7,595	10,063	10,646	10,068	9,682
Loans and receivables	12,771,108	16,452,987	18,893,238	22,262,761	26,449,169	33,488,779	39,855,398
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
Financial investments - available for sale	128,068	473,739	1,468,602	140,587	138,411	118,021	121,624
Other financial assets	1,019,834	1,487,399	5,186,548	2,140,178	4,142,716	6,721,526	6,772,554
Other non-financial assets	1,066,622	1,205,230	817,629	1,206,275	538,899	305,048	815,808
Investment in subsidiary	-	-	-	-	-	-	152,915
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
Intangible assets	19,340	23,669	36,425	35,305	34,766	49,189	48,119
Deferred tax assets	117,779	180,551	171,857	-	-	-	-
Total assets	42,638,405	54,222,859	60,814,380	67,542,519	84,516,637	102,763,035	120,820,780
Liabilities							
Due to banks	8,910,255	6,366,217	1,423,642	7,703,265	14,577,234	23,778,147	22,838,038
Due to customers	27,172,161	38,742,700	46,095,205	45,430,551	53,379,801	60,401,955	72,943,833
Debt instruments issued and other borrowed funds	1,541,555	2,244,210	5,475,903	3,529,575	2,601,283	2,044,216	5,152,832
Other financial liabilities	-	638,011	1,165,526	1,776,066	1,869,941	2,007,402	1,761,418
Other non-financial liabilities	757,275	694,933	250,496	516,719	597,807	673,436	852,715
Current tax liabilities	244,831	147,956	103,717	534,744	741,251	691,091	633,058
Deferred tax liabilities	-	-	-	11,930	143,142	503,488	1,058,750
Post employment benefit liability	44,231	60,230	93,198	112,574	126,859	153,621	231,240
Total liabilities	38,670,307	48,894,257	54,607,691	59,615,427	74,037,318	90,253,356	105,471,884
Equity							
Stated capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Reserves	1,054,254	1,637,917	2,103,132	1,908,324	2,670,538	3,412,318	4,270,522
Retained earnings	2,075,561	2,852,402	3,265,273	5,180,485	6,970,499	8,259,079	10,240,092
Total equity	3,968,097	5,328,601	6,206,688	7,927,091	10,479,319	12,509,679	15,348,896
Total liabilities and equity	42,638,405	54,222,859	60,814,380	67,542,519	84,516,637	102,763,035	120,820,780

Quarterly Financial Statements 2017/18

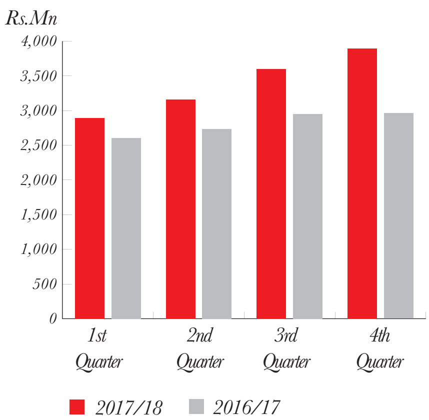
Income statement - Company

For the 3 months ended	1st Quarter 30.06.2017 Rs.'000	1st Quarter 30.06.2016 Rs.000'	2nd Quarter 30.09.2017 Rs.'000	2nd Quarter 30.09.2016 Rs.000'	3rd Quarter 31.12.2017 Rs.'000	3rd Quarter 31.12.2016 Rs.000'	4th Quarter 31.03.2018 Rs.'000	4th Quarter 31.03.2017 Rs.000'
Income	5,534,727	4,315,838	6,021,459	4,628,282	6,586,588	5,051,635	6,903,428	5,367,674
Interest income	5,213,003	4,040,714	5,628,373	4,312,261	6,155,619	4,580,983	6,397,120	4,975,977
Less: interest expenses	2,639,958	1,709,411	2,863,516	1,894,195	2,984,383	2,102,448	3,010,551	2,406,282
Net interest income	2,573,045	2,331,303	2,764,857	2,418,066	3,171,236	2,478,534	3,386,569	2,569,695
Fee and commission income	299,759	265,166	347,067	303,387	391,661	291,769	465,701	349,017
Net trading income	920	786	(444)	752	(399)	(811)	(376)	(876)
Other operating income	21,045	9,171	46,463	11,881	39,707	179,694	40,982	43,555
Total operating income	2,894,769	2,606,426	3,157,943	2,734,087	3,602,205	2,949,187	3,892,877	2,961,392
Less: impairment charge/(reversal) for loans and other losses	68,625	22,462	127,628	(7,453)	184,011	51,309	287,365	(108,583)
Less: gold loan auction losses	470	2,122	(40)	(272)	(298)	302	2,862	48
Net operating income	2,825,675	2,581,843	3,030,355	2,741,812	3,418,492	2,897,575	3,602,649	3,069,927
Less: operating expenses								
Personnel expenses	546,305	517,332	601,436	552,593	625,483	589,205	624,696	673,769
Depreciation of property, plant and equipment	81,599	81,315	91,625	81,064	94,925	82,243	97,449	81,506
Amortisation of intangible assets	4,373	3,914	4,479	4,166	4,940	4,495	4,844	4,515
Other operating expenses	511,075	371,318	582,344	443,980	610,911	427,024	576,304	470,772
Operating profit before tax on financial services	1,682,323	1,607,964	1,750,472	1,660,008	2,082,232	1,794,607	2,299,356	1,839,366
Less: tax on financial services	295,579	227,304	311,740	206,408	352,962	244,494	376,412	348,895
Profit before taxation	1,386,744	1,380,660	1,438,731	1,453,600	1,729,271	1,550,113	1,922,944	1,490,470
Less: income tax expense	446,749	468,952	487,741	505,493	600,248	525,664	692,230	456,530
Profit for the year	939,995	911,708	950,990	948,107	1,129,023	1,024,449	1,230,714	1,033,940

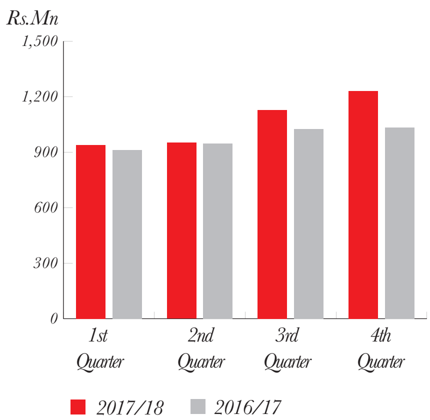
INCOME



OPERATING INCOME



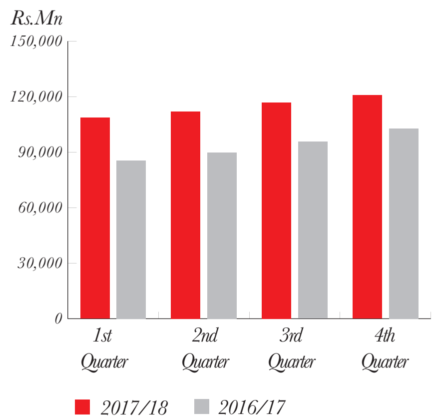
PROFIT AFTER TAX



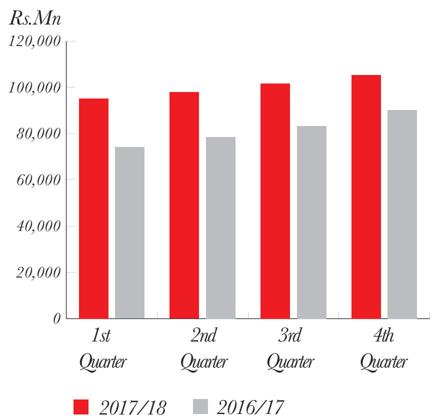
Statement of financial position - Company

As at	1st Quarter 30.06.2017 Rs.'000	1st Quarter 30.06.2016 Rs.000'	2nd Quarter 30.09.2017 Rs.'000	2nd Quarter 30.09.2016 Rs.000'	3rd Quarter 31.12.2017 Rs.'000	3rd Quarter 31.12.2016 Rs.000'	4th Quarter 31.03.2018 Rs.'000	4th Quarter 31.03.2017 Rs.000'
Assets								
Cash and cash equivalents	4,016,316	4,444,893	3,627,591	3,948,940	3,873,610	4,146,304	5,874,375	2,895,085
Financial investments - held for trading	10,901	11,039	10,458	11,792	10,059	10,981	9,682	10,068
Loans and receivables	35,036,991	27,250,245	35,588,604	29,231,097	37,768,494	31,738,491	39,855,398	33,488,779
Lease rentals receivable and stock out on hire	57,442,718	47,536,011	59,441,436	49,814,379	60,370,034	53,663,953	62,489,686	55,660,963
Financial investments - available for sale	135,242	145,956	130,521	154,588	120,037	132,354	121,624	118,021
Other financial assets	7,374,184	3,344,681	8,361,245	3,929,722	9,438,190	3,413,322	6,772,554	6,721,526
Other non-financial assets	468,618	703,526	427,203	746,987	887,524	399,535	815,808	305,048
Investment in Subsidiary	-	-	-	-	-	-	152,915	-
Property, plant and equipment	4,096,220	2,056,096	4,297,421	2,071,008	4,292,290	2,126,963	4,680,619	3,514,356
Intangible assets	44,816	49,785	54,333	46,319	51,163	51,298	48,119	49,189
Total assets	108,626,006	85,542,232	111,938,812	89,954,832	116,811,401	95,683,201	120,820,780	102,763,035
Liabilities								
Due to banks	23,732,886	15,404,312	22,921,831	19,285,942	21,636,232	21,358,100	22,838,038	23,778,147
Due to customers	65,197,424	52,456,537	68,555,172	53,081,542	70,839,702	55,617,980	72,943,833	60,401,955
Debt instruments issued and other borrowed funds	2,040,468	2,608,089	2,091,699	2,662,155	5,007,711	2,233,511	5,152,832	2,044,216
Other financial liabilities	1,948,207	1,858,478	2,201,118	2,074,938	1,881,450	2,423,439	1,761,418	2,007,402
Other non-financial liabilities	884,676	713,554	867,118	645,292	731,044	574,915	852,715	673,436
Current tax liabilities	689,539	826,210	631,275	608,068	914,854	867,951	633,058	691,091
Deferred tax liabilities	503,488	143,142	503,488	143,142	503,488	143,142	1,058,750	503,488
Post employment benefit liability	162,424	133,338	169,488	137,300	180,759	145,494	231,240	153,621
Total liabilities	95,159,112	74,143,660	97,941,189	78,638,379	101,695,240	83,364,532	105,471,884	90,253,356
Equity								
Stated capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Reserves	3,617,537	2,853,034	3,803,017	3,051,287	4,018,337	3,233,943	4,270,522	3,412,318
Retained earnings	9,011,075	7,707,256	9,356,324	7,426,884	10,259,542	8,246,444	10,240,092	8,259,079
Total equity	13,466,894	11,398,572	13,997,623	11,316,453	15,116,161	12,318,669	15,348,896	12,509,679
Total liabilities and equity	108,626,006	85,542,232	111,938,812	89,954,832	116,811,401	95,683,201	120,820,780	102,763,035
Quarterly NPL information								
NPL ratio - gross	2.14%	3.14%	2.14%	2.64%	2.36%	2.43%	2.37%	2.14%
NPL ratio - net	-0.14%	0.06%	-0.13%	-0.06%	-0.02%	-0.13%	-0.06%	-0.11%

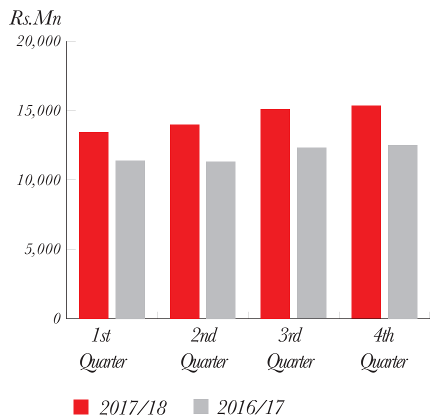
TOTAL ASSETS



TOTAL LIABILITIES



TOTAL EQUITY



GRI - 102-4

Branch Network

Branch	Province	Address	Telephone	Fax
Akkaraipattu	Eastern	28, Sagama Road, Akkaripattu -08.	067-2279155/067-2057536	067-2279655
Akuressa	Southern	83, Deniyaya Road, Akuressa.	041-2283559/041-2283388	041-2283560
Aluthgama	Western	185, Galle Road, Aluthgama.	034-2271161/034-2271162	034-2271155
Ambalangoda	Southern	96/2, Galle Road, Ambalangoda.	091-2256107/091-2255722	091-2256650
Ampara	Eastern	04, Opposite Clock Tower, Ampara.	063-2224254/063-2222882	063-2223504
Anamaduwa	North Western	24, Chilaw Road, Anamaduwa.	0322-263090/0322-263091	0322-263092
Anuradhapura	North Central	137, Main Street, Anuradhapura.	025-2234885/025-2225526	025-2237155
Anuradhapura 11	North Central	514A New Town, Anuradhapura.	025-2234455/025-2225660	025-2226759
Atchchuvely	Northern	69, Main Street, Atchchuvely.	0212-232215/0212-232216	0212-232217
Avissawella	Western	25, Yatiyanthota Road, Avissawella.	036-2222155/036-2233833	036-2234222
Badulla	Uva	26, Anagarika Dharmapala Mawatha, Badulla.	055-2228055/055-2231965	055-2231964
Badulla 11	Uva	55, Lower Street, Badulla.	055-2224255/055-2222125	
Balangoda	Sabaragamuwa	19, Rest House Approach Road, Balangoda.	045-2289255/045-2288374	045-2288216
Bambalapitiya	Western	670 & 676, Galle Road, Bambalapitiya	0112-155380/0112-155497	0112-508658
Bandarawela	Uva	167, Main Street, Bandarawela.	057-2231155/057-2221235	057-2225424
Battaramulla	Western	755/1 , Pannipitiya Road, Battaramulla.	011-2885331/011-2887565	011-2885332
Batticaloa	Eastern	175A, Trinco Road , Batticaloa.	065-2229270/065-2229280	065-2229280
Boralesgamuwa	Western	28, Dehiwala Road, Boralesgamuwa.	011-2509159/011-2545504	011-2518389
Chavakachcheri	Northern	136, Kandy Road, Chavakachcheri.	021-2271545/021-2271565	021-2270623
Chenkalady	Eastern	Opposite Market Complex, Main Road, Chenkalady.	065-2054263/065-2054264	065-2054265
Chilaw	North Western	40/1, Colombo Road, Chilaw.	032-2224229/032-2224235	032-2224725
Chunnakkam	Northern	55, K.K.S. Road, Chunnakkam.	021-2242055/021-2241525	021-2241334
Head office	Western	275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07.	011-2200000/011-2200200	011-2508507
Corporate office	Western	20, Dharmapala Mawatha, Colombo 03.	011-2155000	011-2574777
Dam Street	Western	371/1, Dam Street, Colombo 12.	011-2335445	011-2435259
Dambulla	Central	38, Kurunegala Junction, Dambulla.	066-2283155/066-2283740	066-2284990
Dehiattakandiya	Eastern	10/2, Opposite BOC, New Town, Dehiattakandiya.	027-2250071/027-2250072	027-2250073
Dehiwala	Western	84A, Galle Road, Dehiwala.	011-2722446/011-2732802	011-2722446
Delgoda	Western	350/16, Colombo Road, Delgoda.	0112-403556/0112-403557	0112-403629
Delkanda	Western	595, High Level Road, Gangodawila, Nugegoda.	011-2802333/011-2802828	011-2804343

Branch	Province	Address	Telephone	Fax
Deniyaya	Southern	149, Main Street, Deniyaya.	041-2273196/041-2273197	041-2273195
Dharga Town	Western	358/D, Mathugama Road,Dharga Town	0342-293470/0342-293472	0342-293471
Divulapitiya	Western	69, Giriulla Road, Divulapitiya.	0312-248083/0312-248073	0312-248043
Eheliyagoda	Sabaragamuwa	25A, Main Street, Eheliyagoda.	0362-256142/0362-256143	0362-256141
Elpitiya	Southern	14, Main Street, Elpitiya.	091-2291990/091-2291980	091-2291958
Embilipitiya	Sabaragamuwa	43, Main Street, Embilipitiya.	047-2262767/047-2262766	047-2261990
Galle	Southern	150, Main Street ,(Old Sathosa Building) Galle.	091-2227446/091-2232347	091-2233155
Gampaha	Western	01, Bauddhaloka Mawatha, Gampaha.	033-2234810/033-2225380	033-2227955
Gampola	Central	22, Nuwara Eliya Road, Gampola.	081-2354855/081-2075655	081-2351455
Gampola City	Central	66, Nawalapitiya Road, Gampola.	081-2353609/081-2353610	081-2353611
Gelioya	Central	13A, Kandy Road , Gelioya.	081-2067740/081-2067242	081-2067241
Hatton	Central	52 A, Dunbar Road, Hatton.	051-2225355/051-2224725	051-2225736
Homagama	Western	76, High Level Road, Homagama.	011-2748155/011-2182220	011-2894380
Horana	Western	103, Panadura Road, Horana.	034-2265297/034-2265223	034-2265316
Ja Ela	Western	6/1/1, Old Negombo Road , Ja Ela.	011-2229820/011-2229613	011-2244155
Jaffna	Northern	442-440, Hospital Road, Jaffna.	021-2215949/021-2215959	021-2220249
Jaffna -City	Northern	111, 113, Stanley Road , Jaffna.	021-2217912/021-2217911	021-2217910
Jaffna -Premier	Northern	406, Hospital Road , Jaffna.	021-2217810/021-2217812	021-2217811
Kadawatha	Western	139/6, Kandy Road, Kadawatha.	011-2926713/011-2926714	011-2926917
Kaduwela	Western	484, Avissawella Road, Kaduwela.	011-2548955/011-2538110	011-2538222
Kalawanchikudy	Eastern	Opposite Hospital, Hospital Road, Kalawanchikudy	065-2251626/065-2251636	065-2251646
Kalmunei	Eastern	Main Street, Batticaloa Road, Kalmunai.	067-2225355/067-2056436	067-2220418
Kalutara	Western	334, Main Street, Kalutara.	034-2222217/034-2222290	034-2223343
Kandana	Western	06, Station Road, Kandana.	011-2231925/011-2240171	011-2239155
Kandy	Central	Milton House, Kotugodalla Veediya, Kandy.	081-2238932/081-2225765	081-2200155
Kandy City	Central	226, D S Senanayaka Street, Kandy.	081-2054626/081-2054627	081-2204155
Karapitiya	Southern	598 E, Hiribura Road, Karapitiya	0912-228360/0912-228362	0912-228361
Katthankudy	Eastern	801, Mohomed Aiyar Building, Main Street,	065-2247007/065-2247006	065-2248655
Katugastota	Central	19, Madawala Road, Katugastota.	081-2064868	081-2500562
Katugastota City	Central	179, Katugastota Road , Kandy.	081-2213886/081-2213888	081-2213887
Kegalle	Sabaragamuwa	19, Main Street, Kegalle.	035-2223633/035-2223634	035-2221755
Kekirawa	North Central	15, Thalawa Road, Kekirawa.	0252-265245/0252-265246	025-2265248

Branch Network

Branch	Province	Address	Telephone	Fax
Kilinochchi	Northern	Opposite Kandhasamy Kovil, Kandy Road, Kilinochchi.	021-2283955/021-2283270	021-2285349
Kinniya	Eastern	50/2, Main Street, Kinniya.	026-2237443/026-2237444	026-2237445
Kiribathgoda	Western	02, Kandy Road, Kiribathgoda.	011-2911788/011-2906440	011-2906155
Kochchikade	Western	110, Chilaw Road, Kochchikade.	031-2274555/031-2272774	031-2274205
Kokkadicholi	Eastern	Main Street, Division 10, Kokkadicholi.	065-2056900/065-2056901	065-2056915
Kotahena	Western	03, St. Lucias Street, Kotahena.	011-2382155/011-2335808	011-2424795
Kottawa	Western	365, High Level Road, Kottawa.	011-2745722/011-2745488	011-2745449
Kotte	Western	429, Kotte Road, Pitakotte.	011-2818155/011-2818011	011-2820967
Kuliyapitiya	North Western	12, Main Street, Kuliyapitiya.	037-2284155/037-2283802	037-2283802
Kurunegala	North Western	21, Dambulla Road, Kurunegala.	037-2231172	037-2231175
Kurunegala City	North Western	118A, Kadurugas Junction,Colombo Road, Kurunegala.	037-2227155/037-2231171	037-2233550
Kurunegala Premier	North Western	103A, Colombo Road, Kurunegala.	037-2222411/037-2223411	037-2229696
Maharagama	Western	227A, High Level Road, Maharagama	011-2838311/011-2841100	011-2848222
Mahiyanganaya	Uva	56&57, Edwin Wickramarathne Shopping Complex, Mahiyanganaya.	055-2257622/055-2257623	055-2258455
Malabe	Western	834/7, Kaduwela Road, Malabe.	011-2561815/011-2156855	011-2742970
Manipay	Northern	110, Jaffna Road, Manipai.	021-2255955/021-2556777	021-2255523
Mannar	Northern	187, Main Street, Mannar.	0232-251825/0232-251826	0232-251827
Maradana	Western	538,538A, Maradana Road, Colombo 10.	011-2670155/011-2685425	011-2685359
Maskeliya	Central	175, Main Street, Maskeliya.	052-2277032	052-2277088
Matale	Central	251, Main Street, Matale.	066-2231902/066-2223740	066-2222266
Matara	Southern	13, Station Road, Matara.	041-2225454/041-2232710	041-2231155
Matara City	Southern	282, Anagarika Dharmapala Mawatha, Matara.	041-2224496/041-2224497	041-2228666
Matugama	Western	34, Aluthgama Road, Matugama.	034-2241811/034-2241812	034-2249343
Medawachchiya	North Central	26, Kandy Road, Medawachchiya.	025-2245304/025-2245302	025-2245303
Medirigiriya	North Central	D T C Fashion, Main Street, Medirigiriya.	0272-248858/0272-248859	027-2248860
Monaragala	Uva	44, New Bus Stand, Monaragala.	055-2055445/055-2055446	055-2276905
Moratumulla	Western	227 & 327A, De Soyza Road, Moratumulla, Moratuwa.	011-2654154/011-2654380	011-2653365
Moratuwa	Western	10, Station Road, Moratuwa.	011-2642288/011-2648120	011-2642255
Mount Lavinia Premier	Western	66, 66 1/1 & 66 1/2 , Galle Road, Mount Lavinia.	0112-710124/0112-710125	011-2710126
Narammala	North Western	35, Sarasavi Building , Kuliyapitiya Road, Narammala.	0372-249313/0372-249312	0372-249314

Branch	Province	Address	Telephone	Fax
Nawalapitiya	Central	No.3A, UC Road, Nawalapitiya.	054-2223850/054-2223110	054-2224050
Negombo	Western	80, Greens Road , Negombo.	031-2231265/031-2239155	031-2231266
Nelliadi	Northern	10, Jaffna Road, Nelliady.	021-2264655/021-2263111	021-2262923
Neluwa	Southern	2, H V Building, Dellawa Road, Neluwa.	091-2285180/091-3096960	091-3096950
Nugegoda	Western	92, Stanley Thilakarathna Mawatha, Nugegoda.	011-2890681/011-2890680	011-2814335
Nuwara Eliya	Central	71, City Light Building, Queen Elizabeth Drive, Nuwara Eliya	052-2233407/052-3050332	052-2234155
Panadura	Western	508, Galle Road, Panadura.	038-2238371/038-2244799	038-2243525
Pilimathalawa	Central	298, Colombo Road, Pilimathalawa.	081-2579940/081-2579941	081-2579942
Piliyandala	Western	68 , Horana Road, Piliyandala.	011-2618816/011-2609013	011-2608895
Pitigala	Southern	87, Main Street, Pitigala.	091-2291155/091-2291155	091-2291941
Polonnaruwa	North Central	Rajarata Building,Main Street, Kaduruwela, Polonnaruwa.	027-2052080/027-2052081	027-2052083
Pottuvil	Eastern	Main Street, Pothuvill.	063-2248148/063-2248149	063-2050855
Pussellawa	Central	473, Nuwara Eliya Road, Pussellawa.	081-2478138/081-2478128	081-2478148
Puthukkudiyiruppu	Northern	Ward No. 1, Puthukkudiyiruppu, Mullaitivu.	0212-290411/0212-290412	0212-290413
Puttlam	North Western	10, Kurunegala Road, Puttlam.	032-2267755/032-2267051	032-2266939
Rajagiriya	Western	347A, Kotte Road, Rajagiriya.	011-2885378/011-2885379	011-2885551
Rathnapura	Sabaragamuwa	49, Senanayake Mawatha, Rathnapura.	045-2233871/045-2233872	045-2225864
Saindamarudu	Eastern	MPCS Building, Main Street, Sainthamaruthu -09	067-2221655	067-2225366
Samanthurai	Eastern	25, Hijra Junction, Samanthurai.	067-2260955/067-2058394	067-2261394
Sea Street	Western	197, Sea Street, Colombo 11.	011-2385155/011-2334404	011-2434597
Tangalle	Southern	66, Thissa Road, Tangalle.	047-2241750/047-2244501	047-2241751
Thambuttegama	North Central	256, New Town, Thambuttegama.	025-2275146/025-2275147	025-2275567
Thissamaharama	Southern	34, Main Street, Thissamaharama.	047-2237942/047-4931676	047-2237360
Trincomalee	Eastern	275, Central Road, Trincomalee.	026-2222155/026-2060010	026-2226737
Valachchenai	Eastern	Opposite Market, Main Street, Valachchenai.	065-2059626/065-2059628	065-2059627
Vauniya	Northern	32/B, 2nd Cross Street, Vauniya.	024-2228175/024-2228176	024-2226955
Wadduwa	Western	534, Galle Road, Wadduwa	0382-282120/0382-282121	0382-282122
Warakapola	Sabaragamuwa	81, Kandy Road ,Warakapola.	035-2267267/035-2268268	035-2267788
Wattala	Western	17, Station Road , Hendala Junction, Wattala.	011-2933198/011-2982264	011-2933218
Welimada	Uva	51A, Nuwara Eliya Road, Welimada.	057-2246455/057-2244504	057-2244828
Wennappuwa	North Western	134, Colombo Putlam Road, Wennappuwa.	031-2245155/031-2252130	031-2253553

Gold Loan Centres

Centres	Province	Address	Telephone	Fax
Aluth Mawatha	Western	No.367/1, Aluth Mawatha, Colombo 15.	011-2528472	011-2528471
Attidiya	Western	269, 269/1, Main Street, Attidiya.	011-2732905/011-2732906	011-2736625
Baduraliya	Western	48, Rathnapura Road, Baduraliya.	034-2240851/034-2240852	034-2240853
Bandaragama	Western	No.04, Panadura Road, Bandaragama.	038-2289425/038-2289426	038-2289427
Beruwala	Western	175/A, Galle Road, Beruwala.	034-2298024/034-2298124	034-2298126
Borella	Western	54, D S Senanayake Mawatha, Colombo 08.	011-2669155/011-2678129	
Deans Road	Western	133, Deans Road, Maradana.	011-2694295/011-2682155	
Dehiwala 2	Western	124, Galle Road, Dehiwala.	011-2726078/011-2715448	011-2710156
Dematagoda	Western	551, Sri Wajiragnana Mawatha ,Colombo 09.	011-2675194/011-2675193	
Elakanda	Western	18, Elakanda Road, Hendala, Wattala.	011-2941166/011-2940243	
Ganemulla	Western	229, Kadawatha Road, Ganemulla.	033-2265866/033-2260042	033-2265766
Golumadama	Western	05, Kaldemulla Road, Moratuwa.	011-2623999/011-3010944	
Gothatuwa (IDH)	Western	52/17, Gothatuwa, New Town.	011-2411990/011-2411991	
Grandpass -Sulaiman	Western	47, Grandpass Road, Colombo 14.	011-2390155/011-2473522	
GrandPass-Kosgashandiya	Western	21, St. Joseph Street, Grandpass, Colombo 14.	011-4345368/011-2334416	011-2333892
Grandpass-Stadium	Western	395, Grandpass Road, Colombo 14.	011-2391155/011-2422610	
Hanwella	Western	24A, Main Street, Hanwella.	036-2252080/036-2252027	036-2252047
Jampattah	Western	66, Jampattah Street, Colombo 13.	011-2388155/011-2437270	
Kelaniya	Western	722, Waragoda Road, Vihara Junction, Kelaniya.	011-2908155/011-2911781	
Keselwatte	Western	18, Galle Road , Keselwatte, Panadura.	038-2299210/038-4281885	038-2297849
Kiribathgoda -Makola	Western	44, Makola Road, Kiribathgoda.	011-2914955	011-2914838
Kirulapana	Western	91, High Level Road, Colombo 06.	011-2512088/011-2512099	
Kolonnawa	Western	141A, Kolonnawa Road, Kolonnawa.	011-2572355/011-2026750	
Maharagama 2	Western	67 , Dehiwala Road, Maharagama.	011-2841455/011-2840137	011-2840136
Maligawatte	Western	157D, New Pradeepa Road, Maligawatte, Colombo 10	011-2698913/011-2698915	
Mattakkuliya	Western	7D/2, Sri Wickrama Mawatha, Mattakkuliya, Colombo 15	011-2527155/011-2520930	
Modera	Western	81, Modera Street, Colombo 15.	011-2526155/011-2520940	
Narahenpita	Western	239, Kirula Road, Narahenpita.	011-2369108	011-2369107
Negombo 2	Western	356, Main Street, Negombo.	011-2885378/011-2885379	011-2885551
Nittambuwa	Western	594/3, Kandy Road, Nittambuwa.	033-2294355/033-4934108	033-2297971
Ragama	Western	661/A, Thewatte Road, Ragama.	011-2953155/011-2960803	
Slave Island	Western	135, Malay Street, Colombo 02.	011-2300530/011-2303155	
Sri Sangaraja Mawatha	Western	259, Sri Sangaraja Mawatha, Colombo 10.	011-2334078/011-2334592	
Thihariya	Western	61/2, Kandy Road, Thihariya.	033-2293655/033-4678082	033-4678141
Thotalanga	Western	282, Nagalagam Street, Colombo 14.	011-2540155/011-2520885	
Wellawatte	Western	224, Galle Road, Wellawatte, Colombo 06.	011-2362115/011-2506951	011-2362745

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

GRI - 102-56

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- 2017/18

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- 2017/18 ("the Report").

» Reasonable assurance on the information on financial performance as specified on page 216 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 ("CASL").

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 19 March 2018. 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 CASL.

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.

» Reconciling and agreeing the data on financial performance which is properly derived from the Company's audited Financial Statements for the year ended 31 March 2018.

» 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 216 of the Report are properly derived from the audited Financial Statements of the Company for the year ended 31 March 2018.

» 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

Ernst + Young

Chartered Accountants

22 May 2018
Colombo

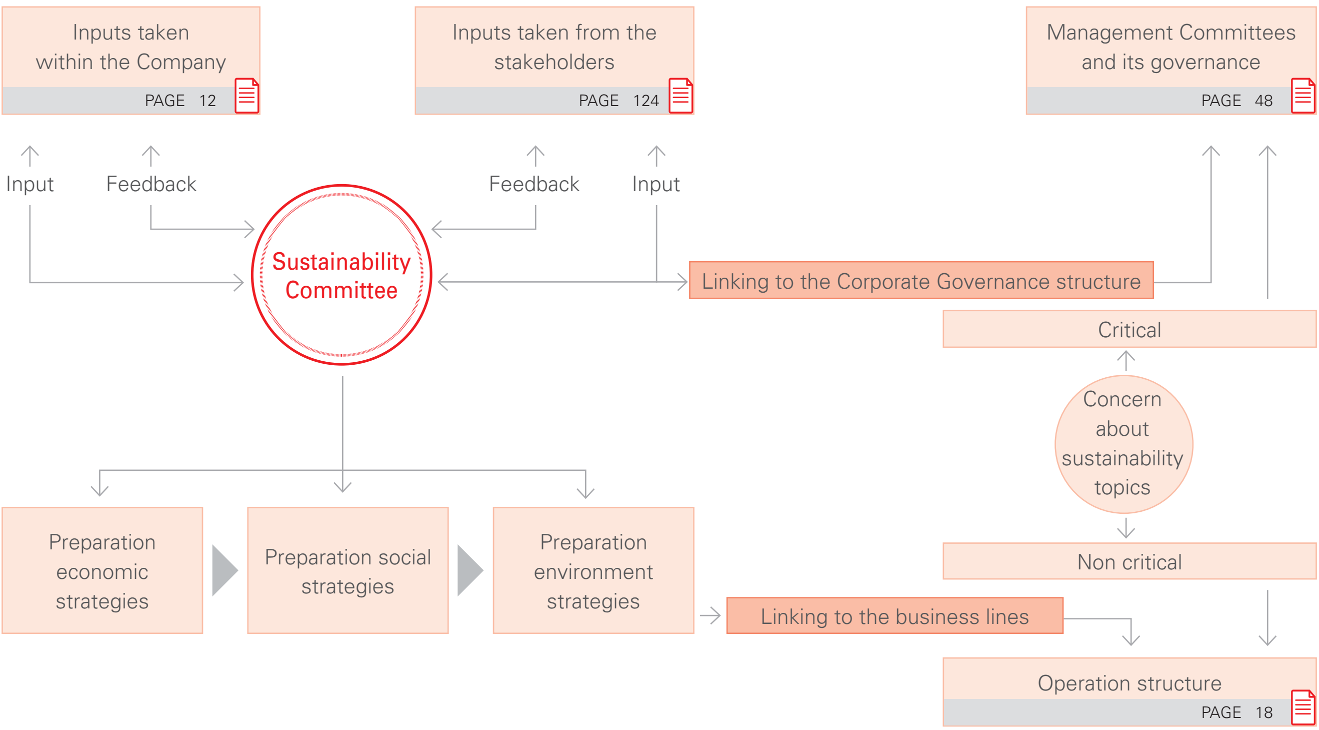
GRI - 102-18, 19,20 ,21, 29, 31, 33,

Sustainability Committee Review

CORPORATE GOVERNANCE - SUSTAINABILITY TOPICS

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.



Composition of Sustainability Committee Chaired by : Executive Director Assets Management

Representatives from:

» Risk department

» Treasury department

» Marketing department

» Credit department

» Finance department

» HR department

Responsibilities and reporting on sustainability impacts, challenges, risk and opportunities

» Economic context

Financial capital

PAGE 202

» Social context

Social and relationship capital

PAGE 264

» Environment context

Natural capital

PAGE 290

Risk assessment

Assessing and taking action against the risk arise based on their impact to the business, covering all the economic, social and environment aspects as whole.

PAGE 177

Monitoring, controlling the due diligence aspects

Assess, validate, report and review the sustainability aspects with compliance and due diligence

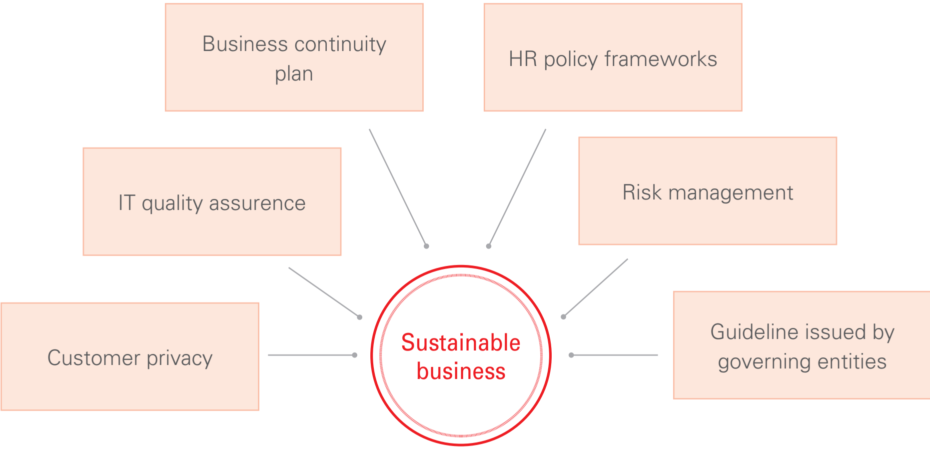
» Monthly

» Quarterly

» Annually

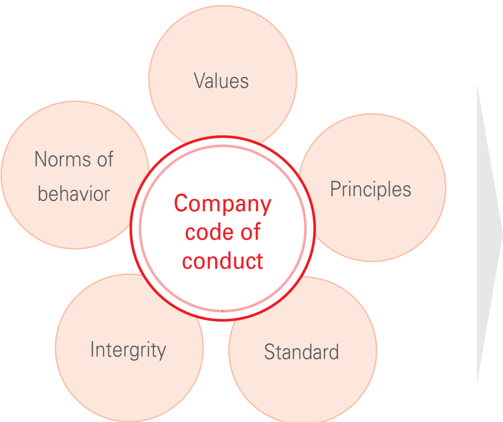
submiting a report to the Board of Directors

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

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 number	Remarks
Organisational profiles				
102-1	Name of the organistion	✓	444	
102-2	Activities, brands, products and services	✓	271, 275	
102-3	Location of headquarters	✓	444	
102-4	Location of operations	✓	12, 424-428	
102-5	Ownership and legal form	✓	13, 444	
102-6	Markets served	✓	12, 244, 424-428	
102-7	Scale of the organization	✓	13, 21, 22	
102-8	Information on employees and other workers	✓	258	
102-9	Supply chain	✓	276-277	
102-10	Significant changes to the organization and its supply chain	✓	276-277	
102-11	Precautionary principle or approach	✓	296	
102-12	External initiatives	✓	6	
102-13	Membership of associations	✓	444	
Strategy				
102-14	Statement from senior decision-maker	✓	29-31	
102-15	Key impacts, risks and opportunities	✓	127, 178-199	
Ethics and integrity				
102-16	Values, principles, standards and norms of behavior	✓	236, 433	
102-17	Mechanisms for advice and concerns about ethics	✓	236,433	
Governance				
102-18	Governance structure	✓	18, 19, 48, 432	
102-19	Delegating authority	✓	432	
102-20	Executive –level responsibility for economic, environmental and social topics	✓	432	
102-21	Consulting stakeholders on economic, environmental and social topics	✓	432	
102-22	Composition of the highest governance body and its committeees	✓	36-39, 444	
102-23	Chair of the highest governance body	✓	36	
102-24	Nominating and selecting the highest governance body	✓	86, 109	
102-25	Conflicts of interest	✓	Partially, 58, 59	
102-26	Role of highest governance body in setting purpose, values and strategy	✓	54-55	
102-27	Collective knowledge of highest governance body	✓	51	
102-28	Evaluating the highest governance body's performance	✓	87	
102-29	Identifying and managing economic, environmental and social impacts	✓	432	

GRI standard	Disclosure	External assurance provided	Page number	Remarks
102-30	Effectiveness of risk management processes	✓	112, 178-199	
102-31	Review of economic, environmental and social topics	✓	432	
102-32	Highest governance body's role in sustainability reporting	✓	5	
102-33	Communicating critical concerns	✓	432	
102-34	Nature and total number of critical concerns	✓	Partially, 91	
102-35	Remuneration policies		*	
102-36	Process for determining remuneration		*	
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	✓	124	
102-41	Collective bargaining agreements	✓	256, 258	
102-42	Identifying and selecting stakeholders	✓	124	
102-43	Approach to stakeholder engagement	✓	127-132	
102-44	Key topics and concerns raised	✓	127-132	
Reporting practice				
102-45	Entities included in the Consolidated Financial Statements	✓	13, 324	
102-46	Defining report content and topic boundaries	✓	133, 134	
102-47	List of material topics	✓	135-141	
102-48	Restatements of information	✓		None
102-49	Changes in reporting	✓		Material topics are changed during the year
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	✓	434-439	
102-56	External assurance	✓	5, 430	

Consolidated Set of GRI Sustainability Reporting Standards

GRI standard	Disclosure	External assurance provided	Page number	Remarks
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	✓	135, 141	
103-2	Implementation	✓	135, 141	
103-3	Performance	✓	135, 141	
201-1	Direct economic value generated and distributed	✓	216-217	
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	✓	260, 337	
201-4	Financial assistance received from government	✓		There is no direct or indirect financial assistance received from the government.
GRI 202: Market Presence				
103-1	MANAGEMENT APPROACH Create a stable and progressive financial environment, which renders high quality solutions, backed by superior technology and a customer-friendly service platform	✓	135	
103-2	Implementation	✓	135	
103-3	Performance	✓	135	
202-1	Ratios of standard entry level wage by gender compared to local minimum	✓	252*	
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 Initiate responsible stewardship and strategies that would transmit change through the social and economic parameters of the business operations	✓	141	
103-2	Implementation	✓	141	
103-3	Performance	✓	141	
203-1	Infrastructure investments and services supported	✓	280-289	
203-2	Significant indirect economic impacts	✓	280-289	

GRI standard	Disclosure	External assurance provided	Page number	Remarks
	GRI 300: Environment			
GRI 302: Energy				
103-1	MANAGEMENT APPROACH 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	✓	139	
103-2	Implementation	✓	139	
103-3	Performance	✓	139	
302-1	Energy consumption within the organization	✓	296	
302-2	Energy consumption outside of the organisation	✓		We are not consuming energy outside of the organization
302-3	Energy intensity	✓	297	
302-4	Reduction of energy consumption	✓	296	
302-5	Reductions in energy requirements of products and services	✓		Considering the nature of the business, this is not relevant for the organization
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	✓	139	
103-2	Implementation	✓	139	
103-3	Performance	✓	139	
305-1	Direct (Scope 1) GHG emissions	✓	301	
305-2	Energy indirect (Scope 2) GHG emissions	✓	301	
305-3	Other indirect (Scope 3) GHG emissions	✓	301	
305-4	GHG emissions intensity	✓	301	
305-5	Reduction of GHG emissions	✓	301	
305-6	Emissions of ozone-depleting substances (ODS)	✓	300	
305-7	Nitrogen oxides (NOX) sulfur oxides (SOX) and other significant air emissions	✓	300	
	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	✓	140	
103-2	Implementation	✓	140	
103-3	Performance	✓	140	
401-1	New employee hires and employee turnover	✓	259	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	✓	252	
401-3	Parental leave	✓	262	

Consolidated Set of GRI Sustainability Reporting Standards

GRI standard	Disclosure	External assurance provided	Page number	Remarks
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	✓	140	
103-2	Implementation	✓	140	
103-3	Performance	✓	140	
404-1	Average hours of training per year per employee	✓	261	
404-2	Programmes for upgrading employee skills and transition assistance programmes	✓	261	
404-3	Percentage of employees receiving regular performance and career development reviews	✓	253	
GRI 405: Diversity and equal opportunity				
103-1	MANAGEMENT APPROACH 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	✓	140	
103-2	Implementation	✓	140	
103-3	Performance	✓	140	
405-1	Diversity of governance bodies and employees	✓	258	
405-2	Ratio of basic salary and remuneration of women to men	✓	260	
GRI 413: Local communities				
103-1	MANAGEMENT APPROACH Working in tandem with global and local mandates that safeguard social responsibility and uphold community empowerment	✓	139	
103-2	Implementation	✓	139	
103-3	Performance	✓	139	
413-1	Operations with local community engagement, impact assessments and development programmes	✓	289	
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 standard	Disclosure	External assurance provided	Page number	Remarks
GRI 416: Customer health and safety				
103-1	MANAGEMENT APPROACH 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	✓	138	
103-2	Implementation	✓	138	
103-3	Performance	✓	138	
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 Seeking to demonstrate accountability and responsible stewardship towards all customers, which provides unwavering commitment to safeguard customer privacy	✓	138	
103-2	Implementation	✓	138	
103-3	Performance	✓	138	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	✓	270	

* Information cannot be disclosed - confidential information

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.

Glossary of Terms

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.

GRI - 102-1, 3, 5, 13, 22

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 re-registered 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 unsecured subordinated redeemable debentures redeemable in 2018 senior and subordinated unsecured, redeemable rated, debenture 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, micro finance, other credit facilities and value added services.

REGISTERED OFFICE
No. 275/75, OPA Building, Prof. Stanley Wijesundara Mawatha, Colombo 07. Tel: 011-2200000 Fax: 011-5345327

CORPORATE OFFICE
No. 20, Dharmapala Mawatha, Colombo 03 Tel: 011-2155000 Fax: 011-2575098

OUTLETS
Branches - 123
Gold loan centres - 36

*Non Executive Director as per the Finance Companies (Corporate Governance) Direction No.03 of 2008

WEBSITE
www.lbfinance.com

FINANCIAL YEAR END
31 March

CREDIT RATING
The Company has been assigned A- (lka) stable 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. J A S Sumith Adhihetty
(Managing Director)
Mr. Thosapala Hewage
(Independent Non-Executive Director)
Mr. Niroshan Udage (Executive Director)
Mr. B D A Perera (Executive Director)
Mr. Ravindra Shanaka Yatawara
(Executive Director)
Mrs. Anandhiy K. Gunawardhana
(Independent Non-Executive Director)
Mrs. Yogadinusha Bhaskaran
(Non-Executive Director)
Mr. M A J W Jayasekara
(Independent Non-Executive Director)*

AUDIT COMMITTEE
Mrs. Yogadinusha Bhaskaran (Chairperson)
Mrs. Anandhiy K Gunawardhana
Mr. M A J W Jayasekara

REMUNERATION COMMITTEE
Mrs. Anandhiy K Gunawardhana (Chairperson)
Mrs. Yogadinusha Bhaskaran
Mr. M A J W Jayasekara

NOMINATION COMMITTEE
Mr. Thosapala Hewage (Chairman)
Mrs. Anandhiy K. Gunawardhana
Mr. J A S Sumith Adhihetty

INTEGRATED RISK MANAGEMENT COMMITTEE
Mr. M A J W Jayasekara (Chairman)
Mrs. Anandhiy K Gunawardhana
Mr. J A S Sumith Adhihetty
Mr. Niroshan Udage
Mr. B D A Perera
Mr. Ravindra Shanaka Yatawara
Mr. Bimal Perera
Mr. Hasitha Athapattu
Mr. Udul Chandrasena
Ms. Zairaa Kaleel

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
BDO Partners
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

CORPORATE MEMBERSHIPS AND ASSOCIATIONS
The Finance Houses Association of Sri Lanka
Leasing Association of Sri Lanka
CSR Lanka (Guarantee) Limited
Lanka Business Coalition on HIV and Aids
Sri Lanka Business and Biodiversity
The Ombudsman Sri Lanka (Guarantee) Limited
Mercantile Cricket Association
Mercantile Football Association

SUBSIDIARY COMPANY
LB Microfinance Myanmar Company Ltd
(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 K D D Perera
Mr J A S S Adhihetty
Mr N Udage
Mr B D A Perera
Mr R S Yatawara
Mr Dulan R G de Silva

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Fifth (45th) 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 29th June 2018 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 31 March 2018 and the Report of the Auditors thereon.

2. To declare a Dividend as recommended by the Directors.

3. To re-elect Mrs. Shriani Jayasekara as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.

4. To re-elect Mr. Moderage Ashane Joseph Waas Jayasekara 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 31 March 2019 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

01 June 2018

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 27th June 2016.

Notes

Form of Proxy

I/We* …… (holder of NIC No. ....) of

………

shareholder/s of L B FINANCE PLC hereby appoint ……………………………………………………………………………………………………

(holder of NIC No. ....) of ………………………………………………………………………………………………… or failing him*

Mrs. Shirani Jayasekara	or failing her *
Mr. Dhammika Perera	or failing him*
Mr. John Anthony Sunil Sumith Adhihetty	or failing him*
Mr. Thosapala Hewage	or failing him*
Mr. Niroshan Udage	or failing him*
Mr. Biyawalage Dudley Auburn Perera	or failing him*
Mr. Ravindra Shanaka Yatawara	or failing him*
Mrs. Anandhiy Krisnajina Gunawardhana	or failing her *
Mrs. Yogadinusha Bhaskaran	or failing her*
Mr. Moderage Ashane Joseph Wass Jayasekara	

as my/our* proxy to represent me/us* and to vote as indicated hereunder for me/us* and on my/our* behalf at the Forty Fifth (45th) Annual General Meeting of the Company to be held on 29th June 2018 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. Shirani Jayasekara as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.	☐	☐
3. To re-elect Mr. Moderage Ashane Joseph Wass Jayasekara as a Director in terms of Article 92 of the Articles of Association of the Company.	☐	☐
4. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants as the Company's Auditors and authorize the Directors to determine their remuneration	☐	☐
5. To authorize the Directors to determine donations for the year ending 31 March 2019 up to the date of the next Annual General Meeting.	☐	☐

In witness my/our* hand this ……………… day of ………………… Two Thousand and Eighteen.

……………………………….
Signature of Shareholder/s

*Please delete what is inapplicable.

Form of Proxy

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 27th June 2018.

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.

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