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Trending Ahead

The many complexities of being in business in the financial services industry are truly intriguing.

On the one hand, there are a large number of players in a small market, making the industry a highly competitive one. On the other, with low returns on assets resulting from relatively lower net interest margins, players in the industry need to gear themselves up to operate with high volumes to generate an acceptable return on capital employed.

We grasped the reality that critical mass would be necessary for us to be truly successful and accordingly, shifted our overall strategy from one of being margin driven to one driven by volume.

At a time when financial products are commoditising faster than ever and financial intermediation is being circumvented, we have successfully differentiated our offering and remained relevant. With ever tightening regulations and the provision of financial services becoming a capital intensive industry, we maintain comfortable levels of capital to remain safe and stable. We are not daunted by the prospect of making mistakes and can clearly see opportunity in adversity.

We are very focused on a few goals and pursue them with every sinew over time. We have been constantly honing the behavioural reflexes essential to our success.

Our goals are well-defined and we plan well ahead. We know our priorities and clearly perceive that some tasks are more important than others...some more urgent than others...and some more relevant than others.

We are trending ahead... **to become the most respected and sought after creator of wealth in Sri Lanka.** In the process, we have made a difference in the lives of our stakeholders.

ABOUT US

L B Finance PLC (LBF) is a licensed finance company. It was incorporated in May 1971 as a private limited liability company and subsequently converted to a public limited liability company in 1982. The Company was listed on the Colombo Stock Exchange in 1998 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. 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.

LBF is a company in the Group of Vallibel One which is a diversified holding Company with strategic investments in financial services, tile and sanitary ware manufacturing and leisure.

Backed by a strong financial tradition of over 40 years, LBF offers a portfolio of financial solutions trusted widely by corporates, SMEs and individuals alike. As of 31st March 2014, the Company operated a network of 97 branches and 37 gold loan centres totalling to 134 outlets.

After the acquisition of the Company by Mr. Dhammika Perera, the business underwent a transformation with a new strategic direction and emphasis on profitability and long term value creation. Based on a solid growth strategy with focus on four main pillars viz. people, reach, technology and quality of service, LBF has now established itself as the undisputed trailblaser in the non-banking financial services industry. Company offers the customers an unmatched product spread coupled with an unparalleled service quality.

The public's immense confidence in the Company's dynamic and far-sighted conduct of business has propelled it to its dominant position in the market as business jumped to new highs on all fronts, from deposits to lending. Our activities will remain firmly focused as we continue to impress the business world with a refreshingly innovative and robust brand of financial stewardship.

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.

Values

- Excellence
- Ethics
- Professionalism
- Transparency
- Innovation
- Quality

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.



L B Finance is a carbon conscious company as certified by Sri Lanka Carbon Fund

ABOUT THIS REPORT

This integrated report communicates the story of our value creation over the short, medium and long term

OUR SECOND INTEGRATED ANNUAL REPORT

This is our second integrated Annual Report. In this Report, we have taken the concept of integrated reporting forward. Reflecting the embedding of sustainability into business and with a view to bridge the gap between financial reporting and sustainability reporting further, we have seamlessly integrated the chapter on sustainability with the rest of the Report. We believe that this integrated report communicates the story of our value creation over the short, medium and long term more coherently and concisely while demonstrating the relationships and interdependencies of the many aspects of our business such as strategy, governance, performance and prospects. It will provide the reader with a clear picture of our financial and operational performance during the year and the great potential that lies for the Company in the years ahead.

VALUE CREATION AND CAPITALS

The ability of the Company to create value for itself is inextricably linked to the value the Company creates for its stakeholders. This is the duality of our purpose, namely, deriving value and delivering value that leads to internal and external capital formation. Deriving value leads to formation of internal capital in the form of financial capital and institutional capital. Delivering value, on the other hand, leads to formation of external capital in the form of various stakeholders such as investors, customers, employees, business partners, Government institutions, society and environment. We take great care in nurturing and developing relationships with these stakeholders. It is in fact depiction of the value we place on them that we call them 'capitals' as it is these stakeholders that in turn help us derive value for the Company and make it sustainable.

In preparing this Report we have, where applicable, drawn on concepts, principles and guidance given in the following:

Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 (2013)
[www.globalreporting.org]

The International Integrated Reporting Framework (2013)
[www.theiirc.org]

Smart Integrated Reporting Methodology™
[www.smart.lk]

REPORT BOUNDARY

The information contained in this Report relates to the operations of L B Finance PLC. The Company operates only in Sri Lanka and does not have any subsidiaries, associates, joint ventures, overseas operations or other businesses for the purpose of reporting.

COMPLIANCE

This L B Finance Annual Report 2013/14 covers the 12-month period 1st April 2013 to 31st March 2014 and is consistent with our usual annual reporting cycle for financial and sustainability reporting.

The Company conducts its operations in compliance with all applicable laws, regulations and standards as well as guidelines for voluntary disclosures. Accordingly, Financial Statements audited by Messrs Ernst & Young have been prepared in accordance with Sri Lanka Accounting Standards comprising of Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) promulgated by The Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007. The environmental, social and governance information contained in this Report has been derived mainly from the factual records maintained by the Company using standard measurements and did not require assumptions or complex calculations.

As opposed to the use of GRI G3.1 Guidelines in the 2012/13 Annual Report, this report is in accordance with the core criteria of the GRI G4 Sustainability Reporting Guidelines. This has been externally assured by Messrs Ernst & Young. Apart from that, there are no restatements of information provided in the 2012/13 Report and no significant changes from previous reporting period in the scope and aspect boundaries.

QUERIES

We welcome your comments or questions on this Report.

You may contact:

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Corporate Office
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Colombo 3.

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STRATEGIC GOALS

Our overarching ambition is to be a major player in the financial services sector in Sri Lanka.

The Company has been on a growth trajectory in the past four years to achieve the following five strategic goals. In the current year 2014, we have been able to achieve two of them, viz. deposits and network. Although the Company was able to maintain below the industry average of 6.7%, non-performing loans rose during the year to 5.16% and hence, will require careful monitoring as well as strengthening of systems and processes to arrest and reverse the trend in the coming years. Even though our credit grew at a moderate pace the Company was ranked No. 2 in terms of total assets in 2013/14 compared to the third place the Company occupied last year and believe our growth strategies will help us to become the market leader in the years to come.

ASPECT	GOAL	ACHIEVEMENT 2013/14
Deposits	Maintain market leadership	Largest deposit base among the players in the NBF1 sector
Credit	Gain market leadership	Ranked No. 2 in terms of totals assets in the NBF1 sector
Shareholder value	Maintain ROE > 25%	ROE 23%
Non-performing loans	Maintain NPL Ratio < 5%	NPL Ratio 5.16%
Outlets	Operate with the largest network in the NBF1 sector	Ranked No. 1 with 134 outlets

HIGHLIGHTS OF THE YEAR

FINANCIAL HIGHLIGHTS

		2013/14	2012/13	CHANGE	
Operating Results					
Income	Rs. Mn.	13,628	11,368	19.88	%
Profit before taxation (PBT)	Rs. Mn.	1,868	2,526	(26.05)	%
Income tax expense	Rs. Mn.	528	824	(35.91)	%
Profit after taxation (PAT)	Rs. Mn.	1,340	1,702	(21.27)	%
Gross dividends	Rs. Mn.	450	450	-	
Financial Position					
Total assets	Rs. Mn.	60,814	54,222	12.16	%
Lending portfolio	Rs. Mn.	49,192	44,724	9.99	%
Deposits	Rs. Mn.	46,095	38,742	18.98	%
Borrowings	Rs. Mn.	6,899	8,610	(19.87)	%
Shareholders' funds	Rs. Mn.	6,206	5,328	16.48	%
Share Information					
Net assets value per share	Rs.	89.62	76.94	16.48	%
Earnings per share (EPS)	Rs.	19.35	24.58	(21.27)	%
Market price per share	Rs.	100.10	132.70	(24.57)	%
Price earnings ratio (PER)	Times	5.17	5.40	-	
Dividend per share (DPS)	Rs.	6.50	6.50	-	
Dividend cover	Times	2.98	3.78	-	
Dividend yield	%	6.49	4.90	159	bpts
Dividend payout ratio	%	33.59	26.45	714	bpts
Market capitalisation	Rs. Mn.	6,932	9,190	(24.57)	%
Compliance Ratios					
		Requirement			
Core capital ratio (Tier I)	>5%	%	12.34	14.02	(168) bpts
Total risk weighted capital ratio (Tier I & II)	>10%	%	17.50	15.40	210 bpts
Equity to deposits	>10%	%	13.46	13.75	(29) bpts
Liquid assets to deposits		%	15.22	14.14	108 bpts
Other Indicators					
Return on assets (ROA)		%	2.33	3.51	(118) bpts
Return on equity (ROE)		%	23.23	36.62	(1,339) bpts
Interest cover		Times	1.26	1.42	-
Net interest margin (NIM)		%	10.32	10.18	14 bpts
Non-performing loans ratio (NPL)		%	5.16	3.35	181 bpts

NON-FINANCIAL HIGHLIGHTS

INVESTORS

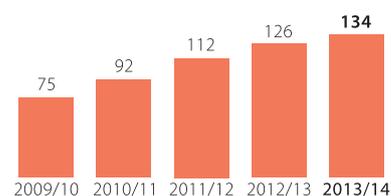
- Company Rating: **A-/P2 Stable** by RAM Ratings (Lanka) Limited
- Raised Rs. 2 Bn. Debentures, oversubscribed on the opening day

	Long Term	Short Term	Outlook
July 09	BBB	P3	Stable
November 10	BBB+	P2	Stable
July 11	BBB+	P2	Positive
November 11	A-	P2	Stable
Current Rating	A-	P2	Stable

CUSTOMERS

- **134** Outlets
- 25 Tailor-made Financial Solutions
- Recognised as the 'Best Retail Finance Company in Sri Lanka for 2013' by Global Banking and Finance Review, UK

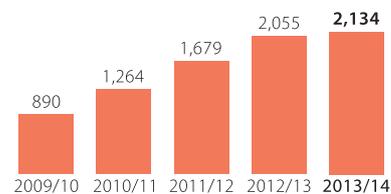
NO. OF OUTLETS



EMPLOYEES

- Staff Strength **2,134**
- No. of Training Programmes 106

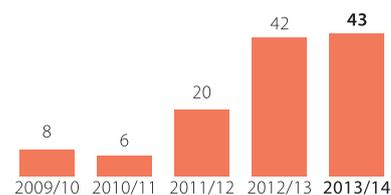
NO. OF EMPLOYEES



SOCIETY AND ENVIRONMENT

- Over **40** CSR Projects were Undertaken
- Cost incurred on CSR Projects Rs. 7.9 Mn.
- Carbon Conscious Company

NO. OF CSR PROJECTS



LETTER FROM THE CHAIRMAN



**OUR GROWTH STRATEGY
CONTINUED TO BE FOCUSED
ON FOUR MAIN PILLARS VIZ.
PEOPLE, REACH, TECHNOLOGY
AND QUALITY OF SERVICE**

Dear Shareholder,

Today, we have reached a pre-eminent position in the Non-Banking Financial Institutions (NBFIs) sector in Sri Lanka. Hence, it is with a sense of satisfaction that I present this Annual Report to you and invite you to the forty first Annual General Meeting of the Company. The financial sector in general and the NBFIs sector in particular faced several challenges during the year. Nevertheless, as has been the case over the past decade, the commitment of the Company to create value over the short, medium and long term through the adoption of sound policies, timely and focused strategies enabled us to stand in good stead.

STRENGTH IN ADVERSITY

The dramatic decline in gold prices during the year significantly affected the financial sector resulting in losses and impairment provisions on their gold loan portfolios. This coupled with the lower than anticipated credit demand caused an overall decline in the asset quality across the financial sector. The margins too came under pressure in the face of declining interest rates and the timing differences in re-pricing of assets and liabilities. Banking institutions were seen increasingly encroaching into some business lines that were conventionally offered by the NBFIs.

In such a challenging environment where many struggled to survive, we grew and did better while improving our productivity and efficiency across the business. We are stable and secure and have earned the confidence of our customers. As a result, today we have emerged the market leader in terms of deposits and the second largest in terms of the asset base among all NBFIs.

GLOBAL ECONOMY

The global economy continued to be in slow gear during the year, growing by 3.0% compared to the 3.1% growth in 2012. The US economy made a substantial contribution to the global growth. European Union economies too managed to report positive growth rates. Overall, advanced economies were picking up in terms of growth. Emerging economies on the other hand

somewhat slowed down from their peak growth rates in the recent past. However, it was heartening to note that strong signs of increased economic activity were seen towards the latter part of the year.

SRI LANKAN ECONOMY

Sri Lankan economy rebounded to a higher and sustainable growth trajectory with GDP growing at 7.3% compared to the 6.3% growth in 2012. All three sectors contributed to this growth. Prudent monetary policies enabled inflation to be maintained at single digit levels for the fifth consecutive year, which encouraged more productive investments. Policy measures that were introduced in 2012 to achieve macroeconomic stability were eased during the year. Interest rates continued to decline. Although the economy was expanding, due to the lag effect of the policy measures introduced in 2012, private sector resorting to borrowings from domestic and global capital markets and decline in gold advances, the financial sector did not experience the anticipated credit growth.

NBFI SECTOR AND REGULATORY DEVELOPMENTS

During the year, the Central Bank adopted several measures to build capacity and resilience of the non-banking financial institutions sector.

Key amongst these measures were the steps taken by the Central Bank to promote consolidation of the Licensed Finance Companies and Specialised Leasing Companies. We believe that the consolidation programme proposed by the Central Bank of Sri Lanka (CBSL) will strengthen the financial sector and steer the country towards continued financial system stability. The Company views it in a positive spirit as this can create robust financial institutions with strong regional presence.

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

Drop in the market prices of gold during 2012 led to a substantial increase in non-performing loans in the sector. This caused losses and increased provisioning and operational costs, negatively impacting the bottom line. Total amount of non-performing loans increased to 6.7% by end 2013 from 5% in 2012.

Collapse of a sector player too increased the challenges for the sector.

Competition in this segment has intensified with several bank and non-bank financial institutions foraying to the industry. The Company has continued to maintain a good competitive position.

PERFORMANCE

Our total income grew to Rs. 13,628 Mn. for the year compared to Rs. 11,368 Mn. reported for the previous year. It is noteworthy that the growth arose mainly from the core activities of our operations.

However, increase in losses of the gold loan portfolio, impairment provisions and increase in operational costs caused the profit before tax to decline to Rs. 1,868 Mn. from Rs. 2,526 Mn. reported for 2012/13. This brought down the profit for the year to Rs. 1,340 Mn. from Rs. 1,702 Mn. reported in 2012/13.

On the positive side, we managed to grow the business volumes. Reflecting customer confidence, the deposit base increased by 18.9% and reached Rs. 46,095 Mn. as at 31st March 2014. Lending portfolio grew at 9.9% and stood at Rs. 49,192 Mn. as at the year end.

The Board is recommending a final dividend of Rs. 6.50 per share, totaling to Rs. 450 Mn.

FOCUSED STRATEGY

In line with last year, our growth strategy continued to be focused on four main pillars viz. people, reach, technology and quality of service. Initiatives during the year under each of these strategies are amply detailed in the sections that follow. We will continue to reinforce and expand our market leadership position while focusing on product diversification.

GOVERNANCE AND RISK

The Board has consistently placed great importance on good governance practices as it is vital for the Company's well-being. The Board has adopted a comprehensive framework which has been designed properly to balance performance and conformance, enabling the Company to undertake risk taking activities in a prudent and an effective manner.

SUSTAINABILITY

For LBF, sustainability means building a successful business today, while creating enduring value for investors, customers, employees, business partners and the broader community. The LBF's sustainability strategic framework which is a part and parcel of the Company's corporate strategy has focused on several key initiatives that are detailed on page 22.

FUTURE

Looking ahead, the Sri Lankan economy is expected to continue its growth momentum in the medium term, underpinned by increased investment, improved macroeconomic stability and improving global economic conditions. GDP is projected to grow at 7.8% in 2014, which augurs well for the financial sector.

We are confident that we will continue to build on the strategic progress we have made since our transformation in 2003. We expect to operate in a low interest rate regime for sometime in to the near future. This coupled with the ongoing development initiatives will fuel demand for credit thereby helping us to take full advantage of the conducive economic environment.

Without deviating from our core business, we will further broaden and deepen our position getting even closer to the customer, identify their unmet needs and develop innovative products, thereby creating more value for the Company and for all its stakeholders alike. Banks getting into the business areas of finance companies also has made it necessary that NBFIs become innovative, competitive and aggressive in securing their market shares.

APPRECIATION

I would like to thank my colleagues on the Board for the support extended to me to make it another successful year for the Company. I would like to take this opportunity to show my sincere appreciation and gratitude to Mr. Sumith Adhietty, the Managing Director for his leadership and commitment. I would like to also thank our customers and shareholders for their continuing support. Finally, I would like to thank each and every member of the staff of the Company for their unstinted support.



Thosapala Hewage

Chairman

30th May 2014

MANAGING DIRECTOR'S REVIEW



WITH THE GROWTH IN BUSINESS VOLUMES, INCOME GREW FROM RS. 11,368 MN. IN 2012/13 TO RS. 13,628 MN. FOR THE YEAR UNDER REVIEW

A COMMENDABLE PERFORMANCE

would consider the performance for the year 2013/14 to be commendable. One has to view it in the context of the operating environment and the many challenges that the financial sector was confronted with. The single most factor that caused our profit for the year to be below that of 2012/13 and the slowdown in assets growth was the decline in gold prices and the attendant impacts. Nevertheless, with our holistic approach towards business, we viewed this more as an opportunity than a threat and growth momentum continued in all other aspects of our operations. Our aggressive marketing approach was certainly a differentiating factor that made the Company stand out of its competition and paid off good dividend during the year.

The Company continued to be managed conservatively with strong capital, high level of liquidity and robust provisioning. The Company remained well funded which has enabled it to continue supporting the customers, some of whom were finding the prevailing environment challenging.

In 2013, we shifted our overall strategy and business model from that of being margin driven to volume driven. This was done to build business volumes and thereby increase the top line. In retrospect, I can now state that this strategy has paid off handsomely with LBF securing the largest deposit base and the second largest asset base among all NBFIs in Sri Lanka as at 31st March 2014.

With savings deposits continuing to grow and the deposit renewal ratio too improving year after year, we are confident that we will be able to continue to build on the business volumes.

SRI LANKAN ECONOMY

Improved macroeconomic conditions, including low inflation, declining interest rates and the relatively stable exchange rates contributed to the Sri Lankan economy to rebound strongly in 2013 with an annual real GDP growth of 7.3%. Inflation,

which came close to double digits at the beginning of the year, declined gradually to reach mid-single digit levels reflecting the effect of prudent monetary policy measures as well as benign supply conditions. Reflecting continued investor confidence, net inflows to the Colombo Stock Exchange were sustained amidst volatility in global financial markets while the Government Securities market too witnessed significant capital inflows.

All three key sectors of the economy supported positively to economic growth in 2013. The Services sector remained the leading contributor with a growth of 6.4% during the year with the transport and communication subsector recording the highest contribution within the Services sector, followed by the wholesale and retail trade subsectors. The Industry sector recorded the highest sectoral growth of 9.9% during the year with the manufacturing subsector remaining the highest contributor to growth in the sector supported by the improvement in external demand. The construction subsector also recorded a high growth rate during the year. The growth in the Agriculture sector, which remained subdued in the first half of the year, improved during the second half registering 4.7% growth with increased production of many agricultural commodities.

Rupee liquidity in the money market remained high throughout 2013. The excess rupee liquidity during the year reflected the gradual easing of monetary conditions during the year. The absorption of foreign currency by the Central Bank from the domestic foreign exchange market following the issuance of international bonds by licensed banks and corporate debt and equity to foreign investors by the private sector, injected substantial amounts of rupee liquidity to the market. Hence, liquidity risk is not a major concern as the market is flourishing with liquidity.

OUR PERFORMANCE

Since a detailed review of our performance is given under Financial Capital on page 32, let me briefly refer to some salient features.

In line with the growth in business volumes, income grew from Rs. 11,368 Mn. in 2012/13 to Rs. 13,628 Mn. for the year. However, profit before tax failed to keep pace with the top line growth and dropped by 26.05% to Rs. 1,868 Mn. consequent to losses incurred on gold auctions, provision for impairment losses and increase in operating expenses. Profit for the year too followed suit and declined to Rs. 1,340 Mn. from Rs. 1,702 Mn. reported for the previous year.

Net interest margin improved marginally by 0.14% over the prior year to 10.32%. The Company's cost-to-income ratio improved to 41.29% in 2013/14 from 42.30% in 2012/13.

Albeit at a lower rate compared to 2012/13 due to lower demand for credit and the drop in gold loans, loans portfolio grew by 9.99% to Rs. 49,192 Mn. and deposit base grew by 18.98% to Rs. 46,095 Mn. As a result, total assets grew by 12.16% to Rs. 60,814 Mn.

Profitability in terms of Return on Assets and Return on Equity too decreased to 2.33% and 23.23% for the year from 3.51% and 36.62% respectively reported for the last year.

With the drastic drop in prices, gold related products became problematic. While most of the players were not keen to promote the product, having devised the necessary strategies we continued to actively promote it. As a prudent measure, the Company adopted a new pricing methodology in line with the gold price movements in the market. A detailed analysis in this regard is given in the Risk Management Report.

The NPL ratio (as per the Central Bank of Sri Lanka's direction) increased across the industry. This was partly due to the gold backed advances. We contained the rise in NPL through constant monitoring and focused recovery with a systematic process for all collections. At the close of the year, the NPL ratio rose to 5.16% (3.35% in 2012/13) as against the industry average of 6.7%.

The Company's funding requirements were mainly generated from deposits. Customer deposits now make up to 77.86% of our total funding requirements, as against the NBFI sector average of 47%. As a result, the Company managed to maintain the number one position in deposit mobilisation for the second consecutive year.

The amendment to the Withholding Tax legislation on debentures made the debt market more attractive. In order to mobilise medium term funding for lending, minimise interest rate risk and further strengthen the capital adequacy, the Company issued Rs. 2 Bn. Debentures in November 2013, which was oversubscribed on the opening day. This issue raised the total risk weighted capital adequacy ratio to 17.50% as at 31st March 2014 which was well above the minimum regulatory requirement. To take advantage of the excess Rupee liquidity in the market, LBF is formulating a more sustainable funding strategy with a view to reduce the maturity mismatches.

NEW PRODUCTS AND FEATURES

Our product portfolio keeps on evolving and is modified from time to time in order to cater to customers' ever-changing needs and to make L B Finance a 'One Stop Shop'. We are delighted that the new products we introduced over the past several years have been very successful.

Competing against the banks and the peers, the Company diversified its product portfolio by penetrating into the market which was traditionally untouched by the NBFI sector. As a result, we introduced new products 'Dirimaga' and personal loans and also added new features such as variable interest rates on certain other products, 'Ran Diriya', another new feature added to instalment based repayment plan for gold loans. The Company

is now focusing on long term lending. Housing loans is one such product launched with the intention of providing a roof for every family, where the tenure can go up to 20 years.

And, moving forward the Company is planning to introduce foreign currency accounts and also to facilitate money remittance.

GOVERNANCE AND RISK MANAGEMENT

Your Board has placed utmost emphasis on developing systems, procedures and structures to ensure integrity and transparency in all of Company's dealings and on making the best effort in achieving quality performance.

With the risk management systems that we have devised, we were able to successfully address various risks and challenges that arose during the year. For instance, on page 133 we have detailed as to how we handled the risks that arose in relation to the gold loan portfolio consequent to the drop in gold prices and how we geared ourselves to continue the business.

'ONE STOP SHOP'

With 134 outlets, our network is already one of the widest in the NBFIs sector. We will continue to build it through further expansion. This expansion will be focused on strengthening our reach across the nation and being able to deliver our products and services to your doorstep. We in fact have plans to open a branch in every city to deliver the highest level of convenience to the customers. We introduced the concept of 'Premier Centres' during the year in order to add value for the services provided to our valued customer base. Our outlets follow a concept of a 'One Stop Shop' that meets diverse financial requirements of a customer. The branch network is an invaluable asset which is another differentiating factor of the Company and will come in handy for some of the products and services we are planning to launch shortly.

AWARDS

The Company's pre-eminent position in the NBFIs sector and its commitment to financial reporting were acknowledged at various forums.

The Company was awarded the Best Retail Finance Company in Sri Lanka by Global Banking & Finance Review in 2013. This was awarded after evaluation of the Company's overall performance, innovations, sustainable expansion, risk policies, operational strategies and overall strength in assets and profitability.

Our Annual Report for 2012/13 was awarded the Silver at the Annual Report Awards competition organized by The Institute of Chartered Accountants of Sri Lanka in December 2013.

SUSTAINABILITY OF OUR OPERATIONS

We have embedded sustainability into our business and have taken several key initiatives to ensure enhancing our value creation in the short, medium and long term for the benefit of all the stakeholders. These include conducting business practices with transparency and accountability, being responsible for the products and services we offer and offering it with the highest level of customer satisfaction, attracting and retaining the best talent in the industry while continuing to invest in their development and creating a diverse, safe and rewarding workplace, developing a model for community engagement in order to make a difference in the communities where we have a presence while partnering with them to strengthen our relationships and being responsible towards the environment and preserving it to ensure long term sustainability.

FINANCIAL SECTOR CONSOLIDATION

We are quite positive about the recent CBSL proposals for the consolidation of the Financial sector. We believe diversification into new business sectors and exploiting new and under developed market segments always help the Company to reap benefits in terms of volume, sustainability, expansion coupled with a solid foundation.

FOUR PILLARS OF GROWTH STRATEGY

Our growth strategy will continue to be based on the four main pillars; People, Reach, Technology and Quality of service.

PEOPLE

Our people form an essential and core part of the business. We will continue to invest in them and strengthen our retention process. We will continue to actively build a culture based on the highest level of integrity, collaboration, individual and collective accountability and pride in the Company. In recent years as competition has intensified retention of good trained staff has become challenging. We will continue to recruit talent as required to enhance our team that work with harmony and sharply aligned with our strategic direction. But more importantly, we will invest to develop our people through enhanced talent programmes, by developing their skills through a learning culture thereby rewarding performance in its pursuit of excellence.

REACH

One of the essential elements of providing customer convenience is reach. In order to bring our products and services to the customers' doorstep, we will continue to expand our outlets as well as alternative channels. Customers in general and the younger generation in particular are becoming savvy of information and communication technology based alternative channels such as web and mobile solutions. We are cognisant of these developments which will be factored into our decisions relating to the expansion of our reach, products and services.

TECHNOLOGY

We are constantly exploring further innovative ways to use the IT platform to provide more innovative products and a superior service to customers. Over the years, LBF has been able to go in line with the rapid technological advancements, thereby, to provide a constant and consistent service to the growing customer base. State of the art features have been implemented allowing customers to rapidly connect with our marketing officers even if they are located in rural and remote areas. During the year, Company introduced a new gold loan management system that is fully integrated with the current e-financials system.

QUALITY OF SERVICE

Another essential element in providing convenience to customers is the quality of service, which is in fact a combination of several factors such as benchmarked service standards, streamlined internal systems and processes, ambience of the outlets and so on. We are devoting considerable management time and attention to enhance the overall customer experience and the ease of doing business through which we will develop long lasting mutually beneficial relationships.

WORDS OF APPRECIATION

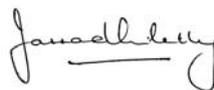
The tremendous progress we have made in the past and the results we are reporting here today is a collective endeavour and would not have been possible without the enormous support of our stakeholders.

I am grateful to the Chairman and my colleagues on the Board for their invaluable contribution. My special appreciation goes to Mr. Dhammika Perera who continuously supported and guided us steadfastly from the beginning.

I appreciate the contribution of the Executive Directors Mr. Niroshan Udage and Mr. March Perera. I would like to thank my management team and our staff for embracing our vision, mission and values and contributing their utmost talent and dedication to the advancement of the Company.

I thank our customers and investors for their loyalty and confidence in L B Finance without which we would not be in the enviable position we are in today.

I look forward to reporting further progress as we continue to create value for all our stakeholders.



Sumith Adhietty
Managing Director

30th May 2014



Locked in and Focused

Our goals are clearly defined...and we are locked in tightly to their attainment. Staying focused is the best way to navigate through the intricacies of a highly competitive environment...and move ever forward.

OPERATING ENVIRONMENT

GLOBAL ECONOMY

Despite strong signs of increased economic activity towards the latter part of the year, the global economy grew at a slower pace of 3.0% during the year compared to 3.1% in 2012. Aided by domestic demand, softer financial market conditions and improving consumer and business confidence, clear signs of advanced economies picking up were seen in the second half of the year. Some emerging economies on the other hand slowed due to weaker domestic demand and tighter financial conditions.

Global financial system is undergoing a series of transitions, as advanced economies endeavour to move towards a safer financial sector, while emerging markets face the risk of transitioning into more volatile external conditions and higher risk premiums. Foreign exchange markets experienced heightened volatility in some currencies during 2013, a year dominated by expectations of changing monetary policy around the globe. Inflation however remained subdued in advanced as well as most of the emerging economies.

With the strong signs of improvement seen in the global economic outlook in the second half of 2013, global growth is projected to increase to 3.7% in 2014 and to 3.9% in 2015.

SRI LANKAN ECONOMY

With contribution from all three major sectors making the growth broad based, Sri Lankan economy rebounded with a GDP growth of 7.3% as against the 6.3% growth reported in 2012.

Low inflation, favourable weather conditions and gradual recovery in external demand were some of the factors that made the environment conducive for growth. Recovery in export markets led to an improvement in the Balance of Payment and enabled build up of official reserves and stability of the exchange rate. Accordingly, Sri Lankan Rupee depreciated only by 2.75% against the US Dollar during the year while appreciating against several other major currencies.

Macro economic stability coupled with low inflation made it possible for the Central Bank to further relax monetary policy to spur economic activity. Overall policy interest rates were reduced by 100 basis points during the year and the market remained liquid. The reduction in policy rates and the excess liquidity in the money market facilitated the downward adjustment in market interest rates during the year. Accordingly, Average Weighted Lending Rate (AWLR) declined by 80 bpts while Average Weighted Deposit Rate (AWDR) and Average Weighted Fixed Deposit Rate (AWFDR) declined by 73 bpts and 143 bpts respectively.

Workers' remittances too continued to increase with a more diversified migration profile.

While fiscal policy measures were focused on promoting sustainable and regionally balanced growth in the medium term, continued efforts at fiscal consolidation resulted in gradual improvements in key fiscal indicators such as recurrent expenditure as a percentage of GDP and fiscal deficit as a percentage of GDP.

Activity levels in the corporate debt market improved significantly. Foreign inflows to the stock market and Government Securities market continued. Insurance sector too recorded overall growth.

Looking ahead, the Sri Lankan economy is expected to continue its growth momentum in the medium term underpinned by increased investment, improved macro economic stability and improving global economic conditions. With prudent forward looking monetary policy decisions, supported by improved domestic supply conditions and productivity, inflation is expected to consolidate further at mid single digit levels in the medium term thereby supporting continued economic and price stability.

Source: CBSL Annual Report 2013

FINANCIAL SECTOR

The banking sector as well as finance and leasing companies sector continued to be sound proving a conducive environment for the growth of the economy. Assets of banks, finance companies, leasing companies and insurance companies increased while their branch network expanded, enhancing access to financial sector and promoting inclusive growth.

Composition, reach and the total assets of the categories of players as at 31st December 2013 are given in the table below:

CATEGORY	NO. OF PLAYERS	NO. OF BRANCHES AND OUTLETS	TOTAL ASSETS (RS. BN.)
Licensed Commercial Banks	24	5,667	5,022
Licensed Specialised Banks	9	820	919
Licensed Finance Companies	48	950	653
Specialised Leasing Companies	10	110	64
Insurance Companies	21	1,354	360
Total	112	8,901	7,018

Source: CBSL Annual Report 2013

Strong capital and liquidity buffers and sound risk management practices ensured that the financial sector remained resilient during the year although non performing pawning advances affected the asset quality. 2013 saw regulatory and supervisory regime being further strengthened. These measures included implementation of the supervisory review process for banks in accordance with the Basel II Capital Accord and enhancement of disclosure requirements. Directions were issued to the NBFIs sector to seek prior approval of the Central Bank for writing off accommodations to related parties.

A supervisory framework was also introduced in respect of the debt instruments issued by finance companies. With a view to build capacity of the NBFIs sector to facilitate expansion of

economic activity as well as to strengthen its ability to manage and absorb risks, Central Bank took several measures that included steps taken to promote consolidation.

As a result of the lag effect of the tight monetary policy measures in 2012, increased access to domestic and global capital markets by the private sector and a sharp decline in agriculture and personal consumption related pawning advances; financial sector did not experience the anticipated credit demand.

Total assets of the financial sector grew mainly as a result of investments. Branch network expanded, particularly outside the Western Province, improved access to finance and financial inclusiveness.

ORGANISATIONAL PROFILE

L B FINANCE - A LEADING NBF

L B Finance PLC is a leading non-banking financial institution (NBFI) in Sri Lanka today. NBFI sector represented by Licensed Finance Companies and Specialised Leasing Companies plays a vital role in the Sri Lankan economy, catering to the financial requirements of small and medium enterprises. There were 58 institutions in this sector by end 2013 with 1,060 branches and assets totalling to Rs. 717 Bn.

LBF has been able to consistently expand its operations, charting strong growth in recent years, it possessed the largest deposit base and the second largest asset base among all NBFIs by end 2013. As at 31st March 2014, L B Finance operated 134 outlets covering all nine provinces.

With long term and short term financial institution ratings of A-/P2 respectively with a stable outlook from RAM Ratings (Lanka) Limited for the third consecutive year, L B Finance continues to be among the highest-rated non-banking financial institutions in the country. As at 31st March 2014 our staff strength was 2,134.

MAIN BUSINESS ACTIVITIES AND BUSINESS SEGMENTS

As a player in the financial services industry, LBF is primarily in the business of lending and investments on the asset side and mobilising funding requirements through deposits and borrowings. Main lending products include leasing, hire purchase, gold loans, vehicle loans, mortgage loans, factoring and Islamic finance while funding requirements were mainly met through public deposits in the form of fixed and savings deposits.

LBF's business segments are organised by product lines. There are two broad categories of product lines, each headed by a member of the Corporate Management Team.

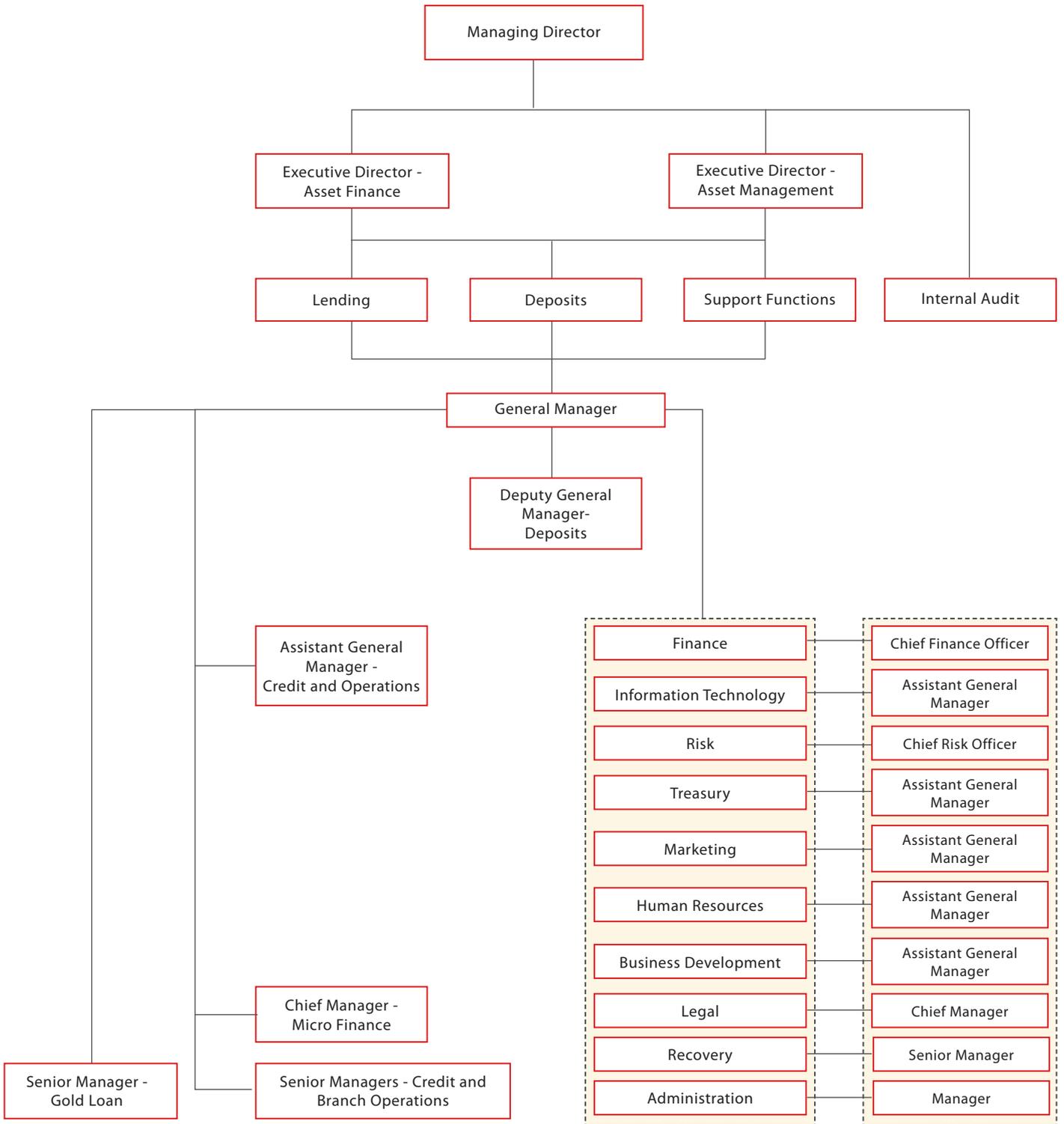
LENDING

Lending expansion strategy was focused on volume driven growth while ensuring that the quality of the portfolio was maintained at acceptable levels. The lending strategy went beyond income generation for the Company but was also an engine for developing and creating wealth for individuals and the betterment of community as a whole.

DEPOSITS

Deposit products form the primary funding source for the Company. Mobilising and maintaining a healthy deposit base is critical for further expansion and growth. To date the strength of our brand and market confidence has helped us mobilise the largest deposit base among the licensed finance companies. The two business lines were ably supported by specialised cross functional business support units, finance, treasury, information technology, risk, human resources and administration, recovery, marketing and legal.

OPERATING STRUCTURE



OUR STRATEGY

In the process of offering lending, deposits and value added services as its main products, we are exposed to several macro economic challenges such as; inflation, interest rate fluctuations, market liquidity, foreign exchange rates etc. The Company takes efforts to successfully overcome these challenges through responsible business practices, industry expertise and innovative thinking to develop our business sustainably. Furthermore, the Company engages in its business operations through continuous dialogue with stakeholders and social commitment based on a clearly laid out strategy.

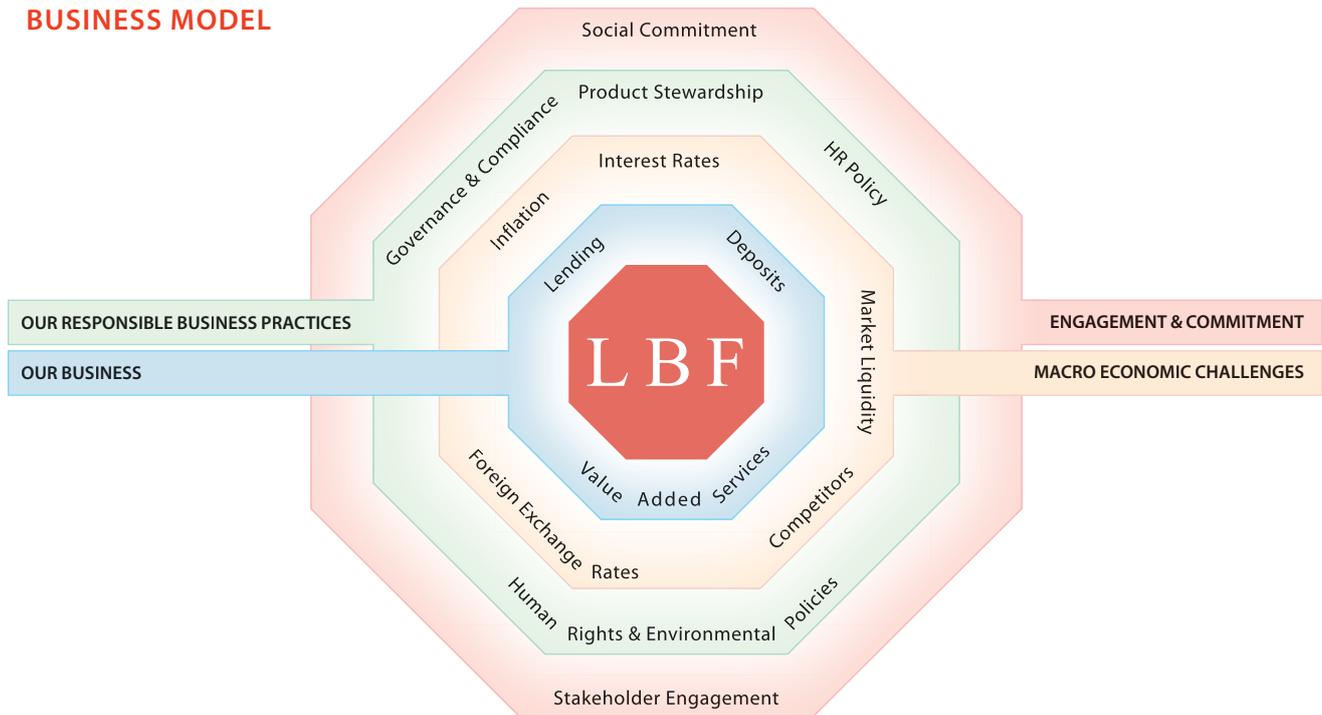
Our strategy is based on reaching out to the stakeholders to identify their needs and address them differentiating us from other players. We focused on delivering market-beating sustainable value by serving our stakeholders; customers, employees, investors, suppliers and regulators through first class, on-the-ground operations. We expect our relationships to become deeper and add more value as we embrace responsiveness to a fine art and integrate it into all aspects of

our business operations to orchestrate a carefully co-ordinated solution that is relevant to the circumstances. This process will facilitate a lean business model that will benefit all stakeholders through ease of transacting and enhanced opportunities for value creation.

CUSTOMERS

We are committed to knowing our customer which enables us to provide unparalleled convenience in terms of the widest reach, entire spectrum of products and services, benchmarked service standards and streamlined internal processes. This approach has helped us in building businesses across the nation as evident from our successful track record. We are not merely a business solution provider; we take keen interest in community affairs and attempt to make changes in the lives of communities around our branch network. Plans have been drawn up to further diversify into new business sectors thereby exploiting new and under developed market segments.

BUSINESS MODEL



EMPLOYEES

Given that it is the employees that will execute the strategies which have been developed by the Board and the leadership team, we afford utmost importance to developing a rewarding work environment. Apart from remuneration and other monetary benefits, this requires training and development, ensuring work-life balance, career progression and team building. These initiatives have helped us to build a team who are passionate about the Company and its strategies, one of our key differentiators.

REGULATORS AND LEGISLATORS

As a player in the financial services industry, we have a strong compliance culture that pervades across the organisation. Staff at all levels have been made aware of the need to play by the rules. We respect regulators and legislators for their efforts to maintain financial system stability and ensure full compliance with their directions, determinations, rules and regulations to the letter and spirit.

SUPPLIERS

In order to balance the increasing pressures for containing costs and making the operation efficient on one hand and building mutually beneficial relationships on the other hand, we adopt best practices with regard to our suppliers. These relate to developing user requirements for material and services, supplier screening and selection, quality assessment, ongoing monitoring and control and ethical business practices etc.

INVESTORS

Our bounden duty to create value for the investors is pivotal to everything we do. We stay in touch with them through various means of engagement and update them periodically with the required information. Our strategies encompass economic, social and environmental aspects and help creating value sustainably.

SOCIETY AND ENVIRONMENT

It is a reality that our operations and the social and environmental expectations are highly interdependent. In that context, a sound understanding of this interdependency is essential for us to thrive. We have factored this into our business strategy with a view to ensure that we are in harmony with the society and environment.

SUSTAINABILITY GOALS AND PROGRESS

GOALS IDENTIFIED IN 2012/13	PROGRESS MADE IN 2013/14	INITIATIVES FOR THE FUTURE
Enhance customer reach through new channels and products	Carried out customer surveys to identify changing customer needs. Added new features to existing products whilst also introducing new products.	Continue to develop new products in order to better serve changing customer needs and to enhance the level of customer loyalty and contentment. LBF is also planning to open new branches in order to expand its customer reach.
Improve engagement with stakeholders	We have successfully completed most of the requirements as per the AA1000 Stakeholder Engagement Standard. However, our stakeholder engagement plan is yet to be properly documented. Therefore, we believe that there is some way to go yet, to achieve a higher level of adherence with regard to a fully functional stakeholder engagement process and the documentation of the process.	Planning to develop and document a fully-fledged stakeholder engagement process in accordance with the AA1000 Stakeholder Engagement Standard.

GOALS IDENTIFIED IN 2012/13	PROGRESS MADE IN 2013/14	INITIATIVES FOR THE FUTURE
Focus on product differentiation	Product differentiation with new features of products as well as introduction of new products such as <i>Dirimaga</i> , Rent a car, Personal Loans.	To fully operationalise the new products and services developed during 2013/14.
Maintaining customer loyalty	Carried out customer satisfaction surveys in several regions and mystery shopper visits.	Developing products and corresponding value added services aided by constant monitoring and follow-ups on customer requirements and industry trends.
Comply with industry standards and practices	LBF ensures that it is in full compliance with the relevant rules and regulations imposed by the CBSL and other relevant authorities.	Continuous conformance with regulatory requirements as well as industry standards and best practices.
Need based training and development	Provided training to enhance productivity, skills and staff relations of employees.	Constant monitoring in order to identify training needs of employees and addressing them by organising training and development programmes as and when necessary in order to encourage career and personality development of employees while rewarding effort.
Adoption of greener practices wherever possible	LBF provides training opportunities for undergraduates	Company is planning to increase the number of interns hired to 50 in 2014/15.
	Head office and the corporate office follow a 'reuse and recycle' policy regarding paper.	Continuous follow up on energy conserving methodologies and waste management through reuse and recycling.
	An e-waste management policy is in place.	Encouraging enhancement of waste management practices among the staff. Expecting to reduce energy consumption in the corporate office by 10% during the next financial year.
	An energy audit was carried out during the year as a first step to promoting efficient use of energy in the corporate office.	Moreover, LBF continues to follow energy saving methodologies as part of its business practices.
	A project was carried out to distribute plants among employees in the corporate office.	Planning to distribute 100,000 plants.
Training and development on sustainability issues	An assessment was carried out to measure the Company's contribution towards carbon footprint.	LBF will continue to monitor and follow up on its process towards being a carbon neutral company.
	Training three wheeler drivers for a more professional job while making them acceptable individuals in the society.	Planning to carry out seminars island-wide as a continuation of this programme.
	Organising a series of programmes on environmental preservation island-wide.	Initiating 'L B Conservation', which is LBF's next step in a continuous journey to enhance environmental preservation.
	Emphasis on CSR activities carried out by business organisations.	Initiating more CSR activities in order to improve health care, education and social awareness aspects.

STAKEHOLDERS

We have identified our key stakeholders on the basis of those who may be significantly affected by our decisions and actions and those whose actions may affect our ability to create value in the short, medium and long term. Accordingly, we have identified the following six as the most important stakeholders that we need to constantly engage with:

- Investors
- Customers
- Employees
- Business partners
- Government institutions and regulators and
- Society and environment

All the stakeholders we have identified have expressed an interest in our economic, social and environmental performance. Accordingly, we believe that it is of utmost importance to build a reliable and long standing relationships with them and the sustainability of our performance will be driven by our ability to create shared value for them.

PROCESS



STAKEHOLDER ENGAGEMENT

We reach out to the stakeholders and engage with them in an ongoing dialogue to exchange their views. These consultations help us to deepen our insights into the ‘drivers’ of our business and their needs and enable us to address their changing needs effectively through innovation, management of risk as well as process and system improvements. Furthermore, this enables LBF to identify existing issues, market trends and opportunities through which we can improve our performance and also address all stakeholders’ expectations efficiently and effectively. Stakeholder engagement is the first step in deciding the strategies to meet stakeholder expectations.

STAKEHOLDER ENGAGEMENT MECHANISM

The following table captures stakeholder engagement mechanism, the needs and concerns identified through various engagement modes and the methods used by the Company to cater to those needs and concerns:

STAKEHOLDER	ENGAGEMENT METHODS	FREQUENCY OF ENGAGEMENT	NEEDS IDENTIFIED	METHODS UTILISED TO ADDRESS
Employees	Regional conferences	Monthly	Reward and recognition	Training sessions
	Review meetings for branch managers	Monthly	Work life balance	Introduction of various clubs for work life balance
	Internal news letters	As and when necessary	Career development	Performance-related incentive schemes
	E-mails on operational updates	Daily	Competitive remuneration	
	Satisfaction surveys	Annually	Whistle -blowing mechanism	
	Company web portal	Continuous		
	Intranet	Continuous		
	Special events such as, employee get-togethers, sports and art competitions, etc.	As and when necessary		
Open door policy	Continuous			
Customers	Customer satisfaction surveys	Continuous	Wealth creation	Door-to-door service
	Field visits	As and when necessary	Financial inclusion	Enhanced accessibility
	Corporate website	Continuous	Excellent customer service	Introduction of new features and new products
	Media advertisements	As and when necessary	Ease of transacting	
	Customer queries	Continuous	Ethical business practices	
	Customer relationship officers	Continuous		
	Mystery shopper visits	Continuous		
	Telephone surveys	Continuous		
General public comments	Continuous			
Investors	Annual Report	Annually	Maximize shareholder wealth	Addressing concerns of shareholders and prospective shareholders
	Annual General Meeting	Annually	Good governance	
	Extraordinary General Meetings	As and when necessary	Brand building	
	Interim Financial Statements in the three main languages in the country	Quarterly	Building a sustainable organisation	
	Corporate website	Continuous		
	Press conference and media release	Continuous		
	Announcements made to the CSE	As and when necessary		
Suppliers and business partners	Regular meetings	As and when necessary	Timely payments	Continuous supplier get-togethers
	Field visits	As and when necessary	Business growth	Signing of MOUs with suppliers
	Supplier events	As and when necessary	Ethical sourcing policies	'Riya Pola'
	Communication through dedicated staff members	As and when necessary	Information	
			Strategic partnerships	

STAKEHOLDER	ENGAGEMENT METHODS	FREQUENCY OF ENGAGEMENT	NEEDS IDENTIFIED	METHODS UTILISED TO ADDRESS
Regulatory authorities and Government	Discussions and meetings	As and when necessary	Compliance	Ongoing dialogues
	Periodic disclosures	As and when necessary	Contribution to economic growth and stability	Timely reporting
	Advisory meetings	As and when necessary	Good governance	
	Training provided	As and when necessary	Support for financial reforms	
	Awards	As and when necessary		
Community	Workshops	As and when necessary	Employee participation in local community projects	CSR activities
	Press conferences and press releases	As and when necessary	Contribution towards economic development and well-being of the society	Financial inclusiveness <i>e.g. : Ran Mithuru, Dirimaga</i>
	Public events	As and when necessary	Minimising the negative impacts towards the environment and society	
	Sponsorships	As and when necessary	Ethical business practices	
	Corporate website	Continuous		
	CSR events	Continuous		
	Community surveys	Continuous		
Competitors	Memberships in industry associations	Continuous	Information	Fair competition
	Corporate website	Continuous	Market development	Ethical business practices
	Annual Report and quarterly Financial statements	Annually and quarterly		
	Advertisements	As and when necessary		
	Industry forums	As and when necessary		

Through these engagements, L B Finance has developed a broad understanding of the various needs of the stakeholders. This understanding has well-positioned us to develop products that provide effective response to customers in meeting their pressing financial needs while helping us to grow our business in the interest of all stakeholders.

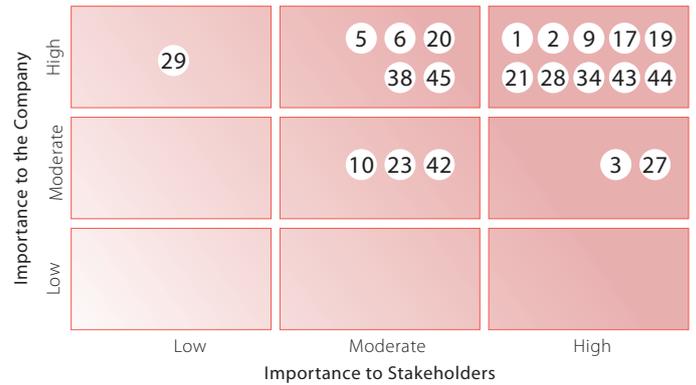
MATERIALITY

In order to focus our efforts on material aspects that have a direct or indirect impact on our ability to create value, we mapped our material issues on the basis of their impact on the business activities and importance to the stakeholders. (Based on the guidance provided in GRI G4)

ASPECT	MATERIALITY TEST									
	SUSTAINABILITY IMPACTS, RISKS OR OPPORTUNITIES IDENTIFIED	SUSTAINABILITY INTERESTS & TOPICS AND INDICATORS RAISED BY STAKEHOLDERS	FUTURE CHALLENGES IDENTIFIED FOR THE SECTOR	RELEVANT LAWS, REGULATIONS, AGREEMENTS WITH STRATEGIC SIGNIFICANCE	KEY ORGANISATIONAL VALUES, POLICIES, STRATEGIES, SYSTEMS, GOALS AND TARGETS	INTERESTS AND EXPECTATIONS OF STAKEHOLDERS	SIGNIFICANT RISKS	CRITICAL SUCCESS FACTORS	CORE COMPETENCIES OF THE ORGANISATION	MATERIAL ASPECTS AND INDICATORS
Economic										
1	Economic Performance	✓	✓			✓	✓		✓	✓
2	Market Presence		✓			✓	✓		✓	
3	Indirect Economic Impacts	✓		✓		✓				
4	Procurement Practices									
Environment										
5	Materials	✓		✓		✓	✓			
6	Energy		✓	✓		✓	✓			
7	Water		✓	✓		✓	✓			
8	Biodiversity									
9	Emissions	✓	✓	✓	✓					
10	Effluents and Waste		✓							
11	Products and Services					✓	✓			
12	Compliance				✓		✓			
13	Transport									
14	Overall		✓	✓						
15	Supplier Environmental Assessment									
16	Environmental Grievance Mechanisms									
Social: Labour Practices and Decent Work										
17	Employment	✓	✓	✓	✓			✓	✓	
18	Labour/Management Relations									
19	Training and Education	✓	✓	✓	✓	✓				
20	Diversity and Equal Opportunity	✓	✓	✓	✓	✓				
21	Equal Remuneration for Women and Men	✓	✓	✓	✓	✓				
22	Supplier Assessment for Labour Practices									
23	Labour Practices Grievance Mechanisms	✓	✓	✓	✓		✓			
Social: Human Rights										
24	Investment									
25	Non-discrimination		✓	✓		✓				
26	Freedom of Association and Collective Bargaining									
27	Child Labour		✓	✓		✓				
28	Forced or Compulsory Labour		✓			✓				
29	Security Practices		✓			✓				
30	Indigenous Rights									
31	Assessment									
32	Supplier Human Rights Assessment									
33	Human Rights Grievance Mechanisms									
Social: Society										
34	Local Communities	✓	✓	✓	✓					
35	Anti-corruption									
36	Public Policy									
37	Anti-competitive Behaviour									
38	Compliance		✓		✓		✓			
39	Supplier Assessment for Impacts on Society									
40	Grievance Mechanisms for Impacts on Society									
Social: Product Responsibility										
41	Customer Health and Safety									
42	Product and Service Labelling									
43	Marketing Communications		✓			✓	✓			
44	Customer Privacy		✓			✓		✓		
45	Compliance		✓		✓					

	SIGNIFICANCE IN TERMS OF LBF'S SUSTAINABILITY CONTEXT	SIGNIFICANCE TO LBF	SIGNIFICANCE TO STAKEHOLDERS	REPORTED
	High	High	High	Yes
	High	High	High	Yes
	Moderate	Moderate	High	Yes
	Low	-	-	-
	High	High	Moderate	Yes
	High	High	Moderate	Yes
	Low	-	-	-
	Low	-	-	-
	High	High	High	Yes
	Moderate	Moderate	Moderate	Yes
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	High	-	-	-
	Low	-	-	-
	Low	-	-	-
	High	High	High	Yes
	Low	-	-	-
	High	High	High	Yes
	High	High	Moderate	Yes
	Moderate	High	High	Yes
	Low	-	-	-
	High	Moderate	Moderate	Yes
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	Moderate	Moderate	High	Yes
	High	High	High	Yes
	Moderate	High	Low	Yes
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	High	High	High	Yes
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	High	High	Moderate	Yes
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	Low	-	-	-
	Moderate	Moderate	Moderate	Yes
	High	High	High	Yes
	High	High	High	Yes
	High	High	Moderate	Yes

MATERIALITY MATRIX



MANAGEMENT APPROACH

L B Finance aspires to be the leader in the NBF sector in Sri Lanka. To realise this aspiration, we need to manage material economic, social and environmental aspects that are of concern to the key stakeholders.

While these are discussed in detail in the chapter that follows, given below is a brief description as to why these aspects are important to LBF. As to how we manage them and how we evaluate the results are detailed in the Management Discussion under respective capitals.

MATERIAL ECONOMIC ASPECTS ECONOMIC PERFORMANCE

Economic performance enables a company to grow and prosper in the long run. Positive economic performance creates a win-win approach to a sustainable business contributing to its growth as well as to the well-being of society and to the prosperity of the economy as a whole. Therefore the Company considers its economic performance as a material aspect.

MARKET PRESENCE

A wide-spread presence is important to a business, generating a mutuality of benefit to Company and stakeholders alike. Our practice of local hire improves the diversity within our management team, whilst in turn the local community too enhances its human capital. Substantial growth allows us to establish more branches and centres across the island reaching and satisfying a larger customer base.

INDIRECT ECONOMIC IMPACTS

Quite apart from direct value creation and distribution, L B Finance's presence in Sri Lanka benefits the local community in many ways. Some of these beneficial outcomes include the creation of jobs, development of skills and knowledge, attracting investments and financial inclusiveness.

MATERIAL SOCIAL ASPECTS LABOUR PRACTICES AND DECENT WORK EMPLOYMENT

Employees are the Company's most prized resource. Whilst L B Finance is governed by the Shop and Office Act of Sri Lanka pertaining to employee rights and entitlements, the Company often goes the extra mile in maintaining better than stipulated standards. The Company exceeds minimum legal requirements in aspects such as attracting, training and retaining the best of talent in a work environment that supports the Company's corporate values and business goals.

TRAINING AND DEVELOPMENT

Since human capital is one of our key factors for success, the Company continues to invest in on-going training and development. This takes into consideration the Company's business needs and long term goals, staff performance evaluations and succession plans.

DIVERSITY AND EQUAL OPPORTUNITY

The Company leverages its emancipated approach to and espousal of diversity and equal opportunity as key to source and retain the best people across a range of talent, skills and education.

PRODUCT RESPONSIBILITY PRODUCT AND SERVICE LABELLING

Since financial products are often considered to be complicated, the Company ensures that it provides accurate and relevant information in a manner that could be easily grasped by all of its stakeholders.

MARKETING COMMUNICATION

The Company follows carefully crafted marketing communication guidelines in order to ensure that in promoting and advertising our business and its products and services, all applicable laws, codes of conduct and business ethics are scrupulously adhered to.

CUSTOMER PRIVACY

Since the Company is inherently involved with sensitive information relating to customers, a breach of privacy can lead to direct financial consequences such as fines and penalties as well as serious damage to reputation and customer loyalty. Hence, the Company maintains a stringent confidentiality regime that maintains customer privacy at an optimal level.

COMPLIANCE

As one of the leading financial institutions in the country, L B Finance is in full compliance with all applicable regulatory requirements imposed by the relevant authorities and the Government.

**MATERIAL ENVIRONMENTAL ASPECTS
 MATERIALS AND ENERGY**

It is a challenge for every business to reduce their material and energy intensity through the adoption of appropriate initiatives. They may include switching to alternative sources, reducing waste, recycling and reusing materials as well as changing the way a company operates its business. L B Finance attempts to instill a culture of responsible green initiatives amongst employees where they themselves take responsibility for the effective and efficient use of materials and energy. Accordingly, the company has obtained Carbon conscious status during the year.

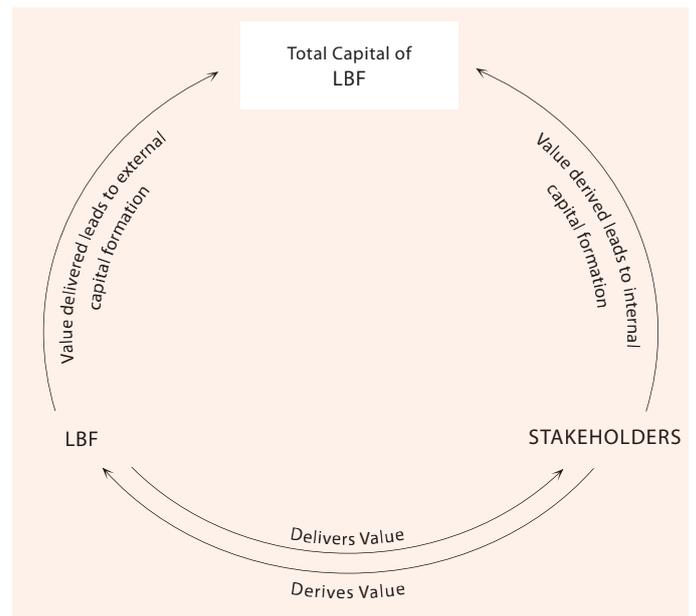
ETHICS AND INTEGRITY

Guided by our values, we conduct our business of mobilising public funds, prudent lending and investing with utmost integrity, offering a caring and personalised service and creating an empowered and committed group of employees in our quest to realising the vision of contributing to the quality of life of our stakeholders. We expect each and every one of our employees to live by the values of excellence, ethics, professionalism, transparency, innovation and quality in their day-to-day dealings. We maintain an unwavering commitment to serving our stakeholders, thereby creating value for them and for the Company in the short, medium and long term.

VALUE CREATION AND CAPITAL FORMATION

The discussion in this chapter on Business Model referred to the process of value creation and the accumulation of the value so created in the form of various capitals.

L B Finance delivers financial and non-financial value to its key stakeholders in the context of economic, social and environmental aspects, thereby nurturing and developing them into various stakeholder ‘capitals’ which are external to the Company. In turn, L B Finance derives value from these capitals in creating value for itself which is accumulated internally in the form of financial capital and institutional capital (which includes intellectual property, knowledge, systems and procedures, brand value, corporate culture, business ethics, integrity and the like). Delivering and deriving of value are dual aspects of our value creation. Formation of capitals through this dual aspect is depicted in the diagram below:



INTERNAL CAPITAL FORMATION

The value generated by L B Finance for itself through business activities and interactions with stakeholder groups, create internal capital. This comprises of financial capital and institutional capital.

FINANCIAL CAPITAL

L B Finance recorded a satisfactory growth in profits despite a challenging environment in 2013/14. As a company that is fully home-grown, the Company has proudly created wealth for its stakeholders through values; stability, excellence and strength. L B Finance has demonstrated its ability to grow by investing on people, technology, product innovation and service quality. The Company has proved resilient to external shocks through careful management of resources to maximise earnings through improved risk management in a constrained business environment. As evident from the table below, the Company has recorded improved results in terms of profits, business volumes, asset base and also expansion in operations with the geographical presence.

INDICATOR	2013/14	2008/09	GROWTH	5 YEAR CAGR
Profit after tax (Rs. Mn.)	1,340	359	980	30.09%
Deposits (Rs. Mn.)	46,095	9,558	36,536	36.98%
Lending (Rs. Mn.)	49,192	11,841	37,351	32.95%
Total assets (Rs. Mn.)	60,814	14,009	46,804	34.13%
No. of outlets	134	57	77	-
No. of customers	345,905	106,139	239,766	-
No. of employees	2,134	692	1,442	-

The complete Financial Statements of the Company prepared in accordance with the revised Sri Lanka Accounting Standards (SLAS) comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) promulgated by The Institute of Chartered Accountants of Sri Lanka are given on pages 145 to 214.

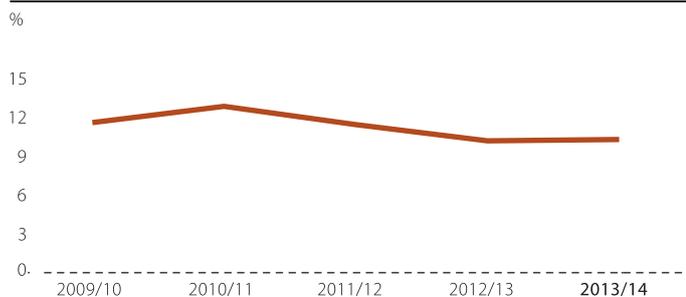
A detailed analysis of the financial performance during the year is given in this section.

INTEREST INCOME

INDICATOR (RS. MN.)	2013/14	2012/13	GROWTH
Net interest income	5,576	4,581	21.72%
Lending interest earning assets	49,192	44,724	9.99%
Non lending interest earning assets	8,311	5,875	41.46%
Total interest earning assets	57,503	50,599	13.64%
Net interest margin	10.32%	10.18%	14 bpts

Interest income in 2013/14 was Rs. 12,714 Mn. and accounted for 93.29% of total income. Growth in interest income was 20.78% in 2013/14 which was due to growth in business volumes. Interest expenses increased by 20.05% to Rs. 7,137 Mn. compared to Rs. 5,945 Mn. in 2012/13. The Company's net interest income rose by 21.72% to Rs. 5,576 Mn. as compared with the previous year's Rs. 4,581 Mn. The year under review saw policy rates being reduced in stages, resulting in an overall downward trend in interest rates in the industry which created opportunities to stimulate the credit growth. The Company achieved such record growth levels despite stiff competition through vigilant and continuous monitoring of its assets and liability portfolio yields and their compositions. Accordingly, the Company was able to maintain its net interest margin at 10.32% in 2013/14 whereas it was 10.18% in 2012/13.

NET INTEREST MARGIN

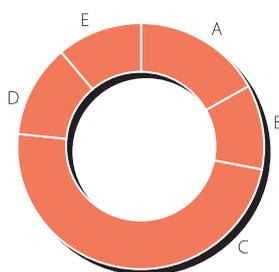


INTEREST EXPENSE COMPOSITION 2013/14



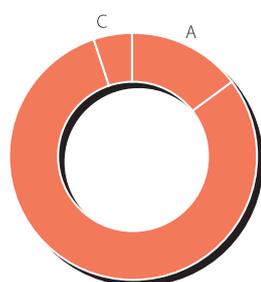
A - Due to Banks	10.00%
B - Due to Customers	85.08%
C - Debt Issued and Other Borrowed Funds	4.92%

INTEREST INCOME COMPOSITION 2013/14



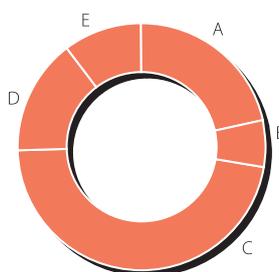
A - Gold Loans	17.08%
B - Vehicle Loans	11.06%
C - Leasing	48.64%
D - Hire Purchase	12.19%
E - Other	11.03%

INTEREST EXPENSE COMPOSITION 2012/13



A - Due to Banks	14.67%
B - Due to Customers	80.33%
C - Debt Issued and Other Borrowed Funds	5.00%

INTEREST INCOME COMPOSITION 2012/13



A - Gold Loans	21.57%
B - Vehicle Loans	6.24%
C - Leasing	46.75%
D - Hire Purchase	15.13%
E - Other	10.31%

FEE AND COMMISSION INCOME

INDICATOR (RS. MN.)	2013/14	2012/13	GROWTH
Credit-related fees and commissions	575	422	36.33%
Service charge	202	307	(34.24%)
Fee and commission income	777	729	6.58%

Fee and commission income comprises of fees and commissions charged from credit-related activities and service charges received mainly from gold loans and factoring. Fees and commissions charged from credit-related activities accounted for 73.99% and service charges 26.01%. Fee and commission income increased by Rs. 48 Mn. with a growth of 6.58% during the year, which indicated a relatively slower growth, compared to 29.77% of year 2012/13.

OPERATING EXPENSES

INDICATOR (RS. MN.)	2013/14	2012/13	GROWTH
Personnel expenses	1,236	1,026	20.56%
Depreciation of Property, Plant & Equipment	304	197	53.98%

The increase of operating expenses from Rs. 2,117 Mn. in 2012/13 to Rs. 2,567 Mn. in 2013/14 was mainly due to salary increments and higher number of recruitments made during the latter part of 2012/13. Therefore, this resulted in an increase in personnel expenses by 20.56% in 2013/14.

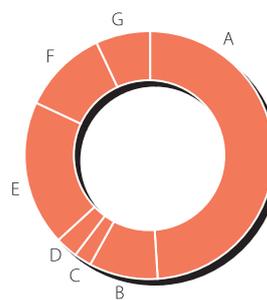
Increase in depreciation of property, plant and equipment by 53.98% in 2013/14 was mainly due to restatement of useful economic life of buildings and motor vehicles which was done in 2012/13 and the full impact of the previous years was set-off with depreciation cost in 2012/13. Therefore, depreciation charge in 2012/13 was significantly lower than 2013/14. Growth of operating expenses has been managed carefully and has been curtailed to 21.23% in comparison to 25.97% in 2012/13.

OPERATING EXPENSES 2013/14



A - Personnel Expenses	48.93%
B - Depreciation of Property, Plant & Equipment	12.05%
C - Professional and Legal Expenses	2.21%
D - Deposit Insurance Premium	2.23%
E - General Insurance Expenses	2.52%
F - Office Administration and Establishment Expenses	19.45%
G - Advertising and Business Promotional Expenses	6.96%
H - Other Expenses	5.66%

OPERATING EXPENSES 2012/13



A - Personnel Expenses	48.79%
B - Depreciation of Property, Plant & Equipment	9.41%
C - Deposit Insurance Premium	2.12%
D - General Insurance Expenses	2.80%
E - Office Administration and Establishment Expenses	18.88%
F - Advertising and Business Promotional Expenses	10.94%
G - Other Expenses	7.08%

LOAN IMPAIRMENT CHARGES

INDICATOR (RS. MN.)	2013/14	2012/13	GROWTH
Loans and receivables	103	243	(57.45%)
Lease rental receivables and stock out on hire	462	161	185.61%
Other losses	4	(5)	(183.09%)
Total impairment charges for loans and other losses	570	400	42.47%

Impairment charge on loans and receivables decreased by 57.45% in 2013/14 which was due to gold loan auctions, whereas impairment charge on lease rental receivables and stock out on hire increased by a significant of Rs. 300 Mn. to reach at Rs. 462 Mn. reflecting the increased stress levels within the industry for loan recoveries.

TAXATION

INDICATOR (RS. MN.)	2013/14	2012/13	GROWTH
Income tax expense	528	824	(35.91%)
Value added tax on financial services	112	176	(36.10%)

During the year under review, income tax of the Company amounted to Rs. 528 Mn. compared to previous year's Rs. 824 Mn. resulting in an effective tax rate of 28.28% compared to 32.63% in 2012/13. Value added tax on financial services decreased to Rs. 112 Mn. from Rs. 176 Mn. in 2012/13.

OVERALL PROFITABILITY

INDICATOR (RS. MN.)	2013/14	2012/13	GROWTH
Profit before tax	1,868	2,526	(26.05%)
Profit after tax	1,340	1,702	(21.27%)
Total comprehensive income	1,358	1,706	(20.41%)

Despite the profit after tax for the year decreasing by 21.27% to Rs. 1,340 Mn. compared to last year's Rs. 1,702 Mn., overall performance could be considered satisfactory given the challenging environment that prevailed.

KEY CHALLENGES

The operating environment for the Company posed a number of key challenges. The dramatic decline of gold prices which affected the gold loan portfolio was one of the key challenges. During the year under review gold had its worst year in 3 decades in 2013 by losing 28% of its value. Loss of around \$ 250 per Troy oz over two days in April 2013 was an unprecedented market move and sent shock waves across all types of investors in the precious metal market. When the crisis began in April 2013, Company made a impairment provision of Rs. 310 Mn. for any future losses arising from gold loans, based on its default experience and loss rate arrived using prevalent market price. However, the sustained decline in prices during 2013/14 period resulted in a sharp increase in impairment than previously anticipated. As a means of managing the crisis, Company took some bold and prudent decisions; the Company decided to immediately auction the gold articles pledged against the gold for which successful recovery through collection seemed unlikely. The auctioning decision was made independent of the market price or the resultant loss rate. In hindsight given the sustained decline in prices, this decision has proven to be extremely effective in tackling the high default scenario. Company also decided to tactically alter the duration of its gold loans business by shortening the lending cycle. This move was intended to reduce the re-pricing cycle and expedite the recovery process for any future losses. During this process, the Company experienced a significant financial loss on account of auctioned gold articles to Rs. 1,371 Mn. (2012/13 - Rs. 201 Mn.). However the net movement in impairment provision was a reduction of Rs. 187 Mn. Gold loans which represented 23.86% of Company's loan book in 2012/13 dropped to 16.28% in 2013/14, experiencing a contraction of 24.97% in gold loan portfolio. However, the Company is extremely confident that the decision and actions taken during the last financial year have been effective in managing the issue and spill over effect of the gold crisis to 2014/15 would be minimal.

The growth in lending portfolio was 9.99% which has seen a significant drop compared to last year's growth of 22.09%. The contributory factors for this slow growth were the lack of credit appetite, reduction in vehicle imports and banks offering traditional, standard credit products such as hire purchase. Amidst this non-conducive environment, a weakened demand in the leasing industry was only to be expected. Therefore this required a change in strategy to achieve the desired growth in profits.

Safeguarding asset quality in the current operating environment was another challenge that the Company addressed effectively. The entire NBFIs sector experienced an increasing trend in non-performing advances during the year. Nevertheless, the Company was able to curtail the increase in NPA below the industry average using more predictive and proactive tools and techniques.

Although the growth in business volume was limited, the Company had a higher cost base as we have the biggest branch network among the NBFIs and this resulted an increase in overhead costs.

All these factors played a key role in the decreased profitability of the Company in 2013/14. However, the Company has recognised all possible adverse effects relevant to 2013/14 and that the Company commences a new year leaving the worst behind us.

REVIEW OF ASSETS AND LIABILITIES

INDICATOR (RS. MN.)	2013/14	2012/13	GROWTH
Interest Earning Assets			
Cash equivalent	1,560	3,645	(57.19%)
Loans and receivables	18,893	16,452	14.83%
Lease rentals receivable and stock out on hire	30,299	28,271	7.17%
Government securities	1,362	368	270.02%
Other financial assets	5,083	1,487	241.75%
Non Interest Earning Assets			
	3,617	3,999	(9.55%)
Total Assets	60,814	54,222	12.16%
Interest Bearing Liabilities			
Deposits from non-bank customers	46,095	38,742	18.98%
Due to banks	4,034	6,366	(36.62%)
Debt instruments issued and other borrowed funds	2,864	2,244	27.66%
Non Interest Bearing Liabilities			
	1,612	1,541	4.66%
Total Liabilities	54,607	48,893	11.69%

TOTAL ASSETS

Total asset increased by Rs. 6,591 Mn. with a growth of 12.16% compared to 27.17% growth rate in 2012/13. This was supported by 9.99% growth in lending portfolio and increase in liquid assets.

CASH EQUIVALENTS

This includes balances with banks and repo investments placed with a tenor less than 3 months. During the year, this decreased by 57.19% as a result of a conscious decision taken by the Company to invest for a tenor more than 3 months.

LOANS AND RECEIVABLES

Loans and receivables increased by 14.83% which was contributed by an increase in vehicle loans by Rs. 3,973 Mn. and an increase in mortgage loans by Rs. 784 Mn., although the gold loan portfolio contracted by Rs. 2,664 Mn.

LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

Lease rentals receivable and stock out on hire consist of lease and hire purchase portfolio of the Company which increased by 7.17% during the year. The Company's leasing portfolio grew by 10.47% during the year to Rs. 23,970 Mn., a deceleration compared to 25% of last year. Hire purchase portfolio decreased to Rs. 6,329 Mn. which saw a negative growth of 3.71% and this performance was impacted due to shift in demand from hire purchase to vehicle loans.

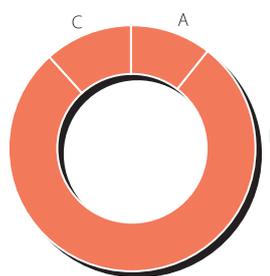
OTHER FINANCIAL ASSETS

This mainly includes investments on repos and fixed deposits. Repos and fixed deposits maturing below 3 months are classified as cash equivalent and the balance under the other financial assets. Which increased by Rs. 3,595 Mn. as a result of placing investments for a tenor more than 3 months due to declining interest rate environment.

TOTAL LIABILITIES

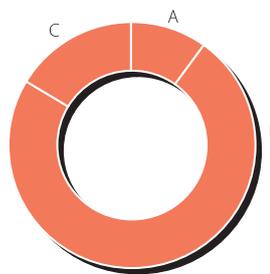
Total liabilities increased by Rs. 5,713 Mn. which was a growth of 11.69%. This increase arose from an increase in fixed deposit base which was the main funding source during the financial year. As a result, the Company's funding profile was dominated by deposits which accounted for an increased 77.86% of its total funding during the year compared to 73.54% last year. The Company's exposure to borrowings reduced during the year, accounting for 11.65% of total funding compared to 16.34% in the previous year.

FUNDING MIX 2013/14



A - Equity	10.49%
B - Deposits	77.86%
C - Borrowings	11.65%

FUNDING MIX 2012/13



A - Equity	10.12%
B - Deposits	73.54%
C - Borrowings	16.34%

DUE TO BANKS

This consists of bank overdrafts, securitised borrowings, syndicated loans and other bank facilities. This decreased by 36.62% amounting to Rs. 2,331 Mn. The reduction was due to unutilisation of bank facilities and repayment of securitised borrowings during the year.

DUE TO CUSTOMERS

This consists mainly of fixed and savings deposits. Total deposits increased by 18.98% during the year, to reach Rs. 46,095 Mn. Savings base grew by 198.82% during the year under review to reach to Rs. 786 Mn. Leading products in savings were L B regular, L B salary saver and L B senior citizen which proved popular due to various promotional activities, attractive interest rates and gift schemes offered.

DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

Debt instruments issued and other borrowed funds increased by 27.66% from Rs. 2,244 Mn. in 2012/13 to Rs. 2,864 Mn. in 2013/14.

The Company issued unsecured redeemable debentures of Rs. 2,000 Mn. in November 2013 with the objective of strengthening the Tier II capital adequacy requirement. The issue which was listed on the Colombo Stock Exchange was oversubscribed on the opening day.

EQUITY

The Company continues to be well capitalised, with total shareholders' funds growing by 16.48% during 2013/14 to reach Rs. 6,206 Mn. The Company's profitability, internal capital generation and retained earnings have strengthened the shareholders' funds.

RATIOS

CREDIT QUALITY

INDICATOR (RS. MN.)	2013/14	2012/13	CHANGE
Provision for impairment losses			
Collective impairment	1,465	1,093	34.01%
Individual impairment	289	150	92.19%
Total impairment	1,754	1,244	41.05%
Individual impairment as a % of lending portfolio*	0.58%	0.33%	25 bpts
Collective impairment as a % of lending portfolio*	2.95%	2.40%	55 bpts
Total impairment as a % of lending portfolio*	3.53%	2.73%	80 bpts

* Before impairment provision

In accordance with the new Sri Lanka Financial Reporting Standards/Lanka Accounting Standards, the Company's provisioning policy shifted from a time based policy to an individual and collective impairment policy in 2012/13. According to the new accounting standards, the Company's provision for impairment and other losses amounted to Rs. 1,754 Mn. during 2013/14, comparison to that of Rs. 1,244 Mn. for the previous year.

NON-PERFORMING LOANS

The Company continues to operate under the previous Central Bank provisioning policy to classify non-performing advances. The entire NBFIs sector experienced an increasing trend in non-performing advances during the year. The NPL ratio increased to 5.16% for the current year, as compared to 3.35% the previous year. This continues to remain under the industry average of 6.70%. The increase in NPLs is mainly due to lease and hire purchase. As the Company continues to grow, it will be necessary to strengthen risk management and recovery systems and processes as well as continue to be proactive in pre-empting asset deterioration in order to balance asset quality.

PROFITABILITY

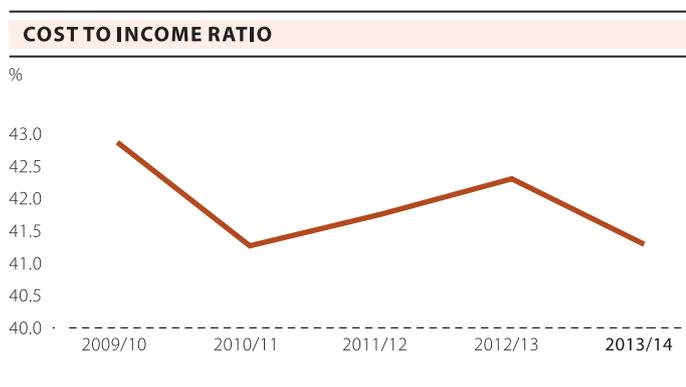
INDICATOR	2013/14	2012/13	CHANGE
Return on Assets (ROA)	2.33%	3.51%	(118 bpts)
Return on Equity (ROE)	23.23%	36.62%	(1,339 bpts)

ROA and ROE decreased mainly due to reduction in profitability. Other contributory factors for this reduction were increase in assets and increase in shareholders' funds respectively.

EFFICIENCY

COST TO INCOME

Overall, the Company's cost-to-income ratio marginally improved to 41.29% in 2013/14 from 42.30% in 2012/13.

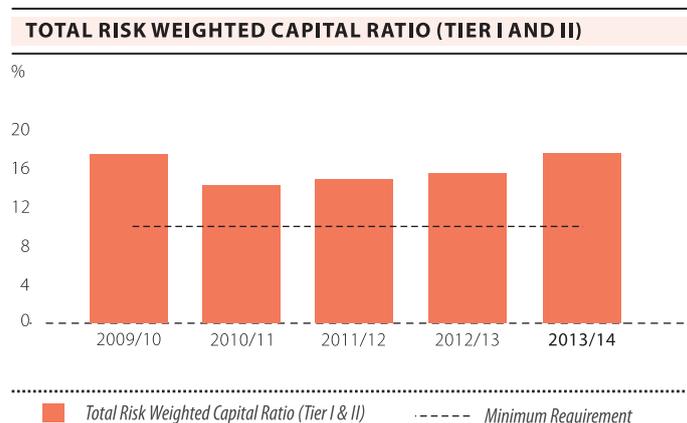
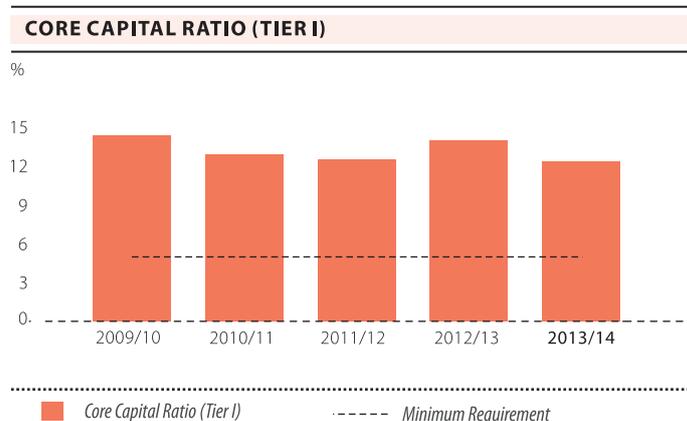


CAPITAL ADEQUACY

According to the Finance Companies Direction No. 02 of 2006 every finance company shall maintain:

- The core capital not less than 5% of risk weighted assets.
- Total capital at a level not less than 10% of its total risk weighted assets.

The Company's core capital ratio stood at 12.34% while total risk weighted capital ratio was 17.50% as at 31st March 2014, which was well above the regulatory requirement.



VALUE GENERATED AND DISTRIBUTED

The following table indicates wealth generated from the Company's activities and its distribution among the key stakeholders.

	2013/14 (RS. MN.)	2012/13 (RS. MN.)
Economic value generated		
Income from interest related activities	12,714	10,527
Income from fee based activities	778	730
Income from other activities	136	111
Total value generated	13,628	11,368
Distribution of income		
Depositors	(7,138)	(5,946)
Impairment charges and losses	(1,942)	(602)
Depreciation	(314)	(204)
To employee wages and benefits	(1,237)	(1,026)
To providers of suppliers and services	(1,008)	(886)
To community	(8)	(3)
To government		
Income tax	(528)	(824)
Value added taxes on financial services	(113)	(176)
To retained earnings	(890)	(1,252)
To providers of capital	(450)	(450)
Total income distributed	(13,628)	(11,368)

ECONOMIC VALUE ADDED (EVA)

This is a measure of profitability based on the cost of total invested equity and provides an accurate indication of true economic value added by the Company as opposed to accounting profits. The Company's economic value creation during 2013/14 amounted to Rs. 1,080 Mn.

	2013/14 (RS. MN.)	2012/13 (RS. MN.)
Economic value addition		
Shareholders' fund	6,207	5,329
Accumulated provision for credit losses	1,755	1,244
	7,962	6,573
Profit attributed to		
Shareholders	1,358	1,707
Add: provision for credit losses	570	400
	1,929	2,107
Economic cost % (Avg. TB rate + 2% risk premium)	11.68%	14.34%
Economic cost	849	815
Economic value addition	1,080	1,292

INSTITUTIONAL CAPITAL

Institutional capital covers a broad spectrum of non-financial components that are, like financial capital, internal to L B Finance. They include knowledge, systems, procedures, brand value, corporate culture, business ethics, integrity and the like.

KNOWLEDGE

L B Finance possesses a vast reservoir of knowledge, experience and expertise with which it conducts its business affairs.

Our Board of Directors comprise of professionals with diverse qualifications and expertise. Their strategic direction and insight has enabled L B Finance to become a pre-eminent institution in the NBF1 sector. To achieve operational excellence, we recruit industry experts through a formal recruitment process with the offer of above industry remunerations.

Highly qualified and experienced individuals are retained through opportunities for career progression and employee reward schemes based on performance and experience. In order to promote institutional learning, all employees are given continuous training and opportunities for development. Further, they are equipped with latest industry knowledge as well.

BRAND VALUE

We are a leading independent financial institution in Sri Lanka, with a strong financial history spanning over 40 years. We recognise the importance of brand management as a key value driver, hence is a vital aspect of our strategic focus. Accordingly, we have taken several initiatives to create and maintain a distinct brand identity through value creation for our stakeholders.

We offer an unique service to our customers and deliver a diverse range of products to fulfil their varied needs. Customer satisfaction surveys are conducted on a continuous basis to obtain customer feedback and improve our product and service offer accordingly.

Our brand value has been enhanced through many CSR activities and promotional campaigns initiated during the year as well. We were ranked 29th among the 100 Most Valuable Brands in the Country by Brand Finance - UK. This is 9 notches above where we were ranked in the previous year.

INFORMATION TECHNOLOGY

L B Finance is a technology driven financial institution. The Company has made significant developments in its IT framework over the past 3 years. A comprehensive review of core systems was carried out by Messrs KPMG during the last financial year. The review covered three main areas namely, business process controls/application controls, application security and IT operational controls.

The identified vulnerabilities were subsequently rectified by our software vendors. KPMG reverified the IT systems subsequent to the rectifications and concluded the review on a commendable note. Areas such as compliance with SLFRS and the Central Bank guidelines were also reviewed.

The Information Security Standard ISO 27001 was implemented by the IT Department in the previous financial year. This encompassed the following areas of IT.

- Information Security Policy
- Organisation of Information Security
- Asset Management
- Human Resources Security
- Physical and Environmental Security
- Communication and Operations Management
- Access Control
- Information Systems Acquisition, Development and Maintenance
- Information Security Incident Management
- Business Continuity Management and Compliance

During the year, the IT framework was further enhanced through the introduction of several systems stated below. These have been integrated with the Core e-Financials System of the Company.

- Integrated Gold Loan Management System
- Money Transfer System
- Integration with Sri Lanka Interbank Payment System (SLIPS)
- Paperless Board Room Solution
- Fixed Assets Management System
- SMS Notification Service for customers

VISA affiliated membership was obtained in December 2013. We will be issuing our VISA Debit card in the ensuing year with the offer of a package of value-added services.

A state-of-the-art Human Capital Management System is being implemented to provide a better working environment for our staff members. The system will be launched in June 2014.

The corporate website is being redesigned with the latest HTML 5 technologies. We aim to enhance customer experience and enable seamless accessibility via any web enabled mobile device.

A comprehensive online solution is being evaluated to cater to the trending mobile based users as well.

ORGANISATIONAL CULTURE

Our organisational culture is driven by 6 key factors namely; excellence, ethics, professionalism, transparency, innovation and quality. These values underpin our every strategy and action which in turn enables us to deliver a service of the highest quality to our valued customers.

ETHICS

An ethical culture is critical for the sustainable growth of the Company. Therefore, we ensure our operations are conducted in an ethical manner at all times. We follow stringent practices pertaining to corporate governance, corporate social responsibility, bribery and discrimination. More details pertaining to ethical practices are contained in the segment on 'Corporate Governance' appearing on page 82.

A background image of a red pleated curtain, with the folds creating a series of vertical lines that converge towards the top of the frame.

Customer Centric

We work conscientiously to place the customer at the centre of our enterprise. One of the ways we can really do that is to build proximity to them and forge rock solid relationships with them. We're moving forward...at pace. We have the largest network amongst all NBFIs in the country.

EXTERNAL CAPITAL FORMATION

The value created by L B Finance for its stakeholders through activities, relationships and linkages leads to the formation of capital external to the Company. They reside within our stakeholders, but L B Finance has access to and makes use of these and its own internal capital in driving its business. L B Finance's external capital formation; investor capital, and environmental capital.

INVESTOR CAPITAL

The stated capital of the Company as at 31st March 2014 was Rs. 838,282,159/- represented by 69,257,142 fully paid ordinary shares.

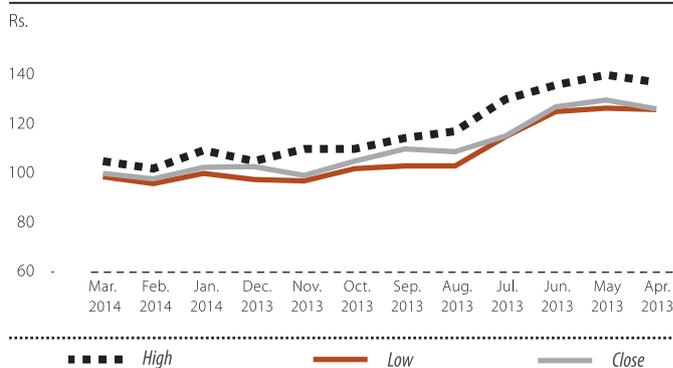
The share price of L B Finance stood at Rs. 100.10 as at 31st March 2014, recording a decline of 25% compared to the previous year. The share price remained reasonably stable throughout the year, amid volatile financial market conditions. The highest and lowest values recorded during the year were, Rs. 140 on 10th May 2013 and Rs. 96 on 25th February 2014.

Total number of shares in issue as at 31st March 2014	69,257,142
Public shareholding as at 31st March 2014	21.45%
Stock symbol	LFIN.N0000
News wire codes	
Bloomberg	LFIN : SL
Dow Jones	LFINN
Reuters	LFIN. CM

SHARE PRICES FOR THE YEAR

	31ST MARCH 2014	DATE	31ST MARCH 2013	DATE
Market price per share				
Highest during the period	Rs. 140.00	10.05.2013	Rs. 172.00	08.10.2012
Lowest during the period	Rs. 96.00	25.02.2014	Rs. 95.00	06.06.2012
As at end of the period	Rs. 100.10		Rs. 132.70	

MONTHLY HIGH AND LOW SHARE PRICES



Meanwhile, the ASPI recorded a subdued growth of 7.1% during 2013 compared to a decline of 4.8% recorded the previous year. For 2013/14 the turnover of the Company share was recorded at Rs. 306 Mn. was an increase of 40% over the previous financial year which recorded at Rs. 219 Mn.

SHARE TRADING

	31ST MARCH 2014	31ST MARCH 2013
No. of transactions	3,614	2,491
No. of Shares traded	2,579,225	1,532,455
Value of Shares traded (Rs.)	306,126,998	219,417,125

PUBLIC HOLDING

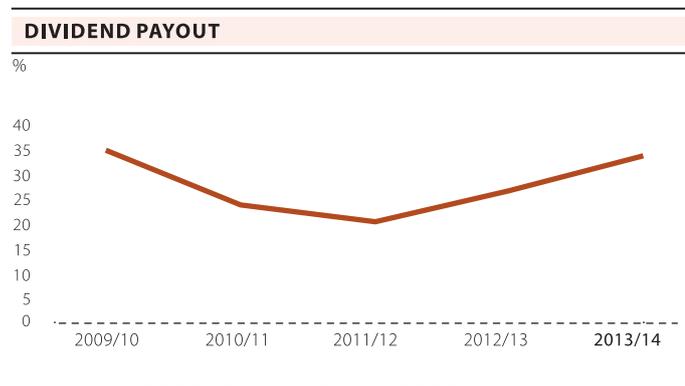
The percentage of shares held by the public as at 31st March 2014 was 21.45%.

Despite the recent decline in the Company share price, the Compounded Annual Growth Rate (CAGR) over the last five years ended 31 March 2014 was 10%. This reflects the long term sustained capital growth delivered to the shareholders over the years. The beta value of the Company share as per ASPI was 0.8 and as per S&P20 it was 0.42 (the beta was calculated as of the fourth quarter 2013). This demonstrates that the L B Finance share is inherently less volatile than the market.

DIVIDEND POLICY

Our investor friendly dividend policy is aimed at rewarding investors, whilst retaining funds for future investments. This ensures Company growth and expansion which has a positive impact on shareholder wealth in the medium and long term.

The Board has proposed a final dividend of Rs. 6.50 per share. In absolute terms, the total dividend proposed was Rs. 450 Mn. which is similar to the last year. Accordingly, the dividend payout ratio improved to 33.59% from 26.45% the previous year.



EARNINGS PER SHARE

The basic Earnings per Share (EPS) for the period decreased by 21.27% to Rs. 19.35 from Rs. 24.58 in 2012/13. This was as a result of the similar decline in profit attributable to shareholders. More details on profitability are given in the Financial Capital appearing on page 32 of this report.

TOTAL SHAREHOLDERS' RETURN

Total Shareholders' Return (TSR) of the Company dipped to (19.67%) during the current financial year as opposed to a 3.19% recorded in the previous comparable period.

MARKET CAPITALISATION

As at the conclusion of the current financial year, the market capitalisation of L B Finance decreased by 24.57% to Rs. 6.9 Bn., compared to Rs. 9.1 Bn. in 2012/13. This amounted to 0.32% of the overall market capitalisation, a marginal decline compared to 0.43% the previous year.



PRICE EARNINGS RATIO

The Company share was trading at a Price Earnings ratio (P/E) of 5.17 times as at 31st March 2014, marginally lower than 5.4 times recorded the previous financial year. The published broad market P/E of the Colombo Stock Exchange was 15.9 times as at the end of the current financial year.

NET ASSET VALUE PER SHARE

At the end of the financial year under review, the net asset value per share of the Company stood at Rs. 89.62 compared to Rs. 76.94 the previous year. This increased by 16.48%.

LIQUIDITY

During the financial year under review, 2.5 million shares changed hands compared to 1.5 million shares transacted during the previous financial year.

DISTRIBUTION AND COMPOSITION OF SHAREHOLDERS

DISTRIBUTION OF SHAREHOLDINGS AS AT 31ST MARCH 2014

FROM	TO	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES	%
1	1,000	1,198	341,393	0.49
1,001	10,000	466	1,540,444	2.22
10,001	100,000	96	2,404,483	3.48
100,001	1,000,000	11	2,730,711	3.94
Over 1,000,000		5	62,240,111	89.87
		1,776	69,257,142	100.00

ANALYSIS OF SHAREHOLDERS AS AT 31ST MARCH 2014

CATEGORY	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES	%
Local Individuals	1,650	3,928,149	5.67
Local Institutions	102	64,754,460	93.50
Foreign Individuals	22	323,305	0.47
Foreign Institutions	2	251,228	0.36
Total	1,776	69,257,142	100.00

With reference to the distribution of shareholding, approximately, 89.87% shares amounted to over one million shares while it remained at 89.76% the previous year. The total number of shareholders increased from 1,688 to 1,776 in the year under review. Of the total shareholder base, 21.45% represented public shareholders. Local investors constituted 99.17% of the investor base, while the balance 0.83% were foreign investors. Of the shareholder base, 6.14% were individuals and 93.86% were institutional shareholders.

DIRECTORS' SHAREHOLDING AS AT 31ST MARCH 2014

NAMES OF DIRECTORS	NUMBER OF SHARES	PERCENTAGE (%)
Mr. Thosapala Hewage	-	-
Mr. K D D Perera	-	-
Mr. L N De Silva Wijeyeratne	-	-
Mr. J A S S Adihetty	53,060	0.077
Mr. Nimal Perera 25,920	435,135	0.628
Seylan Bank PLC/ 409,215 Mr. Nimal Perera		
Mr. N Udage	11,700	0.017
Mr. B D A Perera	-	-
Mrs. K Fernando	1,600	0.002
Mrs. Shirani Jayasekara	-	-
Mrs. A K Gunawardhana	-	-

20 MAJOR SHAREHOLDERS

	AS AT 31ST MARCH 2014	(%)	CUM.%	AS AT 31ST MARCH 2013	(%)
	NUMBER OF SHARES			NUMBER OF SHARES	
1. Vallibel One PLC	35,321,200	51.000	51.000	35,321,200	51.000
2. Royal Ceramics Lanka PLC, 15,713,616 Commercial Bank of Ceylon PLC/ Royal Ceramics Lanka PLC 2,348,000	18,061,616	26.079	77.079	17,995,893	25.984
3. Esna Holdings (Pvt) Limited	7,014,395	10.128	87.207	7,003,081	10.112
4. Sri Lanka Insurance Corporation Limited - Life Fund	1,842,900	2.661	89.868	1,842,900	2.661
5. Mercantile Investments and Finance PLC	953,600	1.377	91.245	953,600	1.377
6. Seylan Bank PLC/W D N H Perera 409,215 Mr. Nimal Perera 25,920	435,135	0.628	91.873	633,992	0.916
7. Don Wilbert Capital Limited	279,545	0.404	92.277	-	-
8. HSBC International Nominees Limited-SSBT- Deutsche Bank Singapore A/C 01	232,728	0.336	92.613	-	-
9. Mr. K D A Perera	172,733	0.249	92.862	147,733	0.213
10. Mr. A A Page	157,400	0.227	93.089	7,400	0.011
11. Mr. E Bianchi	154,400	0.223	93.312	154,400	0.223
12. Mr. A M Weerasinghe	148,850	0.215	93.527	148,850	0.215
13. Waldock Mackenzie Limited /Mrs. G Soysa	111,252	0.161	93.688	111,252	0.161
14. Environmental Resources Investment PLC	110,988	0.160	93.848	188,300	0.272
15. Mrs. P C Cooray	95,716	0.138	93.986	97,204	0.140
16. Mr.T Jeremiah	77,582	0.112	94.098	77,582	0.112
17. Mr. K Karunanayake and Miss. P N Karunanayake	74,162	0.107	94.205	74,162	0.107
18. Mr. P Somadasa	72,372	0.104	94.309	71,372	0.103
19. Mr. J A S S Adhihetty	53,060	0.077	94.386	53,060	0.077
20. Waldock Mackenzie Limited/ Mr. K R E M D M B Jayasundara	52,642	0.076	94.462	-	-
	65,422,276	94.462			
	3,834,866	5.538			
Total	69,257,142	100.000			

DEBENTURE

MARKET PRICES FOR THE YEAR

DEBENTURE TYPE	HIGHEST	LOWEST	LAST TRADED
LFIN BC-28/11/18 A-14	Did not trade upto 31st March 2014	Did not trade upto 31st March 2014	Did not trade upto 31st March 2014
LFIN BC-28/11/18 B-14.5	Rs. 101.00 (06.02.2014)	Rs. 101.00 (06.02.2014)	Rs. 101.00 (06.02.2014)
LFIN BC-28/11/18 C-15	Rs. 113.28 (11.02.2014)	Rs. 113.28 (11.02.2014)	Rs. 113.28 (11.02.2014)

YIELD

SECURITY	YIELD (%)
LFIN BC-28/11/18 B-14.5	14.20
LFIN BC-28/11/18 C-15	11.50

CUSTOMER CAPITAL

PRODUCT RESPONSIBILITY POLICY

We deliver the best possible service to our valued customers and we consider customer privacy to be of utmost importance. Our customer service representatives and marketing personnel are specially equipped to provide information and clear explanations on our products and services.

As stated in our mission statement, our aim is to establish mutually beneficial partnerships that positively impact the lives of our customers through value creation for both the customer and our organisation. This entails structuring products that are relevant to the needs of our existing and potential customers, and communicating clearly the features of our products. We firmly believe that paying attention to customer needs and improving the efficiency and effectiveness of our customer service enable us to increase our market share.

ANALYSIS OF CUSTOMERS

	PRODUCT TYPE	2013/14	2012/13	2011/12
Lending Products	Lease	82,114	66,565	56,478
	HP	9,257	9,882	10,883
	Vehicle loans	4,876	2,183	1,227
	Mortgage loans	392	214	139
	Gold loan	130,317	130,811	107,669
	Other products	914	447	154
	Deposit Products	Fixed deposits	41,507	38,862
Saving		76,528	23,460	6,323

CATERING TO CUSTOMER NEEDS

To effectively respond to our customers' requirements, we have organised our business lines based on product lines. These product lines historically consisted of two broad categories, namely, lending and deposits. Today, we have moved beyond these product lines to become a financial services provider of a range of value added services.

PRODUCT TYPE	STAKEHOLDER	OUR BRANDS
Deposits	Children	
	Senior Citizens	
	General Public	 
	Sharia Compliant	   
Lending	Individual	        
	Corporate/ SMEs	 
	Self Employed	
	Sharia Compliant	 
	Value Added Services	Individual

DEPOSITS

We have the largest deposit base among non-bank financial institutions in the country. Our diversified branch network and strong corporate image are key drivers of customer confidence in our institution. This is the main contributory factor for the solid growth in the deposit base which accounted for 77.86% of the total funds of the Company. During the year, deposits expanded by 18.98% to Rs. 46,095 Mn. The deposit growth was somewhat more subdued than the previous year, owing to a conscious decision made by the Company to curtail deposit growth due to low credit demand and excess liquidity consequent to the debenture issue.

Most of the other players switched from fixed deposits to other funding sources, due to the excess liquidity that prevailed in the market. However, we did not change our funding mix in order to maintain our long-standing customer base.

Another strategic decision taken by the Company was to change the deposit mix from fixed deposits to savings in order to promote the savings base.

We were compelled to re-price our deposit products several times during the year, in tandem with the market rates and to be competitive as well.

FIXED DEPOSITS

In the financial year under review, the fixed deposits portfolio grew by 18.14% to reach Rs. 45 Bn. Total number of deposits amounted to 69,279, of which 98.75% were below Rs. 5 Mn.

During the year, we actively promoted low net worth deposits and mobilised deposits from areas outside the Western Province. As a result, we achieved the highest deposit growth from the Northern Province followed by the Eastern Province.

In addition, 66% of the fixed deposit base comprised of deposits less than one year. We promoted long term deposits among our customers to grow the long term fixed deposit portfolio of the Company.

ANALYSIS OF FIXED DEPOSIT BASE

YEAR	NO. OF CUSTOMERS			NO. OF DEPOSITS		
	INDIVIDUAL	CORPORATE	TOTAL	INDIVIDUAL	CORPORATE	TOTAL
2009/10	20,406	229	20,635	33,325	314	33,639
2010/11	22,264	240	22,504	37,584	338	37,922
2011/12	26,992	255	27,247	46,085	452	46,537
2012/13	38,597	265	38,862	63,741	574	64,315
2013/14	41,246	261	41,507	68,706	573	69,279

RENEWAL RATIO

YEAR	RENEWAL RATIO %
2009/10	81.54
2010/11	78.59
2011/12	79.30
2012/13	81.05
2013/14	79.39

Over the counter, cash loans were introduced enabling customers to obtain speedy and easy loans against their fixed deposits, without documentation or guarantors. This service was facilitated through all branches in our network. The loans were extended at a reduced rate of interest as well.

SAVINGS

The savings base recorded an impressive growth of 198% to reach Rs. 786 Mn. during the year. Total accounts numbering over 73,000, generated a gross cash inflow of Rs. 6.1 Bn. compared to Rs. 2.1 Bn. the previous year. Going forward, we aim to widen our savings deposit base further.

We also offer attractive interest rates, well above banks and other financial institutions. Further, there is no minimum balance in play and interest payments are made irrespective of the balance maintained. Savings accounts were mobilised through various promotions such as the *Avurudu* Savings Campaign and Women's Day promotions during the year. The Super Surprise seasonal promotional campaign created a festive spirit among our savings account holders who lined up for a range of exciting gifts.

Additionally, we introduced a children's savings product named 'Kids Savings Account Fiesta' with a range of attractive gifts. The 'L B Finance Salary Saver' was introduced targeting the monthly salaried employees, with the offer of a range of benefits for the accounts holders. The many marketing and promotional campaigns helped to promote savings accounts and maintain a sustainable savings base during the year.

We also tied up with Lanka Clear for SLIPS (Sri Lanka Interbank Payment System) facility, enabling real time transactions, gearing us to handle all customer transactions. SLIPS is an online interbank electronic fund transfer system which facilitates paperless transfer of funds between interbank accounts. This has enhanced the efficiency and the security of the transactions. Our customers are facilitated through same day fund realisation of up to Rs. 5 Mn. per transaction. As a SLIPS participant our savings accounts are exposed to the e-payments spectrum as well.

In addition, the SMS alert facility was also introduced for the savings account holders. To augment the accessibility, we entered into multilateral ATM agreements with leading banks as well. A memorandum of understanding was signed with a leading insurance company to offer personal accident insurance to savings account holders during the year.

LENDING

Challenging macro economic conditions during the year affected our lending products. Subdued credit demand, increasing impairment and the gold loan crisis were the key factors that impacted our operations. Amid these conditions, we increased our lending portfolio by 9.99% to Rs. 49 Bn. as at the year end. The lending portfolio constituted 80.89% of the total asset base of the Company.

Our lending expansion strategy was focused on increasing volumes while ensuring the quality of the portfolio. A risk based pricing mechanism was introduced based on customer credit-worthiness.

Many promotional campaigns were launched to promote our lending products and attract new customers. For example we promoted leasing via SMS during the year. For the benefit of our lending customers we entered into strategic partnerships with motor vehicle agents as well. Internal structural changes were effected to offer an enhanced customer service by geographically segmenting our sales team and appointing new area managers. Several training programmes were conducted to hone the marketing skills of our marketing staff. This has helped us to reduce the lead times and improve customer service.

Products with variable interest rates were introduced in tandem with the varying interest rates. Our credit marketing staff was strengthened with the addition of new marketing staff during the financial year.

LEASING

Our reputation and identity is largely built on lease finance. Our lease portfolio which comprises of micro and other leases grew by 10.47% year on year. This is a commendable growth considering the competition from banks and other financial institutions and the increase in vehicle prices due to customs duties.

Lease customers increased by 23.36% during the year. We offer attractive interest rates compared to banks and a much speedier service compared to our peers.

During the year, we organised 'The big car fiesta' where the largest collection of brand new cars and jeeps were presented enabling customers to finance the vehicle of their choice.

MICRO LEASING

This is an attractive product for individuals who are deprived of financial necessities. Micro leasing is a boon to small scale businesses and self-employed individuals to make their businesses sustainable and profitable.

We cater to low and middle income earners who have limited access to alternative financing. This is also in line with the Government's agenda of promoting economic growth through financial inclusion.

We hold a competitive edge in terms of dynamic and friendly service provided by well trained and competent staff members of the Company. The island wide branch network has enabled us to reach customers across the country.

HIRE PURCHASE

The benefit of hire purchase facilities stems from its non-attraction of value added tax for registered vehicles in use for over 12 months. The hire purchase market share of finance companies contracted as banks tapped the hire purchase market. As a result, our customer base declined by 6.32% while the portfolio reduced by 3.71% year on year.

During the year, a 'Riya Pola' was organised facilitating vehicle buyers and sellers to meet. This also enabled customers to meet their financing requirements for used vehicles which in turn expanded the hire purchase portfolio.

VEHICLE LOANS

The loan which is offered based on customer requests has a flexible structure and is a substitute for hire purchase facilities. The vehicle loans portfolio increased by Rs. 3,973 Mn. to Rs. 7,304 Mn. as at the conclusion of the year.

MORTGAGE LOANS

This was introduced to cater to customers who do not have access to formal banking facilities. Since there was much potential in the market, a separate business unit was formulated to serve this segment. Our target is to offer small ticket mortgage facilities which banks are reluctant to cater to. We introduced a new feature to our mortgage loans with a variable interest and a longer tenor. During the year, our mortgage loan customer base was 392 and the mortgage loan portfolio increased by 193.09% year on year. Our aim is to promote this product under the 'roof for every family' concept in the future.

GOLD LOANS

Over the years, this has emerged as a pivotal product in our lending portfolio. Due to the significant decline in gold prices, the product has now become a challenge. Most of the key players in the market were reluctant to provide credit facilities through gold loans during the year. We have recognised the importance of this product as a microfinance instrument in meeting the funding requirements of the lower income segment.

We began several initiatives to provide a better service to our customers. These include providing training to gold loan marketing staff to serve our customers better and introduction of 'Ran Mithuru', facilitating instalment basis repayment. We also

waived off all relevant service fees of this particular product. Moreover, we have extended our working hours, to seven days a week and made our services more accessible to our customers by adding 8 new branches during the year. This has helped strengthen our competitive position.

We invested on a state-of-the-art gold loan system to offer a speedier and better service to our customers. Promotional campaigns were carried out covering every province and we reduced the gold loan lending rates as well.

Speedy disbursement of advances has made gold loans an attractive alternative compared to other financial instruments. The number of customers remained almost static while the portfolio dipped by 24.97% year on year. This was mainly due to the reduction in gold loan advances in order to keep in pace with gold loan market prices and auctions carried out during the year.

FACTORING

We provided our clients with innovative, tailor-made working capital solutions to meet their specific business requirements. We offer greater funding flexibility, supported by a custom built, state-of-the-art factoring and working capital management system. Our factoring services are primarily targeted towards the SME sector.

ISLAMIC FINANCE

The Islamic Finance Unit, under the brand name "Al Salamah", has shown a steady growth over the period since commencement of business in 2010. Guided by Sharia Law and closely monitored by a well experienced Sharia Supervisory Board. The Unit has under its portfolio three key products, namely 'Ijarah' leasing facilities, 'Murabaha' trade financing and 'Mudharabah' investment accounts. The public can avail themselves of the services of the Islamic Finance Unit through our island-wide branch network, as well as at dedicated stand alone centres in the outlets.

	2013/14	2012/13	2011/12	2010/11
Ijarah				
Portfolio (Rs. Mn.)	696	831	702	314
No. of customers	593	648	543	237
Murabaha				
Portfolio (Rs. Mn.)	657	436	262	184
No. of accounts	472	401	256	152
Mudharabah F/D				
Base (Rs. Mn.)	309	357	118	233
No. of customers	97	99	45	21
No. of contracts	188	201	69	43
Mudharabah (Savings)				
Base (Rs. Mn.)	35	11	-	-
No. of accounts	1,841	791	-	-

OTHER PRODUCTS

We also provide quick loans, power draft and margin trading.

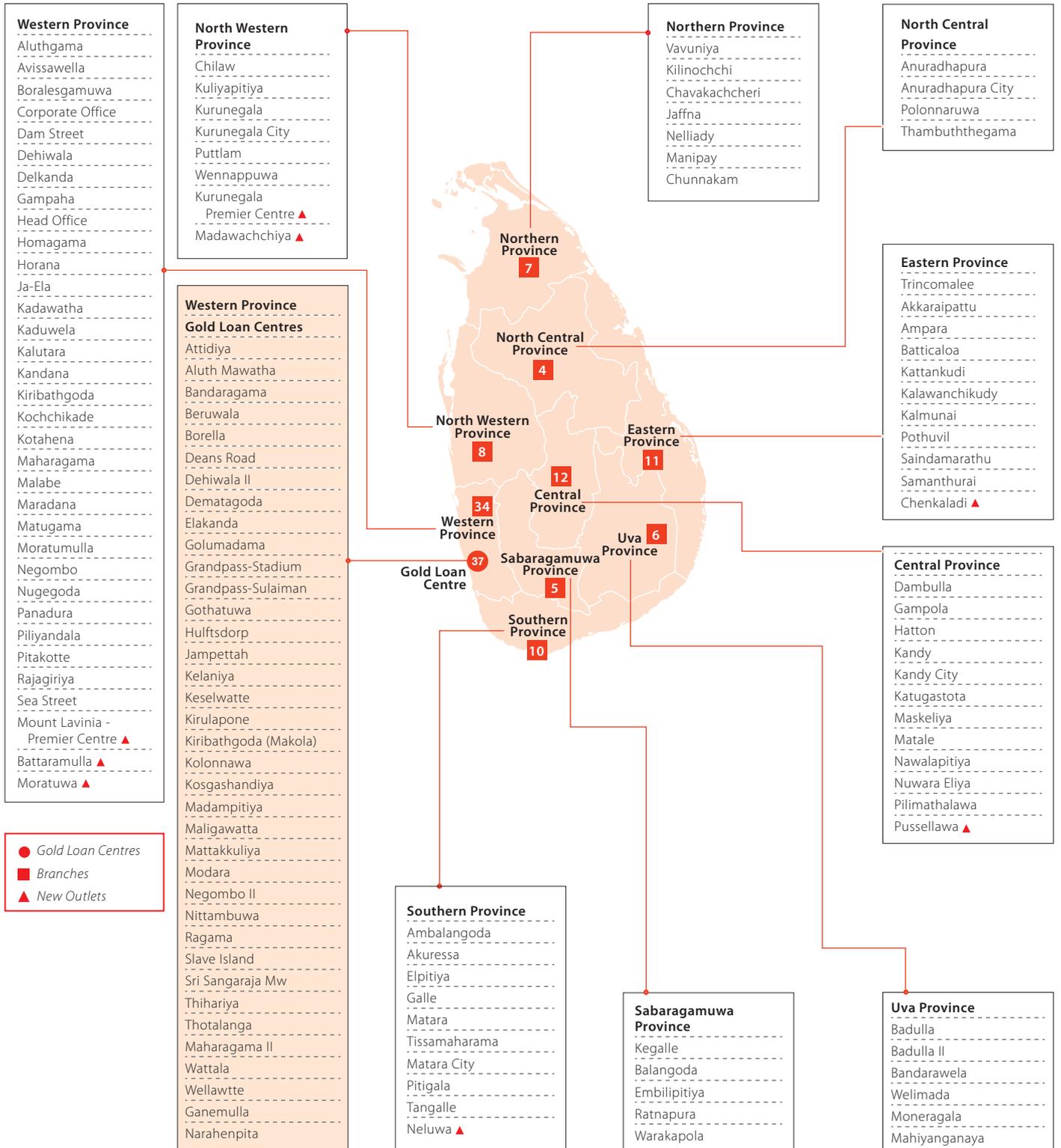
Power draft facility fulfills the short term financing requirements of customers by providing them with the required amount as and when they need it. The portfolio is Rs. 341 Mn. as at end of the year.

NEW PRODUCTS

DIRIMAGA

We aim at transforming informal lending markets, where customers are offered high interest rates into a more organised financial system through better service, low interest rates etc. We have identified a great potential in this market segment and hence, we provide credit facilities to the SME sector with attractive interest rates. The customers could settle loans on a daily basis which would have a lesser bearing on them. We have a dedicated marketing team who provides a door-to-door service. This facility can be obtained within a day.

Outlets



PERSONAL LOANS

This product was introduced to penetrate the banking segment. We maintain a competitive edge through the offer of a speedy service and comparatively lower interest rates. To promote flexibility, we offered fixed and variable interest rates. Moreover, this product is offered to our employees as well.

VALUE ADDED SERVICES

We have moved beyond our primary role as a pioneer and a provider of financial services to an enhanced role of offering value added services. Accordingly, we have engaged with companies such as Dialog, Mobitel, Airtel, Etisalat, Lankabell and Sri Lanka Telecom, thus offering customers easy and fast access to settlement of bills through our island-wide outlets. This facilitates mutually beneficial business outcomes for both parties. This is promoted and developed to provide a service to the general public, with special emphasis on service quality and convenience.

Going forward, our aim is to accommodate and facilitate all types of bill payments and we are confident of launching this in the ensuing financial year.

CUSTOMER SERVICE

We follow a customer-centric approach in all our key business functions. Each client is served by an exclusively assigned staff member. Our advertisements, leaflets and all 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.

Our footprint has been extended to reach customers in all parts of Sri Lanka to provide tailor-made financial solutions to suit their specific requirements.

CUSTOMER SATISFACTION

CUSTOMER COMPLAINTS HOTLINE

We take customer complaints very seriously and take proactive measures to address them. To facilitate this, significant improvements were effected to our Customer Complaints Unit during the year. Modifications were effected to enhance the processes of the unit while a Customer Relations Executive was appointed to share statistics on customer complaints with the Marketing Research Unit.

Post Customer Complaint Surveys are conducted by the Marketing Research Unit to effect the necessary changes to maximise customer satisfaction based on the findings. This mechanism has opened up a channel of communication for dissatisfied customers to express their views and get their concerns addressed in a personalised manner with proper follow up by an independent unit.

The hotline is published in all customer communiqués and is displayed at all our branches and centres as well. The reported customer complaints are classified into six main categories, namely; credit issues, recovery issues, insurance related issues, service delays, ambiguity in company letters and new business inquiries.

CUSTOMER SURVEY

GENERAL PUBLIC SURVEYS

In addition to customer surveys, we carry out general public surveys. These enable us to identify brand awareness about finance companies, reason for selecting mentioned brands, method of finding out about the Company and comments about L B Finance.

TELEMARKETING FOR REFINANCING

In order to enhance Customer Relations Management (CRM), we offer new customised facilities to our existing customers and also extend support to manage their ongoing facilities. A separate team has been assigned for this purpose to contact customers and coordinate with the sales staff.

OTHER METHODS

We conduct mystery shopper programmes to obtain feedback on customer service. These are carried out by local undergraduates giving them an opportunity to gather work experience.

FUTURE IMPROVEMENTS FOR CUSTOMER RELATIONS MANAGEMENT (CRM) AND MARKETING RESEARCH

Improving CRM strategies and conducting research on marketing and customer service would be key areas of emphasis of the Marketing Department in the ensuing financial year. Among planned actions are introduction of a Centralised Inquiry Management System (IMU) to follow up customer inquiries in an organised manner. Recording of customer complaints, introduction of a special CRM system to enhance customer relations and recruiting staff members for CRM are the other planned activities for the next year.

Walk-in customer surveys and internal Quality Circles will be conducted under Marketing Research and with specific focus on building relationship among customers, employees and shareholder. These will be carried out under the theme 'quality for sustainability.'

We have created internship opportunities for local undergraduates through our marketing research and CRM activities. Going forward we will make available more such opportunities for university undergraduates by making them a part of our market research team which provides vital and realistic market information to make key strategic decisions.

OTHER ASPECTS OF PRODUCT RESPONSIBILITY

All LBF's products and services are branded and advertised as per the given guidelines and marketing ethics in the industry. We have provided all the information required while advertising a product enabling the customers to understand the features of the product, whereas our customer relations officers are trained on all new products and new features of the existing products. Marketing Department headed by an Assistant General Manager leads the team, by providing necessary guidance for market development and ethical behaviour.

There have been no instances of non-compliance with any regulatory provisions concerning product, service and information, labelling etc. Likewise we have not been subjected to any fines in this context.

All products and services offered by the Company are fully in compliance with the edicts of the regulator, the Central Bank of Sri Lanka.

As regards customer privacy and its protection, L B Finance has taken several security measures in this context:

- Restrictions are in place with regard to providing customer information to third parties.
- L B Finance implemented ISO 27001 during the year to secure customer privacy.
- Implemented the CBSL security policy during the year.
- Every employee signs a contract of employment at the time of recruitment that contains a clause on customer privacy. All employees are expected to assume responsibility for securing and maintaining customer privacy.

L B Finance has not received any complaints as regards instances of breach of customer privacy.

EMPLOYEE CAPITAL

We have a team of 2,134 highly motivated employees who are responsible for the success of the organisation and we count on them to live our brand in every stakeholder interaction.

LABOUR PRACTICES AND DECENT WORK POLICY

We provide equal opportunities to all our employees and enable them to fulfil their career aspirations through training, skills development, motivation and creating a sense of team spirit. Opportunities are created to grow within the organisation resulting in high levels of achievements.

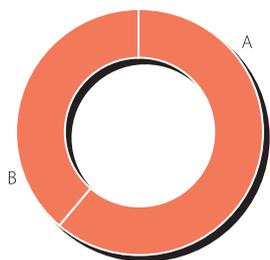
HUMAN RIGHTS POLICY

We ensure that no employee is subject to any sort of discrimination. Furthermore, we do not coerce employees to work against their will or subject them to punishment of any sort. Our strict adherence to ethical practices has enabled to maintain a zero tolerance policy towards corruption in all our transactions.

TOTAL WORKFORCE BY REGION AND GENDER

PROVINCE	2013/14				2012/13				2011/12			
	NO. OF OUTLETS	NO. OF EMPLOYEES			NO. OF OUTLETS	NO. OF EMPLOYEES			NO. OF OUTLETS	NO. OF EMPLOYEES		
		MALE	FEMALE	TOTAL		MALE	FEMALE	TOTAL		MALE	FEMALE	TOTAL
Central	12	121	74	195	11	104	61	165	10	101	54	155
Eastern	11	64	44	108	10	56	39	95	9	62	28	90
Northern	7	48	35	83	7	83	46	129	7	36	35	71
North-Central	4	50	18	68	4	34	13	47	6	41	30	71
North-Western	8	66	39	105	6	68	43	111	6	52	25	77
Sabaragamuwa	5	59	26	85	5	53	24	77	5	33	24	57
Southern	10	104	72	176	9	88	57	145	7	26	23	49
Uva	6	38	15	53	6	62	35	97	4	38	21	59
Western	71	757	504	1,261	68	696	493	1,189	58	639	411	1,050
Total	134	1,307	827	2,134	126	1,244	811	2,055	112	1,028	651	1,679

GENDER COMPOSITION 2013/14 AND 2012/13



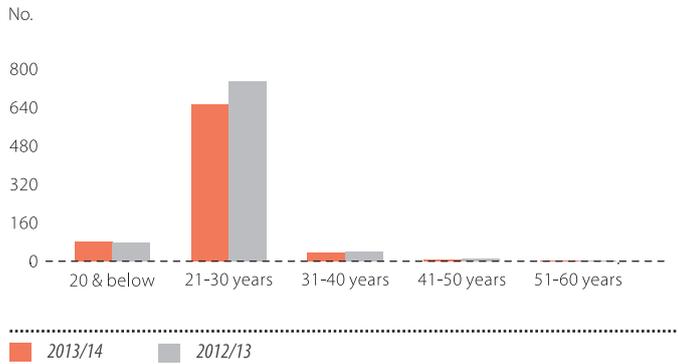
A - Male 61%
B - Female 39%

TYPE	2013/14	2012/13
Male	1,307	1,244
Female	827	811

TOTAL NO. OF NEW EMPLOYEES HIRED BY AGE

AGE	NO. OF NEW EMPLOYEES	
	2013/14	2012/13
51-60 years	3	2
41-50 years	7	10
31-40 years	38	39
21-30 years	655	748
20 and below	80	76
Total	783	875

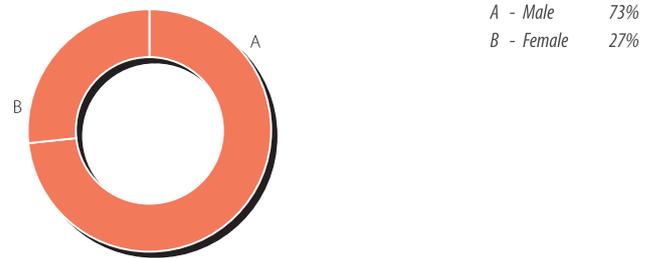
TOTAL NUMBER OF NEW EMPLOYEES HIRED BY AGE



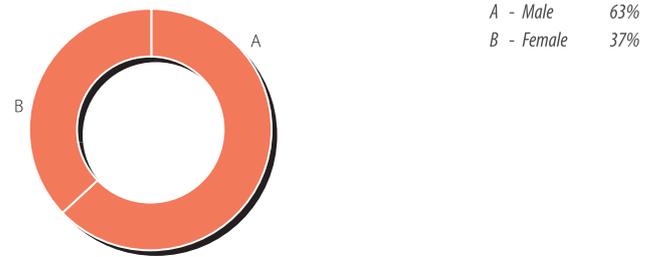
TOTAL NO. OF NEW EMPLOYEES HIRED BY GENDER

GENDER	NO. OF NEW EMPLOYEES	
	2013/14	2012/13
Male	574	547
Female	209	328
Total	783	875

NEW EMPLOYEES HIRED BY GENDER - 2013/14



NEW EMPLOYEES HIRED BY GENDER - 2012/13



TOTAL NO. OF EMPLOYEE ATTRITION BY AGE

AGE	2013/14	2012/13
51-60 years	4	4
41-50 years	7	3
31-40 years	48	55
21-30 years	623	424
20 and below	2	13
Total	684	499

TOTAL NO. OF EMPLOYEE ATTRITION BY GENDER

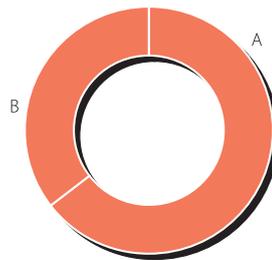
GENDER	2013/14	2012/13
Male	494	322
Female	190	177
Total	684	499

EMPLOYEE ATTRITION BY GENDER - 2013/14



A - Male 72%
 B - Female 28%

EMPLOYEE ATTRITION BY GENDER - 2012/13



A - Male 65%
 B - Female 35%

As one of the leading companies in the NBFi sector, we recruit and train school leavers at entry levels, contributing to reduction of unemployment in Sri Lanka. These employees are provided with extensive training and in-depth industry knowledge. They are highly sought after by most of our competitors due to their ability to perform. Hence, our trained staff members are recruited by competitors resulting in high attrition rates.

COMPOSITION OF THE BOARD AND EMPLOYEES BY EMPLOYEE CATEGORY

CATEGORY	2013/14	2012/13	2011/12
Senior Management	23	20	19
Middle Management	136	108	83
Executive	731	497	341
Clerical	1,177	1,360	1,176
Minor	67	70	60
Total	2,134	2,055	1,679

OVERALL HR STRATEGY

HR STRATEGY		
Attract	Develop	Retain
• Regional inclusion	• Training	• Remuneration
• Diversity	• Development	• Reward and recognition
• Equal opportunity	• Appraisal	• Benefits
		• Effective labour relations
		• Health and safety

ATTRACT

We seek to attract people of talent, aptitude and aspiration who are passionate about excelling in their positions. Therefore, our strategies, policies and procedures have been formulated to develop and retain people as we sincerely believe that our team of employees is our greatest asset.

As an equal opportunity employer, we recruit from local communities based on business requirements whenever possible. We have a zero tolerance policy towards child labour and forced or compulsory labour. There were no reported cases of human rights violations during the financial year.

PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY

All recruitments to senior management positions are drawn locally. Preference is given to recruitment from localities to fill up senior management vacancies in the branches. Commuting distance and the preferred location is taken into consideration when placements arise from diverse locations of our business operations. All our members recruited to the senior management are from the local communities during the year under review.

DEVELOP

Training and developing our talent pool is a key strategy in facilitating a performance-oriented culture.

Training needs are identified based on the business needs, career development needs and employee potential through regular performance assessments. Given below are the methods of identifying employee training needs:

- Individual analysis based on annual staff appraisal
- Competence mapping in identified work areas
- Consultation with departmental heads and line managers
- Focused group discussions
- Directions from the Board of Directors

Depending on the needs, the relevant employees are given training through one of the following training and learning interventions:

- Internal training programmes
- External local programmes
- Overseas training programmes
- Job rotation
- Special assignments
- On-line learning
- Regular knowledge sharing forums and guest lectures
- Orientation for all new recruits

AVERAGE TRAINING HOURS PER EMPLOYEE CATEGORY

CATEGORY	2013/14	2012/13	2011/12
Senior Management	62	2	5
Middle Management	142	31	83
Executive	612	1,051	341
Clerical	215	990	1,176
Minor	24	56	75
Total	1,055	2,130	1,680

TRAINING PROGRAMMES CONDUCTED

CATEGORY	2013/14	2012/13	2011/12
No. of Programmes	106	43	37
No. of Participants	4,859	2,130	610
Total Training Cost (Rs.)	3,747,300	6,457,256	1,789,205

Our approved employer status with professional organisations and universities is testament of our mentoring culture. We provide our trainees and interns with relevant supervised training in specific areas to enable them to gain membership with these organisations which is certified by their line managers. We also encourage our staff members to obtain professional qualifications through the reimbursement of examination fees on successful completion of each part of the qualification.

We have conducted four key training programmes for the Company's security personnel on the human rights policies or procedures that are relevant to operations. Given below are the details:

TRAINING PROGRAMMES CONDUCTED FOR SECURITY PERSONNEL

PROGRAMME NO.	NO. OF PARTICIPANTS	TRAINING HOURS	MAN HOURS
01	110	4	440
02	42	4	168
03	115	2	230
04	133	4	530
	400	14	1,368

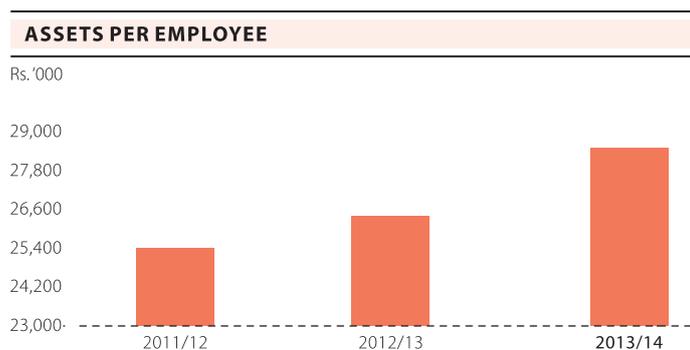
APPROVED EMPLOYER PROGRAMMES - 2013/14

ORGANISATION	NO. OF TRAINEES/ INTERNS DURING THE YEAR
The Institute of Chartered Accountants of Sri Lanka	13
Chartered Institute of Management Accountants UK	4
Association of Accounting Technicians, Sri Lanka	5
The Association of Certified Chartered Accountants	1
University of Sri Jayewardenepura	2
University of Colombo	1
University of Kelaniya	1
Open University of Sri Lanka	1

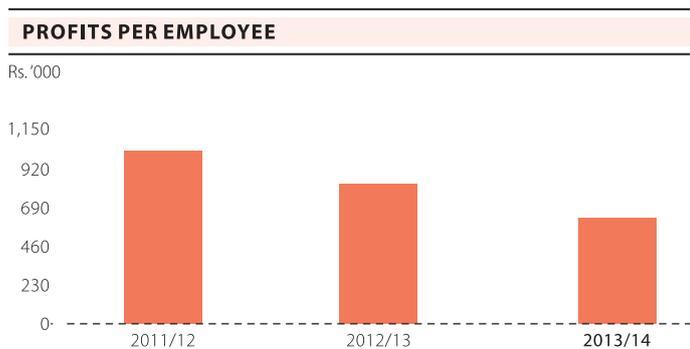
SUPPORT FOR LIFE LONG LEARNING - 2013/14

ORGANISATION	NO. OF PROFESSIONAL SUBSCRIPTION BENEFICIARIES
The Institute of Chartered Accountants of Sri Lanka	8
Chartered Institute of Management Accountants UK	3
Chartered Institute of Marketing	2
Chartered Financial Analyst	2

The following indicators demonstrate the level of productivity:



CATEGORY	2013/14	2012/13	2011/12
Assets per employee (Rs.)	28,497,835	26,385,819	25,395,119



CATEGORY	2013/14	2012/13	2011/12
Profits per employee (Rs.)	627,942	828,280	1,020,842

RETAIN

Our target employee retention rate is 70%, which we have surpassed during the financial year.

Our retention strategy focuses on remuneration, reward and recognition, benefits and effective labour relations. The remuneration offered by us is either on par or above the non-banking financial sector and higher than the minimum wage rates prevailing in the country. In addition, all permanent employees are entitled to attractive benefits as well.

We also recognise exceptional achievements of our employees and reward and acknowledge their contribution to the organisation. A written Code of Conduct is made available on the intranet and introduced at orientation courses to ensure that all employees are aware of the standard of conduct expected of them. We also encourage work life balance and promote efficient work practices in our organisation. Creating a safe and conducive work environment is also of prime importance to us.

Permanent employees are entitled to various benefits in addition to their remuneration. These benefits include -

- Performance related bonus
- Fuel allowance for middle management and transport allowance for marketing staff
- Staff loans at concessionary rates
- Contributions to EPF, ETF and gratuity
- Medical benefits - health insurance
- Personal accident insurance
- Compensation in the case of a death of an employee
- Reimbursement of professional membership fees

Fostering a performance oriented and team working culture, respecting individual capabilities, beliefs, skills and knowledge is a key pillar of our retention strategy.

Several social events were organised during the year to encourage informal employee interactions and foster employee talents. The annual sports day and religious ceremonies were some of the events organised.



REWARD AND RECOGNITION

Programmes to recognise exceptional achievements of employees are held annually. High achievers in defined areas of business were rewarded and their contribution to the organisation was acknowledged during the year. This recognition was extended to family members of the employees as well. The top three performing children of our employees who sat for the grade 5 scholarship examinations were awarded gifts.

WAGE POLICY

The Shop and Office Employees Act does not indicate the minimum wage of employees. However, through market research and corporate peers, we ensure that we are up-to-date on wage practices in the service industry. Hence, all the employees of the Company are paid well above the standard minimum wage as per the labour laws in the country.

HEALTH AND SAFETY

Creating a healthy work life balance is an integral component of improving productivity of the staff members. Therefore, we have taken several initiatives to improve health and safety and create

a conducive work environment. Some of these initiatives are detailed below:

- Walking club - This was formed under the theme 'Walking the Way to Health'. It promotes a health conscious lifestyle while enhancing the physical and psychological health balance of the employees. No lift day - Another project carried out under the theme of 'Walking the Way to Health'. The staff members and customers are encouraged to use the stairs instead of the elevator, contributing to improved health and reducing carbon footprint. The message was conveyed through attractive banners displayed on each floor of the office complex.
- Photographic club - This was initiated under the theme of 'See the World in Different Angle' to make the enjoyment of photography accessible to all staff by making another stress management skill that employees can use to relieve stress and promote good mental health.
- Eye camp - An event organised for employees to get free vision checkups. An optician was partnered to obtain special discounts on spectacles for the employees.
- Training on first-aid - A training programme was organised on first-aid to raise awareness and provide guidance on essential first-aid tips which is useful at home and work.
- World Day for Health and Safety at Work - Raised awareness among the staff members on basic first-aid, including emergency action plans, Cardio Pulmonary Resuscitation (CPR), choking and drowning, recovery position, bleeding management and shock, fracture management and dealing with extremes of heat and cold. The objective of this programme was to enhance the standard of work life and raise awareness on dangerous health issues.

- Project on importance of drinking water - This was initiated based on a survey carried out among staff members on their intake of water during the day. Since it was observed that employees do not pay much attention to this important aspect, the CSR committee carried out awareness programs harping the importance and advantages of effective intake of water.
- Fire drill - A fire drill was organised in partnership with Fentons and the Fire and Rescue Division of the Colombo Municipal Council. This was carried out under the theme of 'Fire Safety Equals Life Safety.'



RETURN TO WORK AND RETENTION RATE AFTER MATERNITY LEAVE

DESCRIPTION	2013/14
No. of employees entitled for maternity leave	36
Total No. of employees who took parental leave	36
Total No. of employees who return to work after parental leave	32
Total staff retention after taking parental leave	4
Return to work rate (%)	88.89

RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN

DESCRIPTION	FEMALE	MALE
Average basic salary per month (as at 31st March 2014)	18,385	27,940
Ratio of basic salary	1	1.52

GRIEVANCE HANDLING

No grievances were forwarded through the formal grievance handling mechanism. Grievances that were raised during the year were handled at branch level.

CHILD LABOUR AND FORCED LABOUR

We do not engage children in employment in accordance with International Labour Organisation (ILO) - C138 - Minimum Age Convention of 1973. Any individual under 18 years of age is not employed in the Company.

Furthermore, we do not encourage any form of forced or compulsory labour. Hence, no employee is forced to work against his/her will.

BUSINESS PARTNER CAPITAL

We have a policy of working with local suppliers whenever possible. Our branches source their requirements from suppliers in their localities. We engage with suppliers on a regular basis through meetings and supplier forums where information is exchanged on expected service levels and prospects for business growth. Apart from the above, we interact with suppliers informally as well through supplier events both at branch and corporate level to show our appreciation for their services. Procurement mechanism and procedures are also in place to ensure timely payment for invoices received.

Our partners are as follows:

- Energy and telecommunication services providers
- IT hardware, software and stationary items suppliers
- Vehicles suppliers
- Furniture and equipment suppliers
- Individual building owners
- Outsourced security services
- Water, food and beverage providers
- Insurance companies, lawyers and law firms, auditors and valuers
- Courier services, cash transporters and goods transporters and cab services
- e-waste and paper recycling companies

We have signed memorandum of understanding with the following parties:

- Leading automobile agents to provide favourable terms of financing and facilities for certain brands of vehicles.
- Insurance companies to build long term partnerships and pass the benefit to the customers.
- Telecommunication service providers and utility service providers to establish the Company as a network collection hub. This provides customers more convenience for bill payments.

LEGISLATOR AND REGULATOR CAPITAL

The Government institutions which impact the operations of the Company are:

- Central Bank of Sri Lanka
- Department of Inland Revenue
- Securities and Exchange Commission of Sri Lanka
- Colombo Stock Exchange
- Department of Motor Traffic
- Sri Lanka Accounting and Auditing Standards Monitoring Board
- Department of Registrar of Companies

Compliance is a key aspect in our operations. As a responsible corporate citizen, we comply with all applicable laws, statutes and regulations.

The compliance function of the Company for which the Board Integrated Risk Management Committee has oversight ensures that regular compliance checks are carried out on key business aspects. No any monetary value of significant fines and non-monetary sanctions were noted during the year.

The following exemptions were received from Income Tax under Inland Revenue Act No.10 of 2006 as financial assistance from the Government. These investments were received on certain loans granted by the Company and investments made during the year.

- Interest income on loans granted through the Investment Fund Account created by the Company [section 13: xxxxxx]
- Interest income on Government Treasury Bonds purchased through the Investment Fund Account [section 13: xxxxxx]
- Capital gains earned on investments in Sri Lanka Development Bonds issued by the Central Bank of Sri Lanka [section 13 : xxxx and 13: xxxx (ii)]
- The Company claimed notional tax credit on interest income earned on investments in Government Treasury Bills and Bonds [section 137 (1)]
- Withholding tax on fixed deposits

Summarised below is the notional tax credit and Withholding tax claimed by the Company.

TAX	2013/14	2012/13
Notional tax credit claimed	40,512,837	29,535,499
WHT on interest	35,468,416	16,179,453

TAXES PAID TO THE GOVERNMENT

INDICATOR (RS.)	2013/14	2012/13	2011/12	2010/11	2009/10
Income tax	459,412,480	813,582,696	720,951,365	596,047,219	339,282,347
Value added tax	–	–	–	38,361,356	88,934,483
VAT of financial services	72,713,432	149,291,256	160,210,780	231,822,951	145,401,490
Nation building tax	1,400,612	6,442,117	–	–	–
NBT on financial services	7,297,600	–	–	–	–
Economic service charges	–	–	120,000,000	92,518,089	64,016,161
Crop insurance levy	13,162,973	–	–	–	–
Withholding Tax (Collected on behalf of Government)	157,927,167	176,423,702	76,074,319	45,265,708	41,483,807

SOCIAL AND ENVIRONMENTAL CAPITAL

SOCIAL POLICY

We are committed to enhancing the quality of life of our stakeholders through establishing mutually beneficial relationships with all stakeholder groups.

A CSR Committee was established to drive the Corporate Social Responsibility agenda of the Company. The Committee identified key areas to launch CSR projects with the support of the staff members.

A volunteering policy was formulated to guide and encourage staff members under the slogan ‘Do More, Do Better and Reach Further’ contributing to saving lives and changing mindsets of people.

Accordingly, a total of 43 CSR projects were implemented by us during the year, while 15 more projects are in the pipeline. The total CSR expenditure for the year was Rs. 7.9 Mn.

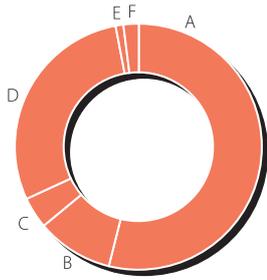
Going forward we aim to carry several more CSR activities under our 6 CSR themes.



CSR PROJECTS UNDERTAKEN DURING THE YEAR

CSR LOGO	DESCRIPTION	NO. OF PROJECTS	CSR COST (RS.)	COST (%)	NO. OF EMPLOYEES PARTICIPATED
	Company focuses on improving the awareness of the need to preserve our environment and to take positive actions. Our environment initiatives are categorised into two broad segments, namely the workplace and the community, for which the Company takes efforts to promote sustainable development.	10	4,295,296	54	90
	Improve and facilitate the children of the country for their betterment in terms of educations, sports and aesthetic while empowering the younger generation to have a sustainable education.	11	831,436	11	92
	Our health first programmes are common to internal and external stakeholders. We invest in health in order to create a healthy work life balance of the employees whilst similar focus is given on external stakeholders that in turn help us to derive value for the Company.	5	288,195	3	51
	Our help first culture believes helping others should be a natural extension of every business leader’s responsibility. We invest in this category in order to support every aspect of the society for which we consider important for sustainable development in our country.	12	2,320,993	29	109
	The Company has accepted its responsibility in preserving the culture and heritage by attempting to promote and pursue the proud traditions and customs in the country.	2	38,600	1	35
	Our safety first culture ensures that risks are identified and addressed swiftly and decisively. We invest in safety training to ensure that our employees can handle any situation with the utmost professionalism. Nothing is more important to us than the safety of our employees and all external stakeholders, and our initiatives are testament to that commitment.	3	179,002	2	12
TOTAL		43	7,953,522	100	389

COST COMPOSITION OF CSR PROJECTS



A - Environment 1st	54%
B - Future 1st	11%
C - Health 1st	3%
D - Help 1st	29%
E - Heritage 1st	1%
F - Safety 1st	2%

PROMOTING IT LITERACY

We have recognised the importance of promoting IT literacy among the younger generation to ensure sustainability of technological innovations. Hence, we commenced building IT labs for the less-privileged students in the communities we operate. Our aim is to build at least one IT lab per year with the support of our IT team. Under this project we donated computers to Sri Amarawansa Vidyalyaya in Piliyandala, in order to enhance IT literacy among the students.

MAIN CSR PROJECTS IMPLEMENTED DURING THE YEAR

- Organised seminars to customers who have obtained three wheeler leasing facilities. The objective was to motivate them to be more professional while making them acceptable individuals in the society. Furthermore, this raised awareness of their contribution to the economy.
- Leaflets containing vehicle safety tips were handed out to customers, to minimise road side accidents. We aim to continue this project in the future as well.
- Gates were installed at unprotected railway crossings in Beruwala to eliminate accidents that could occur in such places.

- We conducted many projects to upgrade infrastructure facilities in schools. Some of these projects were:
 - Distribution of educational books to the library of Rasini Devi Vidyalyaya in Kandy. This enabled to increase the availability and access to educational books and upgrade library facilities. The objective was to hone reading and writing skills of children which would facilitate a better future for them.
 - Conducted an art competition for children of customers in the Ambalangoda Branch and another art competition themed 'Kids Savings Project' in Negombo to commemorate the 6th anniversary of the branch.
 - Sponsored an O/L Seminar for students in the Moneragala District in collaboration with the Science Society of the University of Colombo.



- Renovated the A/L classrooms of Thabbowa Maha Vidyalyaya.
- Kurunegala branch organised a *Poson Dansala* which is an annual event of the branch.

- Initiated a cleaning campaign to clean up the Negombo beach by supplying garbage bins, cleaning facilities and equipment to facilitate the process.



- To commemorate World Malaria Day an awareness campaign was initiated to curb the spread of malaria. To support this, we provided water dispensers to maintain hygiene and cleanliness in the surroundings. This was conducted in the Anuradhapura District in collaboration with the Health Unit of the Anuradhapura Hospital.
- Provided raw materials and labour to construct a dental ward in the Kuliyapitiya Hospital to promote hygienic dental care among the public.
- A blood donation campaign was organised by the Head Office along with the Boralessgamuwa and Jaffna branches, contributing to saving of lives.
- Donated cataract lenses to needy patients. This has been an ongoing project of the Company for the last couple of years.
- We contributed towards the Metro Colombo Urban Development Project implemented by the Municipal Council of Colombo City by placing side dividers on either side of our Corporate Office. In addition, we sponsored road direction boards and a gantry with environmental conservation messages.

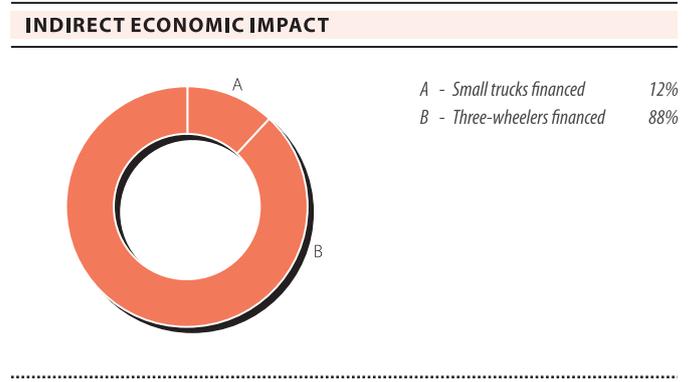
- We distributed forest ranger outfits to field officers in the Wilpattu National Park in order to assist conservation efforts.



- Installed informative notice boards based on the '5S system' at the Beruwala police station, for the convenience of the public and also to improve the standards of the Beruwala police station.

SIGNIFICANT INDIRECT ECONOMIC IMPACTS

Given below is the composition of total number of three wheelers and small trucks financed during the year. Through this we have been able to uplift the standards of living in those communities.



COMPLIANCE

There were neither significant monetary fines nor any non-monetary sanctions for non-compliance with laws and regulations reported during the reporting period.

ENVIRONMENTAL POLICY

Our environment policy endorses our commitment to conserving the environment. Therefore we actively participate in environmental conservation activities through planning and implementing green initiatives in our Head Office and the branch network. Moreover, methods such as re-use and recycle are followed towards being a carbon conscious organisation. Green initiatives are promoted to encourage efficient use of energy as well.

We are actively involved in the e-waste management programme conducted by Think Green (Pvt.) Ltd. Accordingly; all our electronic waste is disposed responsibly without harming the environment. This is a continuous process under our 'Environment 1st' CSR initiative.

Several initiatives were taken to strengthen awareness on preserving our environment and taking positive actions in this regard. Our environmental initiatives are categorised into two broad segments, namely the workplace and the community.

We recognise that our operations exert direct and indirect impacts on the environment. We strive to actively manage those impacts to ensure long term sustainability of the Company and the environment.

An Environment Policy has been developed under the theme 'Let's Get Together to Protect Our World.'

Green initiatives during the year under review

METRIC	2013/14
Carbon footprint	
- Direct GHG Emissions	411.65 tons of CO₂ equivalent
- Electricity indirect GHG Emissions	1,330.81 tons of CO₂ equivalent
- Other indirect GHG Emissions	881.75 tons of CO₂ equivalent
Total energy consumption (kwh)	1,753,858
Energy intensity ratio (per employee)	821
Total water consumption (units)	184,758
Volume of papers consumed (kg)	89,926
Total waste sent for recycling/re-use (kg)	2,378
e-waste collected and recycled (kg)	656

We aim to become a Carbon Neutral Company. Therefore a comprehensive energy audit was carried out. We plan to take necessary actions based on the audit findings and promote efficient energy usage to reduce our Carbon footprints.

During the year under review, we launched the following five key initiatives in this regard:

1. CONTROLLING GLOBAL WARMING AND CLIMATE CHANGE

- Carbon footprint - We took the initial steps towards measuring Carbon footprint and thereby obtained Carbon conscious status during the year.
- Tree planting project - This project was formulated under the theme 'Plant a Tree Plant a Hope' with the aim of distributing 100,000 plants. The initiative was kick started, by distributing 680 plants among our employees. Employees were incentivised to take care of the trees planted.



- L B Green Lease - Hybrid vehicles which are environmentally friendly were promoted in order to create a greener national consciousness. During the financial year, 133 Hybrid vehicles were financed by us compared to 39 the previous year. Going forward, we aim to promote this further.

2. ENERGY AND FUEL MANAGEMENT

- Program on power saving - A series of awareness programmes were conducted on efficient use of energy at the work place and households.
- Efficient energy practices at work place - As a Company policy, several initiatives were launched to promote energy saving. These include, using LED lighting, reducing elevator running hours, using lesser lighting on sign boards, monitoring branch energy consumption at night and shutting-off central air conditioning after standard working hours.

- Initiatives were taken to formulate a 'green team' consisting of green members representing all outlets and business units of the Company. This was established to further promote energy conservation and environmental preservation within the Company.

3. WATER MANAGEMENT

- We use taps with spray attachments, to reduce water flow liters per minute.

4. WASTE MANAGEMENT

- E-waste management - The objective of this project is to minimise damage caused by e-waste to the environment and human health. Responsible recycling is promoted to achieve this goal. The project systemises and adopts green compliance for sustainable management of electronic waste. The concept was promoted within the Company and then among the employees. Going forward we plan to collaborate with the Central Environmental Authority to promote safe disposal of e-waste. In addition, refilled printer toners are used.
- Paper recycling - We aim to minimise adverse impact on the environment through minimal use of paper. We contribute towards preserving our forests for future generation through reducing the number of trees that needs to be cut down. During the financial year, we have recycled 2,378 kgs of paper which is equivalent to saving 40 fully grown trees, 4,173 liters of oil, 9,512 kwh of electricity, 75,573 liters of water and 7 cubic meters of land fill.

5. MATERIAL MANAGEMENT

We implemented the following initiatives to optimise material usage during the year:

- Introduction of a Document Management System to digitise all documents
- Introduction of a Paperless Boardroom Solution
- Promoting e-marketing
- Launching SMS marketing and alerts
- Promoting 3R (Reduce, Re-use and Recycle) concept
- Discourage printing of e-mails

BOARD OF DIRECTORS



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MR. THOSAPALA HEWAGE**Chairman**

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. In addition, 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 41 years of experience as a professional Development Administrator and Natural Resource Manager.

Appointed to the Board: On 23rd April 2013 and appointed as the Chairman on the same day.

Membership of Board Sub-Committees: Chairman of the Remuneration Committee

Current appointments: None

Former Appointments: Ambassador in Nepal from 2009 to 2012 prior to which he was Secretary to the Ministries of Ports & Aviation, Enterprise Development and Investment Promotion, Urban Development and Water Supply, Environment & Natural Resources. Additional Secretary to the Ministry of Forestry & Environment (Policy Planning), Additional Director General of Southern Development Authority (Ministry of Finance and Planning) and Director, Ministry of Lands, Irrigation & 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.

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MR. DHAMMIKA PERERA**Executive Deputy Chairman**

Skills and Experience : Mr. Dhammika Perera is the 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 over 26 years of experience in building formidable businesses through unmatched strategic foresight.

Appointed to the Board : On 22nd October 2002, He was appointed as the Chairman of the Board of Directors on 7th October 2010 and Executive Deputy Chairman on 21st October 2011.

Membership of Board Sub-Committees : None

Current Appointments : He currently holds the position of Secretary to the Ministry of Transport, Sri Lanka. He is also a member of the Board of Directors of Strategic Enterprise Management Agency (SEMA).

Mr. Perera is the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Finance PLC, Vallibel Power Erathna PLC, The Fortress Resorts PLC and Delmege Limited. He is the Deputy Chairman of Hayleys PLC, Royal Ceramics Lanka PLC, Horana Plantations PLC, and Lanka Ceramic PLC. He also serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, The Kingsbury PLC, Dipped Products PLC, Lanka Tiles PLC, Orit Apparels Lanka (Pvt) Limited and Sun Tan Beach Resorts Ltd.

Former Appointments : Chairman and Director General , Board of Investments, Sri Lanka.

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MR. LALIT N DE S WIJEYERATNE**Independent Non-Executive Director**

Skills and Experience : Fellow of the Institute of Chartered Accountants in Sri Lanka and counts over 35 years of experience in Finance and General Management both in Sri Lanka and overseas.

Appointed to the Board : On 1st November 2008 and functioned as the Acting Chairman during the period 21st October 2011 to 21st August 2012.

Membership of Board Sub-Committees : Chairman of the Audit Committee and Nomination Committee and a Member of the Remuneration Committee.

Current Appointments : He is presently a Director of DFCC Vardhana Bank, The Fortress Resorts PLC, Hotel Services Ceylon PLC, Talawakelle Tea Estates PLC, Nuwara Eliya Hotels PLC, Property Development PLC, Rockland Distilleries (Pvt) Limited and Delmege Limited.

Former Appointments : He was the Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held Senior Management positions at Aitken Spence & Company, Brooke Bonds Ceylon Limited and Zambia Consolidated Copper Mines Limited.

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MR. J A S SUMITH ADHIHETTY*Managing Director*

Skills and Experience: A well-known professional in the marketing field. He has over 33 years of experience in the finance sector.

Appointed to the Board: On 10th December 2003.

Membership of Board Sub-Committees: Member of the Nomination Committee and Integrated Risk Management Committee.

Current Appointments: Serves on the Board of Vallibel Finance PLC, Vallibel One PLC and Pan Asia Banking Corporation PLC. He is also the Managing Director of The Fortress Resorts PLC.

Former Appointments: He was formerly the Deputy Managing Director of Mercantile Investments Limited and served as a Director of Nuwara Eliya Hotels Company Limited, Grand Hotel (Pvt) Limited, Royal Palm Beach Hotels Limited, Tangerine Tours Limited and Security Ceylon (Pvt) Limited.

5

MR. NIMAL PERERA*Executive Director*

Skills and Experience: Counts over 31 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services. Mr. Perera, is a member of the Sri Lanka Institute of Marketing.

Appointed to the Board : On 2nd September 2003 and was designated as Executive Director on 1st September 2012.

Membership of Board Sub-Committees : None.

Current Appointments : In the director panel since 2003, Mr.Nimal Perera also serves on boards of Pan Asia Banking Corporation PLC, Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramics PLC, Horana Plantations PLC, Swisstek Ceylon PLC, as the Chairman, Royal Ceramics Lanka PLC as the Managing Director, Vallibel One PLC as the Deputy Chairman, Vallibel Power Erathna PLC and The Fortress Resorts PLC as Alternate Directors. Holds directorships in Hayleys PLC, Haycarb PLC, Thalawakele Tea Estates PLC, Kingsbury PLC, Vallibel Finance PLC, and Amaya Leisure PLC. He is a renowned business magnate, stock trader and shareholder of many companies in the country.

6

MR. NIROSHAN UDAGE*Executive Director*

Skills and Experience : Holds a Bachelor's Degree in Science from the University of Colombo and possesses 24 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 Intentional Development Ireland Limited in Dublin and London on Strategy and Management in Banking and also successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA.

Appointed to the Board : As a Director of L B Finance PLC on 1st January 2007.

Membership of Board Sub-Committees: Member of the Integrated Risk Management Committee.

Current Appointments : He serves as a Director of Hayleys Fibre PLC with effect from December 2011.

7

MR. B D A PERERA*Executive Director*

Skills and Experience: Counts over 17 years of experience in the Leasing Industry that includes positions at Commercial Leasing Company Limited, Lanka Orix Leasing Company PLC and a merchant bank in Bangladesh. Mr. Perera is 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 Jayewardenepura. He has also successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA.

Appointed to the Board : As a Director of L B Finance PLC on 1st January 2007

Membership of Board Sub-Committees : Member of the Integrated Risk Management Committee.

Current Appointments : He serves as a Director of Hayleys Fibre PLC with effect from December 2011.

8

MS. KIMARLI FERNANDO*Independent Non-Executive Director*

Skills and Experience: Mrs. Kimarli Fernando holds a LLB (Hons) from the London School of Economics and Political Science, London, UK. She is a Barrister-at-Law, Lincoln's Inn, UK (1987) and an Attorney-at-Law, Sri Lanka. She has more than 24 years of experience in the field of banking.

Appointed to the Board : Appointed to the Board of L B Finance PLC on 26th August 2008.

Membership of Board Sub-Committees : Member of the Remuneration Committee, Integrated Risk Management Committee and the Nomination Committee.

Current appointments : Director of Vallibel One PLC, National Development Bank PLC, Delmege Limited and Sri Lanka Sustainable Energy Authority

Former appointments : Senior positions at Pan Asia Banking Corporation PLC, Standard Chartered Bank, Sri Lanka and Deutsche Bank AG, Sri Lanka.

9

MS. SHIRANI JAYASEKARA*Independent Non-Executive Director*

Skills and Experience : She has over 30 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 : Appointed to the Board of L B Finance PLC on 25th August 2010.

Membership of Board Sub-Committees : Chairman of the Integrated Risk Management Committee and Member of the Audit Committee

Current appointments : Director of Asian Hotels PLC, a subsidiary of John Keells Holdings PLC.

10

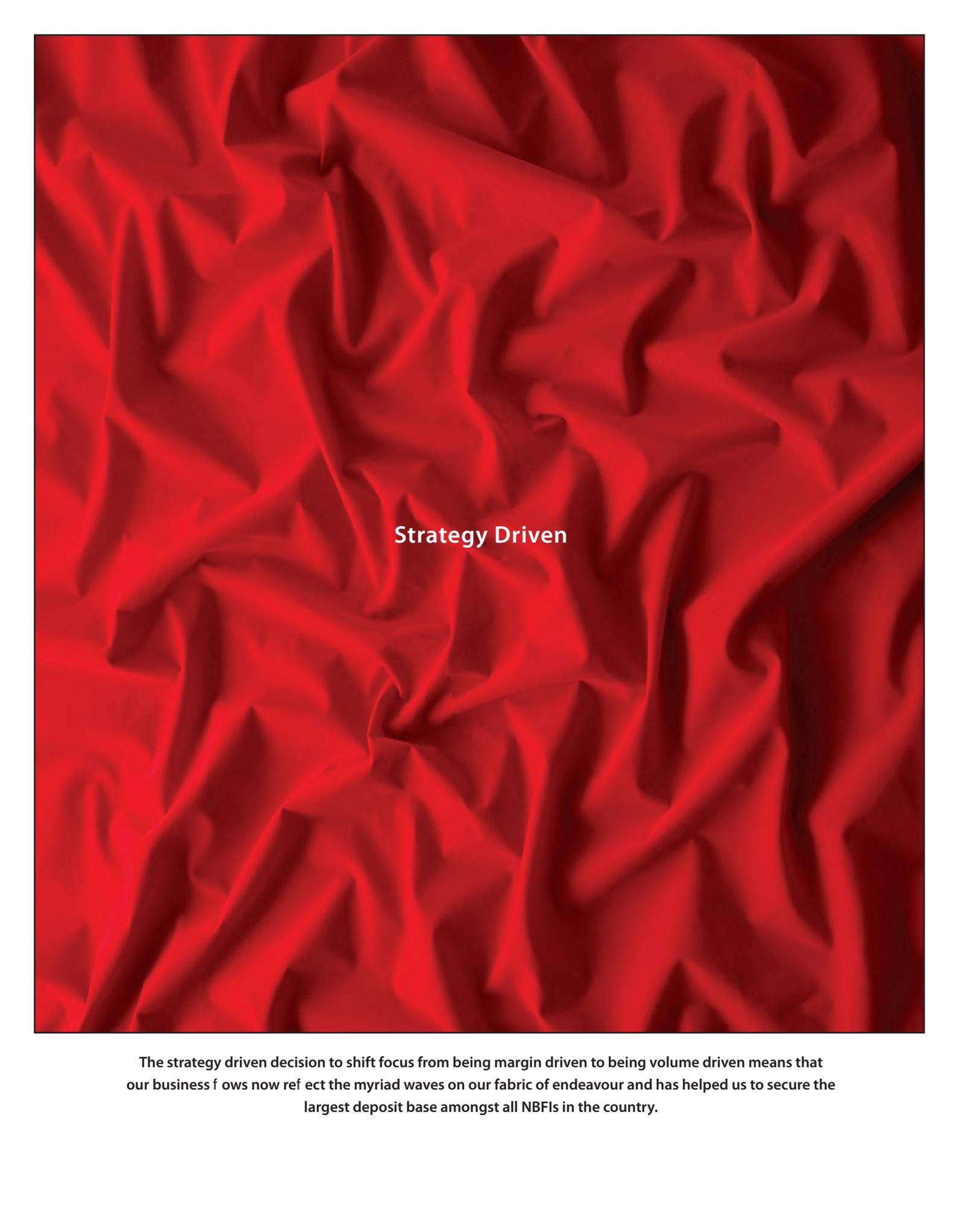
MS ANANDHIY K GUNAWARDHANA*Independent Non-Executive Director*

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 7 month internship with the International Monetary Fund's Legal Department in Washington D.C. Her areas of specialisation are Capital Markets, Corporate and Commercial Law, Insurance Law, Mergers & Acquisitions and Taxation.

Appointed to the Board : On 1st March 2013.

Membership of Board Sub-Committees : Member of the Audit Committee

Current appointments : Director of Messrs. Jaycey and Company, Jacey Trust Services (Private) Limited, Jacey Advisory Services (Private) Limited, and Jacey Secretarial Services (Private) Limited and Brand Protection Services (Private) Limited, affiliate companies of the 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 and V P Investments (Private) Limited.

The background of the slide is a close-up, high-resolution image of crumpled red fabric. The fabric is draped and folded, creating a complex pattern of ridges and valleys. The lighting is soft, highlighting the texture and the vibrant red color of the material. The overall effect is one of dynamic movement and tactile richness.

Strategy Driven

The strategy driven decision to shift focus from being margin driven to being volume driven means that our business flows now reflect the myriad waves on our fabric of endeavour and has helped us to secure the largest deposit base amongst all NBFIs in the country.

SENIOR MANAGEMENT



MR. RAVI YATAWARA

General Manager

B.Sc. Business Administration (Oklahoma State University, USA)
 Joined LBF in 2010, counts over 19 years of experience in the finance industry.



MR. MARLON PERERA

Deputy General Manager - Deposits

Joined LBF in 1986, counts over 28 years of experience in the finance industry and has held many managerial positions.



MR. HASITHA ATHAPATTU

Chief Financial Officer

CFA Charterholder, M.Econ Economics (University of Colombo), BBA (Sp.) (University of Colombo), ACA (Sri Lanka), ACMA (Sri Lanka), Member of the Professional Risk Managers' International Association (PRM) and holds ACI Dealing Certificate (Distinction) from ACI - The Financial Markets Association.
 Joined LBF in 2014, counts more than 15 years 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 – Marketing

DipM, MCIM (UK), MBA (University of Sunderland UK), FSSM (UK)
 Joined LBF in 2007, counts over 24 years of experience in the fields of banking, finance, retail, telecom and food industry.



LT COL CHANDANA WIJERATNE

Assistant General Manager – Human Resources

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

MS. HARSHANI MAPATUNA

Chief Manager- Legal

LLB (University of Colombo), Attorney-at-Law
 Joined LBF in 2004, counts over 17 years of experience in the finance industry.





MR. CHETHANA KAHANDUGODA
Assistant General Manager – Information Technology
M.Sc Information Technology (University of Colombo)
Joined LBF in 2010, counts over 15 years of experience in the fields of information and communication technology, principally in the finance industry.



MR. PALITHA ABEYSEKERA
Assistant General Manager – Treasury
ACA (Sri Lanka), ACMA (Sri Lanka), B.Sc. Accountancy and Financial Management (University of Sri Jayawardenepura)
Joined LBF in 2011, counts over 13 years of experience in the fields of accounting, auditing, treasury management and planning.



MR. BIMAL PERERA
Chief Risk Officer
CFA Charterholder
Joined LBF in 2013, counts over 10 years of experience in fields of corporate treasury, investment and strategic finance and risk management both locally and overseas.



MR. AINSLEY MOTH
Assistant General Manager - Credit and Operations
MBA (Aus)
Joined LBF in 2013, counts close to 23 years experience in fields of banking and leasing.



MR. ATHULA JAYASEKERA
Assistant General Manager - Business Development
MBA (ICFAI University of India), FIMSL, FCPM, Dip in Bank Management (IBSL)
Joined LBF in 1999, counts over 30 years of experience in banking and finance industry.

MR. LAKSHMAN WANNIARACHCHI
Chief Manager - Micro Finance
MBA (ICFAI University of India), EDDB (University of Colombo)
Joined LBF in 2006, counts over 23 years of experience in the fields accounting, auditing, administration, operations and credit.



MS. NIROSHA AMANULLA
Senior Manager - Kandy Branch
Joined LBF in 1985, counts over 28 years of experience in the finance industry and her career features many managerial positions.



**MR. AMAL SILVA****Chief Manager – Recoveries**

Joined LBF in 1986, counts over 27 years of experience in the finance industry.

**MS. CHANDRIKA MANEL ALWIS****Senior Manager – Gold Loans**

Joined LBF in 1984, counts over 30 years of experience in the areas of deposits, credit, recoveries and gold loans and her career features many managerial positions.

**MR. PRASAD AMARAWRADANA****Senior Manager - Factoring and Corporate Credit**

Joined LBF in 2013, counts over 22 years of experience in the finance industry

**MR. HIRANTHA JAYASINGHE****Senior Manager - Credit & Branch Operations**

Joined LBF in 1999, counts over 14 years of experience in the areas of credit, marketing, recovery, and branch operations.

**MR. CHINTHAKA CHANDRASENA****Senior Manager -
Credit & Branch Operations**

Joined LBF in 1996, counts over 17 years of experience in the areas of credit, marketing, recovery, and branch operations.



Setting Trends

We've been great trend setters over the years. We have achieved a Compounded Annual Growth Rate in excess of 30% for deposits, lending and profit after tax.

CORPORATE GOVERNANCE

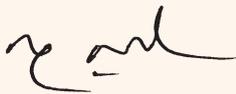
CHAIRMAN'S STATEMENT

It is my pleasure to present the corporate governance report of L B Finance PLC. We continually strive to satisfy the legitimate claim of all stakeholders and to fulfill the Company's economic, environmental and social responsibilities in an accountable and transparent manner. The report confirms the Company's commitment for compliance and reflects the extent to which it has complied to date with the regulations, rules, guidelines and principles as required under the Finance Companies (Corporate Governance) Direction No. 3 of 2008, Listing Rules of the CSE and Code of Best Practice on Corporate Governance jointly issued by SEC and ICASL (2013).

We take every effort to improve our corporate governance philosophy and we strive for honesty, transparency, stability and accountability through policies and practices at every level. We expect all employees of L B Finance to be committed towards this end, we also expect the external stakeholders to act with fairness to ensure a high element of ethical business conduct which will not only enhance business prosperity but will also retain and safeguard the interests of all its stakeholders.

I am conscious of the fact that these corporate governance measures have to be sustained, improved and the Board should monitor and take responsibilities to comply with regulations, rules and principles on corporate governance.

The Board welcomes the engagement with stakeholders to identify areas where we can enhance governance, policies and sound business practices. We actively engage with investors, customers, regulators, suppliers and communities to obtain their feedback in a number of ways. We encourage our stakeholders to participate in shaping the future of the Company in setting new milestones where we all can be proud of.



Thosapala Hewage

Chairman

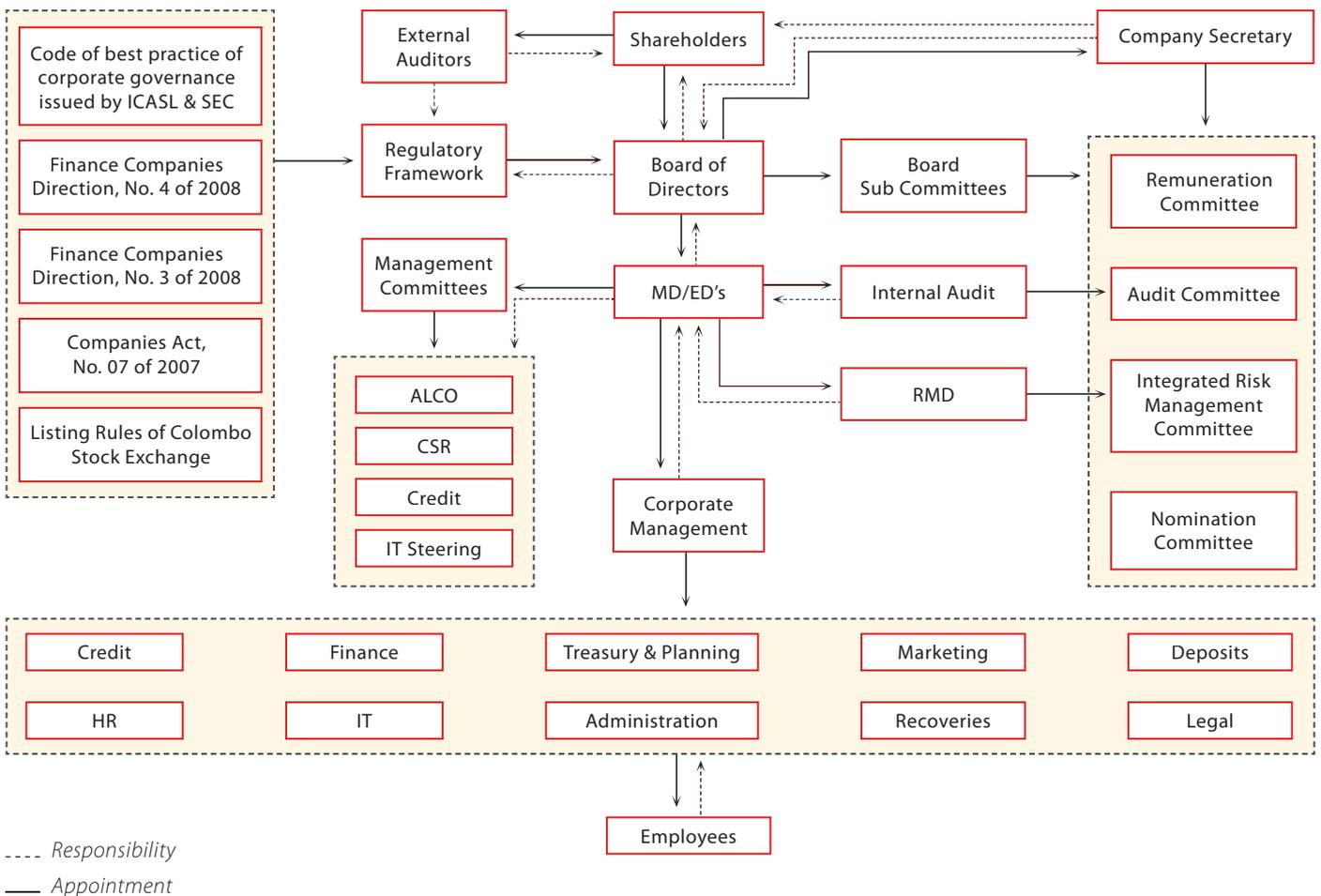
30th May 2014

CORPORATE GOVERNANCE OVERVIEW

Corporate governance is popularly understood as the system by which companies are directed and controlled. The Board of Directors is responsible for the governance of the Company. Your Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all Company’s dealings and on making best efforts in achieving performance and quality profits. Structure and systems were refined to ensure governance on the lines as defined, aware all the time that we are accountable to stakeholders and general public.

As depicted in the corporate governance structure the linkage mechanism ensures alignment of the Company’s business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board sub-committees and management. This mechanism assures that the Company sustains its potential to deliver its value to the stakeholders. Internally we have the Board of Directors, Board committees, management committees and senior management complimented by internal governance systems and procedures to stakeholder management and decision making process.

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



The components of the governance structure are designed in such a way that the executive authority is well transferred and delegated through a structure ensuring that the Chairman, Managing Director, Executive Directors, Senior Management and Functional Managers are accountable for the Company's functions. Clear definition of authority limits, responsibilities and accountability are set and agreed upon in advance to achieve greater operating efficiencies, expediency, healthy debate and freedom of decision making.

BOARD OF DIRECTORS

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

COMPOSITION

The Board consisted of ten Directors. The balance between Non-Executive and Executive Directors are 5: 5 as at 31st March 2014, in conformity with the relevant Direction. The Board consists of Directors with a balance of skills and experience which is appropriate for the business carried out by the Company.

The Board has determined that the five Non-Executive Directors are 'independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange. The Board has further determined that three of those Directors also qualify as "independent" in terms of the Finance Companies (Corporate Governance) Direction No.3 of 2008, whereas the remaining two Directors, though not qualifying under one of the criteria laid down by the said Direction in paragraph 4(f)(ii), the Board, upon consideration of all attendant circumstances, has determined that those two Directors too discharge their responsibilities as Independent Directors and in the Board's opinion the directorships held by

those Directors in few other Boards with certain other Directors of the Company, do not compromise their independence and objectivity in discharging functions as Independent Directors.

The names of the Directors who served during the year under review are disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on pages 138 and 142.

TENURE, RETIREMENT AND 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.

APPOINTMENTS TO THE BOARD

The Nomination Committee recommends the appointments to the Board.

BOARD MEETINGS

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

During the year ended 31st March 2014, thirteen (13) meetings of the Board were held. The attendance at the meetings was as follows:

NAME OF DIRECTOR	EXECUTIVE/NON-EXECUTIVE/ INDEPENDENT NON-EXECUTIVE	ATTENDANCE
Mr. Thosapala Hewage (Appointed on 23rd April 2013)	Chairman Independent Non-Executive*	11/13
Mr. Dhammika Perera	Executive Deputy Chairman	11/13
Mr. L N de S Wijeyeratne	Independent Non-Executive*	12/13
Mr. J A S S Adihetty	Executive	13/13
Mr. Nimal Perera	Executive	11/13
Mr. Niroschan Udage	Executive	12/13
Mr. B D A Perera	Executive	10/13
Mrs. Kimarli Fernando	Independent Non-Executive*	10/13
Mrs. Shirani Jayasekara	Independent Non-Executive*	10/13
Mrs. Anandhiy K Gunawardhana	Independent Non-Executive*	13/13

*As per the Listing Rules of the Colombo Stock Exchange

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

THE CHAIRMAN

Mr. Thosapala Hewage, an Independent Non-Executive Director was appointed to the Board and as Chairman of the Board of Directors on 23rd April 2013.

THE MANAGING DIRECTOR

Mr. J A S S Adihetty has been the Managing Director of the Company since January 2004. The Managing Director is responsible for the effective running of the Company and the implementation of the policies approved by the Board.

BOARD SUB-COMMITTEES

The Audit Committee, Remuneration Committee, Integrated Risk Management Committee and Nomination Committee function as sub-committees of the Board. These sub-committees consist of a majority of Independent Non-Executive Directors and their names are given on page 141.

The reports of the Remuneration Committee, Nomination Committee and Audit Committee are given on pages 114, 115 and 116.

MANAGEMENT COMMITTEES

These committees operate under the guidance of the Managing Director and Executive Directors and are dedicated and focused towards designing, implanting and monitoring best practices in their respective functions. The main objective of forming these committees is to encourage the respective functions to take responsibility and accountability to the lowest possible level and to ensure that decision making is on a participatory basis.

Management committees include Asset and Liability Committee, Credit and Recoveries, CSR and IT Steering Committee and their functions are described on page 123.

THE MANAGEMENT

Day-to-day operations of the Company are entrusted to corporate and senior management under the guidance of the Managing Director. They ensure that risks and opportunities are identified and steps are taken to achieve targets within defined time frames and budgets.

FINANCIAL DISCLOSURES AND TRANSPARENCY

Financial Statements are prepared in accordance with applicable Accounting Standards comprising of Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards, the Companies Act, the Finance Business Act and the Directions and Rules issued thereunder. Interim Financial Statements are released to the CSE in compliance with the Listing Rules of the Colombo Stock Exchange.

Messrs Ernst & Young act as independent auditors of the Company. The auditors are allowed to act independently and without intervention from the management or the Board of the Company to express an opinion on the Financial Statements of the Company. All required information is provided for examination to the auditors.

ETHICAL STANDARDS

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

The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees, who will drive the Company to high levels of achievement in keeping with its mission, vision, goals and values.

STATUTORY PAYMENTS

All statutory payments due to 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.

COMPLIANCE WITH CENTRAL BANK REGULATIONS

As a licensed finance company and a registered finance leasing establishment, the Company is governed by the Non-Bank Financial Institutions Directions and Rules issued by the Monetary Board of the Central Bank of Sri Lanka.

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

ACCOUNTABILITY AND DISCLOSURE

In the year ended 31st March 2014, the members of the Board of Directors have reviewed in detail the Interim Financial Statements and Annual Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs and these practices have been further strengthened as per the Code of Best Practice on Corporate Governance, Listing Rules of the Colombo Stock Exchange and Directions and Rules issued under the Finance Business Act.

A summary of Directors' responsibilities in respect of Financial Statements is given on page 144.

INFORMATION TECHNOLOGY GOVERNANCE

In the corporate world, Information Technology (IT) plays a vital role. Increasing complexities and criticalities in IT decision making demands the Company to adopt an effective IT governance system. IT governance which forms an integral part of the Company's corporate governance, deals primarily with optimising the linkage between strategic direction and information systems management of the Company. IT governance of the Company creates value that fits into the overall corporate governance strategy of the Company, and is not a discipline on its own. IT governance of the Company ensures that the investments in IT generate value, avoids failure and mitigates IT associated risks.

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

- To ensure that IT has sufficient resources to meet Company's demand.
- To assess and report IT related risks and organisational impact.
- Provide feedback about compliance of IT carrying out the system reviews according to CBSL.
- Reviews are made to ensure that the objectives are achieved.

CODE OF BUSINESS CONDUCT AND ETHICS

Code of ethics is needed to make the right ethical decision on a day-to-day basis and at L B Finance, it is believed that sustaining an ethical culture in the Company is of critical interest to all stakeholders.

EMPLOYEE PARTICIPATION IN CORPORATE GOVERNANCE

Active participation in corporate governance by employees will help to serve the interest of shareholders through empowering employees to positively contribute towards good corporate governance. The Company recognises the employees as the biggest asset. To assist and facilitate transparency, it is imperative to institutionalise processes across all functions and hierarchies which are accessible to all.

Moreover, the Company provides a safe, secure and conducive environment for employees. It is always ensured that all relevant human resource standards and regulations are followed very stringently. The Company does not condone child or underage labour nor have any bias within the Company. Non-discrimination is vital to the Company's vision; wherein gender, race, religion, caste or any other discriminatory criteria such as sexual harassments and compulsory labour are not in the Company's mandate. All of which complement effective corporate governance.

EMPLOYEE INVOLVEMENT AND EMPOWERMENT

Top management and other senior staff are mandated to involve, as appropriate, all levels of staff in formulating goals, strategies and plans.

Decision making rights are defined for each level in order to instill a sense of ownership, reduce bureaucracy and speed up the decision making process.

A bottom-up approach is taken in the preparation of annual and long term plans and the Company also ensures employee involvement and empowerment in the process.

EMPLOYEE COMMUNICATION

The Company has developed various approaches for innovative and effective ways of communication. The top-down and bottom-up approaches are extensively used. Holding monthly meetings at all levels of staff, open door policy, online forums are the channels of communication.

THE FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 3 OF 2008 AND AMENDMENTS THERETO APPLICABLE ON FINANCE COMPANIES LICENSED UNDER THE FINANCE BUSINESS ACT NO. 42 OF 2011 ISSUED BY THE CENTRAL BANK OF SRI LANKA

SECTION	RULE	DEGREE OF COMPLIANCE
2. THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS		
2(1)	Strengthening the safety and soundness of the Company	
	(a) Approve, oversee and communicate the strategic objectives and corporate values.	Approving and overseeing the strategic objectives and corporate values are handled by the Board and the views relating to the above are communicated throughout the Company.
	(b) Approve the overall business strategy, including the overall risk policy and risk management.	The strategic plan for 2013-2015 was approved by the Board on 22nd January 2013 after discussion with the corporate management. The Risk management policy and procedures were approved by the Board on 19th November 2013 which were reviewed and recommended by the Integrated Risk Management Committee including the management of all business risks arising from the operations of the Company.
	(c) Identifying and managing risk.	The Board appointed Integrated Risk Management Committee is tasked with approving risk policy, defining risk appetite, identifying and managing the overall risk of the Company which are reviewed by the Board, on a quarterly basis.
	(d) Communication policy with all stakeholders.	The Board approved communication policy is available and reviewed as and when required which addresses how they communicate with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.
	(e) Integrity of the internal control system and management information system.	The adequacy and the integrity of the Company's internal control system are reviewed by the Board through Board Audit Committee by way of internal audit reports and system reviews. M/s. KPMG reviewed the integrity of the IT system and the progress is monitored by the Board Audit Committee. On completion of this process, the Company will submit this report to the Board for them to review the adequacy and the integrity of the Company's Management Information Systems
	(f) Identifying and designating Key Management Personnel.	According to the Sri Lanka Accounting Standard (LKAS) 24 "Related Party Disclosures" Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company. Board of Directors including the Executive Directors, CFO, CRO, GM and AGM Treasury are designated as Key Managerial personnel and it is reviewed periodically.

SECTION	RULE	DEGREE OF COMPLIANCE
	(g) Authority and responsibilities of the Board and Key Management Personnel.	The Company has a Board approved schedule of matters specifically reserved for the Board defining the areas of authority and key responsibilities of the Board of Directors and the areas of authority and key responsibilities of other Key Management Personnel excluding Executive Directors, are stated in their job descriptions.
	(h) Oversight of affairs of the Company by Key Management Personnel.	Affairs of the Company are regularly discussed and monitored by the Directors at Board level and the members of Corporate Management at Management level.
	(i) Assess effectiveness of own governance practice.	Board has delegated the functions of selection and recommendation of Directors to the Board Nomination Committee (BNC). As per Article 96 of the Articles of Association on "Declaration of Interest" evidence the procedure to manage the conflicts of interests of the Board members. The Board appraises its own performance by submission of performance evaluation forms to be filled by each Director. A summary of this will be submitted to the Board by the Company Secretaries.
	(j) Succession plan for Key Management Personnel.	A succession plan is in place for the Corporate Management team who are currently defined as "Key Management Personnel" and is reviewed by the Board.
	(k) Regular meetings with the Key Management Personnel.	The members of the Corporate Management regularly make presentations and participate in discussions on their areas of responsibility at Board sub-committee and management committee meetings and also at Board level discussions.
	(l) Regulatory environment.	The Board of Directors of the Company monitors closely, regulatory compliances at monthly Board meetings through the compliance board paper submitted including all returns to regulators.
	(m) Hiring and oversight of external Auditors.	The Board Audit Committee is responsible for the necessary due diligence regarding the hiring of the external auditors. External auditors attend Audit Committee Meetings by invitation and annually they submit a statement confirming their independence as required by the regulatory authorities.
2(2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	The Chairman and the Managing Director of Company have been appointed by the Board and functions and responsibilities of the Chairman and the Managing Director are properly defined and approved. The Chairman is responsible for leading the Board and Managing Director is in charge of overall management of the Company.

SECTION	RULE	DEGREE OF COMPLIANCE
2(3)	Directors ability to seek independent professional advice.	The Directors are able to obtain independent professional advice as and when necessary at Company expense and the Board has obtained professional advice in appropriate circumstances.
2(4)	Dealing with conflict of interests.	Article 97 of Articles of Association on "Restrictions on voting", evidence the procedure for a Director to abstain from voting on any Board resolution when there is conflict of interest and he/she 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 the Board decision.	The Board has adopted a policy for a formal schedule of matters specifically reserved for the Board. Preset agenda of meeting ensure that the direction and the control of the Company is under Board's control and authority.
2(6)	Situation of insolvency issue.	The Board is aware of the need to inform the Director of Non-Bank Supervision Division and no such situation has arisen during the year.
2(7)	Publish corporate governance report in Annual Report.	Annual corporate governance report has been published by the Company in the Annual Report 2013/14 on page 82.
2(8)	Annual self-assessment by the Directors.	The Company has adopted a scheme of self assessment to be undertaken by each Director annually, filed and maintained with Company Secretary. Summary of this will be presented to the Board.

3. MEETINGS OF THE BOARD

3(1)	Regular Board meetings.	The Board meets regularly at monthly intervals and special Board meetings are convened whenever necessary. The Board met on 13 occasions during the year . There were 22 instances where the Board's consent has been obtained through the circulation of written or electronic resolutions /papers.
3(2)	Arrangements for Directors to include matters and proposals in the agenda.	All the members were given equal opportunities to include matters and proposals in the agenda and the procedure 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.	Annual calendar of Board meetings was issued on 10th December 2013 and the agenda and all Board papers are loaded through a secure link to iPad for Directors to access prior to 7 days of the Board meetings.

SECTION	RULE	DEGREE OF COMPLIANCE
3(4)	Directors attendance at Board meetings.	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 2013/14.
3(5)	Appointment of a Company Secretary to handle the secretariat services to the Board.	PW Corporate Secretarial (Pvt) Limited, a company registered with the Registrar General of Companies as a qualified secretary under Registration No SEC/(2)2008/216 handles the secretarial services to the Board and shareholder meetings and carryout other functions specified in related laws and regulations.
3(6)	Preparation of agenda for a Board meeting by the Company secretary.	Agenda is prepared by the Company Secretary and approved by the Chairman.
3(7)	Directors access to advice and services of the Company Secretary.	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.
3(8)	Maintenance of Board minutes.	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)	Minutes to have sufficient details and serve as a reference for regulators and supervisory authorities.	The Company Secretary maintains detailed minutes of Board meetings to satisfy all requirements of this direction. Minutes are approved by the Chairman and the other members of the Board after making required amendments, if necessary.

4. COMPOSITION OF THE BOARD

4(1)	The number of Directors.	As per the Central Bank direction, the number of Directors should not be less than 5 and not more than 13. The Company's Board comprised of 10 Directors during the year 2013/14.
4(2)	Period of service of a Director.	The total period of service of all Non-Executive Directors does not exceed nine years.
4(3)	Board balance.	There are five Executive Directors including Chief Executive Officer which is well balanced and within the requirement to limit the number of Executive Directors to 50% of total.
4(4)	Independent Non-Executive Directors.	The Board had three Independent Non-Executive Directors during the year which complies with the requirement of 25% of the total.
4(5)	Appointment of Alternate Director.	No such situation has arisen during the year 2013/14.
4(6)	Skills and experience of Non-Executive Directors.	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 74 and 76.

SECTION	RULE	DEGREE OF COMPLIANCE
4(7)	More than half the quorum of Non-Executive Directors in Board meetings.	All Board meetings held during the year 2013/14 were duly constituted with more than one half of the number of Non-Executive Directors present at such meetings.
4(8)	Expressly identification of the Independent Non-Executive Directors in corporate communications and disclose the details of Directors.	Composition of the Board of Directors including the category of Directors has been disclosed in page 138 in addition to the disclosures on profiles of Directors in pages 74 and 76.
4(9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	The new appointments to the Board is based on the recommendations made by the Board Nomination Committee and there is a procedure in place for the succession of appointments to the Board.
4(10)	Directors appointed to fill a casual vacancy to be re-elected at first general meeting after their appointment.	All Directors appointed to the Board are subject to re-election by the shareholders at the first Annual General Meeting after their appointment.
4(11)	Communication of reasons for removal or resignation of Directors.	Resignation of Directors and their reasons have been duly communicated to the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities. However there were no resignations or removal of Directors during the year.

5. CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETARY OF DIRECTORS

5(1)	The age of a Director shall not exceed 70 years.	All the Directors are bellow the age of 70 years as at 31st March 2014.
5(2)	Directors shall not hold office as a Directors of more than 20 companies/societies /corporate bodies including associate and subsidiary companies.	The total number of positions held as a Director or any other position in companies/societies/body corporate including subsidiaries or associate companies of the finance companies are less than 20 .

6. THE MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD

6(1)	Delegation of work to the Management.	As per the Articles of Association the Board may delegate any of their powers to the Board appointed committees, Managing Director, Executive Directors, 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 evaluation of the delegation process.	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.

SECTION	RULE	DEGREE OF COMPLIANCE
7. THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER		
7 (1)	Division of responsibilities of the Chairman and Chief Executive Officer.	There exists a clear separation of duties between the roles of the Chairman and the Managing Director.
7(2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director.	The Chairman is an 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.	The Board is aware that there are no material relationships whatsoever, including financial, business, family and any other material relationship between the Chairman and the Managing Director and the other members of the Board as per the annual declaration updated regularly at the monthly Board meetings.
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	Board approved list of functions and responsibilities of Chairman include, 'Providing Leadership to the Board' as a responsibility of the Chairman. The Company expanded the format of annual assessment by including an area to measure the effective discharge of Board functions. All key and appropriate issues are discussed by the Board on a timely basis.
7(5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	The Company Secretary circulates a formal agenda prior to the Board meeting which is approved by the Chairman of the Board.
7(6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	The Chairman 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 interest of the Company.	All Directors actively participate in Board affairs.
7(8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors.	Executive and Non-Executive Directors work together in the best interests of the Company. All Non-Executive Directors participate in Board sub-committees to provide further opportunities for active participation.
7(9)	Refrain from direct supervision of Key Management Personnel or executive duties.	Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.

SECTION	RULE	DEGREE OF COMPLIANCE
7(10)	Maintain effective communication with shareholders.	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.
7(11)	Chief Executive Officer functions as the apex executive-in-charge of the day-to-day- operations and businesses.	The Managing Director is responsible for the day-to-day operations and business of the Company with the support of the Executive Directors and members of the Corporate Management.

8. BOARD APPOINTED COMMITTEES

8(1)	Establishing Board committees, their functions and reporting.	<p>The following Board sub-committees have been appointed by the Board and each such committee is required to report to the Board:</p> <ol style="list-style-type: none"> 1. Remuneration Committee 2. Integrated Risk Management Committee 3. Nomination Committee 4. Audit Committee <p>The Company has presented a report on the performance, duties and functions of each committee in the Annual Report.</p>
8(2)	Audit Committee.	
(a)	The Chairman to be a Non-Executive Director with relevant qualifications and experience.	The Chairman of the Audit Committee is a Non-Executive Director and a fellow member of The Institute of Chartered Accountants of Sri Lanka. Qualifications and experience are disclosed on page 74 of this Annual Report.
(b)	All members of the Committee to be Non-Executive Directors	All the members of the Audit Committee are Non-Executive Directors.
(c)	Duties of the committee:	
	(i) The appointment of the External Auditor	Prior to the appointment of External Auditors for audit services at the AGM, the Audit Committee ensures compliance with applicable legal and statutory requirements.
	(ii) The implementation of the Central Bank guidelines	The evaluation is carried out by the Board Audit Committee in consultation with the Chief Financial Officer on matters related to implementation of the Central Bank guidelines and accounting standards.
	(iii) The application of the relevant accounting standards; and	The Committee ensures that the requirement of rotation of External Audit Engagement Partner, once in every 5 years, is met. The Audit Committee has the primary responsibility for making recommendations on the appointment, re-appointment or removal of the External Auditor in line with professional standards and regulatory requirements.
	(iv) The service period, audit fee and any resignation or dismissal of the Auditor;	

SECTION	RULE	DEGREE OF COMPLIANCE
(d)	Review and monitor the External Auditors' independence, objectivity and the effectiveness of the audit processes.	The External Auditor, has provided an independence 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.	The Board approved policy is in place. When such services are obtained from the External Auditor, prior approval is obtained from the Audit Committee as per the above policy.
(f)	Determines the nature and the scope of the External Audit.	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.	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 adjustments and compliance with statutory requirements takes place and obtains required clarifications in respect of all areas before being recommended for the Board approval.
(h)	Meeting of External Auditors to discuss issues and problems of Interim and Final audits in the absence of Key Managerial Persons.	The Committee met the External Auditors without the presence of the Executive Directors and Corporate Management.
(i)	Reviewing of the External Auditors' management letter and the response thereto.	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 Departments Heads to take remedial actions, if necessary.
(j)	Review of the Internal Audit function. <ul style="list-style-type: none"> ● Review scope, functions and resources. ● Review of internal audit program ● Review internal audit department ● Recommendations on internal audit functions ● Independence of internal audit functions 	<p>The Audit Committee reviewed the Engagement Letters of Internal Auditors which covers the scope, functions and resources to carry out their work.</p> <p>In addition to that, the Audit Committee requests internal auditors to present the internal audit programme prepared according to the annual audit plan which is approved by the Audit Committee.</p> <p>The Company's internal audit functions were outsourced and carried out by two Independent professional audit firms and the audit reports were discussed at the Audit Committee Meetings.</p> <p>Internal Auditors (outsourced) reports directly to the Audit Committee. Hence, it is independent and the audits are performed with due care.</p>

SECTION	RULE	DEGREE OF COMPLIANCE
(k)	Consideration about the internal investigations and management’s responses.	Whenever a need arises, the Audit Committee assigns special internal investigations on certain matters and review major findings with the management responses and ensures that the recommendations are implemented.
(l)	Attendees of the Audit Committee meeting with Corporate Management and External Auditors.	<p>The Committee met twice with the External Auditors without the presence of Executive Directors.</p> <p>The Managing Director, Executive Directors, Chief Financial Officer, Chief Risk Officer and the Internal Auditors normally attend all meetings. Where it is deemed necessary, members of the corporate management may also attend meetings by invitation.</p>
(m)	Explicit authority, adequate resources, access to information; and obtain external professional advice where ever necessary.	<p>The Audit Committee is guided by a Board approved terms of reference which sets out authority and responsibility of the said Committee.</p> <p>The Audit Committee is authorised 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.</p>
(n)	Regular meetings.	<p>The Committee meets regularly and the audit reports were issued to its members in advance and the minutes of the meetings maintained by Company Secretary.</p> <p>The Committee has met 12 times during the year, 2013/14 and the attendance at those meetings is set out on page 116 on Audit Committee Report.</p>
(o)	Disclosures in the Annual Report.	The Report of the Board Audit Committee is on page 116 and 117 includes the detail activities, meeting held during the year and the Directors attendance to the Audit Committee.
(p)	Maintain minutes of meetings	The Company Secretary acts as the secretary of the Audit Committee and records and maintains all minutes of the meetings.
(q)	Whistle Blower Policy.	The Company has a Board approved Whistle Blower Policy whereby employees of the Company raise concerns in confidence about the malpractices of the Company.
8(3)	Integrated Risk Management Committee	
(a)	The composition of IRMC.	<p>Composition of the IRMC are;</p> <p>Two Non-Executive Directors, three Executive Directors including Managing Director and other Key Management Personnel namely Chief Financial Officer, Head of Treasury, and Chief Risk Officer.</p>

SECTION	RULE	DEGREE OF COMPLIANCE
(b)	Periodical risk assessment.	<p>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.</p> <p>The Company does not have any subsidiary or associate companies.</p>
(c)	Review and measurement of management level committee risk.	<p>The Committee reviews the adequacy and effectiveness in addressing specific risk and managing the same within the quantitative and qualitative risk limits sets by such respective committees such as Asset and Liability Committee and Credit Committee.</p>
(d)	Corrective action to mitigate the risk.	<p>The risk indicators introduced has 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.</p> <p>Review of this process will be minuted at the IRMC for their review and action if deemed necessary.</p>
(e)	Frequency of meetings.	<p>The Committee has met four times during the year to assess the risks of the Company.</p>
(f)	Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	<p>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.</p>
(g)	Risk assessment report to the Board.	<p>The Committee had kept the Board informed of their risk assessment of the Company by forwarding a risk report.</p>
(h)	Establishment of a compliance function.	<p>The Company's compliance with laws and regulations were monitored by a compliance officer.</p> <p>Company is moving towards designating a dedicated compliance officer who shall be a Key Management Personnel to carry out the compliance function and report to the committee periodically.</p> <p>This process will be strengthened to assess the Company's compliance with internal controls and approved policies pertaining to all areas of business operations.</p>

SECTION	RULE	DEGREE OF COMPLIANCE
9. RELATED PARTY TRANSACTION		
9(2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	<p>The Related Party Transaction Policy is in place which describes the related parties, types of related party transactions and the favourable treatment granted to the said parties and stipulate that Board members should avoid any conflicts of interest that may arise from any transactions with the Company.</p> <p>Monitoring and reporting of data pertaining to such transactions through the branch network is to be strengthened to cover all products and transactions of the Company.</p> <p>Transactions carried out with Related Parties in the normal course of business are disclosed in the Financial Statements on 'Related Party Disclosures' under note 43.</p> <p>In order to further strengthen the Company's accountability and transparency with regard to transactions with related parties, the Company has extended the classification of "Key Management Personnel" to General Manager, Chief Financial Officer, AGM Treasury and Chief Risk Officer of the Company from 2012 onwards.</p>
9(3)	Related party transactions.	<p>Board approved process is in place to identify the related party transactions.</p> <p>The Company is in the process of strengthening the monitoring mechanism in this regard during the year 2014/15.</p>
9(4)	Monitoring of related party transactions defined as more favourable transactions.	<p>Board approved Related Party Transactions Policy contains provisions to ensure compliance.</p> <p>However the streamlined monthly process will be implemented to monitor related party activities.</p> <p>The Company will take steps to identify, monitor and report the transactions to ensure that there is no favourable treatment offered to related parties.</p>

SECTION	RULE	DEGREE OF COMPLIANCE
10. DISCLOSURES		
10(1)	Published Interim and Annual Financial Statement based on applicable accounting standards and published in Sinhala, Tamil and English.	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.
10(2)	The Board shall ensure that at least the following disclosures are made in the Annual Report: <ul style="list-style-type: none"> (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. (b) A report by the Board on the finance Company's internal control mechanism . (c) The External Auditor's certification on the effectiveness of the internal control mechanism. (d) Details of Directors. (e) Fees/remuneration paid by the finance company to the Directors in aggregate. (f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds. 	<p>Compliance with applicable accounting standards and regulatory requirements has been reported under the "Statement of Directors' Responsibility for Financial Reporting" on page 144.</p> <p>Directors' Statement on Internal Control System over financial reporting is given on page 143.</p> <p>The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism.</p> <p>This has been disclosed under the "Annual Report of the Board of Directors on the affairs of the Company".</p> <p>The fees and remuneration paid has been disclosed under short-term employment benefits in note 43 to the Financial Statement.</p> <p>Total net accommodations granted to each category of related parties are given in note 43 to the Financial Statements and as a percentage of Capital is as follows:</p> <p>Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMP's and their CFMs or shareholders</p> <p>Loans and Receivables 0.005%</p> <p>Lease rentals receivable and Stock out on hire 0.016%</p> <p>Transactions with Fellow Subsidiaries</p> <p>Lease rentals receivable and Stock out on hire 0.131%</p>

SECTION	RULE	DEGREE OF COMPLIANCE
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.	Disclosed under the Related Party Transaction in note 43 to the Financial Statements.
	(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls.	This has been disclosed under the "Annual Report of the Board of Directors on the affairs of the Company".
	(i) Non-compliance reporting.	There were no significant lapses in Company's Risk Management or non-compliance with this Direction that have been pointed out by the Director of Non-Bank Financial Institution Supervision and requested by Monetary Board to be disclosed to the public.
	(j) The External Auditor's certification of the compliance with the corporate governance direction.	The Company has obtained a certificate from External Auditors over the compliance of corporate governance directions and the Company is in the process of strengthening the procedure.

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA (SEC) AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (ICASL) IN 2013

A. DIRECTORS

A.1 THE BOARD

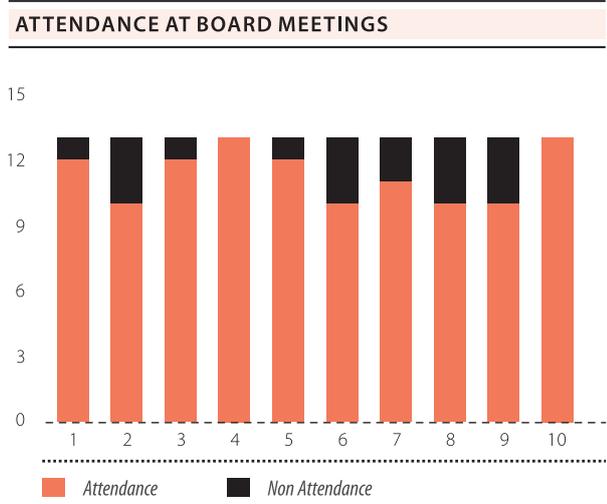
The company should be headed by an effective Board, which should direct, lead and control the company.

The Board comprises of professionals with having required professional competence, skills and experience 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.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
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A.1.1 Board meetings – The Board should meet at least once in every quarter

The Board usually meets on monthly intervals and special Board meetings are convened whenever necessary. The Board met thirteen (13) times during the year. The attendance at Board meetings held in 2013/14 is set out here.



1. Mr. Thosapala Hewage
2. Mr. K D D Perera
3. Mr. L N De S Wijeyeratne
4. Mr. J A S S Adhietty
5. Mr. Niroshan Udage
6. Mr. B D A Perera
7. Mr. W D N H Perera
8. Mrs. Kimarli Fernando
9. Mrs. Shirani Jayasekara
10. Mrs. Anandhiy K Gunawardhana

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
<p>A.1.2 Board’s responsibilities</p> <ul style="list-style-type: none"> ● Formulation and implementation of a sound business strategy ● CEO, Executive Directors and senior management team possess the skills, experience and knowledge ● CEO and Key Management Personnel succession planning ● Implementing security and integrity of information, internal controls, business continuity and risk management ● Ensuring compliance with laws, regulations and ethical standards ● Ensuring all stakeholder interest is considered in corporate decisions. ● Recognising sustainable business development ● Ensuring that the Company’s values and standards are set with emphasis on adopting appropriate accounting policies. 	<p>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 next 3 years from 2013 – 2015 on 22nd January 2013.</p> <p>Skills and experience of the Managing Director, Executive Directors and Corporate Management are given on pages 72 to 80.</p> <p>A succession plan is in place for the corporate management team and will be approved by the Board.</p> <p>Board has reviewed effectiveness of internal control and compliance with laws and regulations on a continuous basis through the Audit Committee and IRMC. The risk management policy and procedures were approved by the Board on 19th November 2013.</p> <p>Board ensures Company complied with laws of the country and ethical standards.</p> <p>Stakeholder’s interest which identified through different stakeholder engagement methodologies considered in decision making. Refer page 26.</p> <p>Company applied Global Reporting Initiatives under G 3.1 in the Financial Year 2012/13, and this year reporting methodology upgraded to G4 Core</p> <p>The financial information which were used in decision making and published was reliable and the Board is satisfied with the integrity of the financial information and risk management of the Company.</p>
<p>A.1.3 Board collectively and Directors individually must act in accordance with laws and accessibility for independent professional advices</p>	<p>The Board collectively and Directors individually, recognised 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.</p>
<p>A.1.4 All Directors should have access to the services and advice of the Company Secretary.</p>	<p>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.</p>
<p>A.1.5 Independent judgment of Directors</p>	<p>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 for the proposals made by the Managing Director and Executive Directors.</p>

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.1.6 Every Director should dedicate adequate time and effort to the matters of the Board and the Company	Every Director 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 for the Directors to access prior to the Board Meeting. The details of the meetings held and their attendance are given on page 85.
A.1.7 Every Director should receive appropriate 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.

A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There should be a clear division of responsibilities at the head of the company, which will ensure balance of power and authority, so that no one individual has unfettered powers of decision.

The Chairman as well as Managing Director have a clear distinction of responsibilities and balance in power and authority. Chairman is responsible for running the Board and Managing Director is responsible for running of business functions.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.2.1 If CEO and Chairman is one person justification in the annual report	Since Managing Director's and Chairman's roles are segregated no need of such a disclosure in the Annual Report

A.3 CHAIRMAN'S ROLE

The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running of the Board, the chairman should preserve order and facilitate the effective discharge of the Board.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.3.1 Chairman's role	The Chairman conducts Board proceedings in a proper manner and ensures that effective participation of both Executive and Non-Executive Directors is secured and the balance of power between Executive and Non-Executive Directors is maintained. Further the agenda of Board meetings were approved by the Chairman.

A.4 FINANCIAL ACUMEN

The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.4.1 Financial Acumen	The profile of the Board of Directors are given on page 74.

A.5 BOARD BALANCE

It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group can dominate the Board's decision taking.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.5.1 Board should include at least two Non-Executive Directors or one third of total Directors whichever is higher	Company has five (5) Non-Executive Directors at the Board which consist of ten (10) members.
A.5.2 Two or one-third of Non-Executive Directors whichever is higher should be independent	During the year under review five Non-Executive Directors were independent.
A.5.3 Evaluation of independence of Non-Executive Directors	Non-Executive Directors independence evaluated on annual basis. The Board reviewed the independence of each Non-Executive Director in 2013/14.
A.5.4 Signed declaration of independence by the Non-Executive Directors	All Non-Executive Directors provided the signed declaration of independence for 2013/14 as per the schedule H of the Code.
A.5.5 Determination of the independence and non-independence of each Non-Executive Directors annually	The Board has reviewed the declaration/s submitted by the Non-Executive Directors, and determined their independence. The Board has reconsidered the independence of Mr. L N de S Wijeyeratne and Mrs. Kimarli Fernando as per the Finance Companies (Corporate Governance) Direction as they also serve as Directors of certain other companies along with some of the Directors on L B Finance PLC Board. The following Directors are deemed to be Independent Directors; Mr. Thosapala Hewage appointed to the Board w.e.f. 23rd April 2013 Mr. L N de S Wijeyeratne Mrs. Kimarli Fernando Mrs. Shirani Jayasekara Mrs. Anandhiy K Gunawardhana
A.5.6 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 appointed also should meet the criteria of independent.	No alternate Directors were appointed.
A.5.7 Senior Independent Director (SID)	This does not arise.
A.5.8 Confidential discussion with other Directors by the SID	A Senior Independent Director's role was not necessary as the Chairman is an Independent Non-Executive Director.
A.5.9 Meetings held by the Chairman with Non-Executive Directors	The Chairman did not hold meetings with Non-Executive Directors.
A.5.10 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 the matter and accordingly no such matters were recorded in the minutes.

A.6 SUPPLY OF INFORMATION

The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.6.1 Management should provide timely information to the Board	Timely and accurate information is provided by the management to the Board. Reasonable notice of special emergency meetings is also given to the Directors with the purpose.
A.6.2 The minutes, agenda and papers required for a Board meeting should be provided before seven (7) days	Board papers are loaded through a secure link to the iPad for the Directors to access prior to 7 days of the Board Meeting.

A.7 APPOINTMENTS TO THE BOARD

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

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.7.1 Nomination Committee	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 Committee members are; Mr. L N de S Wijeyeratne Mrs. Kimarli Fernando Mr. J A S S Adhihetty
A.7.2 Assessment of Board composition by the Nomination Committee	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.
A.7.3 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 Non-Bank Supervision of CBSL and notification is sent to Colombo Stock Exchange. All new appointments are reviewed by the Nomination Committee.

A.8 RE-ELECTION

All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.8.1- A.8.2 Re-election of Directors	<p>At each Annual General Meeting one-third of the Directors for the time being who are subject to retirement, or, if their number is not a multiple of three, the number nearest to (but not greater than) one-third, retire and seek re-election by the shareholders.</p> <p>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.</p> <p>Mrs. Shirani Jayasekara will retire by rotation in terms of Articles 85 and 86 and offers herself for re-election</p>

A.9. APPRAISAL OF BOARD PERFORMANCE

Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.9.1 Appraisal of Board performance	Board performance evaluation is appraised by each Board member as per the Schedule B of the Code.
A.9.2 Annual self-evaluation by the Board members and of its committees	As indicated in the A.9.1
A.9.3 Disclosure in the Annual Report about the Board's performance evaluation methodology	As indicated in the A.9.1

A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS

Shareholders should be kept advised of relevant details in respect of Directors.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.10.1 Annual Report disclosure in respect of Directors (Name, Qualifications etc.)	Profiles of the Board of Directors are given on page 74.

A. 11 APPRAISAL OF CHIEF EXECUTIVE OFFICER (CEO)

The Board should require at least annually to assess the performance of the CEO.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
A.11.1 Targets for CEO at the commencement of each fiscal year	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.
A11.2 Evaluation of the performance at the end of fiscal year	At the end of each financial year the Board evaluates the set targets and the actual performance.

B. DIRECTORS' REMUNERATION

B.1 REMUNERATION PROCEDURE

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.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
B.1.1 Setting up of Remuneration Committee	The functions of the Committee include determination of compensation and benefits of the Managing Director and Executive Directors while ensuring has no Director is involved in setting his/her own remuneration.
B.1.2 Composition of Remuneration Committee	Composition of Remuneration Committee is in line with Listing Rules. As per the Schedule C, Remuneration Committee should comprise of at least two Non-Executive Directors. The Committee members are; Mr. Thosapala Hewage Mr. L N de S Wijeyeratne Mrs. Kimarli Fernando All are Independent Non-Executive Directors.
B.1.3 Disclosure in the Annual Report about the Remuneration Committee members	Remuneration Committee report is given on page 114.
B.1.4 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.
B.1.5 Consultation of the Chairman/CEO/MD and other Executive Directors and access to the professional advice	Committee consults Managing Director when deciding the remuneration and also has access to the professional advice when deemed necessary.

B.2 THE LEVEL AND MAKE UP OF REMUNERATION

Level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Director's needed to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to cooperate and individual performance.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
B.2.1- B.2.9 Level and make up of remuneration of Executive Directors including performance element in pay structure - Remuneration packages in line with industry practices - Executive share option - Non-Executive Directors remuneration	Remuneration of Executive Directors consist of performance based payment and Remuneration Committee review whether they are in line with industry practices. The Company has not granted any share option plan to its Directors. Non-Executive Directors remuneration is based on a fee.

B.3 DISCLOSURE OF REMUNERATION

Annual Report of the Company should contain a statement of remuneration policy and details of remuneration of the Board as a whole.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
B.3.1 Disclosure in the Annual Report about the Remuneration Committee members and statement of remuneration policy	Remuneration Committee report is given on page 114.

C. RELATIONS WITH SHAREHOLDERS

C.1 CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS.

Board should use the AGM to communicate with shareholders and should encourage their participation.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
C.1.1 Use of proxy votes	The Company has recorded all proxy votes for each resolution prior to the general meeting.
C.1.2 Separate resolutions for separate issues	Separate resolutions are placed before shareholders for business transactions at the Annual General Meetings.
C.1.3 Arrangement made by the Chairman of the Board that all Chairmen of subcommittees make themselves available at the AGM	All sub-committee Chairmen were available at the AGM.
C.1.4 Adequate notice for the AGM to the shareholders	Adequate notice is given to shareholders for the AGM.
C.1.5 Procedures of voting at general meetings	Voting procedures at general meetings are circulated to shareholders.

C.2 COMMUNICATION WITH SHAREHOLDERS

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
C.2.1 Channel to reach all shareholders to disseminate timely information	Board approved communication policy is available and reviewed.
C.2.2 Policy and methodology of communicating	Refer stakeholders engagement.
C.2.3 Implementation of the methodology	Refer page 26.
C.2.4 Contact person	Refer page 4.
C.2.5 Awareness of Directors on major issues and concerns of shareholders	Directors are aware of major issues for shareholders.
C.2.6 Contact person for shareholders	Secretary can be contacted for any queries of shareholders.
C.2.7 Process for responding to shareholders	Company has a Board approved communication policy.

C.3 MAJOR AND MATERIAL TRANSACTIONS

Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the company.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
C.3.1 Major transactions	The company did not enter in to any major transactions during the year.

D. ACCOUNTABILITY AND AUDIT

D.1 FINANCIAL REPORTING

The Board should present a balanced and an understandable assessment of the company's financial position and prospects.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
D.1.1 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 2014 and at the end of each quarter of the financial year.
D.1.2 Directors' Report in the Annual Report	Board of Directors affairs of the Company is given on page 138.
D.1.3 Annual Report disclosure stating Boards' and Auditors' responsibility	Statement of Directors' Responsibilities is given on page 144.
D.1.4 Management discussions and analysis	Management discussion and analysis is given on page 22.
D.1.5 Directors' assumption on the going concern of the business	Board of Directors affairs of the Company is given on page 138.
D.1.6 Serious loss of capital	No any such circumstances occurred, and it's likelihood of occurrence is also remote.
D.1.7 Disclosure of related party transactions	Refer note no 43.

D.2 INTERNAL CONTROL

The Board should maintain a sound system of internal control to safeguard shareholders investments and company assets.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
D.2.1 Evaluation of internal controls by the Board	The adequacy and the integrity of the Company's internal control system are reviewed by the Board Audit Committee through internal audit reports and system reviews.
D.2.2 Internal Audit function	The Company's internal audit functions were outsourced and carried out by two independent professional audit firms and the audit reports were discussed at the Audit Committee meetings and based on those findings, appropriate recommendations/actions were made/taken. To strengthen the internal audit function, the Company set up an in-house internal audit department during 2012/13.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
D.2.3 Evaluation of the process and effectiveness of risk management and internal controls	Risk Management Department oversee risk management
D.2.4 Responsibilities of Directors in maintaining a sound system of internal control and Statement of Internal Control	Refer page 143.

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 principals and maintaining an appropriate relationship with the company’s Auditors.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
D.3.1 Composition of the Audit Committee	The Audit Committee comprises the following committee members: Mr. L N de S Wijeyeratne (Chairman) Mrs. Shirani Jayasekara Mrs. Anandhiy K Gunawardhana
D.3.2 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 also reviewed periodically. The committee would consider independence when providing non-audit engagements to the External Auditor. Its primary responsibilities are to make recommendations on the appointment, reappointment and removal of Auditors.
D.3.3 Terms of reference of the audit committee	The Audit Committee is guided by the Terms of Reference approved by the Board which outlines authority and responsibility.
D.3.4 Disclosures made in the Annual Report about Audit Committee	Audit Committee report is given on page 116.

D.4 CODE OF BUSINESS CONDUCT AND 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.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
D.4.1 Code of business conduct and ethics	The Company is in the process of developing a code of business conduct and Ethics.
D.4.2 Chairman’s confirmations for any violation of code of conduct and ethics	

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.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
D.5.1 Disclosure of corporate governance compliance	This requirement is met through presentation of this report.

2. SHAREHOLDERS

E. INSTITUTIONAL INVESTORS

E.1 SHAREHOLDER VOTING

Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
E.1.1 Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders views to the Board	Annual General Meeting is a forum to have an effective dialogue with shareholders.

E.2 EVALUATION OF GOVERNANCE DISCLOSURE

Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.

F. OTHER INVESTORS

F.1 INVESTING/DIVESTING DECISION

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
F.1 Individual shareholders investment decisions	Individual shareholders investing directly in the Company are encouraged seeking independent advice in investing or divesting decisions.

F.2 SHAREHOLDER VOTING

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
F.2 Individual shareholder voting	Individual shareholders are encouraged to participate at Annual General Meeting and to exercise their voting rights.

G. SUSTAINABILITY REPORTING

CORPORATE GOVERNANCE PRINCIPLE	DEGREE OF COMPLIANCE
G.1.1 Economic Sustainability	Adopted sustainability practices and reporting based on G4 Core Guidelines issued by Global Reporting Initiatives.
G.1.2 The Environment	Refer page 67.
G.1.3 Labour Practice	Refer page 57.
G.1.4 Society	Refer page 67.
G.1.5 Product Responsibility	Refer page 48.
G.1.6 Stakeholder identification, engagement and effective communication	Refer page 22.
G.1.7 Sustainable reporting and disclosure should be formalised	Reported based on G4 Core Guidelines of Global Reporting initiatives.



Innovative, Intrepid

We have never been afraid of bringing innovative thought to bear on the 'business of the day'. Seeing opportunity in adversity helped us turn intrepid...we upgraded systems and procedures to move into and strengthen our presence in more challenging areas of business. We're making waves and moving forward everyday.

REMUNERATION COMMITTEE REPORT

THE COMPOSITION

The Remuneration Committee consists of three Independent Non-Executive Directors. The following Directors serve on the Committee Mr. Thosapala Hewage, Independent Non-Executive Director and Chairman of the Board (Chairman of the Committee from 23rd April 2013), Mr. L N de S Wijeyeratne, Independent Non-Executive Director (Chairman from 1st September 2013 up to 23rd April 2014) Mrs. Kimarli Fernando, Independent Non- Executive Director

MEETINGS

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

The 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.

FUNCTIONS

The functions of the Committee include making recommendations to the Board on the compensation and benefits of the Managing Director, Executive Directors and Key Management Personnel. A primary objective of the remuneration policy of the Company is to attract and retain a highly qualified and experienced workforce and reward their performance commensurate with each employee's level of experience and contribution, bearing in mind the business performance and long term shareholder return.

DIRECTORS' REMUNERATION

The total of Directors' remuneration paid during the year under review is set out in note 43 to the Financial Statements.



Thosapala Hewage

Chairman
Remuneration Committee

30th May 2014

NOMINATION COMMITTEE REPORT

COMPOSITION

The Nomination Committee comprises of two Non-Executive Directors and one Executive Director. Composition of the Committee during the year was as follows:

Mr. L N de S Wijeyeratne (*Chairman*)

Mrs. Kimarli Fernando

Mr. J A S S Adhihetty

Brief profiles of the members of the Committee are given on pages 74 to 76.

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 to by the Board of Directors.



L N de S Wijeyeratne

Chairman

Nomination Committee

30th May 2014

AUDIT COMMITTEE REPORT

COMPOSITION

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

Mr. L N de S Wijeyeratne (*Chairman*) -
Independent/Non-Executive Director

Mrs. Shirani Jayasekara -
Independent/Non-Executive Director

Mrs. Anandhiy K Gunawardhana -
Independent/Non-Executive Director

The Chairman, Mr. L N de S Wijeyeratne, is a Fellow of The Institute of Chartered Accountants of Sri Lanka, with more than 35 years of post-qualification experience in finance and general management. Mrs. Shirani Jayasekara counts over 30 years of experience combining finance and IT, audit and risk management and she is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants - UK. Mrs. Anandhiy K Gunawardhana is an Attorney-at-Law and a partner of Julius and Creasy, Attorneys-at-Law and Notaries Public. Her areas of specialisation are capital markets, corporate and commercial law, insurance law, mergers, acquisitions and taxation. The profiles of the members are given on the page 74 and 76.

MEETINGS

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

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

FUNCTIONS

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

FINANCIAL REPORTING SYSTEM

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

- The preparation, presentation and adequacy of the disclosures in the Company's annual and Interim Financial Statements in accordance with Sri Lanka Financial Reporting Standards and Lanka Accounting Standards.
- The rationale and basis for the significant estimates and judgments underlying the Financial Statements.

NAME OF DIRECTOR	EXECUTIVE/NON-EXECUTIVE INDEPENDENT/ NON-INDEPENDENT	ATTENDANCE
Mr. L N de S Wijeyeratne	Independent/Non-Executive Director	12/12
Mrs. Shirani Jayasekara	Independent/Non-Executive Director	11/12
Mrs. Anandhiy K Gunawardhana	Independent/Non-Executive Director	12/12

- The systems and procedures in place to ensure that that all transactions are accurately recorded in books of accounts.
- The effectiveness in the financial reporting systems including the management accounts to ensure the reliability of information provided to the Board and other stakeholders of the Company.

INTERNAL AUDIT

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

During the year, a review of the Core IT Systems were carried out by KPMG. Their review consisted of three main areas: business process controls/application controls, review of application security and review of IT operational controls. KPMG review also included whether the systems complies with SLFRS and the Central Bank guidelines to ensure that all statutory and regulatory compliance standards are embedded in the systems.

EXTERNAL AUDIT

During the year the committee met with Messrs Ernst & Young, External Auditors to discuss the Auditors' management letter pertaining to the previous year's audit and the management's response thereto. Follow-up action was taken to ensure that the recommendations contained in the management letter were implemented by the management. Discussions were also held in regard to the nature, scope and approach of the audit for 2013/14 prior to commencement of the audit.

The Committee reviewed the non-audit services provided by the Auditors to ensure that the provision of these services does not impair their independence.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be reappointed as Auditors for the financial year ending 31st March 2015, subject to the approval of the shareholders at the Annual General Meeting.



L N de S Wijeyeratne

Chairman
Audit Committee

30th May 2014

RISK MANAGEMENT

INTRODUCTION

As a financial institution engaged in a varied offering of financial services, assuming the active management of financial and other risks becomes an integral part of our business strategy. This implies that the core mission for risk management is adequate risk steering, as opposed to mere risk avoidance or minimisation. Risk management therefore is an integral part of the management and control system, ensuring the timely identification, analysis, measurement, management and reporting of risks. This system provides the basis for successful value-based management, including the efficient allocation of capital and the optimisation of key performance measures through consistent consideration of risk-return implications.

Company's risk management process is mandated by the Board of Directors and steered by the Board appointed Integrated Risk Management Committee (IRMC). The Board of Directors defines what levels of risk-taking are deemed adequate for the Company, taking into account all relevant limitations as well as the Company's business strategy.

An appropriate and effective risk management system ensures that risks and their impacts are identified and evaluated at an early stage and that 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 works towards 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 2013/14

KEY INITIATIVE	DESCRIPTION
Introduction of Monthly Risk Management and Reporting (MRMR) Procedure	<ul style="list-style-type: none"> Implementation of MRMR procedure to facilitate; Identification of risk events at source Independent assessment of risks Reporting risk treatment decision and monitoring.
Development of Customer Risk Rating Methodology and approval by IRMC	<ul style="list-style-type: none"> A Customer Risk Rating methodology was developed in consultation with Credit Dept. Rating rationale and methodology was presented to the IRMC for its approval. System specifications on the proposed module communicated to the Developer.
Formalising new Product Development Committee (PDC)/Process and streamlining change management process	<ul style="list-style-type: none"> In an effort to minimise errors and delays in the new product development process due to lack of coordination, Risk Management Department (RMD) initiated setting up of the PDC/Process. Existing change management process was streamlined to engage all connected parties (Finance, Operations, IT and Risk) and make them fully involved in the process.
Ensuring the critical process continuity through strengthening the Standard Operating Procedures (SOPs)	<ul style="list-style-type: none"> Identification of critical functions in Finance, IT, Deposits, Treasury which lacked comprehensive SOPs. Coordinating development of SOPs through the functional heads.
Strengthening of Anti-Money Laundering (AML) and terrorist financing controls	<ul style="list-style-type: none"> Development of an AML Policy approved by the Board. Inclusion of AML controls to teller/cashier training scope.

PRIORITIES FOR 2014/15

PRIORITY	DESCRIPTION
Implementation and application of Customer Risk Rating module.	<ul style="list-style-type: none"> Implementation of Customer Risk Rating module. Training credit decision makers and credit operations staff, on the use and application of the new system.
Adoption of a risk based pricing formula based on the internal rating	<ul style="list-style-type: none"> Making use of the rating output by applying a risk based pricing to reflect the true credit quality of the customers.
Strengthening of IT Risk Management function	<ul style="list-style-type: none"> More resources will be added to IT risk management function to enhance independent review of the information system vulnerabilities. Strengthen IT risk controls whilst also looking into the aspects of Information Security.
Strengthening of Operational Risk Management function	<ul style="list-style-type: none"> Increased focus on high operational risk areas. Widening the coverage of loss data collection process and enhancing process mapping.

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;



Precise procedures, responsible parties, frequency of analysis and reporting requirements for specific risk management processes depend on the methodology employed and are specified in greater detail under "The Risks faced by the Company" section. The following sections provide deeper insights into each of the four generic process steps provided above.

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 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, back testing and validation tests.

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 avoidance, 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 forms 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 reengineering.

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.

MONTHLY RISK MANAGEMENT AND REPORTING PROCEDURE (MRMR)

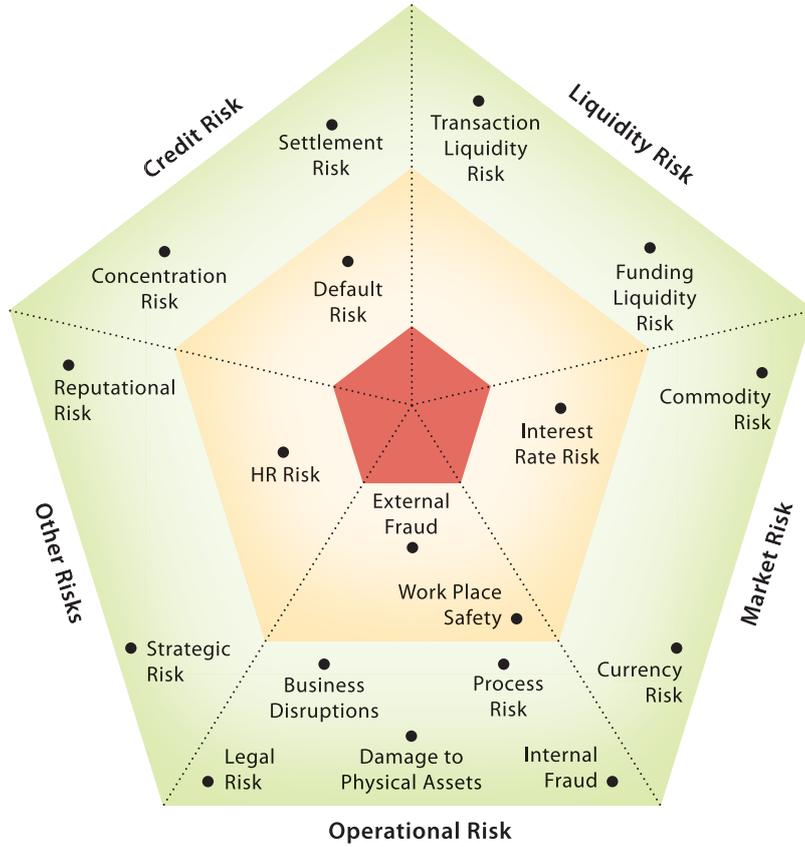
In order to practice the risk management process described above in a more effective manner the MRMR procedure was implemented during the year under review. In line with the Risk Management Process, this monthly mechanism is designed for managing and reporting risks within the organisation.

MRMR procedure allows the RMD and the Chief Risk Officer (CRO) to identify and assess risks affecting the entire business on an ongoing basis.



- (a) MRMR 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 Head 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 regular basis for appropriateness and relevance. Any new identified KRIs should be added to enhance effective risk monitoring.
- (c) For qualitative non-quantifiable risks, RMD should initiate and formulate risk mitigation plans together with the respective business divisions. For agreed mitigation actions clear timelines should be set for completion and responsibilities should be assigned.
- (d) RMD is responsible for risk communication and escalation to the executive leadership of the Company (Managing Director and the Executive Directors) by providing an updated Corporate Risk Profile on a monthly 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 ensure the implementation of agreed mitigation strategies. Risk owners are responsible for providing all necessary information to the RMD and CRO to facilitate independent supervision.
- (g) CRO is responsible for submitting summarised version of the Corporate Risk Profile based on the MRMR procedure to the Board IRMC and to the Board of Directors at least on a quarterly basis.

RISK GRID



RISK GOVERNANCE FRAMEWORK

The Company has adopted a ‘three lines of defence’ governance framework. The three lines of defence framework operates as follows:

FIRST LINE OF DEFENCE

- Heads of Different Business Units
- Management Committees

SECOND LINE OF DEFENCE

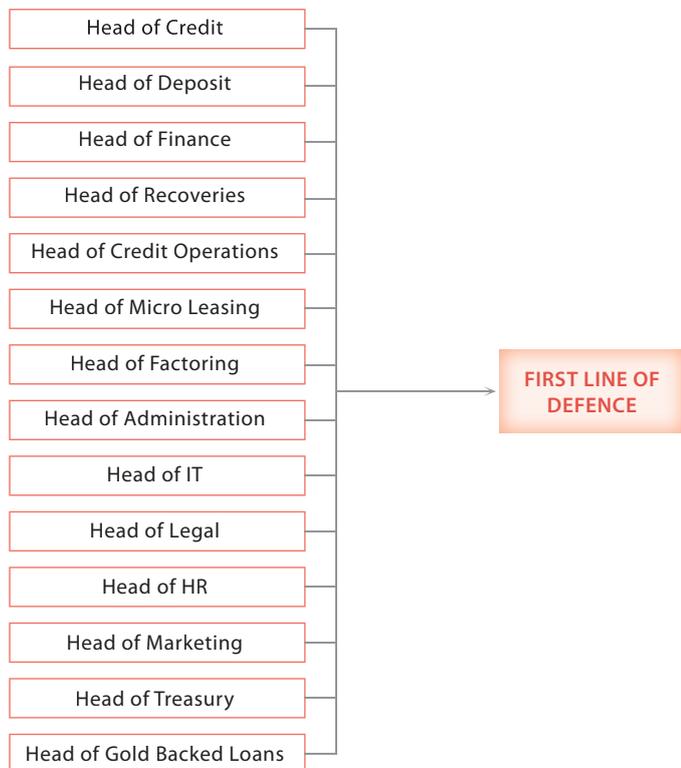
- IRMC
- Audit Committee
- RMD

THIRD LINE OF DEFENCE

- Internal Audit
- External Audit
- Compliance Function

FIRST LINE OF DEFENCE

HODs act as the risk owners and form the most important element in the first line of defence. They have the first and direct responsibility for the assessment and control of the Company's risks.



The following management level committees provide the policy level direction for risk management.

ASSET AND LIABILITY COMMITTEE

Asset and Liability Committee (ALCO) is chaired by the Managing Director and comprises of Executive Directors (Asset Management and Asset Finance), General Manager, 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

Credit Committee is chaired by the Managing Director and comprises of Executive Directors, representatives from Credit Department and RMD. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The Committee also periodically reviews Company's credit policy and lending rates to different business segments in light of prevailing market conditions and industry dynamics.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility (CSR) Committee was formulated during the financial year 2011/12. The 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 will be integrated in to our business strategy.

INFORMATION TECHNOLOGY STEERING COMMITTEE

Information Technology (IT) steering committee is headed by Executive Director – Asset Management and comprises of Head of IT and representatives from relevant departments. The Committee is responsible for providing leadership for the planning and management of IT investment on a Company wide basis.

Members of the IT steering committee 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 strongest mandate is to find and align business solutions that may leverage technology.

SECOND LINE OF DEFENCE

Provides an independent oversight. They co-ordinate, facilitate and oversee the integrity of the Company's risk management framework.

INTEGRATED RISK MANAGEMENT COMMITTEE (BOARD SUB COMMITTEE)

The Board has delegated its authority to Integrated Risk Management Committee which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by an Independent Non-Executive Director and comprises of Executive and Non-Executive Directors, Chief Financial Officer, Chief Risk Officer, and Head of Treasury. Meetings of IRMC are held quarterly, and the Board of Directors is duly updated of its activities.

AUDIT COMMITTEE (BOARD SUB COMMITTEE)

Audit Committee is a formally constituted sub-committee of the main Board, and consists of three Board members who are Non-Executive Directors. The members of the Committee are appointed by the Board. The primary function of the Committee is to assist the Board to fulfill its stewardship responsibilities with regard to financial reporting requirements and information requirements of the Companies Act and other relevant financial reporting regulations and requirements. It also has oversight responsibility for reviewing the effectiveness of internal control and risk management systems. The Committee assesses the independence and performance of the Company's auditors, both internal and external.

RISK MANAGEMENT DEPARTMENT (RMD)

The Risk Management Department provides an independent oversight function, acting as a second line of defence within the organisation. RMD is tasked with the responsibility of assisting the business units and functional departments in identifying and managing the risks related to their respective operations and processes and independently monitoring the status and effectiveness of the mitigation action plans. RMD is headed by the CRO who directly reports to the Managing Director and has a functional reporting to the Board of Directors and the IRMC .

THIRD LINE OF DEFENCE

Provides independent review of effectiveness of risk management practices and internal control framework and recommends improvements where necessary.

INTERNAL AUDIT

Internal Audit provides an independent, objective assurance designed to add value and improve an organisation's operations. Company's internal audit function helps to bring a systematic, disciplined approach to evaluate and improve the effectiveness of operational controls, governance processes and risk management.

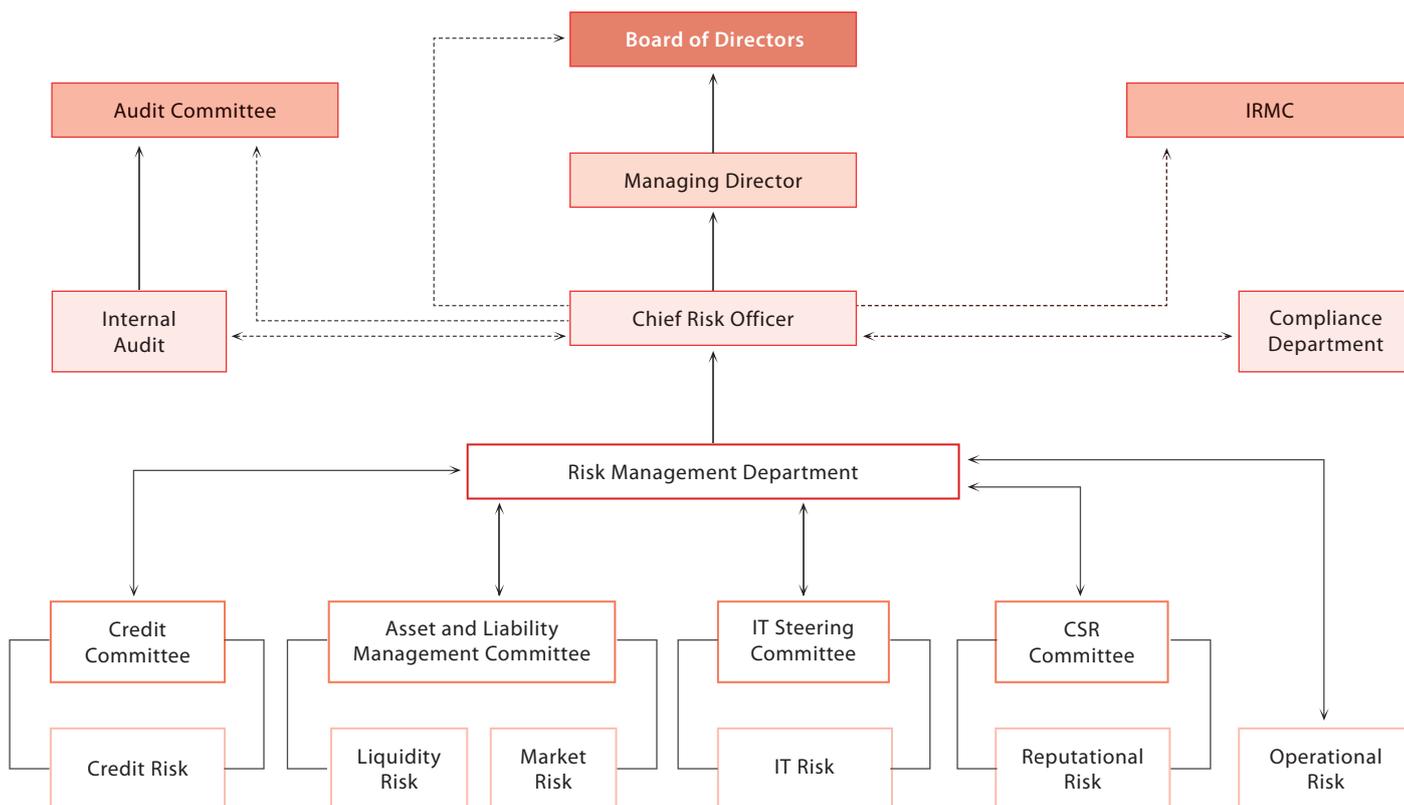
COMPLIANCE FUNCTION

Compliance function is responsible for ensuring that the Company is in compliance with all applicable laws, regulations and supervisory directions. It complements the RMD by providing necessary risk related information on legal and regulatory risk areas.

EXTERNAL AUDIT

External Audit is responsible for adding credibility and reliability to 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 Company's adequacy of risk management controls, corporate governance and compliance.

RISK GOVERNANCE STRUCTURE



THE RISKS FACED BY THE COMPANY

CREDIT RISK

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 and arise principally from the Company’s loans and advances to customers.

Concentration risk is the credit exposure being concentrated as a result of excessive build up exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

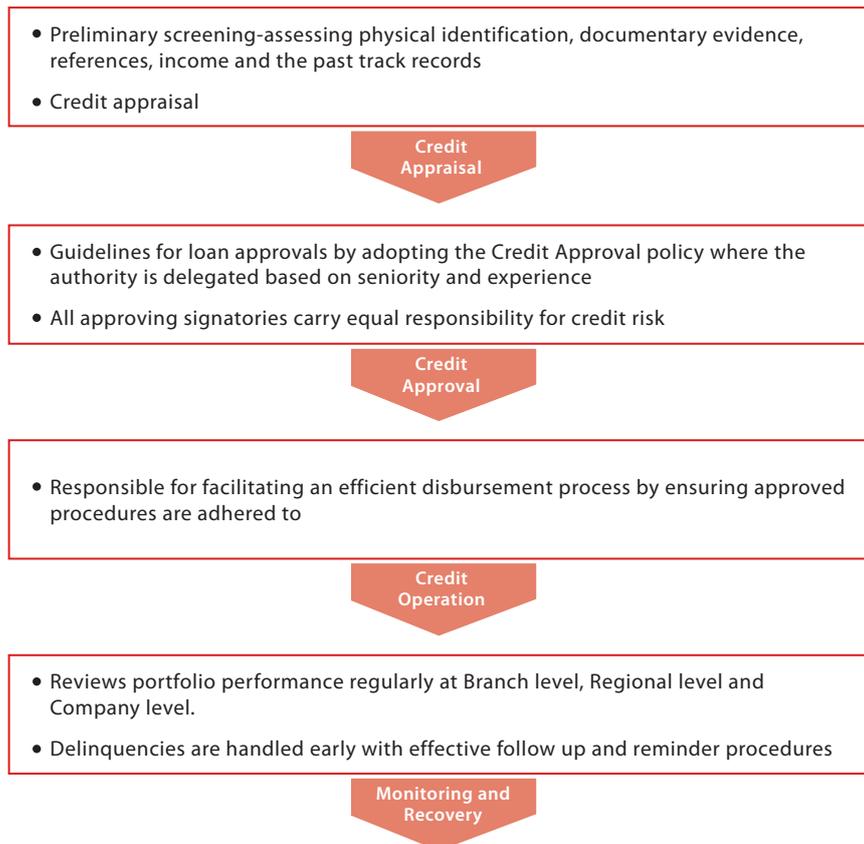
Settlement is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis.

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.

The credit risk process plays a vital role in managing day-to-day business activities. The process defines the principles about delegation of lending approvals, client selection, due diligence, early problem recognition, tolerable levels and portfolio monitoring in line with the Company’s risk appetite.

Company uses various credit indicators to identify the emerging credit risks and analytical tools to manage such risks.

CREDIT PROCESS



Credit Appraisal

The credit process comprises of preliminary screening and credit appraisal. This process focuses on the borrower's ability to meet its obligations in an appropriate manner. An investigation procedure takes place to assess physical verification of moveable and immovable assets, documentary evidences, references, income sources and the past payment history.

Credit Approval

The Company has clearly defined guidelines for credit approvals. Approving authority has been delegated based on seniority and experience. Approval limits have been formed taking into consideration factors such as maximum counterparty exposures, loan to value ratio and forced sale value.

Credit Operations

Credit Operations Department is responsible for facilitating an efficient disbursement process by ensuring approved procedures are adhered to.

Monitoring and Recovery Process

Monitoring and recovery process is carried out by the Recoveries Department. It reviews portfolio performance regularly at Branch level, Regional level and Company level. Delinquencies are handled early with effective follow up and reminder procedures. Swift recovery actions are taken against critical exposures.

CREDIT RISK MANAGEMENT

Default Risk - Medium

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 Companywide level under different product categories. Company's NPL ratio is also compared with similar sized peers and the industry for benchmarking.



*Industry comprises of LFCs and SLCs. NPL ratio is as at 31.12.2013 - Source CBSL

NPL Stress Test

Different NPL stress scenarios are assumed to ascertain the impact of company's capital adequacy ratio.

Current Capital Adequacy Ratio – 17.5%

SCENARIO	1	2	3
Magnitude of Shock	10%	25%	50%
Capital Adequacy Ratio	16.94%	16.09%	14.63%

Top 20 Customers Stress Test

Stressed Scenario - Top 20 customers falling to NPL category impacting on capital adequacy.

Current Capital Adequacy Ratio – 17.5%

SCENARIO	1	2	3
Magnitude of Shock	10%	25%	50%
Capital Adequacy Ratio	17.33%	17.07%	16.64%

Mitigation Strategies

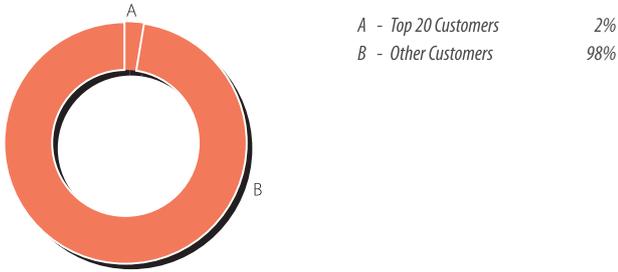
- Adherence to clearly defined credit procedures and guidelines
- Thorough investigation of the customers background to assess credit worthiness
- Effective and timely recovery actions against delinquent borrowings
- Striving to maintain Gross NPL within the tolerance level of 5% which is reviewed annually, considering the industry performance

Concentration Risk – Low

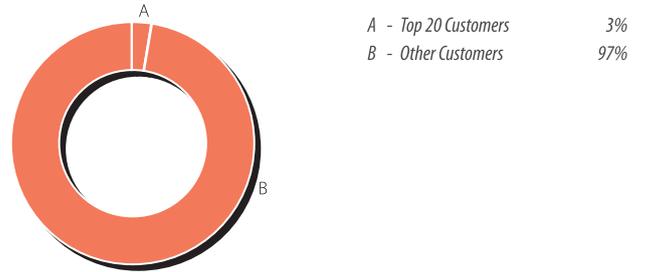
Arises from uneven distribution of counterparties, business sectors or geographical regions.

Assessment

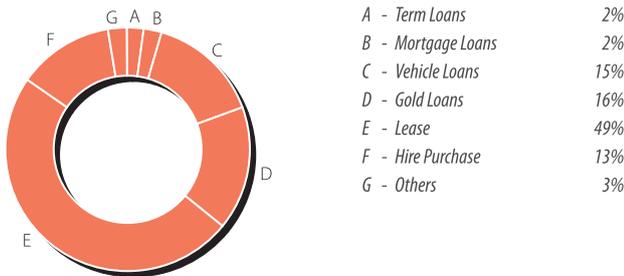
CREDIT EXPOSURE TO TOP 20 CUSTOMERS - 2013/14



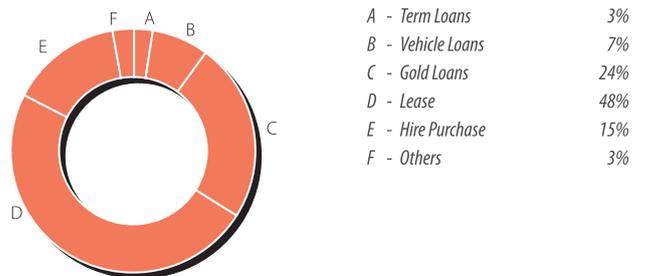
CREDIT EXPOSURE TO TOP 20 CUSTOMERS - 2012/13



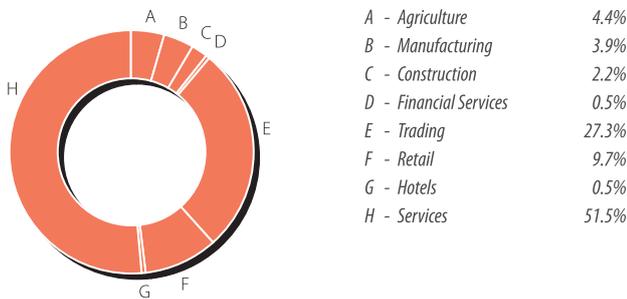
PRODUCT CONCENTRATION - 2013/14



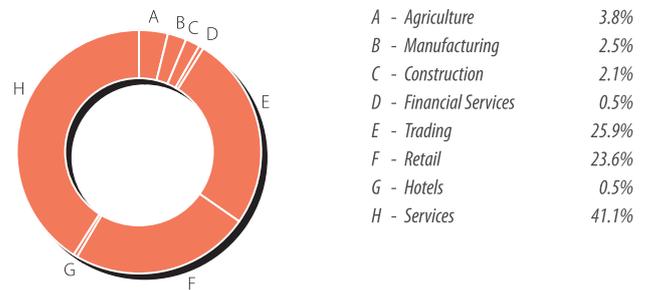
PRODUCT CONCENTRATION - 2012/13



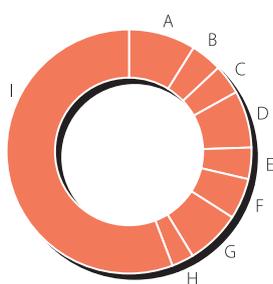
INDUSTRY CONCENTRATION - 2013/14



INDUSTRY CONCENTRATION - 2012/13

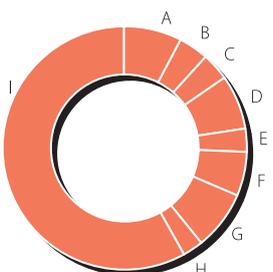


GEOGRAPHICAL CONCENTRATION - 2012/13



A - Central	8.9%
B - Eastern	4.0%
C - North Central	3.9%
D - North Western	7.6%
E - Northern	4.1%
F - Sabaragamuwa	5.5%
G - Southern	7.2%
H - Uva	2.7%
I - Western	56.1%

GEOGRAPHICAL CONCENTRATION - 2013/14



A - Central	8.0%
B - Eastern	3.8%
C - North Central	3.5%
D - North Western	7.3%
E - Northern	3.0%
F - Sabaragamuwa	5.9%
G - Southern	7.5%
H - Uva	2.9%
I - Western	58.1%

Mitigation Strategies

- Setting of prudential limits on maximum exposure which are reviewed periodically
- Strict adherence to single borrower limits defined by Finance Companies Direction No. 4 of 2006 issued by the Central Bank of Sri Lanka
- Board approved limits for maximum accommodations for a single counterparty.
- Regular monitoring of exposure to single counterparty, single collateral type, industry and geographical area.

LIQUIDITY RISK - LOW

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; transactions liquidity, a property of assets or markets, and funding liquidity, which is more closely related to creditworthiness.

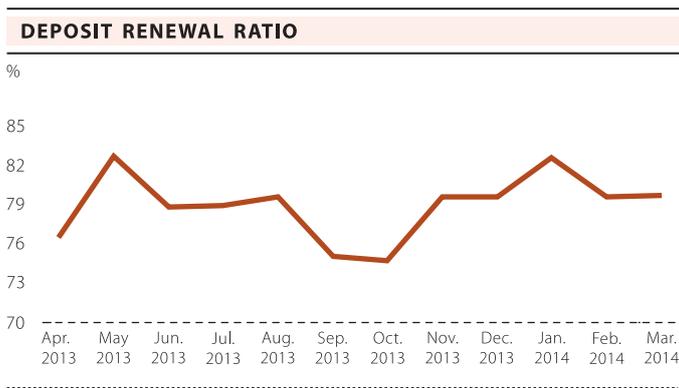
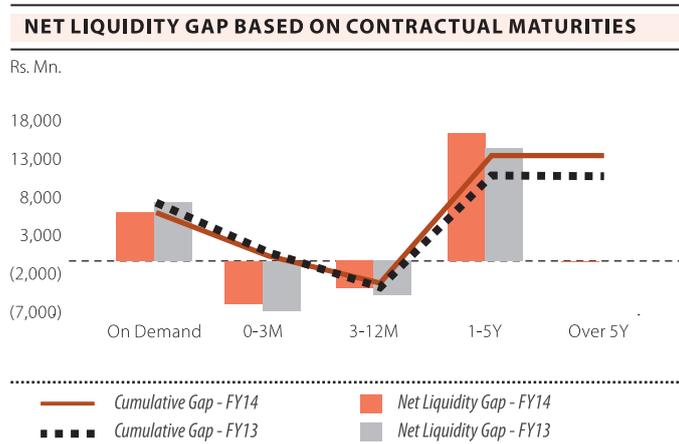
Transaction liquidity risk is the risk of moving the price of an asset adversely in the act of buying or selling it. Company's transaction liquidity risk is low if assets can be liquidated without moving the price too much.

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 because financial conditions as a whole are deteriorating.

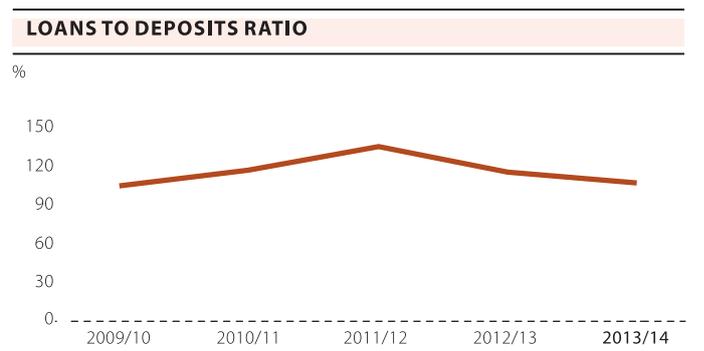
The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress.

Assessment

The net liquidity gap for on demand, 0-3 months and 3-12 months have narrowed and 1-5 years has widened.



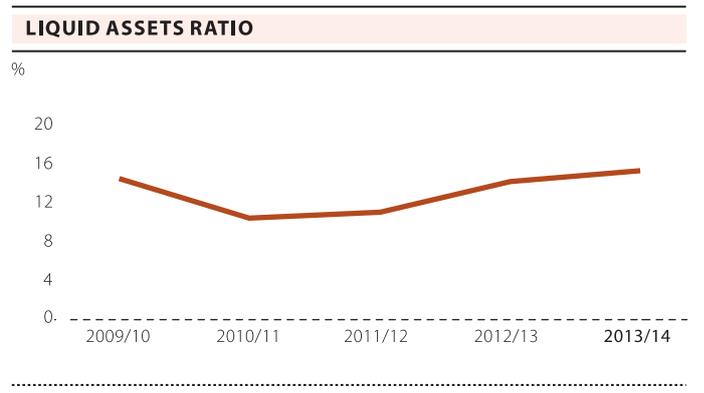
Company's loan book is predominantly financed by deposits from customers.



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.

Liquid Asset Ratio

Company strives to maintain an adequate liquidity asset buffer to mitigate risk arising from a sudden liquidity shortage.



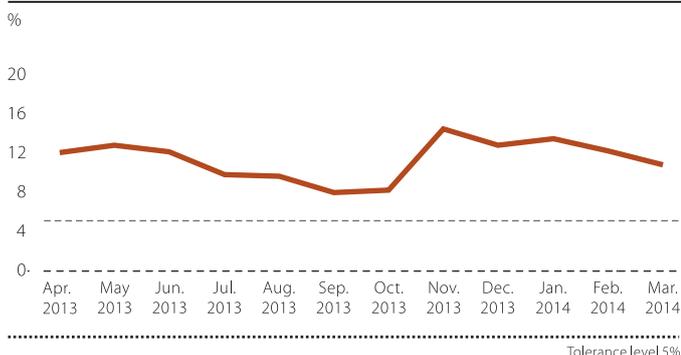
Liquid Asset Stress Test

Stressed Scenario - Sudden fall in deposit base impacting liquid asset ratio.

Current Liquid Asset Ratio -15.29%

SCENARIO	1	2	3
Magnitude of Shock	2.5%	5.0%	10.0%
New Liquid Asset Ratio	13.38%	11.37%	7.00%

TOTAL ACCESSIBLE LIQUIDITY/TOTAL DEPOSIT BASE RATIO



The above graph depicts the Company’s maximum deposit pay-out capacity in a crisis situation. Total accessible liquidity consists of excess liquid assets (excluding statutory liquid assets), unutilised credit lines and release of statutory liquid assets corresponding to the amount to the deposits withdrawn.

Stressed Scenario - Sudden fall in deposit base impacting liquid asset ratio after allowing for other forms of liquidity buffers.

Current Total Accessible Liquidity / Total Deposit Base Ratio – 19.73%

SCENARIO	1	2	3
Magnitude of Shock	10%	25%	50%
New Liquid Asset Ratio	17.93%	16.03%	11.93%

Mitigation Strategies

- Proper coordination of funding activities between the treasury and the deposit mobilisation units based on forecasted cash flows.
- Strengthening the contingency funding arrangements using standby facilities.
- Increasing the exposure to shorter duration assets to minimise maturity mismatches. Eg. Gold backed loans, Factoring, Power Drafts.
- Maintaining deposit renewal ratio above the threshold of 75%.
- Promoting long term deposits to improve asset liability matching.
- Continuous analysis and monitoring of liquidity positions and, maintaining an adequate buffer in liquid assets.

MARKET RISK

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk and commodity risk have been identified as the most critical risks given 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 due to adverse and unanticipated movements in future interest rate which could arise from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

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

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 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 modeling the financial impact. The table below illustrates the impact on net interest income from different interest rate scenarios.

IR STRESS ON RATE SENSITIVE LIABILITIES		IR STRESS ON RATE SENSITIVE ASSETS								
		ANNUAL IMPACT	-2.00%	-1.50%	-1.00%	-0.50%	0.00%	0.50%	1.00%	1.50%
	RS. 000									
	-2.00%	162,096	263,783	365,470	467,156	568,843	670,530	772,217	873,903	975,590
	-1.50%	19,885	121,572	223,259	324,946	426,632	528,319	630,006	731,693	833,379
	-1.00%	(122,325)	(20,639)	81,048	182,735	284,422	386,108	487,795	589,482	691,169
	-0.50%	(264,536)	(162,850)	(61,163)	40,524	142,211	243,898	345,584	447,271	548,958
	0.00%	(406,747)	(305,060)	(203,374)	(101,687)	0	101,687	203,374	305,060	406,747
	0.50%	(548,958)	(447,271)	(345,584)	(243,898)	(142,211)	(40,524)	61,163	162,850	264,536
	1.00%	(691,169)	(589,482)	(487,795)	(386,108)	(284,422)	(182,735)	(81,048)	20,639	122,325
	1.50%	(833,379)	(731,693)	(630,006)	(528,319)	(426,632)	(324,946)	(223,259)	(121,572)	(19,885)
	2.00%	(975,590)	(873,903)	(772,217)	(670,530)	(568,843)	(467,156)	(365,470)	(263,783)	(162,096)

Mitigation Strategies

- ALCO closely monitors the interest rate movements, and issues directions to lending and borrowing units on interest rate strategies.
- Increasing the proportion of fixed rate borrowings in the funding mix.
- Promoting products with shorter reprising cycle to reduce interest rate sensitive gaps.
- Exploring opportunities to hedge the interest rate risk synthetically using interest rate swaps.
- Negotiating interest rate caps on new borrowings.

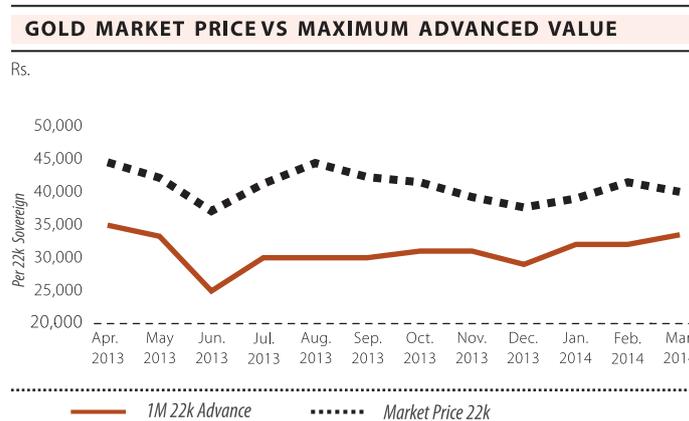
COMMODITY PRICE RISK - LOW

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 backed loans business to the Company’s overall lending operation, fluctuations to the gold prices could have an adverse impact to earnings. Gold price risk could arise from either of adverse movements in the world prices, exchange rates, basis risk between local and world prices.

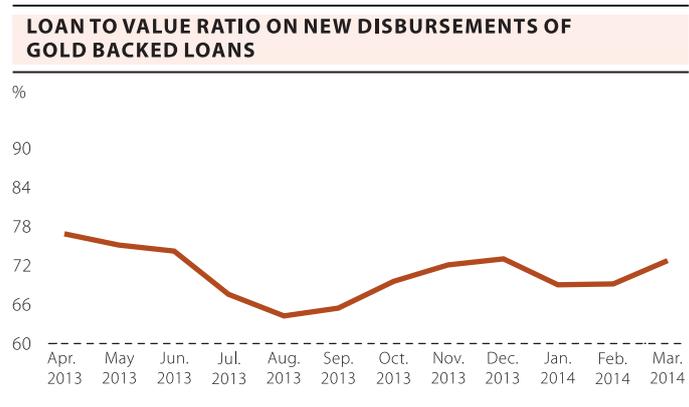
Assessment

Company has adopted a dynamic lending strategy to determine the loan to value ratio based on the global gold prices.

Advance per sovereign is well matched with gold market price.



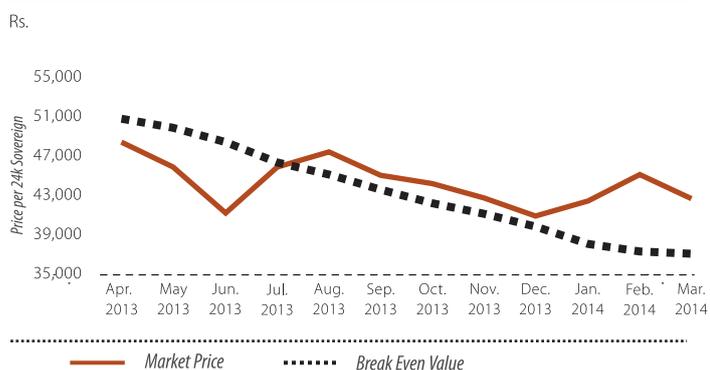
During the year under review Company managed to maintain a prudent loan to value on new disbursements by dynamically adjusting the advanced value.



Portfolio Re-pricing Taking Full Effect

The results of new lending strategy is clearly reflected in the gradual reduction of the break even value, compared to the market value. The break even value represents the average value of total receivables (capital+ interest) per 24k sovereign equivalent.

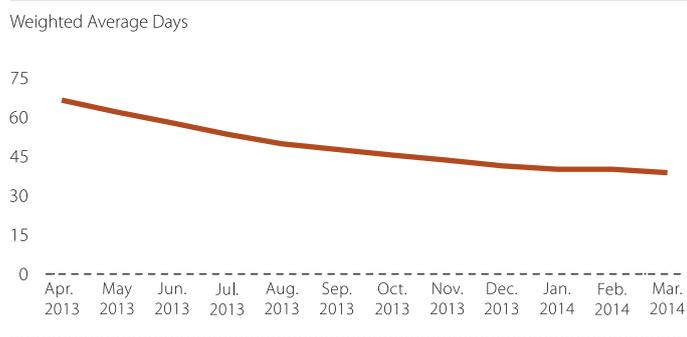
MARKET PRICE VS GOLD BACKED LOANS PORTFOLIO'S BREAK EVEN VALUE



Weighted Average Lending Term Gradually Declining

Company actively promoted shorter duration products effectively reducing the weighted average term to maturity of the portfolio.

GOLD BACKED LOANS - MONTHLY WEIGHTED AVERAGE TERM TO MATURITY



Mitigation Strategies

- Quicker re-pricing cycle: Company promotes shorter duration products which improves the recoverability of non-performing gold backed advances.
- Frequent revisions to the advance offered per gold sovereign: Company practices a process of revising advance offered per sovereign to reflect market value fluctuations to maintain the desired loan to value ratio.
- Company is in the process of exploring opportunities available for hedging the commodity price risk.

EXCHANGE RATE RISK - LOW

Indirect impact intensifying the commodity price risk due to changes in local gold prices as a result of the fluctuations in the USD/LKR even as the global gold prices remain steady.

Mitigation Strategies

Managing the risk arising from the USD/LKR volatility through maintaining an adequate safety margin on gold advances.

REGULATORY AND COMPLIANCE RISK - LOW

Regulatory and compliance risk is the risk of regulatory sanctions, financial loss or loss to reputation that the Company may suffer as a result of its failure to comply with laws, regulations, code of conduct and standards of good practice applicable to its financial services.

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. The Compliance Division continues to support the business in complying with current and emerging regulatory developments, including money laundering and terrorist financing control.

Assessment

- Timely reviews are carried out to assess the extent of compliance.
- Monitoring of adherence to regulatory reporting
- Adherence to CBSL guidelines and directives

Mitigation Strategy

- Compliance function regularly reviews the Company's compliance with regulatory bodies.

OPERATIONAL RISK - LOW

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 frauds
2. External frauds
3. Process risks
4. Business disruptions
5. Damages 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
- Conducting gap analysis to identify vulnerabilities in systems.

Mitigation Strategies

- Segregation of duties, well defined demarcated responsibilities for employees, use of procedural manuals, dual controls.
- Periodic internal audits are conducted covering the entire branch channel. The scope of the audit includes the review of adequacy and application of accounting, financial and operational controls.
- Transferring insurable risk by obtaining insurance policies.
- Installing access control to identified high impact areas
- Staff training on technical aspects to comply with security regulations.
- Conducting post completion audits after a successful implementation of systems.
- Disaster recovery planning and business continuity planning
- Obtaining ISO 27001 certification to ensure information system security.

STRATEGIC RISK - LOW

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

Comparison of pre and post implementation of financial reviews for every product, project and investment

Mitigation Strategy

- Conducting regular reviews on strategic decisions.
- Periodic budget reviews

REPUTATIONAL RISK - LOW

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, Company takes great care in the management of reputation risk. As all other risks impact reputation risk, efficient management of other risks also forms part of our management of reputational risk.

Assessment

- Evaluation of the effectiveness of CSR projects.
- 43 CSR events carried out during the year incurring a cost of Rs. 7.9 Mn.
- Evaluation of no. of complaints and types of complaints.

Mitigation Strategies

- Establishment of the CSR Committee to conceptualise and monitor CSR initiatives.
- Development of a corporate communication policy to standardise the communication process is in progress.
- Close monitoring of any events which could lead to reputation risk by adopting an early warning system including media reports, inputs from frontline staff and market survey results.
- Training given to employees on professionalism, behaviour and educate them on business ethics.

CAPITAL ADEQUACY RISK - LOW

For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses so that the company can remain in business. 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. Capital adequacy risk arises from Company's inability to maintain the required amount of capital which is perceived to be adequate to absorb the unexpected losses.

The Company's capital management objectives can be summarised as follows:

- Maintain sufficient capital to meet minimum regulatory capital requirements
- Hold sufficient capital to support the Company's risk appetite
- Allocate capital to businesses to support the Company's strategic objectives
- Ensure that the Company maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events

The Company manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka 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 CBSL. Licensed Finance Companies in Sri Lanka need to maintain a minimum Core Capital Ratio (Tier 1) of at least 5% and Total risk weighted capital ratio (Tier I & II) of 10%.

As of 31st March 2014, the Company reported a Tier 1 ratio of 10.88% and a total of Tier I & II of 16.03% which remain comfortably above the CBSL's minimum capital requirements.

The Company manages its capital structure and adjusts it accordingly in line with changes in global and local economic and market conditions and its overall risk appetite. During the year, Company raised Rs. 2 Bn subordinated, unsecured debentures to boost its Tier II capital position.

Mitigation Strategies

- 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.

FINANCIAL REPORTS

Annual Report of the Board of Directors on the Affairs of the Company	138
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ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of L B Finance PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2014.

GENERAL

L B Finance PLC is a public limited liability Company which was incorporated under the Companies Ordinance No. 51 of 1938 as a private limited liability Company on 30th May 1971, converted to a public limited liability Company on 29th September 1982, and re-registered as per the Companies Act No. 07 of 2007 on 6th June 2008 under company registration No. PQ 156.

L B Finance PLC is a licensed finance company registered in terms of the Finance Business Act No. 42 of 2011 and is a registered finance leasing establishment in terms of the Finance Leasing Act No. 56 of 2000.

The ordinary shares of the Company are quoted on the main Board of the Colombo Stock Exchange since January 1998.

The unsecured subordinated redeemable debentures issued by the Company are also listed on the Colombo Stock Exchange.

Both the registered office of the Company and its head office are situated at No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07.

NATURE OF BUSINESS

The Company's principal activities during the year were acceptance of deposits, maintenance of savings accounts, granting lease and hire purchase facilities, microfinance facilities, gold loans, vehicle loans, mortgage loans, factoring, margin trading, Islamic finance facilities and value added services.

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

A review of the business of the Company and its performance during the year with comments on financial results, future strategies and prospects are contained in the Managing Director's Report on pages 12 to 16, which form an integral part of this Report.

This Report together with the Financial Statements, reflect the state of affairs of the Company.

FINANCIAL STATEMENTS

The complete Financial Statements of the Company prepared in accordance with revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) set by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 inclusive of specific disclosures, duly signed by two Directors on behalf of the Board and the Auditors are given on pages 146 to 214.

AUDITORS' REPORT

The Report of the Auditors on the Financial Statements of the Company is given on page 145.

ACCOUNTING POLICIES

The Financial Statements of the Company have been prepared in accordance with the revised Sri Lanka Accounting Standards and the policies adopted in the preparation thereof are given on pages 151 to 167.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairman's Review given on page 8, Managing Director's Review given on page 12 and the Management Discussion and Analysis on page 22.

DIRECTORS

LIST OF DIRECTORS

The Board of Directors of the Company as at 31st March 2014 consisted of ten Directors (nine Directors as at 31st March 2013) with wide financial and commercial knowledge and experience.

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 72 to 76.

EXECUTIVE DIRECTORS

Mr. Dhammika Perera	-	Executive Deputy Chairman
Mr. J A S S Adihetty	-	Managing Director
Mr. Nimal Perera	-	Executive Director
Mr. Nirosan Udage	-	Executive Director
Mr. B D A Perera	-	Executive Director

NON-EXECUTIVE DIRECTORS

*Mr. Thosapala Hewage	-	Chairman
*Mr. L N de S Wijeyeratne	-	Senior Director
*Mrs. Kimarli Fernando	-	Director
*Mrs. Shirani Jayasekara	-	Director
*Mrs. Anandhiy Krisnajina Gunawardhana	-	Director

**Independent Non-Executive Directors as per the Listing Rules of the Colombo Stock Exchange*

New Appointments During the Year

Mr. Thosapala Hewage (appointed w.e.f. 23rd April 2013).

Resignations During the Year

There were no resignations during the year.

Recommendations for re-election

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

INTERESTS REGISTER

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

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

The relevant interests of Directors in the shares of the Company as at 31st March 2014 as recorded in the Interests Register are given in this Report under Directors' shareholding.

RELATED PARTIES' TRANSACTIONS WITH THE COMPANY

Transactions of related parties (as defined in LKAS 24 - 'Related Party Disclosures') with the Company were set out in Note 43 to the Financial Statements.

DIRECTORS' REMUNERATION

The Directors' remuneration is disclosed under key management personnel compensation in Note 43 to the Financial Statements on page 198.

RELEVANT INTERESTS OF DIRECTORS' IN THE SHARES

The relevant interests of Directors in the shares of the Company as at 31st March 2014 and 31st March 2013 were as follows:

	Shareholding as at 31.03.2014	Shareholding as at 31.03.2013
Mr. Thosapala Hewage	-	-
Mr. Dhammika Perera	-	-
Mr. L N De S Wijeyeratne	-	-
Mr. J A S S Adihetty	53,060	53,060
Mr. Nimal Perera	435,135	663 992
Mr. Nirosan Udage	11,700	4,200
Mr. B D A Perera	-	-
Mrs. Kimarli Fernando	1,600	1,600
Mrs. Shirani Jayasekara	-	-
Mrs. Anandhiy K Gunawardhana	-	-

Mr Dhammika Perera is the major shareholder of Vallibel One PLC, which holds 35,321,200 shares constituting 51% of the shares representing the stated capital of the Company.

Vallibel One PLC is also the holding company of Royal Ceramics Lanka PLC which holds 18,061,616 shares constituting 26% of the shares representing the stated capital of the Company.

DIVIDENDS AND RESERVES**DIVIDENDS**

The Directors have recommended a first and final dividend of Rs. 6.50 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. 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. 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 dividend.

The said dividend will, subject to approval by the shareholders, be payable on the 7th market day from the date of the Annual General Meeting, viz 9th July 2014.

RESERVES

The reserves of the Company with the movements during the year are given in Note 37 to the Financial Statements on page 192.

PROPERTY, PLANT AND EQUIPMENT

Details of Property, Plant and Equipment are given in Note 27 to the Financial Statements.

LAND HOLDINGS

The Company's land holdings referred to in Note 27 of the accounts comprise a land of an extent of 7.06 perches with a building situated in Kandy, which is carried at its book value of Rs. 11.5 Mn. (the current market value being Rs. 28 Mn.), a land in extent 50 perches situated in Balagolla which was acquired at a cost of Rs. 7.5 Mn. (current market value being Rs. 9 Mn.) and the Land and Building at No. 20, Dharmapala Mawatha, Colombo 3, consisting of land in extent 01 rood and 12.82 perches with a building of a total floor area of 65,000 sq. ft. acquired for a consideration of Rs. 788,840,000/- (current market value being Rs. 860 Mn.).

SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS

STATED CAPITAL AND DEBENTURES

The stated capital of the Company as at 31st March 2014 was Rs. 838,282,159/- represented by 69,257,142 fully-paid ordinary shares which remains unchanged.

The Company had in issue 20 Mn. unsecured subordinated redeemable debentures of Rs. 100 each to the value of Rs. 2 Bn.

in November 2013 and the proceeds of the issue were utilised as per the objects of the issue stated in the Prospectus.

The details of the debentures in issue as at 31st March 2014 are given in Note 31 to the Financial Statements on page 188.

SHAREHOLDERS

There were 1,776 shareholders registered as at 31st March 2014 (1,688 shareholders as at 31st March 2013).

MAJOR SHAREHOLDERS DISTRIBUTION SCHEDULE AND OTHER INFORMATION

Information on the distribution of shareholding, analysis of shareholders, market values of shares twenty largest shareholders of the Company and percentage of shares held by the public as per the Listing Rules of the Colombo Stock Exchange are given on page 44 to 47 under Share Information.

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. As far as the Directors are aware, 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. 4,765,900/- is payable by the Company to the Auditors for the year under review comprising Rs. 2,100,000/- as audit fees Rs. 1,350,000 as audit related fees and expenses and Rs. 1,315,900/- for non-audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 20th February 2014 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.

DONATIONS

The Company did not make any donations during the year under review.

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 on page 67.

STATUTORY PAYMENTS

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

EVENTS AFTER THE BALANCE SHEET DATE

Except for the matters disclosed in Note 17 to the Financial Statement on page 173 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.

RISK MANAGEMENT

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

Specific steps taken by the Company to manage the risks are detailed in the section on Risk Management on pages 118 to 136.

The Board of Directors confirm that the Company is compliant with Section 7.10 of the Listing Rules of the CSE and Finance Companies (Corporate Governance) Direction No. 03 of 2008, Finance Companies (Corporate Governance - Amendment) Direction No. 04 of 2008 and Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011 issued by the Monetary Board of the Central Bank of Sri Lanka save and except in respect of the matters referred to in the Annual Corporate Governance Report on Pages 89 to 101.

Audit Committee, Remuneration Committee, Integrated Risk Management Committee and Nomination Committee function as Board Sub-committees, with Directors who possess the requisite qualifications and experience. In addition to Directors, certain Key Management Personnel also serve on the Integrated Risk Management Committee. The composition of the said Committees is as follows.

AUDIT COMMITTEE

Mr. L N De S Wijeyeratne (*Chairman*)
Mrs. Shirani Jayasekara
Mrs. Anandhiy Gunawardhana

REMUNERATION COMMITTEE

Mr. Thosapala Hewage (*Chairman*)
Mr. L N de S Wijeyeratne
Mrs. Kimarli Fernnado

INTEGRATED RISK MANAGEMENT COMMITTEE

Mrs. Shirani Jayasekara (*Chairperson*)
Mrs. Kimarli Fernando
Managing Director
Executive Director - *Asset Finance*
Executive Director - *Asset Management*
Head of Treasury
Head of Finance
Chief Risk Officer

NOMINATION COMMITTEE

Mr. L N De S Wijeyeratne (*Chairman*)

Mrs. Kimarli Fernando

Mr J A S S Adhihetty

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

The Corporate Governance Statement on pages 82 to 112 explains the measures adopted by the Company during the year.

HUMAN RESOURCES

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

As at 31st March 2014, 2,134 persons were in employment (2,055 persons as at 31st March 2013).

COMPLIANCE WITH LAWS AND REGULATIONS

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

The Compliance Officer also ensures that Compliance Reports are submitted to the Central Bank of Sri Lanka confirming Company's compliance with the directions, rules, determinations, notices and guidelines in terms of the Finance Business Act No. 42 of 2011.

CONTINGENT LIABILITIES

Except as disclosed in Note 40 to the Financial Statements, there were no material contingent liabilities as at the Balance Sheet date.

ANNUAL GENERAL MEETING

The Notice of the Forty-First (41st) Annual General Meeting appears on page 236.

ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

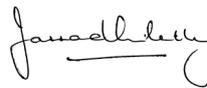
As required by Section 168 (1) (k) of the Companies Act, this Report is signed on behalf of the Board of the Company by two Directors and the Secretaries of the Company in pursuance of the authority granted by the Board by a Resolution passed on 30th May 2014 having acknowledged the contents of this Annual Report.

Signed on behalf of the Board by,



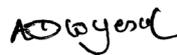
Thosapala Hewage

Chairman



Sumith Adhihetty

Managing Director



P W Corporate Secretarial (Pvt) Ltd.

Secretaries

30th May 2014

DIRECTORS' RESPONSIBILITY STATEMENT ON INTERNAL CONTROL

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

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control mechanism in place at L B Finance PLC ('Company').

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

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

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

Progressive improvements on processes to comply with new Sri Lanka Accounting Standards requirements of recognition measurement, classification and disclosure are being made whilst some processes were not fully completed at the reporting date. The Company was also in the process of updating relevant procedure manuals pertaining to the new Sri Lanka Accounting Standards requirements.

CONFIRMATION

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

EXTERNAL AUDITORS CERTIFICATION

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting. The matters addressed by the External Auditors in this respect, are being looked into.

By order of the Board,



L N de S Wijeyeratne

Independent Non-Executive Director



Sumith Adhihetty

Managing Director

30th May 2014

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Directors are required by the Companies Act, No. 7 of 2007 to prepare Financial Statements for each financial year, which give a true and fair view of the Statement of Affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

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

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

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

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2014/15, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board,
L B Finance PLC



P W Corporate Secretarial (Pvt) Ltd.
Secretaries

30th May 2014

INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2014 and the financial statements give a true and fair view of the Company's financial position as at 31 March 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

20 May 2014
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva FCA W R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

A member firm of Ernst & Young Global Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March	Notes	2014 Rs.	2013 Rs.
Income	8	13,628,497,389	11,368,252,047
Interest Income		12,714,089,115	10,526,829,115
Interest Expenses		(7,137,897,194)	(5,945,706,732)
Net Interest Income	8.4	5,576,191,922	4,581,122,383
Fee and Commission Income	9	777,614,881	729,609,598
Net Trading Income	10	380,777	962,850
Other Operating Income	11	136,412,616	110,850,484
Total Operating Income		6,490,600,195	5,422,545,316
Impairment (Charges)/Reversal for loans and other losses	12	(570,332,376)	(400,306,708)
Gold Loan Auction Losses		(1,371,959,171)	(201,802,205)
Net Operating Income		4,548,308,648	4,820,436,403
Operating Expenses			
Personnel Expenses	13	(1,236,962,371)	(1,026,041,057)
Depreciation of Property, Plant and Equipment	27.2	(304,615,686)	(197,827,957)
Amortisation of Intangible Assets	26	(9,075,744)	(6,255,685)
Other Operating Expenses	14	(1,016,646,153)	(887,503,371)
Operating Profit before Value Added Tax on Financial Services		1,981,008,695	2,702,808,333
Value Added Tax on Financial Services		(112,617,882)	(176,248,776)
Profit before Taxation		1,868,390,813	2,526,559,557
Income Tax Expense	15.1 (a)	(528,361,437)	(824,443,333)
Profit for the Year		1,340,029,376	1,702,116,224
Other Comprehensive Income/(Expenses)			
Gains & Losses Arising on Re-measuring Available for Sale Financial Assets			
Sri Lanka Government Securities		34,890,292	3,768,422
Equity Securities		583,532	(22,651,393)
Reclassification Adjustments for Loss		6,886,870	24,611,455
		42,360,693	5,728,483
Actuarial Gains & Losses on Defined Benefit Plans	34.2	(19,809,133)	-
Other comprehensive income/(expenses) before taxation		22,551,560	5,728,483
Income Tax (Charge)/Reversal Relating to Components of Other Comprehensive Income	15.1 (b)	(4,222,725)	(1,055,158)
Other Comprehensive Income for the Year, Net of Tax		18,328,836	4,673,325
Total Comprehensive Income for the Year, Net of Tax		1,358,358,212	1,706,789,550
Basic Earnings Per Share (Rs)*	16	19.35	24.58
Dividend Per Share (Rs)**			
Dividend per Share: Gross	17	6.50	6.50
Dividend per Share: Net		5.85	5.85

* Calculated based on the Profit for the Year

** Calculated based on proposed dividend, which is to be approved at the Annual General Meeting

Accounting Policies and Notes from pages 151 to 214 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March	Notes	2014 Rs.	2013 Rs.
Assets			
Cash and Cash Equivalents	19	1,865,100,105	4,019,673,357
Financial Investments - Held for Trading	20	7,595,184	7,323,047
Loans and Receivables	21	18,893,238,073	16,452,987,398
Lease Rentals Receivable & Stock out on Hire	22	30,299,455,784	28,271,346,675
Financial Investments - Available for Sale	23	1,468,602,056	473,739,318
Other Financial Assets	24	5,083,135,948	1,487,399,284
Other Non-Financial Assets	25	921,041,954	1,205,229,841
Intangible Assets	26	36,425,532	23,669,453
Property, Plant and Equipment	27	2,067,928,786	2,100,938,825
Deferred Tax Assets	28	171,857,302	180,551,381
Total Assets		60,814,380,725	54,222,858,579
Liabilities			
Due to Banks	29	4,034,675,306	6,366,217,339
Due to Customers	30	46,095,205,250	38,742,699,819
Debt Issued and Other Borrowed Funds	31	2,864,871,583	2,244,209,686
Other Financial Liabilities	32	586,346,784	638,010,603
Other Non-Financial Liabilities	33	829,676,639	694,933,195
Post-Employment Benefit Liability	34	93,198,687	60,230,318
Current Tax Liabilities		103,717,579	147,956,328
Total Liabilities		54,607,691,827	48,894,257,289
Shareholders' Funds			
Stated Capital	35	838,282,159	838,282,159
Retained Earnings	36	3,265,273,815	2,852,402,008
Reserves	37	2,103,132,924	1,637,917,123
Total Shareholders' Funds		6,206,688,898	5,328,601,290
Total Liabilities and Shareholders' Funds		60,814,380,725	54,222,858,579
Net Asset Value per Share		89.62	76.94
Commitments and Contingencies	40	637,847,347	1,223,270,500

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 the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board of Directors by,



J A S Sumith Adhietty
Managing Director



Lalit N de S Wijeyeratne
Director

Accounting Policies and Notes from pages 151 to 214 form an integral part of these Financial Statements.

20th May 2014

Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs. (Note 35)	Retained Earnings Rs. (Note 36)	Statutory Reserve Rs. (Note 37)	Investment Fund Reserve Rs. (Note 37)	Available for Sale Reserve Rs. (Note 37)	Total Rs.
Balance as at 1 April 2012	838,282,159	2,076,110,225	852,518,413	201,795,386	(608,733)	3,968,097,450
Net Profit for the Year	–	1,702,116,224	–	–	–	1,702,116,224
Other Comprehensive Income Net of Tax	–	–	–	–	4,673,325	4,673,325
Transfer to Statutory Reserve	–	(340,533,008)	340,533,008	–	–	–
Transfer to Investment Fund Reserve	–	(239,005,723)	–	239,005,723	–	–
Final Dividend for 2011/12	–	(346,285,710)	–	–	–	(346,285,710)
Balance as at 31 March 2013	838,282,159	2,852,402,008	1,193,051,421	440,801,109	4,064,593	5,328,601,290
Adjusted Balance as at 1 April 2013 (Note 36.1)	838,282,159	2,822,302,827	1,193,051,421	440,801,109	4,064,593	5,298,502,109
Net Profit for the Year	–	1,340,029,376	–	–	–	1,340,029,376
Other Comprehensive Income Net of Tax	–	–	–	–	18,328,836	18,328,836
Transfer to Statutory Reserve	–	(268,005,875)	268,005,875	–	–	–
Transfer to Investment Fund Reserve	–	(178,881,090)	–	178,881,090	–	–
Final Dividend for 2012/13	–	(450,171,423)	–	–	–	(450,171,423)
Balances as at 31 March 2014	838,282,159	3,265,273,815	1,461,057,297	619,682,199	22,393,429	6,206,688,898

Accounting Policies and Notes from pages 151 to 214 form an integral part of these Financial Statements.

CASH FLOW STATEMENT

Year ended 31 March	Notes	2014 Rs.	2013 Rs.
Cash Flows from/(used in) Operating Activities			
Profit before Income Tax Expense		1,890,942,374	2,532,288,041
Adjustments for:			
Depreciation of Property, Plant and Equipment	27.2	304,615,686	197,827,957
Amortisation of Intangible Assets	26	9,075,744	6,255,685
Impairment Provision	12	570,332,376	400,306,708
Interest Cost on Finance Lease		3,005,863	4,354,679
Diminution/(Appreciation) in Value of Investments		(35,745,960)	18,300,015
Loss/(Profit) on Disposal of Property, Plant and Equipment	11	(4,721,315)	(8,453,622)
Provision/(reversal) for Defined Benefit Plans	34	39,905,586	18,323,622
Dividend Received		(2,407,219)	(2,458,894)
Interest Income on Investing Activities		(701,694,822)	(485,033,067)
Notional Tax Credit on Interest on Treasury Bills	8.7	(40,512,837)	(29,535,499)
Withholding Tax Attributed to Fixed Deposits		(36,987,492)	(77,488,698)
Operating Profit before Working Capital Changes		1,995,807,984	2,574,686,926
(Increase)/Decrease in Loans and Advances		(2,543,845,780)	(3,681,481,807)
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(2,490,625,018)	(4,985,659,380)
(Increase)/Decrease in Other Financial Assets		(3,520,767,040)	(467,565,741)
(Increase)/Decrease in Other Non-Financial Assets		297,982,121	(190,224,423)
Increase/(Decrease) in Amounts Due to Customers		7,352,505,430	11,573,774,929
Increase/(Decrease) in Other Financial Liabilities		(51,663,819)	638,010,603
Increase/(Decrease) in Other Non-Financial Liabilities		134,743,444	73,511,566
Cash Generated from Operations		1,174,137,321	5,535,052,673
Retirement Benefit Liabilities Paid	34	(6,937,218)	(2,324,340)
Taxes Paid		(508,644,100)	(950,066,185)
Net Cash from/(used in) Operating Activities		658,556,003	4,582,662,148

Year ended 31 March	Notes	2014 Rs.	2013 Rs.
Cash Flows from/(used in) Investing Activities			
Acquisition of Property and Equipment	27	(312,188,030)	(432,863,356)
Acquisition of Intangible Assets	26	(21,831,823)	(10,585,344)
Proceeds from Sales of Property, Plant and Equipment		15,204,516	10,836,414
Sale/(Purchase) of financial investments - available for sale		(939,910,557)	(368,323,096)
Interest Received		607,246,842	485,033,067
Dividend Received		2,407,219	2,458,894
Net Cash Flows from/(used in) Investing Activities		(649,071,833)	(313,443,421)
Cash Flows from/(used in) Financing Activities			
Payment under Finance Lease Liabilities	29.2	(11,924,201)	(12,007,748)
Net Cash Flow from Securitised Borrowings, Syndicated Loans and Other Bank Facilities		(2,065,336,237)	(1,926,336,373)
Net Cash Flow from Debt Issued and Other borrowings		620,661,898	686,540,795
Dividends Paid	17.1	(450,171,423)	(346,285,710)
Net Cash Flows from/(used in) Financing Activities		(1,906,769,964)	(1,598,089,036)
Net Increase in Cash and Cash Equivalents		(1,897,285,793)	2,671,129,690
Cash and Cash Equivalents at the beginning of the Year		3,141,180,202	470,050,511
Cash and Cash Equivalents at the end of the Year	19.1	1,243,894,408	3,141,180,202
Operational Cash Flows from Interest			
Interest Received		12,631,964,813	10,283,007,723
Interest Paid		6,865,973,693	5,543,630,922

Accounting Policies and Notes from pages 151 to 214 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 GENERAL

L B Finance PLC ('The Company'), is a domiciled, public limited liability company incorporated in Sri Lanka on 30th May 1971 and re-registered as per 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 31st March 2014 was 2,134 (2013 - 2,055).

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. K D D Perera.

1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The Company provides a comprehensive range of financial services encompassing Acceptance of Deposits, Granting Lease Facilities, Hire Purchase, Mortgage Loans, Gold Loans, Personnel Loans, Factoring and other credit facilities, Real Estate Development and other related services.

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Company which comprise the Statement of Financial Position, 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 and in compliance with the requirements of the Companies Act No. 07 of 2007. The Presentation of this Financial Statements is also in compliance with the requirement of Finance Business Act No. 42 of 2011.

2.2 APPROVAL OF FINANCIAL STATEMENTS BY DIRECTORS

The Financial Statements of the Company for the year ended 31st March 2014 were authorised for issue by the Board of Directors in accordance with the Resolution of the Directors on 20th May 2014.

2.3 BASIS OF MEASUREMENT

The Financial Statements of the Company 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 Income Statement (FVIS) and available for sale.
- Liabilities for defined benefit obligations are recognised as the present value of the defined benefit obligation.

2.4 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements of the Company are presented in Sri Lanka Rupees, which is the currency of the primary economic environment in which L B Finance PLC operates.

2.5 PRESENTATION OF FINANCIAL STATEMENTS

The items of the Company presented in their Statements of Financial Position are 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 the Note 39.

2.6 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.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard.

2.7 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 47.

2.8 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

- (i) Going Concern
- (ii) Impairment losses on loans and advances
- (iii) Fair value of financial instruments that are not quoted in an active market
- (iv) Impairment of available for sale equity investments
- (v) Classification of held to maturity investments
- (vi) Classification of fair value through Income Statement

2.8.1 GOING CONCERN

The Directors have made an assessment of the Company's 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 Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.8.2 IMPAIRMENT LOSSES ON LOANS AND ADVANCES (LEASES, HIRE PURCHASE AND OTHER LOANS)

The Company review their individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

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

2.8.3 IMPAIRMENT OF AVAILABLE FOR SALE INVESTMENTS

The Company review 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 Company also record impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Company generally treats 'significant' as 20% or more and 'prolonged' as greater than six months. In addition the Company 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.

2.8.4 DEFERRED TAX ASSETS

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.

2.8.5 DEFINED BENEFIT PLANS (UNFUNDED)

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. 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 and pension increases are based on expected future inflation rates and expected future salary increase rate of the Company.

2.8.6 USEFUL LIFE-TIME OF THE PROPERTY, PLANT AND EQUIPMENT

The Company 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.

2.8.7 COMMITMENTS AND CONTINGENCIES

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.

2.8.8 TAXATION

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

The Company recognised 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 tax amounts in the period in which the determination is made.

3. SIGNIFICANT ACCOUNTING POLICIES - STATEMENT OF FINANCIAL POSITION

The significant accounting policies applied by the Company in preparation of the Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Company, unless otherwise indicated.

3.1 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

3.1.1 DATE OF RECOGNITION

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades'. 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.

3.1.2 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. Further details on classification of financial assets and financial liabilities are given under 3.1.3 and 3.1.4 respectively.

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 cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through Income Statement.

3.1.2.1 '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 Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'net trading income'.

3.1.3 CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

At the inception a financial asset is classified into one of the following:

- a. Financial assets at fair value through profit or loss
 - (i) Financial assets held for trading
 - (ii) Financial assets designated at fair value through profit or loss
- b. Financial assets available for sale
- c. Held to maturity financial investments
- d. Loans and receivables

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit of loss.

3.1.3.1.1 Financial Assets Held for Trading

Financial assets 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 assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised 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 Company evaluates its held for trading asset portfolio, to determine whether the intention to sell them in the near future is still appropriate. When the Company 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 Company may select to reclassify these financial assets.

Financial assets held for trading include instruments such as Government Securities and equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term.

Details of 'financial assets held for trading' are given in Note 20 to the Financial Statements.

3.1.3.1.2 Financial Assets Designated at Fair Value through Profit or Loss (FVtPL)

Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'net gain or loss on financial instrument designated at fair value through profit or loss'. Interest earned is accrued in 'interest income', using the effective interest rate (EIR) method, while dividend income is recorded in 'other operating income' when the right to the payment has been established.

The Company has not designated any financial assets upon initial recognition as designated at fair value through profit or loss or Company has not used fair value hedge or credit derivative instruments.

3.1.3.2 AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale investments include equity and debt securities. Equity investments classified as 'available for sale' are those which are neither classified as 'held for trading' nor 'designated at fair value through profit or loss'. Debt 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 Company has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in Equity through 'other comprehensive income/expense' in the 'available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Income Statement in 'other operating income'. Where the Company 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). Dividends earned whilst holding 'available for sale financial investments' are recognised in the Statement of Comprehensive Income as 'other operating income' when the right of payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'Impairment charge/(reversal) for loans and other losses' and reclassified from the 'available for sale reserve'.

Details of 'financial investments - available for sale' are given in Note 23 to the Financial Statements.

3.1.3.3 HELD TO MATURITY FINANCIAL ASSETS

Held to maturity financial investments are financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After the initial recognition, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Comprehensive Income. The losses arising from impairment of such investments are recognised in 'Impairment (charge)/reversal for loans and other losses' in the Statement of Comprehensive Income.

If the Company were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity [other than in certain specific circumstances permitted in the Sri Lanka Accounting Standards LKAS 39 - 'Financial Instruments: Recognition and Measurement', the entire category would be tainted and would have to be reclassified as 'available for sale'. Furthermore, the Company would be prohibited from classifying any financial asset as 'held to maturity' during the following two years.

The Company has not classified any financial assets as Held to Maturity.

3.1.3.4 LOANS AND RECEIVABLES AND LEASE AND STOCK OUT ON HIRE

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

After initial measurement, Loans and receivables and Lease 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 Statement of Comprehensive income. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the Statement of Comprehensive income.

Details of 'Loans and receivables and Leases and Stock out on Hire' are given in Note 22 to the Financial Statements.

3.1.3.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash and bank balances and Money at Call and Short Notice.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Details of cash and cash equivalents are given in Note 19 to Financial Statements.

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.

3.1.4 CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL LIABILITIES

At the inception the Company determines the classification of its financial liabilities. Accordingly, all financial liabilities are classified as financial liabilities at amortised cost:

3.1.4.1 FINANCIAL LIABILITIES AT AMORTISED COST

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'due to banks', 'due to other customers' and 'debt issued and other borrowed funds' as appropriate, where the substance of the contractual arrangement results in the Company 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 Statement of Comprehensive Income. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

The details of the Company's financial liabilities at amortised cost are shown in Note 29, Note 30, Note 31 and Note 32 to the Financial Statements.

3.1.5 RECLASSIFICATION OF FINANCIAL INSTRUMENTS

The Company does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Company 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 Company 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 Standards LKAS 39 - 'Financial Instruments: Recognition and Measurement'. In certain circumstances the Company 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 Company has not reclassified any financial assets during the year.

3.1.6 DERECOGNITION OF FINANCIAL INSTRUMENTS

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

3.1.7 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 Company 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 Company of similar transactions such as in the Company's trading activity.

During the year Company has not offset any financial assets and financial liabilities in the Statement of Financial Position.

3.1.8 IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

3.1.9 IMPAIRMENT OF FINANCIAL ASSETS CARRIED AT AMORTISED COST

For financial assets carried at amortised cost, such as loans and advances taken by customers, held to maturity investments etc., the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. In the event the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment

3.1.9.1 INDIVIDUALLY ASSESSED FINANCIAL ASSETS

The criteria used to determine whether there is objective evidence of impairment include:

- Known cash flow difficulties experienced by the borrower;
- Past due contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- The probability that the borrower will enter bankruptcy or other financial realisation; and
- A significant downgrading in credit rating by an external credit rating agency.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses reassessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

When impairment losses are determined for those financial assets where objective evidence of impairment exists, the following factors are considered:

- Company's aggregate exposure to the customer;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries; and
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;

3.1.9.2 COLLECTIVELY ASSESSED FINANCIAL ASSETS

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous group of loans that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed financial assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the reporting date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual financial assets within the Company, those financial assets are removed from the Company and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of financial assets

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of financial assets. Losses in these groups of financial assets are recorded on an individual basis when individual financial assets are written off, at which point they are removed from the Company.

- When the group of loan by nature short term, the Company uses Net Flow Rate method. Under this methodology the movement in the outstanding balance of customers into bad categories over the periods are used to estimate the amount of financial assets that will eventually be written off as a result of the events occurring before the reporting date which the Company is not able to identify on an individual loan basis, and that can be reliably estimated.

Under above methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix;
- Unemployment rates, Gross Domestic Production (GDP) growth, inflation;
- Exchange rates, interest rates; and
- Changes in government laws and regulations.

3.1.9.3 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 Statement of Comprehensive Income.

3.1.9.4 WRITE-OFF OF FINANCIAL ASSETS CARRIED AT AMORTISED COST

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.

3.1.9.5 COLLATERAL VALUATION

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, 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 Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is value based on data provided by third parties such as independent valuers.

3.1.9.6 COLLATERAL REPOSSESSED

The Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.1.10 IMPAIRMENT OF FINANCIAL ASSETS - AVAILABLE FOR SALE

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

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a

subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Other Comprehensive Income is reclassified from equity and recognised in the Statement of Comprehensive Income. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in Other Comprehensive Income.

The Company writes-off certain Financial Investments - Available for Sale when they are determined to be uncollectible.

3.2 FINANCE AND OPERATING LEASES

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.2.1 FINANCE LEASE

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 Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Rentals Receivable & Stock out on Hire'. 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.

When the Company is a lessee 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 balance of the liability.

3.2.2 OPERATING LEASE

All other leases are classified as operating leases. When acting as lessor, the Company 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 carrying values are not fully recoverable and the carrying value of the assets is thereby impaired.

When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

3.3 GOLD INVENTORY

The gold inventory is valued at lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

3.4 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 Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 - ('Property, Plant and Equipment') in accounting for these assets.

3.4.1 RECOGNITION

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

3.4.2 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.

3.4.3 COST MODEL

The Company 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.

3.4.4 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 Company and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the Statement of Comprehensive Income as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

3.4.5 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 Statement of Comprehensive Income 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.

3.4.6 DEPRECIATION

The Company 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 Company of the different types of assets. 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.

Asset Category	Period
Freehold buildings	50 Years
Leasehold properties and improvements	6.67 Years
Computer equipment	5 Years
Motor vehicles	5-8 Years
Office equipment	5 Years
Furniture and Fittings	6.67 Years
Air Condition	5 Years
Telephone System	5 Years
Fire Protection Equipment	5 Years
Fixtures & Fittings	3 Years

3.4.7 CHANGES IN ESTIMATES

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.5 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.

3.5.1 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.

3.5.2 COMPUTER SOFTWARE

Cost of all computer software licensed for use by the Company, 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 Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.5.3 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.

3.5.4 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.

3.5.5 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 Company. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The Company assume that there is no residual value for its intangible assets.

Asset Category	Useful Life Years
Computer software	5

3.6 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.

3.7 DIVIDENDS PAYABLE

Provision for final dividends is recognised 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 17 to the Financial Statements as an event after the reporting period in accordance with the Sri Lanka Accounting Standard (LKAS) 10 'Events after the Reporting Period'.

3.8 EMPLOYEE BENEFITS

3.8.1 DEFINED BENEFIT PLANS

A defined benefit plan is a post employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standard (LKAS) 19 'Employee Benefits'. Please refer 3.8.2 for the definition of defined contribution plan.

3.8.1.1 GRATUITY

In compliance with the Gratuity Act No. 12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees.

An actuarial valuation is carried out at every reporting date to ascertain the full liability under the Fund. The valuation was carried out as at 31st March 2014 by Messrs Piyal S. Goonetilleke & Associates, a qualified actuary.

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.

3.8.2 DEFINED CONTRIBUTION PLANS

'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 under 'personnel expenses' as and when they become due. Unpaid contributions are recorded as a liability.

3.8.2.1 EMPLOYEES' PROVIDENT FUND

The Company and the Employees contribute 15% and 10% respectively on the salary of each employee to the Employees' Provident Fund.

3.8.2.2 EMPLOYEES' TRUST FUND

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

3.9 PROVISIONS

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

4. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF INCOME AND EXPENSES

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

4.1 INTEREST INCOME AND INTEREST EXPENSE

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (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 (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

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

4.2 FEE AND COMMISSION INCOME

The Company 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.

4.3 NET TRADING INCOME

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.

4.4 DIVIDEND INCOME

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

5. SIGNIFICANT ACCOUNTING POLICIES - TAX EXPENSE

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.

5.1 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 15 to the Financial Statements.

5.2 DEFERRED TAXATION

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 for all Company entities. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses carried forward can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

5.3 VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES

Value added tax 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 income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

5.4 NATIONS BUILDING TAX ON FINANCIAL SERVICES

As per provisions of the Nations Building Tax Act (NBT) Act No. 9 of 2009 and amendments thereto, NBT was payable at 2% on Company's value additions attributable to financial services with effect from 1st January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on financial services.

5.5 ECONOMIC SERVICE CHARGES (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto, ESC was payable at 1% on Company's liable turnover and was deductible from income tax payable. With effect from 1st April 2012 as per the ESC amendment Act No. 11 of 2012 ESC is payable only on exempt turnover of the Company and is deductible from income tax payable. ESC is not payable on turnover on which income tax is payable.

6. OTHER

6.1 EARNINGS PER SHARE (EPS)

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

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 dilutive potential ordinary shares, which comprise share options granted to employees. The Company does not have any dilutive potential shares.

6.2 SEGMENT REPORTING

An operating segment is a component of the Company 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 Company'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 three operating segments based on products and services, as follows:

- Leasing & Hire Purchase
- Loans & Receivables
- Others

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 company 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 2014 or 2013.

6.3 CASH FLOW STATEMENT

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, finance 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 equivalent include cash in hand, balances with banks, placements with banks, money at call and short notice.

7. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Company are consistent with those used in the previous financial year except for the policy on retirement benefits obligations – gratuity.

The Company applied revised Sri Lanka Accounting Standards (LKAS) 19 'Employee Benefits' retrospectively in accordance with the transitional provisions set out in the said standard. As per previous policy actuarial gain/loss was recognised based on the corridor method. As per revised LKAS 19, actuarial gain/loss is recognised in full in Other Comprehensive Income (OCI). Accordingly, the Company changed its policy for recognising actuarial gain/loss in OCI.

Since there were no significant impact on retirement benefit liability, the opening Statement of Financial Position of the earliest comparative period has not been presented. The transition did not have impact on the Statement of Cash Flows. There is no significant impact on the basic EPS.

7.1 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM 01 JANUARY 2014

SLFRS 9 - FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities as defined in LKAS 39. SLFRS 9, was issued in 2012 and effective date of this standard has been deferred until the new

effective date is notified. Pending the completion of full study of this standard, the financial impact is not yet known and reasonably estimable.

SLFRS 10 - CONSOLIDATED FINANCIAL STATEMENTS

SLFRS 10 replaces the portion of LKAS 27 'Consolidated and Separate Financial Statements' that addresses the accounting for Consolidated Financial Statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities.

SLFRS 11 - JOINT ARRANGEMENTS

SLFRS 11 replaces LKAS 31 - Interests in Joint Ventures' and SIC-13 Jointly controlled Entities Non-Monetary Contributions by Ventures. SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

SLFRS 12 - DISCLOSURE OF INTERESTS IN OTHER ENTITIES

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in LKAS 31 and LKAS 28. These disclosures relate to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. The number of new disclosures are also required, but has no impact on the Company's financial position or performance.

SLFRS 13 - FAIR VALUE MEASUREMENT

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRSs when fair value is required or permitted. Use of principles of measurement in this standards are currently encouraged. Pending the completion of full study of these standards, the financial impact is not yet known and reasonably estimable.

	2014 Rs.	2013 Rs.
8. INCOME		
Interest Income	12,714,089,115	10,526,829,115
Fee and Commission Income	777,614,881	729,609,598
Net Trading Income	380,777	962,850
Other Operating Income	136,412,616	110,850,484
Total Income	13,628,497,389	11,368,252,047

8.1 INTEREST INCOME

Loans and Receivables (Note 8.5)	4,195,519,539	3,504,975,819
Lease Rentals Receivable & Stock Out on Hire (Note 8.6)	7,733,598,800	6,531,736,083
Financial Investments - Available for Sale	90,684,592	50,887,479
Other financial assets	688,510,559	434,606,279
Interest Income accrued on Impaired Financial Assets	5,775,625	4,623,455
Total Interest Income	12,714,089,115	10,526,829,115

8.2 NET INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES

Interest income	405,128,374	295,338,879
Net interest income	405,128,374	295,338,879

8.3 INTEREST EXPENSES

Due to Banks	713,692,153	872,222,410
Due to Customers	6,072,578,259	4,775,933,230
Debt Issued and Other Borrowed Funds	351,626,782	297,551,091
Total Interest Expenses	7,137,897,194	5,945,706,732

8.4 Net Interest Income	5,576,191,922	4,581,122,383
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	2014 Rs.	2013 Rs.
8.5 INTEREST INCOME - LOANS AND RECEIVABLES		
Gold Loans	2,171,033,320	2,270,215,796
Vehicle Loans	1,406,294,058	656,449,831
Term Loans	177,311,218	194,575,625
Mortgage Loans	174,087,734	91,983,536
Quick Loans	4,932,758	2,816,563
Power Drafts	87,100,080	63,234,951
Margin Trading	16,037,894	25,842,031
Factoring Receivable	157,344,574	198,099,827
Real Estate Loans	1,377,904	1,757,659
Total Interest Income - Loans and Receivables	4,195,519,539	3,504,975,819

8.6 INTEREST INCOME - LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

Lease Rentals Receivable	6,184,222,705	4,921,101,286
Stock Out on Hire	1,549,376,095	1,610,634,798
Total Interest Income - Lease Rentals Receivable & Stock Out on Hire	7,733,598,800	6,531,736,083

8.7 NOTIONAL TAX CREDIT FOR WITHHOLDING TAX ON GOVERNMENT SECURITIES ON SECONDARY MARKET TRANSACTIONS

The Inland Revenue Act No. 10 of 2006 and the amendments there to, provided that a company which derives interest income from the secondary market transactions in Government Securities (on or after 1st April 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in these Financial Statements with the resulting notional tax credit amounting to Rs. 40,512,837/- (2013 - Rs. 29,535,499/-).

9. FEE AND COMMISSION INCOME

	2014 Rs.	2013 Rs.
Credit Related Fees and Commissions	575,366,934	422,039,333
Service Charge	202,247,947	307,570,265
Fee and Commission Income	777,614,881	729,609,598

	2014 Rs.	2013 Rs.
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10. NET TRADING INCOME

Dividend Income from Financial Investments - Held for Trading	108,640	379,894
Appreciation/(Depreciation) in Market Value of Financial Investments - Held for Trading	272,137	582,956
	380,777	962,850

	2014 Rs.	2013 Rs.
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11. OTHER OPERATING INCOME

Dividend Income from Financial Investments - Available for Sale	2,298,579	2,079,000
Reclassification Adjustments for Gain/(Loss) - Available for Sale Financial Assets	(6,886,870)	(24,611,455)
Profit/(Loss) on Disposal of Property, Plant and Equipment	4,721,315	8,453,622
Real Estate Income (net of cost)	11,845,734	10,614,679
Income on Operating Lease	119,706,711	107,807,622
Other Sundry Income	4,727,148	6,507,016
Total Other Operating Income	136,412,616	110,850,484

	2014 Rs.	2013 Rs.
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12. IMPAIRMENT (CHARGES)/REVERSAL FOR LOANS AND OTHER LOSSES

Loans and Receivables	103,595,105	243,449,233
Lease rentals receivable & Stock out on hire	462,515,909	161,937,893
Other Losses	4,221,363	(5,080,418)
	570,332,376	400,306,708

	2014 Rs.	2013 Rs.
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13. PERSONNEL EXPENSES

Salaries and Other Related Expenses	936,101,909	784,820,320
Employer's contribution to Employee's Provident Fund	93,137,850	71,101,616
Employer's contribution to Employee's Trust Fund	18,877,419	13,970,364
Gratuity Charge/(Reversals) for the Year	20,096,453	18,323,622
Other staff related expenses	153,581,089	126,532,229
Amortisation of Staff Loan Day 01 Difference	15,167,650	11,292,906
	1,236,962,371	1,026,041,057

	2014 Rs.	2013 Rs.
14. OTHER OPERATING EXPENSES		
Directors' Emoluments	12,608,824	9,973,423
Auditors' Remuneration	2,400,000	2,050,000
Audit Related Expenses	1,327,000	1,195,000
Non Audit Fees to Auditors	1,572,530	1,360,474
Professional and Legal Expenses	55,803,872	37,149,654
Deposit Insurance Premium	56,286,060	44,561,376
General Insurance Expenses	63,716,846	58,798,099
Office Administration and Establishment Expenses	491,700,621	397,046,607
Advertising and Business Promotional Expenses	175,913,785	230,110,075
Crop Insurance Levy Expenses	13,969,521	-
Nation Building Tax	7,318,510	-
Other Expenses	134,028,585	105,258,664
	1,016,646,153	887,503,371

15. TAXATION

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

	2014 Rs.	2013 Rs.
15.1 (A) STATEMENT OF COMPREHENSIVE INCOME		
CURRENT INCOME TAX		
Income Tax for the year	554,408,865	899,383,506
Under/(Over) Provision of Current Taxes in respect of Previous Years/SLFRS Adjustments	(30,518,782)	(12,243,078)
DEFERRED TAX		
Deferred Taxation Charge/(Reversal) (Refer Note 28)	4,471,354	(62,697,095)
	528,361,437	824,443,333
15.1 (B) OTHER COMPREHENSIVE INCOME		
DEFERRED TAX		
Deferred Taxation Charge/(Reversal) (Refer Note 28)	4,222,725	1,055,158
	4,222,725	1,055,158
15.1 (C) TOTAL TAX EXPENSE FOR THE FINANCIAL YEAR		
	532,584,162	825,498,491

15.2 RECONCILIATION OF ACCOUNTING PROFIT AND TAXABLE INCOME

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's tax rate for the Years ended 31st March are as follows:

	2014 Rs.	2013 Rs.
Accounting Profit Before Income Taxation	1,868,390,813	2,526,559,558
Income Tax Expense at the Statutory Income Tax Rate of 28%	523,149,428	707,436,676
Tax effect of Non Deductible Expenses	35,283,910	196,036,767
Tax effect of Other Allowable Credits	(3,264,389)	(3,115,241)
Tax Effect of Exempt Income	(760,084)	(974,696)
Adjustments of Taxes in Respect of Prior Years	(30,518,782)	(12,243,078)
Charge/(Reversal) for Deferred Tax	4,471,354	(62,697,095)
	528,361,437	824,443,333
Effective Tax Rate	28.28%	32.63%
Effective Tax Rate (Excluding Deferred Tax)	28.04%	35.11%

16. BASIC EARNINGS PER ORDINARY SHARE

16.1 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 LKAS 33- Earnings Per Share.

16.2 The following reflect the income and shares details used in the Basic Earnings per Share computation.

	2014 Rs.	2013 Rs.
Amounts Used as the Numerators:		
Profit attributable to Ordinary Shareholders for Basic Earnings Per Share	1,340,029,376	1,702,665,042
Number of Ordinary Shares Used as Denominators for Basic Earnings per share		
Weighted Average Number of Ordinary Shares in issue	69,257,142	69,257,142
Basic Earnings per ordinary share (Rs.)	19.35	24.58

The Company Diluted Earnings per ordinary share is equal to the Basic Earnings per ordinary share since the Company does not have any convertible securities as at the reporting date.

2014
Rs.2013
Rs.**17. DIVIDEND PAID & PROPOSED****17.1 DECLARED AND PAID DURING THE YEAR****Dividends on Ordinary Shares:**

First and Final Dividend for 2013 - Rs. 6.50 per Share (2012 - Rs. 5.00 per Share)	450,171,423	346,285,710
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17.2 PROPOSED FOR APPROVAL AT ANNUAL GENERAL MEETING

(not recognised as a liability as at 31st March)

Dividends on Ordinary Shares:

First and Final Dividend for 2014 - Rs. 6.50 per Share (2013 - Rs. 6.50 per Share)	450,171,423	450,171,423
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18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31st March 2014	At Fair Value		At Amortised Cost		Total
	HFT Rs.	AFS Rs.	L&R Rs.	HTM Rs.	Rs.

18.1**Assets**

Cash and Bank Balances	-	-	1,865,100,105	-	1,865,100,105
Financial Investments - Held for Trading	7,595,184	-	-	-	7,595,184
Loans and Receivables	-	-	18,893,238,073	-	18,893,238,073
Lease Rentals Receivable & Stock out on Hire	-	-	30,299,455,784	-	30,299,455,784
Financial Investments - Available for Sale	-	1,468,602,056	-	-	1,468,602,056
Other Financial Assets	-	-	5,083,135,948	-	5,083,135,948
Total Financial Assets	7,595,184	1,468,602,056	56,140,929,910	-	57,617,127,150

Other Financial
Liabilities at
Amortised Cost**Liabilities**

Due to Banks	-	-	4,034,675,306	-	4,034,675,306
Due to Customers	-	-	46,095,205,250	-	46,095,205,250
Debt Issued and Other borrowed funds	-	-	2,864,871,583	-	2,864,871,583
Other Financial Liabilities	-	-	586,346,784	-	586,346,784
Total Financial Liabilities	-	-	53,581,098,922	-	53,581,098,922

HFT - Held for Trading

HTM - Held to Maturity

L & R - Loans and Receivables

AFS - Available for Sale

As at 31st March 2014	At Fair Value		At Amortised Cost		Total
	HFT Rs.	AFS Rs.	L&R Rs.	HTM Rs.	Rs.
Assets					
Cash and Bank Balances	–	–	4,019,673,357	–	4,019,673,357
Financial Investments - Held for Trading	7,323,047	–	–	–	7,323,047
Loans and Receivables	–	–	16,452,987,398	–	16,452,987,398
Lease Rentals Receivable & Stock out on Hire	–	–	28,271,346,675	–	28,271,346,675
Financial Investments - Available for Sale	–	473,739,318	–	–	473,739,318
Other Financial Assets	–	–	1,487,399,284	–	1,487,399,284
Total Financial Assets	7,323,047	473,739,318	50,231,406,713	–	50,712,469,079
				Other Financial Liabilities at Amortised Cost Rs.	
Liabilities					
Due to Banks	–	–	6,366,217,339	–	6,366,217,339
Due to Customers	–	–	38,742,699,819	–	38,742,699,819
Debt Issued and Other borrowed funds	–	–	2,244,209,686	–	2,244,209,686
Other Financial Liabilities	–	–	638,010,603	–	638,010,603
Total Financial Liabilities	–	–	47,991,137,447	–	47,991,137,447

HFT - Held for Trading HTM - Held to Maturity L & R - Loans and Receivables AFS - Available for Sale

	2014 Rs.	2013 Rs.
19. CASH AND CASH EQUIVALENTS		
Notes and Coins Held	304,210,978	373,904,777
Balances with Banks	521,481,511	797,732,263
Treasury Bills Repurchase Agreements	1,039,407,617	2,848,036,317
	1,865,100,105	4,019,673,357

2014	2013
Rs.	Rs.

19.1 NET CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF THE CASH FLOW STATEMENT

Cash and Cash Equivalents	1,865,100,105	4,019,673,357
Bank Overdrafts (Note 29)	(621,205,697)	(878,493,156)
Net Cash and Cash Equivalents	1,243,894,408	3,141,180,201

20. FINANCIAL INVESTMENTS - HELD FOR TRADING

2014	2013
Rs.	Rs.

Equity Securities - Quoted (Note 20.1)	7,595,184	7,323,047
	7,595,184	7,323,047

20.1 EQUITY SECURITIES - QUOTED

	Number of Shares 31st March 2014 Rs.	Cost as at 31st March 2014 Rs.	Market Value as at 31st March 2014 Rs.	Number of Shares 31st March 2013 Rs.	Cost as at 31st March 2013 Rs.	Market Value as at 31st March 2013 Rs.
Bank Finance and Insurance						
Seylan Bank PLC (Non-Voting)	93,032	1,685,000	3,442,184	90,700	1,685,000	3,219,850
		1,685,000	3,442,184		1,685,000	3,219,850
Beverages, Food and Tobacco						
Bairaha Farms PLC	17,600	424,979	2,590,720	17,600	424,979	2,634,720
		424,979	2,590,720		424,979	2,634,720
Manufacturing						
Lanka Walltiles PLC*	19,740	789,882	1,214,010	19,740	789,882	1,103,466
		789,882	1,214,010		789,882	1,103,466
Trading						
Hayleys PLC*	1,222	207,240	348,270	1,222	207,240	365,011
		207,240	348,270		207,240	365,011
Total		3,107,101	7,595,184		3,107,101	7,323,047

* Investments made in Related Parties

	2014 Rs.	2013 Rs.
21. LOANS AND RECEIVABLES		
Gold Loans	8,194,870,273	10,982,423,232
Vehicle Loans	7,422,877,105	3,357,903,597
Term Loans	1,133,386,640	1,172,384,377
Mortgage Loans	1,265,741,111	455,262,523
Quick Loans	10,907,897	7,995,149
Power Drafts	361,267,978	230,533,980
Margin Trading	72,955,517	97,892,126
Factoring Receivable	943,129,380	617,401,832
Real Estate Loans	4,744,487	5,300,209
Gross Loans and Receivables	19,409,880,389	16,927,097,025
Less : Allowance for Impairment Losses (Note 21.1)	516,642,315	474,109,627
Net Loans and Receivables	18,893,238,073	16,452,987,398

21.1 ALLOWANCE FOR IMPAIRMENT LOSSES

21.1 (a) As at 1st April	474,109,627	218,307,264
Charge/(Reversal) for the year	102,209,485	255,802,363
Amounts Written Off	(63,403,284)	-
Interest accrued on impaired loans & receivables	3,726,487	-
As at 31st March	516,642,315	474,109,627

21.1 (b)

Individual Impairment	166,874,358	65,577,422
Collective Impairment	349,767,957	408,532,206
Total	516,642,315	474,109,627

Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance

	518,114,298	225,077,131
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21.1 (c)

Gold Loans	187,823,147	310,681,024
Vehicle Loans	118,182,590	26,930,434
Mortgage Loans	74,375,944	48,773,424
Quick Loans	541,480	-
Power Drafts	19,863,341	4,194,951
Margin Trading	54,498,436	-
Factoring Receivable	61,357,377	83,529,793
Total	516,642,315	474,109,627

	2014 Rs.	2013 Rs.
21.2 LOANS & RECEIVABLES INCLUDE LOANS GRANTED TO COMPANY OFFICERS, THE MOVEMENT OF WHICH IS AS FOLLOWS:		
As at the beginning of the year	4,479,674	3,889,534
Add: Loans granted during the year	12,889,370	8,600,244
Less: Repayments during the year	10,966,253	8,010,104
As at the end of the year	6,402,791	4,479,674

22. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	2014 Rs.	2013 Rs.
Gross rentals receivables		
- Lease Rentals	32,918,771,840	30,165,603,190
- Amounts receivable from hirers	8,754,448,955	9,038,627,441
	41,673,220,794	39,204,230,631
Less: Unearned Income	10,124,119,112	10,146,191,420
Net rentals receivables	31,549,101,682	29,058,039,211
Less: Rentals Received in Advance	11,381,101	16,607,586
Less: Allowance for Impairment Losses (Note 22.1)	1,238,264,798	770,084,951
Total net rentals receivable (Note 22.2 and 22.3)	30,299,455,784	28,271,346,675

22.1 ALLOWANCE FOR IMPAIRMENT LOSSES

As at 01 April	770,084,951	609,455,403
Charge/(Reversal) for the year	466,130,709	156,006,093
Interest accrued on impaired leases & hirers receivables	2,049,137	4,623,455
As at 31st March	1,238,264,798	770,084,951
Individual Impairment	122,298,883	84,885,930
Collective Impairment	1,115,965,915	685,199,021
	1,238,264,798	770,084,951
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	214,306,366	202,844,958

	Leases				Hire Purchase			
	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
22.2 (A) AS AT 31ST MARCH 2014								
Gross rentals receivables	15,818,470,736	17,098,996,151	1,304,953	32,918,771,840	3,939,140,667	4,774,841,008	40,467,280	8,754,448,955
Less: Unearned Income	4,462,752,499	3,517,731,693	87,160	7,980,571,352	1,087,452,931	1,051,619,248	4,475,581	2,143,547,760
Net rentals receivables	11,355,718,237	13,581,264,458	1,217,793	24,938,200,487	2,851,687,736	3,723,221,760	35,991,699	6,610,901,195
Less : Rentals Received in Advance				11,381,101				-
Less : Allowance for Impairment Losses				956,450,743				281,814,054
Total net rentals receivable				23,970,368,643				6,329,087,140

	Leases				Hire Purchase			
	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
22.2 (B) AS AT 31ST MARCH 2013								
Gross rentals receivables	13,114,813,822	17,047,837,016	2,952,352	30,165,603,190	4,104,475,638	4,904,613,278	29,538,525	9,038,627,441
Less: Unearned Income	4,277,031,455	3,637,466,801	183,129	7,914,681,386	1,181,012,958	1,047,710,554	2,786,522	2,231,510,034
Net rentals receivables	8,837,782,367	13,410,370,215	2,769,223	22,250,921,805	2,923,462,680	3,856,902,724	26,752,003	6,807,117,407
Less : Rentals Received in Advance				16,607,586				-
Less : Allowance for Impairment Losses				536,109,326				233,975,625
Total net rentals receivable				21,698,204,893				6,573,141,782

22.3 LEASE AND HIRE PURCHASE FACILITIES GRANTED TO COMPANY OFFICERS, THE MOVEMENT OF WHICH IS AS FOLLOWS:

	2014 Rs.	2013 Rs.
As at the beginning of the Year	101,794,484	92,983,250
Add : Loans Granted during the Year	110,595,207	79,662,412
Less : Repayments during the Year	78,178,586	70,851,177
As at the end of the Year	134,211,105	101,794,484

	2014 Rs.	2013 Rs.
23. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE		
Sri Lanka Government Securities (Note 23.1)	1,362,883,183	368,323,096
Equity Securities - Quoted (Note 23.2)	105,414,173	105,111,522
Equity Securities - Unquoted (Note 23.3)	304,700	304,700
	1,468,602,056	473,739,318

23.1 SRI LANKA GOVERNMENT SECURITIES

Treasury Bills	784,854,844	-
Treasury Bonds	578,028,339	368,323,096
	1,362,883,183	368,323,096

As per the 'Guidelines to Registered Finance Companies and Specialised Leasing Companies on the Operations of the Investment Fund Account proposed in the 2011 Budget' issued by the Central Bank of Sri Lanka, the funds available in Investment Fund Account (IFA) can be invested in long-term Government Securities and/or Bonds with maturities not less than seven years and can be invested in Government Treasury Bills for a maximum period of three months from the date of transfer to the fund until loans are granted.

23.2 EQUITY SECURITIES - QUOTED

	Number of Shares 31st March 2014	Cost as at 31st March 2014 Rs.	Market Value as at 31st March 2014 Rs.	Number of Shares 31st March 2013	Cost as at 31st March 2013 Rs.	Market Value as at 31st March 2013 Rs.
Manufacturing						
Blue Diamond Jewellery PLC	74	848	252	74	848	222
Central Industries PLC	4,092	149,805	233,244	4,092	149,805	255,750
Ceylon Grain Elevators PLC	44	5,214	1,553	44	5,214	2,187
Dankotuwa Porcelain PLC	14,450	867,938	166,175	14,450	867,938	199,410
Royal Ceramics PLC*	31,320	843,225	2,483,676	31,320	843,225	3,116,340
Samson International PLC	5,363	929,800	473,017	5,363	929,800	440,839
		2,796,830	3,357,916		2,796,830	4,014,747
Hotels and Travels						
Fortress Resorts PLC*	4,051,100	81,989,955	53,879,630	4,051,100	81,989,955	60,766,500
Aitken Spence Hotel Holdings PLC	308	5,672	21,560	308	5,672	36,837
Hotel Sigiriya PLC	700	30,333	54,600	700	30,333	55,300
Palm Garden Hotels PLC	36	3,467	2,574	36	3,467	3,438
		82,029,427	53,958,364		82,029,427	60,862,075
Stores and Supplies						
Hunter Limited PLC	10	2,767	2,600	10	2,767	3,084
		2,767	2,600		2,767	3,084
Bank Finance and Insurance						
Commercial Bank of Ceylon PLC	266	14,901	32,718	262	14,901	29,606
Merchant Bank PLC	61	6,027	824	61	6,027	982
Seylan Bank PLC	2,538	155,396	162,581	2,500	155,396	163,000
Union Bank of Colombo PLC	-	-	-	7,900	280,880	134,300
Softlogic Finance PLC	1,540,000	63,155,870	47,278,000	1,540,000	63,155,870	39,270,000
		63,332,193	47,474,123		63,613,074	39,597,888
Beverages, Food and Tobacco						
Keells Food Products PLC	500	21,420	27,500	500	21,420	35,000
Lanka Milk Foods PLC	5,500	249,732	589,050	5,500	249,732	595,650
Soy Foods (F&W) PLC	22	880	4,620	22	880	3,078
		272,032	621,170		272,032	633,728
Total		148,433,250	105,414,173		148,714,130	105,111,522

23.3 EQUITY SECURITIES- UNQUOTED

	Number of Shares 2014	Cost as at 2014 Rs.	Fair Value as at 2014 Rs.	Number of Shares 2013	Cost as at 2013 Rs.	Fair Value as at 2013 Rs.
Credit Information Bureau	1,047	104,700	104,700	1,047	104,700	104,700
Finance House Association	20,000	200,000	200,000	20,000	200,000	200,000
		304,700	304,700		304,700	304,700
		304,700	304,700		304,700	304,700

* Investments made in Related Parties

23.3 (a) Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exist prices.

	2014 Rs.	2013 Rs.
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24. OTHER FINANCIAL ASSETS

Treasury Bills Repurchase Agreements	1,854,469,777	–
Investment in FDs (Note 24.1)	3,208,020,670	1,487,399,284
Others	20,645,501	–
	5,083,135,948	1,487,399,284

24.1 INVESTMENT IN FDS

Counterparty External Credit Rating*

AA+	461,613,699	512,432,329
AA-	708,123,242	–
A	308,306,815	–
A-	277,176,837	275,608,688
BBB	1,420,576,888	514,756,610
BB+	32,223,189	27,622,342
BB	–	156,979,315
	3,208,020,670	1,487,399,284

* Fitch Ratings Lanka Limited and RAM Ratings (Lanka) Limited.

	2014 Rs.	2013 Rs.
25. OTHER NON-FINANCIAL ASSETS		
Receivable from Inland Revenue Department	39,398,440	364,864,338
Real Estate Stock	150,221,398	147,770,471
Vehicle Stock	66,802,600	9,727,359
Sundry Debtors	606,642,073	635,669,527
Pre-Paid Staff Cost (Note 25.1)	57,977,443	47,198,146
	921,041,954	1,205,229,841

25.1 THE MOVEMENT IN THE PRE-PAID STAFF COST

As at 1st April	47,198,146	40,345,255
Add/(Less): Adjustment for New Grants & Settlements	25,946,947	18,145,797
Less: Charge to Personnel Expenses	15,167,650	11,292,906
As at 31st March	57,977,443	47,198,146

26. INTANGIBLE ASSETS

	Computer Software	
	2014 Rs.	2013 Rs.
Cost		
Cost as at 1st April	68,359,056	57,773,712
Additions and Improvements	21,831,823	10,585,344
Cost as at 31st March	90,190,879	68,359,056
Amortisation & impairment		
Amortisation as at 1st April	44,689,603	38,433,918
Charge for the Year	9,075,744	6,255,685
Accumulated Amortisation as at 31st March	53,765,347	44,689,603
Net Book Value as at 31st March	36,425,532	23,669,453

26.1 Intangible Assets include computer software of the Company.

26.2 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.

27. PROPERTY, PLANT AND EQUIPMENT

	Balance as at 1st April 2013 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31st March 2014 Rs.
27.1 GROSS CARRYING AMOUNTS					
Cost					
Freehold Assets					
Land	416,276,695	–	–	–	416,276,695
Building	621,617,982	7,793,018	–	–	629,411,000
Furniture & Fittings	135,679,639	30,662,946	–	184,252	166,158,332
Equipment	221,346,782	55,841,384	–	80,000	277,108,166
Motor Vehicles & Accessories	499,510,556	63,372,608	–	14,825,678	548,057,486
Computer Hardware	221,592,607	36,989,757	–	–	258,582,364
Air Conditioning	98,911,583	16,002,554	–	471,800	114,442,338
Telephone System	71,788,780	1,034,332	–	–	72,823,112
Fire Protection Equipment	13,046,326	81,063	–	–	13,127,389
Leasehold Improvements	370,619,637	96,226,797	–	–	466,846,434
Fixtures and Fittings	20,736,101	4,183,571	–	–	24,919,672
	2,691,126,689	312,188,030	–	15,561,730	2,987,752,988
Assets on Finance Lease					
Motor Vehicles	48,160,942	–	–	–	48,160,942
Total Value of Depreciable Assets	2,739,287,631	312,188,030	–	15,561,730	3,035,913,930

27.2 DEPRECIATION

	Balance as at 1st April 2013 Rs.	Charge for the Year Rs.	Transfers Rs.	Disposals Rs.	Balance as at 31st March 2014 Rs.
Depreciation					
Freehold Assets					
Building	14,900,020	13,598,829	–	–	28,498,849
Furniture & Fittings	49,193,137	20,404,362	–	116,880	69,480,619
Equipment	106,560,847	41,976,712	–	80,000	148,457,559
Motor Vehicles & Accessories	143,239,874	93,571,180	–	9,202,650	227,608,404
Computer Hardware	115,866,638	33,813,816	–	–	149,680,454
Air Conditioning	37,739,532	17,915,578	–	471,800	55,183,310
Telephone System	32,506,481	11,654,038	–	–	44,160,519
Fire Protection Equipment	3,696,820	2,433,829	–	–	6,130,649
Leasehold Improvements	141,087,009	58,357,025	–	–	199,444,034
Fixtures and Fittings	12,272,597	5,569,935	–	–	17,842,532
	657,062,956	299,295,303	–	9,871,330	946,486,929
Assets on Finance Lease					
Motor Vehicles	16,177,833	5,320,383	–	–	21,498,216
	673,240,789	304,615,686	–	9,871,330	967,985,144

	2014 Rs.	2013 Rs.
27.3 CAPITAL WORK-IN-PROGRESS		
Opening Balance	4,792,801	42,630,440
Incurred During the Year	-	136,005,581
Reclassified/Transferred	(4,792,801)	(173,843,219)
Disposal/Written Off	-	-
Closing Balance	-	4,792,801

27.4 NET BOOK VALUES

At Cost		
Land	416,276,695	416,276,695
Building	600,912,150	606,717,962
Furniture & Fittings	96,677,714	86,486,502
Equipment	128,650,608	114,785,935
Motor Vehicles & Accessories	320,449,082	399,223,270
Computer Hardware	108,901,910	105,725,969
Air Conditioning	59,259,028	61,172,051
Telephone System	28,662,593	39,282,299
Fire Protection Equipment	6,996,740	9,349,505
Leasehold Improvements	267,402,400	229,532,628
Fixtures and Fittings	7,077,140	8,463,504
On Finance Leases		
Motor Vehicles	26,662,727	19,129,702
Capital Work-in-Progress (Note 27.3)	-	4,792,801
Total Carrying Amount of Property, Plant and Equipment	2,067,928,786	2,100,938,825

27.5 PROPERTY, PLANT AND EQUIPMENT ACQUIRED DURING THE FINANCIAL YEAR

During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 312,188,030/- (2013 - Rs. 432,997,733/-). Cash payments amounting to Rs. 312,188,030/- (2013 - Rs. 432,863,356/-) was paid during the year for purchases of Property, Plant and Equipment.

27.6 PROPERTY, PLANT AND EQUIPMENT SUBJECTED TO OPERATING LEASE

Included in Property, Plant and Equipment are assets subject to operating lease where the Company is a lessor. At 31st March 2014, the net carrying value amount of those assets was Rs. 211,945,311/- (2013 - Rs. 334,823,213/-), on which the accumulated depreciation as at 31st March 2014 was Rs. 182,831,674/- (2013 - Rs. 62,025,890/-).

27.7 BORROWING COSTS

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year.

27.8 FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT

The initial cost of fully depreciated Property, Plant and Equipment, which are still in use as at reporting date is Rs. 219,097,539/- (2013 Rs. 171,640,261/-).

28. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the followings:

	Reflected in Statement of Financial Position		Reflected in Statement of Comprehensive Income		Reflected in Statement of Other Comprehensive Income	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Deferred Tax Liability						
Depreciation of Leased Assets	(279,833,303)	(78,915,657)	(200,917,646)	(57,391,243)	-	-
Depreciation of Property, Plant and Equipment	123,247,193	(84,696,132)	207,943,325	(826,053)	-	-
Fair Value Change of Available for Financial Assets - Sri Lanka Government Securities	10,824,440	1,055,158	-	-	9,769,282	1,055,158
	(145,761,670)	(162,556,631)	7,025,679	(58,217,296)	9,769,282	1,055,158
Deferred Tax Assets						
Defined Benefit Obligation - Comprehensive Income	(20,549,075)	(17,994,750)	(2,554,325)	(4,479,799)	-	-
Defined Benefit Obligation - Other Comprehensive Income (OCI)	(5,546,557)	-	-	-	(5,546,557)	-
	(26,095,632)	(17,994,750)	(2,554,325)	(4,479,799)	(5,546,557)	-
Deferred Income Tax Charge/(Reversal)			4,471,354	(62,697,095)	4,222,725	1,055,158
Net Deferred Tax Liability/ (Asset)	(171,857,302)	(180,551,381)				

28.1 Deferred Tax has been determined based on the enacted tax rate of 28%.

29. DUE TO BANKS

	2014 Rs.	2013 Rs.
Bank Overdrafts	621,205,697	878,493,156
Securitised Borrowings, Syndicated Loans and Other Bank Facilities (Note 29.1)	3,402,650,137	5,464,980,511
Finance Lease (Note 29.2)	10,819,472	22,743,673
Total	4,034,675,306	6,366,217,339

29.1 SECURITISED BORROWINGS, SYNDICATED LOANS AND OTHER BANK FACILITIES

	As at 01.04.2013 Rs.	Loans Obtained Rs.	Interest Recognised Rs.	Repayments Capital Rs.	Interest Rs.	As at 31.03.2014 Rs.	Period	Security
Securitized Borrowings								
Trust 9	50,771,864	-	(4,846,528)	35,600,000	10,325,336	-	48 months	Mortgage over Lease, Hire Purchase Receivables
Trust 11	19,093,303	-	906,696	13,310,497	6,689,502	-	6 months	Mortgage over Lease, Hire Purchase Receivables
Trust 12	85,353,249	-	6,776,675	57,300,000	29,875,989	4,953,934	48 months	Mortgage over Lease, Hire Purchase Receivables
Trust 13	80,217,577	-	6,145,530	54,810,000	26,056,203	5,496,904	46 months	Mortgage over Lease, Hire Purchase Receivables
Trust 14	341,844,497	-	32,004,103	221,300,000	95,858,498	56,690,102	48 months	Mortgage over Lease, Hire Purchase Receivables
Trust 16	775,311,453	-	67,716,556	343,000,000	89,722,399	410,305,610	48 months	Mortgage over Lease, Hire Purchase Receivables
Trust 17	120,709,189	-	6,496,619	103,030,335	24,175,472	-	36 months	Mortgage over Lease, Hire Purchase Receivables
Trust 19	949,084,568	-	106,892,257	386,900,000	119,770,185	549,306,640	48 months	Mortgage over Lease, Hire Purchase Receivables
Trust 20	320,779,208	-	39,628,288	206,230,982	39,626,233	114,550,281	24 months	Mortgage over Lease, Hire Purchase Receivables
Trust 21	500,699,796	1,500,000,000	279,085,533	737,000,000	73,056,485	1,469,728,844	36 months	Mortgage over Lease, Hire Purchase Receivables
	3,243,864,703	1,500,000,000	540,805,730	2,158,481,814	515,156,302	2,611,032,316		
Syndicated Loans								
Syndication 1	311,604,387	-	24,897,330	235,272,712	25,907,069	75,321,936	42 months	Mortgage over Lease, Hire Purchase Receivables
Syndication 2	486,126,961	-	62,066,447	70,312,500	63,929,083	413,951,825	96 months	Mortgage over Land and Building
	797,731,347	-	86,963,778	305,585,212	89,836,153	489,273,760		
Direct Bank Borrowings								
Term Loans								
Bank of Ceylon 1	94,922,058	-	11,789,760	32,508,000	11,857,159	62,346,659	48 months	Mortgage over Lease Receivables
Bank of Ceylon 2	140,750,195	-	15,885,712	73,344,000	16,014,582	67,277,326	36 months	Mortgage over Lease Receivables
Bank of Ceylon 3	249,436,603	-	31,944,853	82,500,000	32,868,853	166,012,603	48 months	Mortgage over Hire Purchase Receivables
Bank of Ceylon 4	13,437,608	-	1,562,024	6,666,720	1,625,440	6,707,473	36 months	Mortgage over Hire Purchase Receivables
Public Bank Berhad	60,754,160	-	7,070,494	60,000,000	7,824,654	-	60 months	Mortgage over Lease Receivables
	559,300,625	-	68,252,843	255,018,720	70,190,688	302,344,060		
Money Market Loans								
Nations Trust Bank PLC	205,685,205	-	290,959	200,000,000	5,976,164	-	03 months	-
NDB Bank PLC	658,398,630	-	7,359,247	650,000,000	15,757,877	-	01 month	Mortgage over Lease, Hire Purchase Receivables
	864,083,836	-	7,650,206	850,000,000	21,734,041	-		
	5,464,980,511	1,500,000,000	703,672,557	3,569,085,746	696,917,184	3,402,650,137		

29.1 (a) The Company has unutilised borrowing facilities of Rs. 1,850,000,000/- as at 31st March 2014. (2013 - Rs. 660,000,000/-).

	As at 01.04.2013 Rs.	New Leases Obtained Rs.	Repayments Rs.	As at 31.03.2014 Rs.
29.2 FINANCE LEASE				
Finance Leases	22,743,673	–	11,924,201	10,819,472
	22,743,673	–	11,924,201	10,819,472
Gross Liability	25,308,637			11,449,106
Finance Charges Allocated for Future Periods	(2,564,964)			(629,634)
Down payment	–			–
Net Finance Lease Liability	22,743,673			10,819,472

	2014 Rs.	2013 Rs.
29.2 (A) FINANCE LEASE		
Gross Liability	11,449,106	25,308,637
Finance Charges Allocated for Future Periods	(629,634)	(2,564,964)
Down Payment	–	–
Net Liability	10,819,472	22,743,673

Repayable Within One Year

Gross Liability	10,438,177	13,859,531
Finance Charges Allocated for Future Periods	(606,885)	(1,935,330)
Down Payment	–	–
Net Liability	9,831,292	11,924,201

Repayable after One Year and Before Five Years

Gross liability	1,010,929	11,449,106
Finance Charges Allocated for Future Periods	(22,749)	(629,634)
Down Payment	–	–
Net Liability	988,180	10,819,472

	2014 Rs.	2013 Rs.
30. DUE TO CUSTOMERS		
Fixed Deposits	45,017,741,985	38,106,688,119
Certificates of Deposit	291,049,483	372,839,548
Savings Deposits	786,413,782	263,172,153
	46,095,205,250	38,742,699,819

30.1 SRI LANKA DEPOSIT INSURANCE AND LIQUIDITY SUPPORT SCHEME

Under the Direction No. 2 of 2010 [Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka, 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. 200,000/- per depositor. The Company has paid Rs. 56,296,040/- as the premium of the said Insurance Scheme during the current financial year (2012/13 - Rs. 44,566,132/-).

31. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

	2014 Rs.	2013 Rs.
Commercial Papers	235,656,225	1,181,487,272
Unsecured Debentures (Note 31.1)	2,593,507,396	1,030,445,701
Other Borrowings - Ceylon Income Fund	35,707,962	32,276,712
	2,864,871,583	2,244,209,686

31.1 UNSECURED DEBENTURES

The terms and features of Unsecured Redeemable Subordinated Listed Debentures are as follows:

Category	Interest Payable	Amortised Cost Rs.	Face Value Rs.	Interest Rate	Issued Date	Maturity Date
RUSRD II	Annually	223,127,849	215,000,000	12.68% p.a.	5th December 2011	4th December 2016
RUSRD I	Biannually	103,658,919	100,000,000	12.30% p.a.	5th December 2011	4th December 2016
RUSRD I	Biannually	231,768,126	230,000,000	12.30% p.a.	1st March 2012	1st March 2017
Type A	Monthly	635,638,765	640,140,000	14.00% p.a.	29th November 2013	29th November 2018
Type B	Biannually	778,562,359	757,010,000	14.50% p.a.	29th November 2013	29th November 2018
Type C	Annually	620,751,379	602,850,000	15.00% p.a.	29th November 2013	29th November 2018
Total		2,593,507,396	2,545,000,000			

	2014 Rs.	2013 Rs.
Trade Payables	586,346,784	638,010,603
	586,346,784	638,010,603

33. OTHER NON-FINANCIAL LIABILITIES

	2014 Rs.	2013 Rs.
Accrued Expenses	68,705,521	58,801,415
Others	760,971,118	636,131,780
	829,676,639	694,933,195

	2014 Rs.	2013 Rs.
34. POST EMPLOYMENT BENEFIT LIABILITY		
Retirement Benefit Obligations - Gratuity		
Balance at the Beginning of the Year	60,230,318	44,231,036
Amount Charged/(Reversed) for the Year	39,905,586	18,323,623
Payments Made During the Year	(6,937,217)	(2,324,341)
Balance at the End of the Year	93,198,687	60,230,318

34.1 AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

Current Service Cost for the Year	11,913,194	10,186,560
Net Interest Cost on the Net Defined Benefit Liability for the Year	8,183,259	8,137,063
	20,096,453	18,323,623

34.2 AMOUNTS RECOGNISED IN THE OTHER COMPREHENSIVE INCOME (OCI)

Liability (Gains) Losses due to Changes in Assumptions	11,021,910	–
Liability Experience (Gains) Losses Arising During the Year	2,215,420	–
Transitional Liability/(Asset) Recognised During the Year*	6,571,803	–
	19,809,133	–

*With effect from 1st April 2013, the Company adopted the revised LKAS 19: 'Employee Benefits'. Accordingly, the accounting policy has been changed to reflect the new requirement under the revised standard. The effect of recognising the entire actuarial gains and losses as a result was not material to the Financial Statements. Hence the transitional effect has been accounted in full in the current year.

34.3 DEFINED BENEFIT OBLIGATION RECONCILIATION

Benefit Obligation at End of Prior Year	60,230,318	44,231,036
Current Service Cost for the Year	11,913,194	10,186,560
Net Interest Cost on the net Defined Benefit Liability for the Year	8,183,259	8,137,063
Liability (Gains) Losses due to Changes in Assumptions	11,021,910	–
Liability Experience (Gains) Losses arising during the Year	2,215,420	–
Transitional Liability/(Asset) recognised during the Year	6,571,803	–
Payments made During the Year	(6,937,217)	(2,324,341)
	93,198,687	60,230,318

34.4 Average future working life time as per the assumptions made is 14.5 years as of 31st March 2014.

34.5 ASSUMPTIONS

	2014	2013
Discount Rate	11.00%	12.25%
Salary Scale	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, or age on valuation date, if greater.		

An actuarial valuation of the gratuity was carried out as at 31st March 2014 by Piyal S Goonetilleke and Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', recommended by LKAS 19 ('Employee Benefits').

34.6 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 scale on the profit or loss and retirement benefit obligation for the year.

Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment	2014		2013*	
		Sensitivity Effect on Statement of Comprehensive Income - Increase (Reduction) in Results for the Year (Rs. Mn.)	Sensitivity Effect on Retirement Benefit Obligation - Increase /(Reduction) in the Liability (Rs. Mn.)	Sensitivity Effect on Statement of Comprehensive Income - Increase (Reduction) in Results for the Year (Rs. Mn.)	Sensitivity Effect on Retirement Benefit Obligation - Increase (Reduction) in the Liability (Rs. Mn.)
1%		9.00	(9.00)	5.80	(5.80)
-1%		(10.77)	10.77	(6.90)	6.90
	1%	(10.48)	10.48	(6.80)	6.80
	-1%	8.93	(8.93)	5.80	(5.80)

* Company has recognised actuarial gain or loss based on corridor method.

35. STATED CAPITAL

	2014		2013	
	No. of Shares	Rs.	No. of Shares	Rs.
35.1 ISSUED AND FULLY PAID-ORDINARY SHARES				
At the beginning of the Year	69,257,142	838,282,159	69,257,142	838,282,159
Issued during the Year	-	-	-	-
At the end of the Year	69,257,142	838,282,159	69,257,142	838,282,159

35.2 RIGHTS OF SHAREHOLDERS

The holders of ordinary shares confer 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.

36. RETAINED EARNINGS

	2014	2013
	Rs.	Rs.
Adjusted Balance as at 01 April 2013 (Note 36.1)	2,822,302,827	2,076,110,225
Dividend Paid	(450,171,423)	(346,285,710)
Profit for the Year	1,340,029,376	1,702,116,224
Transfers to Investment Fund Account (Note 37)	(178,881,090)	(239,005,723)
Transfers to Statutory Reserve Fund (Note 37)	(268,005,875)	(340,533,008)
As at 31 March 2014	3,265,273,815	2,852,402,008

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 possible losses or dividends payable.

	Rs.
36.1	
Retained Earnings 31st March 2013, as reported previously	2,852,402,008
Correction of under Depreciation for the Prior Period	(30,099,181)
Adjusted Balance of Retained Earnings as at 1st April 2013	2,822,302,827

37. RESERVES

	Statutory Reserve Rs.	Investment Fund Reserve Rs.	Available for Sale Reserve Rs.	Total Rs.
As at 1st April 2013	1,193,051,421	440,801,109	4,064,593	1,637,917,123
Transfers to/(from) during the Year	268,005,875	178,881,090	–	446,886,965
Net Fair Value Loss on available for Sale Assets	–	–	18,328,836	18,328,836
As at 31st March 2014	1,461,057,297	619,682,199	22,393,429	2,103,132,924

37.1 Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No. 1 of 2003.

37.2 INVESTMENT FUND RESERVE

As per the Guidelines issued to Finance Companies as proposed by 2011 Budget, the Company shall transfer following to build a permanent fund:

- 8% of the profits calculated for the payment of VAT on Financial Services as Specified in the VAT Act for payment of VAT. (As proposed by 2014 Budget, persons who are liable to pay VAT on financial services, are not required to deposit 8% of the value addition for any period commencing on or after 1st January 2014).
- 5% of the profits before tax calculated for payment of Income Tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payment of tax.

	2014 Rs.	2013 Rs.
At the beginning of the Year	440,801,109	201,795,386
Profit Transferred during the Year	178,881,090	239,005,723
At the end of the Year	619,682,199	440,801,109

37.2 (A) UTILISATION OF INVESTMENT FUND ACCOUNT (IFA)

Total transfers to IFA as at the beginning of the Year	404,410,087	165,404,364
Total Transfers to IFA during the Year	178,881,090	239,005,723
Total Approved Loans Granted	–	–
Total Investments in Government Securities	(544,489,398)	(361,614,444)
Balance Available for Utilisation as at the end of the Year	38,801,779	42,795,642

37.2 (B) TOTAL LOANS GRANTED

	Interest Rates	Tenure in Years	Number of Loans Granted	Total amount Granted
(a) Cultivation of Agriculture/Plantation Corps	15.10%	7	1	1,595,000
(b) Factory/Mills Modernisation	-	-	-	-
(c) Small and Medium Enterprises	-	-	-	-
(d) Information Technology and BPO	15.10%	7	1	5,566,022
(e) Infrastructure Development	15.10%	7	5	29,230,000
(f) Education	-	-	-	-
(g) Housing	-	-	-	-
(h) Construction of Hotels and Related Purposes	-	-	-	-
(i) Restructuring of Loans Extended for above Purposes	-	-	-	-
			7	36,391,022

37.2 (C) INVESTMENTS IN GOVERNMENT SECURITIES

	Face Value	Year of Maturity	Cost of Investment	Outstanding Rs.
Treasury Bonds over 7 Years				
	200,000,000	2021	179,772,971	197,770,275
	9,000,000	2020	7,007,832	7,524,239
	50,000,000	2021	49,361,150	49,442,569
	250,000,000	2021	246,805,750	247,212,844
	91,000,000	2020	61,541,695	76,078,412
Total Investments in Government Securities	600,000,000		544,489,398	578,028,339

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the financial instruments.

FINANCIAL INVESTMENTS - HELD FOR TRADING

Financial investments measured at fair value are quoted equities. For quoted equities, Company uses quoted market price (last traded price) in active markets as at the reporting date.

FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

Financial Investments - Available for Sale, primarily consist of equity securities and Government debt securities are valued using valuation techniques or pricing models. These assets are valued using models that use observable data. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka and quoted equities are valued using quoted market prices (last traded price) in the active markets as at the reporting date.

38.1 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>As at 31st March 2014</i>	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Held for Trading				
Quoted Equities	7,595,184	-	-	7,595,184
Financial Investments - Available for Sale				
Government Securities	1,362,883,183	-	-	1,362,883,183
Quoted Equities	105,414,173	-	-	105,414,173
Unquoted Equities	-	-	304,700	304,700
Total Financial Assets	1,475,892,540	-	304,700	1,476,197,240

As at 31st March 2013

Financial Assets				
Financial Investments - Held for Trading				
Quoted Equities	7,323,047	-	-	7,323,047
Financial Investments - Available for Sale				
Government Securities	368,323,096	-	-	368,323,096
Quoted Equities	105,111,522	-	-	105,111,522
Unquoted Equities	-	-	304,700	304,700
Total Financial Assets	480,757,666	-	304,700	481,062,366

There were no financial liabilities recorded at fair value as at 31st March 2013 and 2014.

There were no transfers between Level 1 and Level 2 during 2013 and 2014.

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

	2014		2013	
	Carrying Amount Rs.	Fair Value Rs.	Carrying Amount Rs.	Fair Value Rs.
Financial Assets				
Cash and Bank Balances	1,865,100,105	1,865,100,105	4,019,673,357	4,019,673,357
Loans and Advances	18,893,238,073	19,187,931,619	16,452,987,398	16,415,722,497
Lease rentals receivable and Stock Out on Hire	30,299,455,784	30,501,229,896	28,271,346,675	27,329,892,251
Other Financial Assets	5,083,135,948	5,083,135,948	1,487,399,284	1,487,494,318
	56,140,929,910	56,637,397,568	50,231,406,713	49,252,782,423
Financial Liabilities				
Due to Banks	4,034,675,306	4,034,550,220	6,366,217,339	6,364,234,765
Due to Customers	46,095,205,250	46,132,001,760	38,742,699,819	38,682,541,439
Debt Instruments Issued and Other Borrowed Funds	2,864,871,583	2,864,871,583	2,244,209,686	2,244,209,686
Other Financial Liabilities	586,346,784	586,346,784	638,010,603	638,010,603
	53,581,098,922	53,617,770,347	47,991,137,447	47,928,996,493

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

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

Assets and Liabilities for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to fixed deposits, certificate of deposits and savings deposits without a specific maturity. Loans and advances granted to customers with a variable rate are considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short-term credit facilities. All credit facilities with fixed interest rates were fair valued using market rates at which fresh credit facilities were granted during the last month of the reporting year. Conversely, fixed deposits and other debt instruments with remaining tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the last month of the reporting year.

Reclassification of Financial Assets

There were no reclassifications during 2013 and 2014.

39. 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.

	2014 Within 12 Months Rs.	2014 After 12 Months Rs.	2014 Total as at 31st March 2014 Rs.	2013 Within 12 Months Rs.	2013 After 12 Months Rs.	2013 Total as at 31st March 2013 Rs.
Assets						
Cash and Bank Balances	1,865,100,105	–	1,865,100,105	4,019,673,357	–	4,019,673,357
Financial Investments - Held for Trading	7,595,184	–	7,595,184	7,323,047	–	7,323,047
Loans and Receivables	13,182,825,320	5,710,412,753	18,893,238,073	13,925,971,760	2,527,015,639	16,452,987,398
Lease Rentals Receivable and Stock out on Hire	13,626,191,852	16,673,263,932	30,299,455,784	11,388,041,811	16,883,304,863	28,271,346,674
Financial Investments - Available for Sale	1,468,602,056	–	1,468,602,056	473,739,318	–	473,739,318
Other Financial Assets	5,083,135,948	–	5,083,135,948	1,459,776,942	27,622,342	1,487,399,284
Other Non-Financial Assets	806,069,782	114,972,172	921,041,954	1,033,010,401	172,219,439	1,205,229,840
Intangible Assets	–	36,425,532	36,425,532	–	23,669,453	23,669,453
Property, Plant and Equipment	–	2,067,928,786	2,067,928,786	–	2,100,938,825	2,100,938,825
Deferred Tax Assets	–	171,857,302	171,857,302	–	180,551,381	180,551,381
Total Assets	36,039,520,248	24,774,860,478	60,814,380,725	32,307,536,636	21,915,321,942	54,222,858,579
Liabilities						
Due to Banks	2,763,763,388	1,270,911,917	4,034,675,305	4,224,322,259	2,141,895,081	6,366,217,340
Due to Customers	39,906,665,380	6,188,539,870	46,095,205,250	32,847,147,666	5,895,552,154	38,742,699,819
Debt Issued and Other Borrowed Funds	332,173,706	2,532,697,878	2,864,871,584	1,666,932,974	577,276,712	2,244,209,686
Other Financial Liabilities	586,346,784	–	586,346,784	638,010,603	–	638,010,603
Other Non-Financial Liabilities	829,676,639	–	829,676,639	694,933,195	–	694,933,195
Retirement Benefit Liability	–	93,198,687	93,198,687	–	60,230,318	60,230,318
Current Tax Liabilities	103,717,579	–	103,717,579	147,956,328	–	147,956,328
Total Liabilities	44,522,343,476	10,085,348,352	54,607,691,827	40,219,303,025	8,674,954,265	48,894,257,289
Net	(8,482,823,228)	14,689,512,126	6,206,688,898	(7,911,766,389)	13,240,367,678	5,328,601,290

40. COMMITMENTS AND CONTINGENCIES

	2014 Rs.	2013 Rs.
40.1 CONTINGENT LIABILITIES		
Guarantees issued to Banks and other Institutions	11,010,000	15,300,000
Import LC and Ordinary Guarantees	78,718,461	89,637,623
Total Contingent Liabilities	89,728,461	104,937,623

40.2 COMMITMENTS

Commitment for Unutilised Facilities	548,118,887	1,118,332,877
Total Commitments	548,118,887	1,118,332,877
Total Commitments and Contingencies	637,847,347	1,223,270,500

40.3 LITIGATIONS 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 Company.

	2014 Rs.	2013 Rs.
Cases Pending Against the Company (Values Claimed)	56,384,303	22,800,000

41. ASSETS PLEDGED

The following assets have been pledged as security for liabilities:

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2014 Rs.	2013 Rs.	
Lease Rentals Receivable and Stock out on Hire	Bank Loans, Overdrafts and Syndicated Loans	4,960,951,274	8,295,127,696	Lease Rentals Receivable and Stock out on Hire
Real Estate Stock	Overdraft	65,000,000	65,000,000	Other Non Financial Assets
Freehold Land	Overdraft	8,000,000	8,000,000	Property, Plant and Equipment
Freehold Land and Building	Syndicated Loans	413,951,825	-	Property, Plant and Equipment
		5,447,903,098	8,368,127,696	

42. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to the Reporting date, no circumstances have arisen which would require adjustment to or disclosure in the Financial Statements.

43. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures'.

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

43.1 TRANSACTIONS WITH KEY MANAGERIAL PERSONNEL (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Such KPMs include the Board of Directors of the Company (inclusive of Executive and Non-Executive Directors) and executives who directly report to Board of Directors.

	2014 Rs.	2013 Rs.
43.1.1 KEY MANAGEMENT PERSONNEL COMPENSATION		
Short-Term Employment Benefits	172,228,301	142,658,817
Directors Fees and Expenses	12,608,824	9,973,423
Post-Employment Benefits	2,700,000	-
	187,537,125	152,632,240

In addition to the above, the Company has also paid non cash benefits such as vehicles and fuel to Key-Management Personnel in line with the approved employment benefits of the Company.

43.1.2 TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING KMPs, AND THEIR CLOSE MEMBERS OF THE FAMILY (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

Statement of Financial Position		2014 Rs.	2013 Rs.
	Reported Under		
Liabilities			
Fixed Deposits	Due to Customers	793,604,690	799,647,335
Statement of Comprehensive Income			
Interest Expense on Fixed Deposits	Interest Expenses	12,703,354	19,497,423
Other Transactions			
Deposits Accepted During the Year		565,221,193	884,056,002
Dividend Paid on Shareholdings		4,503,538	2,693,040
		569,724,731	886,749,042

43.1.3 TRANSACTION, ARRANGEMENTS AND AGREEMENTS INVOLVING ENTITIES WHICH ARE CONTROLLED, AND/OR JOINTLY CONTROLLED BY THE KMPs AND THEIR CFMs

Statement of Financial Position	Reported Under	2014 Rs.	2013 Rs.
Assets			
Vehicle Loans	Loans and Receivables	306,450	2,599,000
Lease Rentals Receivable	Lease Rentals Receivable & Stock Out on Hire	980,901	501,616
		1,287,351	3,100,616
Liabilities			
Fixed Deposits	Due to Customers	526,481,594	339,066,000
Total		527,768,945	342,166,616
Statement of Comprehensive Income			
	Reported Under		
Interest Income on Lease and Vehicle Loans	Interest Income	416,646	935,000
Income on Operating Lease	Other Operating Income	14,147,000	14,147,000
Interest Expense on Fixed Deposits	Interest Expenses	13,693,464	4,696,000
		28,257,110	19,778,000
Other Transactions			
Deposits Accepted During the Year		375,400,000	960,572,007
		375,400,000	960,572,007

43.1.4 TRANSACTIONS WITH GROUP ENTITIES

The Group entities include the Parent, Fellow Subsidiaries and Associate companies of the Parent.

		2014 Rs.	2013 Rs.
43.1.4.1 TRANSACTIONS WITH PARENT COMPANY			
Statement of Financial Position	Reported Under		
Liabilities			
Fixed Deposits	Due to Customers	750,000,000	1,113,000,000
Statement of Comprehensive Income			
Interest Expense on Fixed Deposits	Interest Expenses	13,994,112	41,988,486
Other Transactions			
Deposits Accepted During the Year		925,000,000	678,459,315
Dividend Paid on Share Holdings		229,587,800	176,606,000
		1,154,587,800	855,065,315

43.1.4.2 TRANSACTIONS WITH FELLOW SUBSIDIARIES

Statement of Financial Position	Reported Under	2014 Rs.	2013 Rs.
Assets			
Lease Rentals Receivable	Lease Rentals Receivable and Stock out on Hire	8,129,443	10,999,705
Leasehold Improvements	Property, Plant and Equipment	7,393,120	14,520,663
Investment In Equity Securities	Financial Investments - Held for Trading	1,562,280	1,468,477
Investment In Equity Securities	Financial Investments - Available for Sale	56,364,217	63,883,751
		73,449,060	90,872,596
Statement of Comprehensive Income			
	Reported Under		
Interest Income on Lease	Interest Income	1,690,283	2,302,000
Advertising and Business Promotional Expenses	Other Operating Expenses	25,000	1,030,000
		1,715,283	3,332,000
Other Transactions			
Dividend Paid on Shareholdings		116,973,305	89,516,385

44. CAPITAL

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

44.1 CAPITAL MANAGEMENT

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

45. RISK MANAGEMENT

45.1 INTRODUCTION

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

The Company identifies the following key financial risks in its business operations:

- Credit Risk
- Liquidity Risk
- Market Risk
- Capital Adequacy Risk

RISK GOVERNANCE FRAMEWORK

The Company has adopted a 'three lines of defence' governance framework. The three lines of defence framework operates as follows:

i. First line of defence

This represents the risk owners. They have the first and direct responsibility for the assessment and control of the Company's risks.

- Management Committees (ALCO, Credit Committee, IT Steering Committee)
- Heads of different business units

ii. Second line of defence

Comprises of units providing the independent risk oversight. They co-ordinate, facilitate and oversee the effectiveness and integrity of the Company's risk management framework.

- Integrated Risk Management Committee
- Audit Committee
- Risk Management Department

iii. Third line of defence

Provides independent review of effectiveness of risk management practices and internal control framework and recommends improvements where necessary.

- Internal Audit
- External Audit
- Compliance Function

The following Executive Management Sub-Committees, each with specialised focus are tasked with responsibility for managing the credit risk, market risk, liquidity risk and operational risk.

Credit Committee

Credit Committee is chaired by the Managing Director and comprises of Executive Directors, representatives from Credit Departments and Risk Management Department. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. Committee also periodically reviews Company's credit policy and lending rates to different business segments, in light of prevailing market conditions and industry dynamics.

Assets and Liability Committee (ALCO)

ALCO is chaired by the Managing Director and comprises of Executive Directors (Asset Management and Asset Finance) representatives from Treasury Department, Credit Departments, Fixed Deposits, the Chief Financial Officer and the Chief Risk Officer. The Committee meets regularly and make all policy decisions with regard to funding, duration of assets and liabilities, investments and overall liquidity. The Committee has the overall responsibility for monitoring Company's liquidity to keep liquidity at healthy levels, whilst satisfying regulatory requirements.

IT Steering Committee

Information Technology (IT) Steering Committee is headed by the Executive Director - Asset Management and comprises of Executive Asset Finance, Head 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. Members of the IT Steering Committee 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 strongest mandate is to find and align business solutions that may leverage technology.

Risk Management Department (RMD)

Whilst the Business Units (i.e. Credit Departments, Recovery, Deposits Divisions, Treasury and IT) 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 Company 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 messages to the Company's management.

45.2 RISK MANAGEMENT PROCESS

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.

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 and stress tests. 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 avoidance/prevention, reduction, mitigation, transfer/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 in particular to avoid risk concentrations for sectors, customers and security types forms an essential part of the Company's risk approach. All non-quantifiable risks are managed and limited via appropriate approaches or methods. Monitoring ensures that the risk management decision is implemented appropriately and in a timely manner. It includes both the monitoring of deviations from the prescribed risk limits and the monitoring of methods, procedures and processes used for quantifiable and non-quantifiable risks.

45.3 CREDIT RISK

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers/other companies and investments in debt securities. 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 and arises principally from the Company's loans and advances to customers.

Concentration risk is the credit exposure being concentrated as a result of excessive buildup 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.

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

As at 31st March 2014	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Cash and Cash Equivalents	1,865,100,105	–
Financial Investments - Held for Trading	7,595,184	7,595,184
Loans and Receivables	18,893,238,073	1,198,206,966
Lease Rentals Receivable and Stock out on Hire	30,299,455,784	764,116,319
Financial Investments - Available for Sale	1,468,602,056	1,468,602,056
Other Financial Assets	5,083,135,948	3,228,666,171
Total Financial Assets	57,617,127,150	6,667,186,696

45.3.1 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31st March 2014	Neither Past Due Nor Impaired Rs	Past Due But Not Impaired Rs	Individually Impaired Rs	Total Rs
Assets				
Cash and Bank Balances	1,865,100,105	–	–	1,865,100,105
Financial Investments - Held for Trading	7,595,184	–	–	7,595,184
Loans and Receivables (Gross)	11,744,226,703	7,147,091,171	518,562,515	19,409,880,389
Lease Rentals Receivable and Stock out on Hire (Gross)	11,928,874,847	19,405,434,541	214,792,295	31,549,101,683
Financial Investments - Available for Sale	1,367,444,426	–	101,157,630	1,468,602,056
Other Financial Assets	5,083,135,948	–	–	5,083,135,948
Total Financial Assets	31,996,377,212	26,552,525,712	834,512,440	59,383,415,365

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

	Past Due But Not Impaired				Total
	Less than 31 days	31 to 60 days	61 to 90 days	More than 90 days	
Loans and Receivables	3,170,206,645	1,805,561,914	928,829,946	1,242,492,665	7,147,091,171
Lease Rentals Receivable and Stock out on Hire	6,626,901,317	5,790,098,550	2,950,620,376	4,037,814,297	19,405,434,541
	9,797,107,963	7,595,660,464	3,879,450,323	5,280,306,963	26,552,525,712

45.3.1.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31st March 2013	Neither Past	Past Due	Individually	Total
	Due Nor Impaired	But Not Impaired	Impaired	
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and Bank Balances	4,019,673,357	–	–	4,019,673,357
Financial Investments - Held for Trading	7,323,047	–	–	7,323,047
Loans and Receivables (Gross)	9,146,618,455	7,555,979,808	224,498,763	16,927,097,026
Lease Rentals Receivable and Stock out on Hire (Gross)	11,557,217,743	17,289,986,528	202,945,330	29,050,149,602
Financial Investments - Available for Sale	373,702,818	–	100,036,500	473,739,318
Other Financial Assets	1,487,399,284	–	–	1,487,399,284
Total Financial Assets	26,591,934,705	24,845,966,336	527,480,593	51,965,381,634

45.3.1.3 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				Total
	Less than 31 days	31 to 60 days	61 to 90 days	More than 90 days	
Loans and Receivables	2,454,618,152	1,657,052,445	1,337,132,392	2,107,176,819	7,555,979,808
Lease Rentals Receivable and Stock out on Hire	7,239,900,927	6,003,887,026	2,237,426,641	1,808,771,934	17,289,986,528
	9,694,519,079	7,660,939,471	3,574,559,033	3,915,948,753	24,845,966,336

45.3.2 ANALYSIS OF CONCENTRATION RISK

45.3.2.1 INDUSTRY ANALYSIS

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

As at 31st March 2014	Cash and Bank	Financial	Loans and	Lease Rentals	Financial	Other Financial	Total Financial
	Balances	Investments -	Receivables**	Receivable & Stock	Investments -	Assets	Assets
Sector wise Breakdown	Rs.	Held for Trading	Rs.	out on Hire **	Available for Sale	Rs.	Rs.
		Rs.		Rs.	Rs.		
Agriculture	–	–	133,866,236	2,003,942,790	–	–	2,137,809,026
Manufacturing	–	–	1,116,060,049	843,612,175	–	–	1,959,672,224
Construction	–	–	456,220,168	628,358,569	–	–	1,084,578,737
Financial Services	1,865,100,105	–	242,281,588	27,566,952	–	5,083,135,948	7,218,084,593
Trading	–	7,595,184	3,986,246,213	9,417,806,200	–	–	13,411,647,596
Retail	–	–	4,792,138,062	–	–	–	4,792,138,062
Government	–	–	–	–	1,362,883,183	–	1,362,883,183
Hotels	–	–	62,734,685	168,877,115	–	–	231,611,799
Services	–	–	8,103,691,073	17,209,291,983	–	–	25,312,983,056
Total	1,865,100,105	7,595,184	18,893,238,073	30,299,455,784	1,362,883,183	5,083,135,948	57,511,408,277

** Provincial breakdown for (01) Loans and receivable, (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows:

Province	Loans and Receivables	Lease Rentals Receivable & Stock out on Hire	Total
Central	1,447,318,972	2,425,653,010	3,872,971,982
Eastern	631,150,743	1,222,547,352	1,853,698,095
North-Central	289,470,010	1,465,113,718	1,754,583,728
North-Western	1,031,888,042	2,598,909,089	3,630,797,131
Northern	760,196,335	717,758,877	1,477,955,212
Sabaragamuwa	460,862,488	2,417,139,179	2,878,001,667
Southern	848,627,785	2,885,812,133	3,734,439,918
Uva	246,789,659	1,149,920,538	1,396,710,196
Western	13,176,934,039	15,416,601,889	28,593,535,927
Total	18,893,238,073	30,299,455,784	49,192,693,857

45.3.2.2 INDUSTRY ANALYSIS

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

As at 31 March 2013							
Sector wise Breakdown	Cash and Bank Balances Rs.	Financial Investments - Held for Trading Rs.	Loans and Receivables** Rs.	Lease Rentals Receivable & Stock out on Hire ** Rs.	Financial Investments - Available for Sale Rs.	Other Financial Assets Rs.	Total Financial Assets Rs.
Agriculture	-	-	68,883,265	1,644,737,813	-	-	1,713,621,078
Manufacturing	-	-	189,217,687	912,874,590	-	-	1,102,092,277
Construction	-	-	294,861,097	665,253,420	-	-	960,114,518
Financial Services	4,019,673,357	-	211,144,211	14,381,800	-	1,487,399,284	5,732,598,651
Trading	-	7,323,047	2,328,939,828	9,231,663,898	105,416,222	-	11,673,342,995
Retail	-	-	10,550,851,131	-	-	-	10,550,851,131
Government	-	-	-	-	368,323,096	-	368,323,096
Hotels	-	-	29,527,710	174,924,339	-	-	204,452,048
Services	-	-	2,779,562,470	15,627,510,815	-	-	18,407,073,284
Total	4,019,673,357	7,323,047	16,452,987,399	28,271,346,674	473,739,318	1,487,399,284	50,712,469,079

** Provincial breakdown for (01) Loans and receivable (02) Lease rentals receivable & Stock out on hire from customers within Sri Lanka is as follows.

Province	Loans and Receivables	Lease Rentals Receivable & Stock out on Hire	Total
Central	1,470,976,624	2,520,449,875	3,991,426,499
Eastern	666,808,133	1,153,998,164	1,820,806,297
North-Central	258,978,985	1,488,453,835	1,747,432,820
North-Western	839,240,531	2,543,359,894	3,382,600,425
Northern	921,270,911	915,298,234	1,836,569,145
Sabaragamuwa	361,538,968	2,114,628,492	2,476,167,460
Southern	809,761,844	2,440,958,434	3,250,720,278
Uva	319,330,871	882,210,627	1,201,541,499
Western	10,805,080,532	14,211,989,118	25,017,069,649
Total	16,452,987,399	28,271,346,674	44,724,334,073

45.4 LIQUIDITY RISK & 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; transactions liquidity, a property of assets or markets, and funding liquidity, which is more closely related to creditworthiness.

Transaction liquidity risk is the risk of moving the price of an asset adversely in the act of buying or selling it. Company's transaction 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 because 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 analyses and monitors liquidity positions and, maintains an adequate margin of safety in liquid assets.

45.4.1 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

45.4.1 (a) The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31st March 2014.

As at 31st March 2014	On Demand Rs	Less than 03 Months Rs	03-12 Months Rs	01-05 Years Rs	Over 05 Years Rs	Total Rs
Financial Assets						
Cash and Bank Balances	825,692,489	1,039,407,617	-	-	-	1,865,100,105
Financial Investments - Held for Trading	7,595,184	-	-	-	-	7,595,184
Loans and Receivables	3,422,840,413	7,365,018,568	4,637,922,359	7,605,293,046	7,895,520	23,038,969,906
Lease Rentals Receivable & Stock out on Hire	2,515,794,947	4,627,288,528	12,649,823,494	21,873,837,159	41,772,233	41,708,516,361
Financial Investments - Available for Sale	1,468,602,056	-	-	-	-	1,468,602,056
Other Financial Assets	20,645,501	2,003,044,583	3,215,269,832	-	-	5,238,959,916
Total Financial Assets	8,261,170,589	15,034,759,296	20,503,015,685	29,479,130,205	49,667,753	73,327,743,528
Financial Liabilities						
Due to Banks	621,205,697	697,979,497	1,683,777,270	1,511,785,181	61,573,762	4,576,321,407
Due to Customers	803,613,782	19,586,758,807	22,067,133,227	7,544,648,508	-	50,002,154,323
Debt Issued and Other Borrowed Funds	-	358,984,986	274,227,425	3,810,085,000	-	4,443,297,411
Other Financial Liabilities	586,346,784	-	-	-	-	586,346,784
Total Financial Liabilities	2,011,166,262	20,643,723,290	24,025,137,922	12,866,518,689	61,573,762	59,608,119,926
Total Net Financial Assets/(Liabilities)	6,250,004,327	(5,608,963,994)	(3,522,122,237)	16,612,611,516	(11,906,009)	13,719,623,602

Interpretation

Based on the remaining contractual maturity of assets & liabilities, the Company has asset sensitive maturity gaps in the 'on Demand' time bracket and '01-05 Years' time brackets. Further the Company has liability sensitive maturity gaps in the 'Less than 3 Months', '03-12 Months' time brackets and 'Over 5 Years' time bracket.

45.4.1 (b) The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31st March 2013.

As at 31st March 2013	On Demand Rs	Less than 03 Months Rs	03-12 Months Rs	01-05 Years Rs	Over 05 Years Rs	Total Rs
Financial Assets						
Cash and Bank Balances	1,171,637,040	2,900,476,762	-	-	-	4,072,113,802
Financial Investments - Held for Trading	7,323,047	-	-	-	-	7,323,047
Loans and Receivables	5,855,820,952	7,032,721,849	2,525,757,635	3,349,052,071	157,700	18,763,510,208
Lease Rentals Receivable & Stock out on Hire	1,894,292,057	4,060,414,366	11,290,044,505	21,936,562,927	32,490,877	39,213,804,733
Financial Investments - Available for Sale	473,739,318	-	-	-	-	473,739,318
Other Financial Assets	-	503,169,250	1,068,233,517	32,280,000	-	1,603,682,768
Total Financial Assets	9,402,812,416	14,496,782,228	14,884,035,657	25,317,894,998	32,648,577	64,134,173,876
Financial Liabilities						
Due to Banks	878,493,156	1,355,775,772	2,383,495,488	2,572,423,515	148,568,813	7,338,756,744
Due to Customers	285,872,153	19,183,284,784	15,642,937,405	7,336,218,313	-	42,448,312,655
Debt Issued and Other Borrowed Funds	2,757,671	508,506,482	1,371,248,160	784,781,000	-	2,667,293,314
Other Financial Liabilities	638,010,603	-	-	-	-	638,010,603
Total Financial Liabilities	1,805,133,583	21,047,567,038	19,397,681,054	10,693,422,828	148,568,813	53,092,373,316
Total Net Financial Assets/(Liabilities)	7,597,678,833	(6,550,784,810)	(4,513,645,397)	14,624,472,170	(115,920,236)	11,041,800,560

Interpretation

Based on the remaining contractual maturity of assets & liabilities, the Company has asset sensitive maturity gaps in the 'on Demand' time bracket and '01-05' years time brackets. Further the Company has liability sensitive maturity gaps in the 'less than 3 months', '03-12 months' time brackets and 'Over 5 years' time bracket

45.4.2 OFFSETTING OF FINANCIAL INSTRUMENTS

As at 31 March 2014	Gross Amounts Rs.	Gross Amounts Set off on the Statement of Financial Position Rs.	Net Amounts Presented on the Statement of Financial Position Rs.	Cash Collateral Rs.	Financial Instrument Collateral	Net Amount
Financial Assets						
Lease Rentals Receivable & Stock out on Hire	30,299,455,784	–	30,299,455,784	–	2,988,698,312	27,310,757,472
Financial Liabilities						
Due to Customers	46,095,205,250	–	46,095,205,250	–	1,071,293,003	45,023,912,246

The Financial instruments & cash collateral amounts disclosed reflect their fair values. The rights of set off relating to the financial instruments and cash collateral are conditional upon the default of the counterparty.

45.4.3 CONTRACTUAL MATURITIES OF COMMITMENTS & CONTINGENCIES

The table below shows the contractual expiry by maturity of the Company'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 31st March 2014	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Contingent Liabilities						
Guarantees issued to Banks and other Institutions	3,060,000	7,950,000	–	–	–	11,010,000
Import LC & Ordinary Guarantees	78,718,461	–	–	–	–	78,718,461
Total Contingent Liabilities	81,778,461	7,950,000	–	–	–	89,728,461
Commitments						
Commitment for Unutilised Facilities	548,118,887	–	–	–	–	548,118,887
Total Commitments	548,118,887	–	–	–	–	548,118,887
Total Commitments and Contingencies	629,897,347	7,950,000	–	–	–	637,847,347

As at 31st March 2013	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Contingent Liabilities						
Guarantees issued to Banks and other Institutions	–	1,000,000	13,800,000	500,000		15,300,000
Import LC & Ordinary Guarantees	–	–	–	–	–	–
Total Contingent Liabilities	–	1,000,000	13,800,000	500,000	–	15,300,000
Commitments						
Commitment for Unutilised Facilities	–	–	–	–	–	–
Total Commitments	–	–	–	–	–	–
Total Commitments and Contingencies	–	1,000,000	13,800,000	500,000	–	15,300,000

45.5 MARKET RISK

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, and equity prices. Among them, interest rate risk has been identified as the most critical risk given Company's business profile.

45.5.1 INTEREST RATE RISK

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

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

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

- Repricing 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 minimising interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

45.5.2 COMMODITY PRICE RISK

Commodity risk refers to the uncertainties of future market values and future income, caused by fluctuations in the prices of commodities. Given the importance of Gold Loan business to the Company's overall lending operation, fluctuations of gold prices could have an adverse impact to earnings from this particular segment. Gold price risk could arise from either of adverse movements in the world prices, exchange rates, basis between local and world prices.

Company currently manages the credit risk arising from Gold backed loans by adopting following strategies;

- Quicker re-pricing cycle: Company as a credit risk management strategy lends for shorter periods allowing it to re-price its costs promptly
- Frequent revision to advance offered per sovereign: Company practices a process of revising advance offered per sovereign to reflect market value fluctuations to maintain the desired loan to value ratio

45.5.3 INTEREST RATE SENSITIVITY

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Net Interest Income.

Net Interest Income (NII) Sensitivity by Interest Rate Change

Parallel Increase / Decrease of Basis Points (bps)*	2014		2013	
	+ / - 100 bps	+ / - 200 bps	+ / - 100 bps	+ / - 200 bp
Impact on NII (Rs)				
Quarterly Impact	(+ / -) 10,240,706	(+ / -) 20,481,411	(+ / -) 5,033,702	(+ / -) 10,067,404
Annual Impact	(+ / -) 81,048,018	(+ / -) 162,096,036	(+ / -) 60,751,485	(+ / -) 121,502,971

*Parallel increase in rates would have a positive impact on the NII while parallel decrease would negatively impact NII.

45.5.4 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS & LIABILITIES

45.5.4(A) The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

As at 31st March 2014	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total as at
	Rs	Rs	Rs	Rs	Rs	Rs	31st March 2014
Assets							
Cash and Bank Balances	1,560,889,128	-	-	-	-	304,210,978	1,865,100,105
Financial Investments - Held for Trading	-	-	-	-	-	7,595,184	7,595,184
Loans and Receivables	4,925,841,870	7,802,900,234	4,774,965,359	1,387,664,707	1,865,903	-	18,893,238,073
Lease Rentals Receivable & Stock out on Hire	5,332,824,292	8,293,367,560	10,318,324,395	6,319,130,618	35,808,918	-	30,299,455,783
Financial Investments - Available for Sale	1,362,883,183	-	-	-	-	105,718,873	1,468,602,056
Other Financial Assets	1,992,260,946	3,070,229,500	-	-	-	20,645,501	5,083,135,948
Total Financial Assets	15,174,699,420	19,166,497,294	15,093,289,755	7,706,795,324	37,674,821	438,170,536	57,617,127,149
Financial Liabilities							
Due to Banks	2,329,171,782	1,036,302,357	669,201,166	-	-	-	4,034,675,305
Due to Customers	19,679,545,166	20,227,120,213	4,712,450,784	1,476,089,086	-	-	46,095,205,250
Debt Issued and Other Borrowed Funds	271,364,188	64,447,122	543,470,665	1,985,589,609	-	-	2,864,871,583
Other Financial Liabilities	-	-	-	-	-	586,346,784	586,346,784
Total Financial Liabilities	22,280,081,136	21,327,869,692	5,925,122,615	3,461,678,695	-	586,346,784	53,581,098,922
INTEREST SENSITIVITY GAP	(7,105,381,717)	(2,161,372,398)	9,168,167,140	4,245,116,629	37,674,821	(148,176,248)	4,036,028,227

45.5.4(B) INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS & LIABILITIES

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

As at 31st March 2013	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total as at
	Rs	Rs	Rs	Rs	Rs	Rs	31st March 2014
							Rs
Assets							
Cash and Bank Balances	3,645,768,580	–	–	–	–	373,904,777	4,019,673,357
Financial Investments - Held for Trading	–	–	–	–	–	7,323,047	7,323,047
Loans and Receivables	11,859,408,262	2,123,545,682	1,998,011,303	471,871,200	150,950	–	16,452,987,398
Lease Rentals Receivable & Stock out on Hire	4,278,631,261	7,113,456,995	14,285,378,463	2,565,228,101	28,651,854	–	28,271,346,674
Financial Investments - Available for Sale	368,323,096	–	–	–	–	105,416,222	473,739,318
Other Financial Assets	497,321,453	962,455,489	27,622,342	–	–	–	1,487,399,284
Total Financial Assets	20,649,452,652	10,199,458,165	16,311,012,108	3,037,099,302	28,802,804	486,644,047	50,712,469,078
Financial Liabilities							
Due to Banks	3,991,191,653	1,492,709,180	882,316,506	–	–	–	6,366,217,339
Due to Customers	18,756,967,981	14,090,179,685	4,848,496,162	1,047,055,992	–	–	38,742,699,819
Debt Issued and Other Borrowed Funds	492,512,042	1,174,420,931	32,276,712	545,000,000	–	–	2,244,209,686
Other Financial Liabilities	–	–	–	–	–	638,010,603	638,010,603
Total Financial Liabilities	23,240,671,676	16,757,309,797	5,763,089,380	1,592,055,992	–	638,010,603	47,991,137,448
INTEREST SENSITIVITY GAP	(2,591,219,024)	(6,557,851,631)	10,547,922,728	1,445,043,310	28,802,804	(151,366,556)	2,721,331,631

45.6 CAPITAL ADEQUACY RISK

For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses so the company can remain in business. The more capital the Company has relative to the risks it takes, the more confidence the stakeholders are that it will meet its obligations to them. Capital adequacy risk arises from Company's inability to maintain the required amount of capital which is perceived to be adequate to absorb the risk.

REGULATORY CAPITAL

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 the Directions on Risk Weighted Capital Adequacy Ratio issued by 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 31st March 2014, the Company has maintained Risk Weighted Capital Adequacy Ratio comfortably above the CBSL's capital requirements.

46. SEGMENTAL INFORMATION

For management purposes, the Company is organised into three operating segments based on services offered to customers as follows. The following table presents income and profit and certain asset and liability information regarding the Company's operating segments.

	Leasing & Stock out on Hire		Loans & Receivables		Others		Total	
	2014 Rs	2013 Rs	2014 Rs	2013 Rs	2014 Rs	2013 Rs	2014 Rs	2013 Rs
Interest Income	7,863,444,478	6,536,359,538	3,898,948,513	3,503,218,160	951,696,125	487,251,417	12,714,089,115	10,526,829,115
Interest Expenses	(4,265,367,923)	(3,811,288,954)	(2,235,149,766)	(1,783,240,295)	(637,379,505)	(351,177,483)	(7,137,897,194)	(5,945,706,732)
Net Interest Income/(Expenses)	3,598,076,555	2,725,070,584	1,663,798,747	1,719,977,865	314,316,620	136,073,934	5,576,191,921	4,581,122,383
Fee and Commission Income	351,855,053	258,812,991	211,028,757	310,008,892	214,731,071	160,787,715	777,614,881	729,609,598
Net Trading Income and Other Operating Income	124,327,284	113,013,938	11,845,734	–	620,375	(1,200,604)	136,793,393	111,813,334
Impairment Charge/Reversal on Loans and Losses	(462,515,909)	(243,449,233)	(103,595,105)	(161,937,893)	(4,221,363)	5,080,418	(570,332,376)	(400,306,708)
Gold Loan Auction Losses	–	–	(1,371,959,171)	(201,802,205)	–	–	(1,371,959,171)	(201,802,205)
Net Operating Income	3,611,742,983	2,853,448,280	411,118,962	1,666,246,659	525,446,703	300,741,463	4,548,308,648	4,820,436,402
Other Costs	1,168,710,845	1,040,387,906	738,917,143	600,783,466	345,980,536	272,373,056	2,253,608,524	1,913,544,428
Depreciation	162,678,909	110,959,615	102,853,700	64,074,853	48,158,821	29,049,174	313,691,430	204,083,642
Operating Profits Before Taxes	2,280,353,230	1,702,100,759	(430,651,882)	1,001,388,341	131,307,347	(680,767)	1,981,008,695	2,702,808,332
Taxes							(640,979,319)	(1,000,692,109)
Profits for the Year							1,340,029,376	1,702,116,223
Segmental Assets	31,538,053,527	29,480,792,545	19,939,926,566	17,024,008,650	9,336,400,632	7,718,057,384	60,814,380,725	54,222,858,579
Segmental Liabilities	28,248,884,746	26,731,094,643	17,478,849,237	15,443,340,895	8,879,957,844	6,719,821,751	54,607,691,827	48,894,257,289

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 which, in certain respects, are measured differently from operating profits or losses in the financial statements. 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 2013 or 2014.

47. COMPARATIVE INFORMATION

The following comparative figures have been reclassified in the 2013 Statement of Comprehensive Income to maintain comparability of financial statements in order to provide a better presentation.

Statement of Comprehensive Income	Note	As disclosed Rs.	Reclassified Rs.	Adjustment Rs.
Income	47.1	11,166,449,842	11,368,252,047	201,802,205
Interest Income		10,325,026,910	10,526,829,115	201,802,205
Other Operating Income	47.1	110,850,485	110,850,485	–

47.1 Reclassification of Gold Loan Auction Losses of Rs. 201,802,205/- in 2013 included in Interest Income as Gold Loan Auction Losses under Other operating income, was disclosed in the face of the Statement of Comprehensive Income from 2014.

AWARDS AND ACCOLADES

BEST RETAIL FINANCE COMPANY - SRI LANKA 2013

Global Banking and Finance Review UK adjusted L B Finance PLC as 'Best Retail Finance Company in Sri Lanka for 2013'. The title, conferred for the first time to a finance company in Sri Lanka, was awarded after an extensive analysis on the Company's overall performance, gold loan and recoveries, new innovations and sustainable expansion, risk policies, operational strategies and overall strength in assets and profitability.

CA SRI LANKA ANNUAL REPORT AWARDS 2013

At the coveted 49th Annual Report Awards Competition organised by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) L B Finance PLC 2012/13 Annual Report was awarded with a 'Silver' in Finance Companies Category reflecting the Company's effectiveness in communication of financial and non-financial information to stakeholders and its strict compliance with legislative requirements and accepted accounting best practices.

LACP SPOTLIGHT AWARDS 2013

2012/13 Annual Report won a slew of prestigious award of 'Silver' in overall category at the LACP Spotlight Awards 2013 Annual Report Competition. The Spotlight Awards process recognises and rewards outstanding annual reporting across the globe with a 360 degree judging procedure covering first impression, overall narrative, visual design, creativity and many more.

CORPORATE ACCOUNTABILITY RATING BY STING CONSULTANTS

Awarded with a 'Bronze' in the Corporate Accountability Rating by STING Consultants in 2013. This award recognises the level of corporate accountability practices (our CSR initiatives) and performances.

The companies are assessed across six key areas which constitute the necessary components for holistic and integrated corporate accountability.

By winning this prestigious award it exemplifies how sustainability means to LBF by integrating sustainability principles within our business strategy and ensuring we review the impact of people, planet and profits whilst balancing stakeholder needs.

TEN YEAR SUMMARY

Financial Statements Prepared under SLAS

	2004/05 (15 Months) Rs. '000	2005/06 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2010/11 Rs. '000
Income Statement							
Gross income	779,175	914,463	1,310,792	2,778,862	3,580,173	4,130,993	5,501,885
Interest income	677,403	849,978	1,229,406	2,082,418	3,431,950	3,953,032	5,138,718
Interest expenditure	(383,401)	(432,856)	(655,624)	(1,318,058)	(2,238,847)	(2,249,805)	(2,418,480)
Net interest income	294,002	417,122	573,782	764,361	1,193,103	1,703,227	2,720,239
Other operating income	42,784	29,917	65,247	165,682	122,326	174,285	353,647
Operating expenditure	(251,929)	(243,391)	(309,632)	(509,225)	(647,561)	(839,479)	(1,171,025)
Profits before taxation	73,344	173,108	282,401	355,214	555,315	878,290	1,667,820
Provision for taxation	(24,936)	(96,051)	(103,625)	(149,381)	(195,707)	(378,129)	(647,452)
Net profits	48,408	77,056	178,776	205,833	359,608	500,161	1,020,368
Balance Sheet							
Assets							
Cash and amounts due from banks	24,242	57,232	90,555	152,581	217,642	277,083	347,446
Placements with other banks	140,940	171,786	247,918	415,918	550,496	364,918	302,584
Treasury bills and other bills eligible for re-discounting with Central Bank	234,323	297,939	361,369	476,877	799,698	1,165,157	1,622,158
Amounts due from Department of Inland Revenue	–	–	14,099	8,377	–	–	–
Real estate stock	161,755	170,963	238,641	218,198	211,241	246,928	237,520
Loans and advances	997,211	977,435	1,100,386	1,805,471	2,834,414	4,193,815	7,543,231
Lease rentals receivable and stock out on hire	1,726,591	2,830,052	4,641,290	7,256,655	9,006,955	10,440,329	16,332,007
Investment securities	12,945	9,021	9,032	9,032	6,226	5,994	28,594
Trading portfolio	–	–	–	–	–	–	211,818
Other debtors, deposits and prepayments	43,874	32,768	129,921	142,570	141,619	104,271	675,235
Deferred taxation	–	35,650	–	–	–	–	–
Vehicle stock	–	15,620	58,242	118,686	41,939	156,502	519,706
Intangible assets	–	4,760	11,289	9,959	9,311	7,333	9,682
Property, plant and equipment	58,957	63,117	87,773	129,775	189,920	237,613	432,359
Total assets	3,400,838	4,666,343	6,990,515	10,744,099	14,009,461	17,199,943	28,262,340
Liabilities							
Deposits from non-bank customers	2,606,792	3,344,671	4,561,445	7,309,101	9,558,370	12,489,789	19,619,681
Borrowings	314,197	561,612	1,401,839	1,658,593	1,527,997	1,065,377	3,526,374
Debentures	100,000	100,000	100,000	100,000	450,000	450,000	450,000
Trade payables and accrued charges	147,566	230,727	303,445	559,993	846,978	916,729	1,529,035
Tax payable	11,375	48,972	–	–	67,751	352,626	396,413
Deferred taxation	–	–	16,993	114,615	186,703	141,728	93,249
Dividends payable	–	13,500	–	–	–	–	–
Provision and other liabilities	8,978	12,207	19,367	26,778	21,565	27,262	33,870
Total liabilities	3,188,908	4,311,689	6,403,089	9,769,080	12,659,364	15,443,511	25,648,622
Shareholders' Fund							
Share capital	135,000	135,000	202,000	418,411	491,996	491,996	838,282
Reserves	76,930	219,654	385,426	556,608	858,101	1,264,436	1,775,436
Total shareholders' funds	211,930	354,654	587,426	975,019	1,350,097	1,756,433	2,613,718
Total liabilities and funds employed	3,400,838	4,666,343	6,990,515	10,744,099	14,009,461	17,199,944	28,262,340

Financial Statements Prepared under SLFRS

	2011/12 Rs. '000	2012/13 Rs. '000	2013/14 Rs. '000
Statement of Comprehensive Income			
Gross income	7,937,072	11,368,252	13,628,497
Interest income	7,297,591	10,526,829	12,714,089
Interest expenses	(3,551,986)	(5,945,707)	(7,137,897)
Net interest income	3,745,605	4,581,122	5,576,191
Other operating income	639,481	841,422	914,408
Total operating income	4,385,086	5,422,544	6,490,600
Impairment (Charges)/Reversal for loans and other losses	(116,023)	(400,307)	(570,332)
Gold loan auction losses	–	(201,802)	(1,371,959)
Operating expenses	(1,680,998)	(2,293,876)	(2,679,918)
Profit before tax	2,588,065	2,526,559	1,868,391
Income tax	(874,071)	(824,443)	(528,361)
Profit for the year	1,713,994	1,702,116	1,340,029
Statement of Financial Position			
Assets			
Cash and cash equivalents	1,954,237	4,019,673	1,865,100
Financial investments - held for trading	6,740	7,323	7,595
Loans and receivables	12,771,108	16,452,987	18,893,238
Lease rentals receivable and stock out on hire	23,686,392	28,271,347	30,299,455
Financial investments - available for sale	128,068	473,739	1,468,602
Other financial assets	1,019,834	1,487,399	5,083,135
Other non-financial assets	1,066,622	1,205,230	921,041
Intangible assets	19,340	23,669	36,425
Property, plant and equipment	1,868,286	2,100,939	2,067,928
Deferred tax assets	117,779	180,551	171,857
Total assets	42,638,405	54,222,859	60,814,380
Liabilities			
Due to banks	8,910,255	6,366,217	4,034,675
Due to customers	27,172,161	38,742,700	46,095,205
Debt instruments issued and other borrowed funds	1,541,555	2,244,210	2,864,871
Other financial liabilities	–	638,011	586,346
Other non-financial liabilities	757,275	694,933	829,676
Retirement benefit liability	44,231	60,230	93,198
Current tax liabilities	244,831	147,956	103,717
Total liabilities	38,670,307	48,894,257	54,607,691
Shareholders' Funds			
Stated capital	838,282	838,282	838,282
Retained earnings	2,075,561	2,852,402	3,265,273
Reserves	1,054,254	1,637,917	2,103,132
Total shareholders' funds	3,968,097	5,328,601	6,206,688
Total liabilities and shareholders' funds	42,638,405	54,222,859	60,814,380

KEY INDICATORS

		2004/05 (15 Months)	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Ratios											
Net interest margin	%	11.23	11.31	10.80	9.38	10.31	11.60	12.87	11.43	10.18	10.32
Cost to income	%	57.74	50.09	51.42	55.56	51.72	42.87	41.27	41.75	42.30	41.29
Return on equity	%	25.79	27.20	37.95	26.35	30.93	32.20	47.45	52.64	36.62	23.23
Return on assets	%	1.64	1.91	3.07	2.32	2.91	3.21	4.51	4.85	3.51	2.33
Earnings per share	Rs.	3.59	5.71	8.85	6.79	10.38	7.22	14.73	24.75	24.58	19.35
Net assets per share	Rs.	15.70	26.27	29.08	32.18	38.99	25.36	36.74	57.30	76.94	89.62
Growth											
Gross income	%	43.79	17.36	43.34	112.00	28.84	15.39	33.19	44.26	43.23	19.88
Interest income	%	59.08	25.48	44.64	69.38	64.81	15.18	29.99	42.01	44.25	20.78
Interest expense	%	29.06	12.90	51.46	101.04	69.86	0.49	7.50	46.87	67.39	20.05
Net interest income	%	128.00	41.88	37.56	33.21	56.09	42.76	59.71	37.69	22.31	21.72
Profit before tax	%	2,186	136.02	63.14	25.78	56.33	58.16	89.89	46.19	3.63	(26.05)
Profit after tax	%	1,409	59.18	132.01	15.13	74.71	39.09	104.01	67.98	(0.69)	(21.27)
Total assets	%	35.85	37.21	49.86	53.70	30.39	22.77	62.93	52.15	27.17	12.16
Lending portfolio	%	46.68	39.79	50.80	57.83	30.67	23.58	61.46	55.03	22.09	9.99
Deposit base	%	29.95	28.31	36.38	60.24	30.77	30.67	62.23	34.10	42.58	18.98
Shareholders' funds	%	29.60	67.34	65.63	65.98	38.47	30.10	44.85	55.97	34.29	16.48
Other											
No. of branches		5	7	9	15	21	27	34	65	89	97
No of gold loan centres		17	19	23	25	36	48	58	47	37	37
Total no. of outlets		22	26	32	40	57	75	92	112	126	134
No. of employees		256	303	391	520	692	890	1,264	1,679	2,055	2,134

OUTLETS

Branch	Contact Number	Fax Number	Address
Western Province			
Aluthgama	034-2271161	034-2271155	No. 185, Galle Road, Aluthgama
Avissawella	036-4929910	036-4270790	No. 25, Yatiyantota Road, Avissawella
Boralesgamuwa	011-4381033	011-2518389	No. 28, Dehiwala Road, Boralesgamuwa
Corporate Office	011-2155000	011-2574777	No. 20, Dharmapala Mawatha, Colombo 03
Dam Street	011-4378798	011-2435259	No. 371/1, Dam Street, Colombo 12
Dehiwala	011-4361869	011-2722446	No. 84 A, Galle Road, Dehiwala
Delkanda	011-4347118	011-2804343	No. 595, High Level Road, Gangodawila, Nugegoda
Gampaha	033-4670650	033-4670464	No. 01 B, Bauddhaloka Mawatha, Gampaha
Head Office	011-4521000	011-5345328	No. 275/75 Prof. Stanley Wijesundara Mawatha, Colombo 07
Homagama	011-4361877	011-2894380	No. 76, High Level Road, Homagama
Horana	034-4286120	034-4286255	No. 02, Ratnapura Road, Horana
Ja-Ela	011-2229820	011-2244155	No. 6/1/1, Old Negombo Road, Ja-Ela
Kadawatha	011-4339644	011-2926917	No. 139/6, Kandy Road, Kadawatha
Kaduwela	011-4542136	011-2538222	No. 484, Avissawella Road, Kaduwela
Kalutara	034-4936065	034-2223343	No. 334, Main Street, Kalutara South
Kandana	011-4380250	011-2231925	No. 06, Station Road, Kandana
Kiribathgoda	011-4334550	011-4818192	No. 02, Kandy Road, Kiribathgoda
Kochchikade	031-4922478	031-2074205	No. 03, Main Street, Chilaw Road, Kochchikade
Kotahena	011-4376198	011-2424795	No. 03, St. Lucia's Street, Kotahena
Maharagama	011-4300350	011-4300350	No. 69, Dehiwala Road, Maharagama
Malabe	011-4381083	011-2742970	No. 834/7, Kaduwela Road, Malabe
Maradana	011-4024679	011-2685359	No. 538, Maradana Road, Colombo 10
Matugama	034-4947764	034-2249343	No. 34, Aluthgama Road, Mathugama
Moratumulla	011-4216863	011-2653365	No. 227, De Soyza Road, Moratumulla, Moratuwa
Negombo	031-4936551	031-2231266	No. 80, Greens Road, Negombo
Nugegoda	011-4541333	011-4541735	No. 92, Stanley Thilakarathne Mawatha, Nugegoda
Panadura	0384-282500	038-2243525	No. 508, Galle Road, Panadura
Piliyandala	011-4343409	011-2608895	No. 67, Horana Road, Piliyandala
Pitakotte	011-4381335	011-2820967	No. 429, Kotte Road, Pitakotte
Rajagiriya	011-4362962	011-2885551	No. 374/1, Kotte Road, Rajagiriya
Sea Street	011-4375934	011-2434597	No. 197, Sea Street, Colombo 11
Mount Lavinia - Premier Centre	011-2710124	011-2710126	No. 66, Galle Road, Mount Lavinia
Battaramulla	011-2885331	011-2885332	No. 755/1, Pannipitiya Road, Baththaramulla
Moratuwa	011-4369268	011-2642255	No. 10, Station Road, Moratuwa

Branch	Contact Number	Fax Number	Address
Central Province			
Dambulla	066-4928929	066-2284990	No. 38, Kurunegala Junction, Dambulla
Gampola	081-4486444	081-2351455	No. 22, Nuwara Eliya Road, Gampola
Hatton	051-4924378	051-2225736	No. 34 A, Dunbar Road, Hatton
Kandy	081-4474223 - 5	081-4474224	No. 115, Milton House, Kotugodella Veediya, Kandy
Kandy City	081-4481728	081-2204155	No. 266, D S Senanayaka Street, Kandy
Katugastota	081-4949236	081-4949236	No. 19, Madawala Road, Katugastota
Maskeliya	051-4924366	051-2277088	No. 175, Main Street, Maskeliya
Matale	066-4460937	066-2222266	No. 251, Main Street, Matale
Nawalapitiya	054-2223110	054-2224050	No. 3A, Urban Council Road, Nawalapitiya
Nuwara Eliya	052-4924362/3	052-4490030	No. 71, City Light Building, Queen Elizabeth Drive, Nuwara Eliya
Pilimathalawa	081-4951272	081-2579575	No. 353, Colombo Road, Pilimathalawa
Pussellawa	081-2478128	081-2478148	No. 473, Nuwara Eliya Road, Pussellawa
Eastern Province			
Trincomalee	026-4924794	026-2226737	No. 275, Central Road, Trincomalee
Akkaraipattu	067-4923975	067-2279655	Sagama Road, Akkaraipattu
Ampara	063-4925110	063-2223504	No. 04, Opposite Clock Tower, Ampara
Batticaloa	065-4923930	065-2224329	No. 175, Thirumalei Street, Batticaloa
Kattankudi	065-4926492	065-2245280	No. 301, Mohomad Aiyar Building, Main Street, Kattankudi 01
Kalawanchikudy	065-2251626	065-2251646	Hospital Road, Kalawanchikudy
Kalmunai	067-4924040	067-2220418	Batticaloa Road, Kalmunai
Pothuvil	063-4925557	063-4925557	Main Street, Pothuvil
Saindamarathu	067-4923744	067-2225366	No. 209, Main Street, Saindamarudu 09
Samanthurai	067-4923976	067-2261394	Opposite Hiraj Jummah Mosque, Ampara Road, Samanthurai
Chenkaladi	065-2054263	065-2054265	Opposite Market Complex, Main Road, Chenkaladi
North Western Province			
Chilaw	032-4929638	032-2224725	No. 1/40 A, Colombo Road, Chilaw
Kuliyapitiya	037-4931076	037-4696319	No. 12, Main Street, Kuliyapitiya
Kurunegala	037-4690464	037-4690138	No. 21, Athula Cooray Building, Dambulla Road, Kurunegala
Kurunegala City	037-4936670	037-2233550	No. 118 A, Colombo Road, Kurunegala
Puttalam	032-4928789	032-2266939	No. 10, Kurunegala Road, Puttalam
Wennappuwa	031-4931437	031-4874754	No. 134, Main Street, Wennappuwa
Kurunegala Premier Centre	037-22223411/ 2411	037-2229696	No. 103/A, Colombo Road, Kurunegala
Madawachchiya	025-2245302	025-2245303	No. 26, Kandy Road, Madawachchiya

Branch	Contact Number	Fax Number	Address
North Central Province			
Anuradhapura	025-4926029	025-4580943	No. 137, Main Street, Anuradhapura
Anuradhapura City	025-4927367	025-2226759	No. 514/A, New Town, Anuradhapura
Polonnaruwa	027-4926599	027-4599119	Rajarata Building, Main Street, Kaduruwela, Polonnaruwa
Thambuththegama	025-4928717	025-2275567	No. 256, New Town, Thambuththegama
Sabaragamuwa Province			
Kegalle	035-4932339/41	035-4932339	No. 315, Main Street, Kegalle
Balangoda	045-4932546/7/8	045-4640000	No. 19, Rest House Approach Road, Balangoda
Embilipitiya	047-4924424	047-2261990	No. 43, Main Street, Embilipitiya
Ratnapura	045-4641010	045-4641013	No. 49, Senanayaka Mawatha, Ratnapura
Warakapola	035-2267267	035-2267788	No. 92, Main Street, Warakapola
Southern Province			
Ambalangoda	091 4382588/ 091 4933948	091-4382590	No. 96/2, Galle Road, Ambalangoda
Akuressa	041-2283559	041-2283560	No. 83, Deniyaya Road, Akuressa
Elpitiya	091-4941658	091-2290419	No. 14, Main Street, Elpitiya
Galle	091- 4385065	091-4381644	No. 150, Main Street, Galle.
Matara	041-4390847/8	041-4390849	No. 13, Station Road, Matara
Tissamaharama	047-4931676	047-2237360	No. 06, Mahajana Junction, Tissamaharama
Matara City	041-2224496	041-2228666	No. 282, Anagarika Dharmapala Mawatha, Matara
Pitigala	091-4935445	091-4935445	No. 87, Main Street, Pitigala
Tangalle	041-2241750	041-2241751	No. 66, Tissa Road, Tangalle
Neluwa	091-3096960	091-3096950	No. 2, HV Building, Dellawa Road, Neluwa
Northern Province			
Vavuniya	024-4925127	024-2226043	No. 32B, 2nd Cross Street, Vavuniya
Kilinochchi	021-4923362	021-2285349	Opposite Kandasamy Kovil, Kandy Road, Kilinochchi
Chavakachcheri	021-4923361	021-2270623	No. 136, Kandy Road, Chavakachcheri
Jaffna	021-4920310	021-2220249	No. 440, Hospital Road, Jaffna
Nelliady	021-4923358	021-2262923	No. 10, Point-Pedro Road, Nelliady
Manipay	021-4923356	021-2255523	No. 110, Jaffna Road, Manipay
Chunnakam	021-4920331	021-2241334	No. 55, K. K. S. Road, Chunnakam
Uva Province			
Badulla	055-4 499523/ 4 499744,	055-2231964	No. 26, Anagarika Dharmapala Mawatha, Badulla
Badulla II	055-4927888	055-2231964	No. 55, Lower Street, Badulla
Bandarawela	057-4926386	057-2225424	No. 187, Main Street Bandarawela
Welimada	057-4926081	057-4926082	No. 51/A, Nuwara Eliya Road, Welimada
Moneragala	055-4927685	055-4927891	100, Near New Bus Stand, Moneragala
Mahiyanganaya	055-4927701	055-4927702	No. 56, Edwin Wikkramarathna Super Market, New Town, Mahiyanganaya

GOLD LOAN CENTRES

Branch	Contact Number	Address
Western Province		
Gold Loan Center	Contact Number	Address
Attidiya	011-4339633	No. 269, Main Road, Attidiya, Dehiwala
Aluth Mawatha	011-4343878	No 367/1, Aluth Mawatha, Colombo 15
Bandaragama	038-2289425	No. 4, Panadura Road, Bandaragama
Beruwala	034-4288369	No. 175, Galle Road, Beruwala
Borella	011-4614440	No. 54, D S Senenayake Mw, Col 08
Deans Road	011-4374656	No. 133, Deans Road, Maradana
Dehiwala II	011-4366502	No. 124, Galle Road, Dehiwala
Dematagoda	011-4610963	No. 551, Dematagoda Road, Colombo 9
Elakanda	011-4347464	No. 18, Elakanda Road, Hendala, Wattala
Golumadama	011-4340420	No. 05, Kaldemulla Road , Moratuwa
Grandpass-Stadium	011-4335105	No. 395, Grandpass Road, Colombo 14
Grandpass-Sulaiman	011-4619866	No. 47, Grandpass Road, Colombo 14
Gothatuwa	011-4348649	No. 52/17, Gothatuwa, New Town
Hulftsdorp	011-4340496	No 04, Hulftsdorp St, Colombo 12
Jampettah	011-4014668	No. 66, Jampettah Street, Colombo 13
Kelaniya	011-4814050	No. 722, Waragoda Road, Vihara Junction, Kelaniya
Keselwatte	038-4281885	No. 18, Galle Road, Keselwatte, Panadura
Kirulapone	011-4512759	No. 91, High Level Road, Colombo 6
Kiribathgoda (Makola)	011-4380252	No. 44, Makola Road, Kiribathgoda
Kolonnawa	011-4376746	No. 141 A, Kolonnawa Road, Kolonnawa
Kosgashandiya	011-4613210	No. 21, St. Josephs Street, Grandpass, Colombo 14
Madampitiya	011-4334700	No. 343, Madampitiya Road, Col 14
Maligawatta	011-4367623	No. 157/D , New Pradeepa Road, Maligawatta, Colombo 10
Mattakkuliya	011-4614107	No. 7D/2, Sri Wickrama Mawatha, Mattakkuliya, Colombo 15
Modara	011-4615670	No. 81, Modara Street, Colombo 15
Negombo II	031-4936331	No. 356, Main Street, Negombo
Nittambuwa	033-4934107	No. 597/1B, Kandy Road, Nittambuwa
Ragama	011-4967388	No. 640, Tewatte Road, Ragama
Slave Island	011-4736824	No. 135, Malay Street, Colombo 2
Sri Sangaraja Mw	011-4380288	No. 259, Sangaraja Mawatha, Colombo 10
Thihariya	033-4678082	No. 117, Kandy Road, Thihariya
Thotalanga	011-4366686	No. 284, Nagalagam Street, Colombo 14
Maharagama II	011-4300350	No. 69, Dehiwala Road, Maharagama
Wattala	011-4378087	No. 5B, Hunupitiya Station Road, Wattala
Wellawatte	011-4527435	No. 224 , Galle Road, Wellawatte, Colombo 6
Ganemulla	033-2265866	No. 229/1, Kadawatha Road, Ganemulla
Narahenpita	011-2369108	No. 239, Kirula Road, Narahenpita

LIST OF ABBREVIATIONS

AFS	Available for Sale	JCE	Joint Control Entity
AGM	Annual General Meeting	KMP	Key Management Personnel
ALCO	Assets and Liabilities Committee	KPIs	Key Performance Indicators
AML	Anti Money Laundering	KRIs	Key Risk Indicators
ASPI	All Share Price Index	L & R	Loans and Receivables
ATM	Automated Teller Machine	LBF	L B Finance PLC
AWDR	Average Weighted Deposit Rate	LCB	Licensed Commercial Bank
AWFDR	Average Weighted Fixed Deposit Rate	LFC	Licensed Finance Company
AWPR	Average Weighted Prime Lending Rate	LKAS	Lanka Accounting Standards
BN	Billion	LKR	Sri Lankan Rupees
BOD	Board of Directors	LSB	Licensed Specialised Bank
BPO	Business Process Outsource	LTV	Loan to Value
BPTS	Basis Points	MN	Million
CAGR	Compounded Annual Growth Rate	MOU	Memorandum of Understanding
CAR	Capital Adequacy Ratio	MRMR	Monthly Risk Management and Reporting
CBSL	Central Bank of Sri Lanka	NBFI	Non Bank Financial Institutions
CDS	Central Depository System	NBT	Nation Building Tax
CFO	Chief Financial Officer	NII	Net Interest Income
CGU	Cash Generating Unit	NIM	Net Interest Margin
CRO	Chief Risk Officer	NPL	Non-Performing Loans
CSE	Colombo Stock Exchange	OCI	Other Comprehensive Income
CSR	Corporate Social Responsibility	PAT	Profit after Tax
EIR	Effective Interest Rate	PAYE	Pay As You Earn
EPF	Employees' Provident Fund	PDC	Product Development Committee
EPS	Earnings per Share	PER	Price Earnings Ratio
ESC	Economic Service Charge	PLC	Public Limited Company
ETF	Employees' Trust Fund	RMD	Risk Management Department
FVtPL	Fair Value through Profit or Loss	ROA	Return on Assets
GDP	Gross Domestic Product	ROE	Return on Equity
GRI	Global Reporting Initiatives	SBU's	Strategic Business Units
HFT	Held for Trading	SEC	Securities and Exchange Commission of Sri Lanka
HODs	Head of Departments	SLC	Specialised Leasing Company
HP	Hire Purchase	SLAS	Sri Lanka Accounting Standards
HTM	Held to Maturity	SLFRS	Sri Lanka Financial Reporting Standards
ICASL	The Institute of Chartered Accountants of Sri Lanka	SLIPS	Sri Lanka Inter-Bank Payment System
IFA	Investment Fund Account	SME	Small and Medium Enterprises
IFRS	International Financial Reporting Standard	VAT	Value Added Tax
IRMC	Integrated Risk Management Committee	WHT	Withholding Tax
IRMU	Integrated Risk Management Unit		
IT	Information Technology		

INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY



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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF LB FINANCE PLC ON THE INTEGRATED REPORT- 2013/14

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 Integrated Report - 2013/14 ("the Report"):

- Reasonable assurance on the information on financial performance as specified on page 40 of the Report
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core 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 G4 '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 sustaining 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 G4 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with our engagement letter dated 16 May 2014. 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
- Reviewing and validation of the information contained in the Report
- Checking the calculations performed by the company on a sample basis through recalculation

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva FCA W R H Fernando FCA FCMA W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

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- Reconciling and agreeing the data on financial performance are properly derived from the company's audited financial statements for the year ended 31 March 2014
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core 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 40 of the Report are properly derived from the audited financial statements of the Company for the years ending 31 March 2013 and 31 March 2014.
- 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 GRI-G4-'In accordance' Core Sustainability Reporting Guidelines.



Chartered Accountants

29th May 2014

Colombo

GRI CONTENT INDEX - IN ACCORDANCE WITH CORE CRITERIA

General Standard Disclosures

	Description	Page Number (or Link)	External Assurance
Strategy and Analysis			
G4-1	Statement from the most senior decision maker of the organisation	8-11	✓
Organisation Profile			
G4-3	Name of the Organisation	Inner Back Cover	✓
G4-4	Primary Brands, Products and/or Services	49	✓
G4-5	Location of Organisation's Headquarters	Inner Back Cover	✓
G4-6	Number of countries where the Organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	4	✓
G4-7	Nature of ownership and legal form	Inner Back Cover	✓
G4-8	Markets served	54	✓
G4-9	Scale of the Reporting Organisation	6 - 7	✓
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender	57-59	✓
G4-11	Percentage of employees covered by collective bargaining agreements	55	✓
G4-12	Organisation's supply chain	65	✓
G4-13	Significant changes during the reporting period regarding size, structure, ownership or supply chain	4	✓
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	118-136	✓
G4-15	Externally developed economic, environmental and social charters and principles, or other initiatives to which the organisation subscribes or endorses	82-112	✓
G4-16	Memberships in associations and/or national/international advocacy organisations	82-112	✓
Identified Material Aspects and Boundaries			
G4-17	Organisation's entities covered by the Report and entities not covered by the Report	4	✓
G4-18	Process for Defining Report Content and the Aspect Boundaries	4	✓
G4-19	Material Aspects identified for Report Content	28-29	✓
G4-20	Aspect Boundary for identified Material Aspects within the organisation	28-29	✓
G4-21	Aspect Boundary for identified Material Aspects outside the organisation	28-29	✓
G4-22	Explanation of the effect of any re-statement of information provided in earlier reports and the reason for such re-statement	4	✓
G4-23	Significant changes from previous reporting periods in the Scope, Aspect boundaries in the Report	4	✓
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the Organisation	25	✓
G4-25	Basis for identification and selection of stakeholders with whom to engage	25-27	✓
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	26-27	✓
G4-27	Key topics and concerns raised through stakeholders engagement and how the Organisation responded to them	26-27	✓

	Description	Page Number (or Link)	External Assurance
Report Profile			
G4-28	Reporting period	4	✓
G4-29	Date of most recent previous report	4	✓
G4-30	Reporting cycle	4	✓
G4-31	Contact point for questions regarding the Report or its Contents	4	✓
G4-32	Compliance with GRI G4 Guidelines, GRI Content Index and the External Assurance Report	224-229	✓
G4-33	Policy and current practice with regard to seeking external assurance for the Report	224-225	✓
Governance			
G4-34	Governance Structure of the Organisation, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts	83	✓
Ethics and Integrity			
G4-56	The values, principles, standards and norms of behaviour	2, 42	✓
CATEGORY: ECONOMIC			
MATERIAL ASPECT: ECONOMIC PERFORMANCE			
G4-DMA		30-31	✓
G4-EC1	Direct economic value generated, distributed and retained	40	✓
G4-EC3	Coverage of the organisation's defined benefit plan obligations	146, 189	✓
G4-EC4	Financial assistance received from Government	66, 169	✓
MATERIAL ASPECT: MARKET PRESENCE			
G4-DMA		30-31	✓
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	63	✓
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	60	✓
MATERIAL ASPECT: INDIRECT ECONOMIC IMPACT			
G4-DMA		30-31	✓
G4-EC8	Significant indirect economic impacts, including the extent of impacts	69	✓
CATEGORY: ENVIRONMENT			
MATERIAL ASPECT: ENERGY			
G4-DMA		30-31	✓
G4-EN1	Materials used by weight or volume	71	✓
G4-EN3	Energy consumption within the organisation	70-71	✓
G4-EN5	Energy intensity	70	✓

	Description	Page Number (or Link)	External Assurance
MATERIAL ASPECT: WATER			
G4-DMA		30-31	✓
G4-EN8	Total water withdrawal by source	70	✓
MATERIAL ASPECT: EMISSIONS			
G4-DMA		30-31	✓
G4-EN15	Direct Greenhouse Gas (GHG) emissions (Scope 1)	70	✓
G4-EN16	Energy Indirect Greenhouse Gas (GHG) emissions (Scope 2)	70	✓
MATERIAL ASPECT: EFFLUENTS AND WASTE			
G4-DMA		30-31	✓
G4-EN23	Total weight of waste by type and disposal method	70-71	✓
CATEGORY: SOCIAL			
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK			
MATERIAL ASPECT: EMPLOYMENT			
G4-DMA		30-31	✓
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	58	✓
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	62	✓
G4-LA3	Return to work and retention rates after parental leave, by gender.	64	✓
MATERIAL ASPECT: TRAINING AND EDUCATION			
G4-DMA		30-31	✓
G4-LA9	Average hours of training per year per employee by gender, and by employee category	60	✓
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	61	✓
MATERIAL ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN			
G4-DMA		30-31	✓
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	64	✓
MATERIAL ASPECT: LABOUR PRACTICES AND GRIEVANCE MECHANISMS			
G4-DMA		30-31	✓
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	64	✓
SUB-CATEGORY: HUMAN RIGHTS			
MATERIAL ASPECT: CHILD LABOUR			
G4-DMA		30-31	✓
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	64	✓

	Description	Page Number (or Link)	External Assurance
MATERIAL ASPECT:			
FORCED OR COMPULSORY LABOUR			
G4-DMA		30-31	✓
G4-HR6	Operations and significant suppliers identified as having significant risk of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	64	✓
SUB-CATEGORY: SOCIETY			
MATERIAL ASPECT: LOCAL COMMUNITIES			
G4-DMA		30-31	✓
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	67-69	✓
MATERIAL ASPECT: ANTI-CORRUPTION			
G4-DMA		30-31	✓
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	124	✓
MATERIAL ASPECT: COMPLIANCE			
G4-DMA		30-31	✓
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	66	✓
SUB-CATEGORY: PRODUCT RESPONSIBILITY			
MATERIAL ASPECT:			
PRODUCT AND SERVICE LABELLING			
G4-DMA		30-31	✓
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	55-56	✓
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes	55-56	✓
G4-PR5	Results of surveys measuring customer satisfaction	55	✓
MATERIAL ASPECT: MARKETING COMMUNICATIONS			
G4-DMA		30-31	✓
G4-PR6	Sale of banned or disputed products	55	✓
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	56	✓
MATERIAL ASPECT: CUSTOMER PRIVACY			
G4-DMA		30-31	✓
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	56	✓
MATERIAL ASPECT: COMPLIANCE			
G4-DMA		30-31	✓
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	56	✓

GLOSSARY OF TERMS

A

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.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Available for Sale

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.

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.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at balance sheet date where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

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.

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.

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.

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 divided 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.

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.

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 the 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 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

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**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

Individual Impairment

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

Intangible Asset

An intangible asset is 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.

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.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily.

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 Statements.

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

The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.

NPL Ratio

Total non-performing loans as a percentage of the total lending portfolio.

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.

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)

Profit after tax for the year expressed as a percentage of average total assets; indicates overall effectiveness in generating profits with available assets.

Return on Equity (ROE)

Profit after tax for the year, less dividends on preference shares, if any, expressed as a percentage of average shareholders' funds/equity.

Risk Weighted Assets

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

Repurchase Agreement (Repo)

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

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.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty-First (41st) Annual General Meeting of L B Finance PLC will be held at No. 20, Dharmapala Mawatha, Colombo 3 on Monday, 30th June 2014 at 12.00 noon for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended 31st March 2014 and the Report of the Auditors thereon.
2. To declare a Dividend as recommended by the Directors.
3. To re-elect Mrs. Shirani Jayasekara in terms of Articles 85 and 86 of the Articles of Association, as a Director of the Company.
4. To reappoint Messrs Ernst & Young, Chartered Accountants, the retiring Auditors and to authorise the Directors to determine their remuneration.
5. To authorise the Directors to determine donations for the year ending 31st March 2015 and up to the date of the next Annual General Meeting.

By Order of the Board,
L B Finance PLC



P W Corporate Secretarial (Pvt) Ltd.

Director/Secretaries

At Colombo

30th May 2014

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on behalf of him/her.
2. A proxy need not be a shareholder of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Corporate Office of the Company, No. 20, Dharmapala Mawatha, Colombo 3 by 12.00 noon on 28th June 2014.

FORM OF PROXY

I/We* of

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

- | | |
|--|------------------|
| Mr. Thosapala Hewage | or failing him* |
| Mr. Dhammika Perera | or failing him* |
| Mr. Lalit Nihal de Silva Wijeyeratne | or failing him* |
| Mr. John Anthony Sunil Sumith Adhihetty | or failing him* |
| Mr. Wannakuwattewaduge Don Nimal Hemasiri Perera | or failing him* |
| Mr. Niroshan Udage | or failing him* |
| Mr. Biyawalage Dudley Auburn Perera | or failing him* |
| Mrs. Kimarli Fernando | or failing her * |
| Mrs. Shirani Jayasekara | or failing her |
| Mrs. Anandhiy Krisnajina Gunawardhana | |

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-First (41st) Annual General Meeting of the Company to be held on 30th June 2014 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To receive and consider the Report of the Directors and the Statement of Accounts for the year ended 31st March 2014 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mrs Shirani Jayasekara who retires by rotation in terms of Articles 85 and 86 of the Articles of Association, as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint Messrs Ernst & Young, Chartered Accountants the retiring Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors to determine donations for the year ending 31st March 2015 up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....
 Signature of Shareholder

**Please delete what is inapplicable.*

INSTRUCTIONS FOR COMPLETION

1. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her Attorney duly authorised in writing or if such appointer is a company/corporation, either under its Common Seal, or under the hand of an Officer/s or Attorney duly authorised in terms of the Articles of Association /Statute.
2. In the case of a proxy signed by an Attorney, the original Power of Attorney must be deposited at the Office of the Secretaries, P W Corporate Secretarial (Pvt) Ltd., No. 3/17, Kynsey Road, Colombo 8 by 12.00 noon on 28th June 2014 for registration.
3. In perfecting the Form of Proxy please ensure that all details are legible.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your proxy please insert the relevant details in the space provided.
5. Please indicate with an X in the space provided how your proxy is to vote on the resolution. If no indication is given, the proxy in the discretion will vote as he thinks fit.
6. To be valid, this Form of Proxy must be deposited at the Corporate Office, No. 20, Dharmapala Mawatha, Colombo 3, by 12.00 noon on 28th June 2014.

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 listed on the Colombo Stock Exchange in January, 1998 and re-registered as per the Companies Act No. 7 of 2007 on 6th June 2008.

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

A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

STOCK EXCHANGE LISTING

30th December 1997

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

Providing finance leases, hire-purchase, vehicle loans, mortgage loans, fixed deposits, savings deposits, Islamic finance, margin trading, gold loans, factoring, power draft, money transfers, utility payment and micro finance.

REGISTERED OFFICE

No. 275/75, OPA Building,
Prof. Stanley Wijesundara Mawatha, Colombo 07.
Tel: 011-4521000
Fax: 011-5345327

CORPORATE OFFICE

No. 20, Dharmapala Mawatha, Colombo 03
Tel: 011-2155000
Fax: 011-2575098

DISTRIBUTION CHANNELS

Branches - 97
Gold Loan Centres - 37

WEBSITE

www.lbfinance.com

FINANCIAL YEAR END

31st March

CREDIT RATING

A-/P2 (stable) RAM Ratings (Lanka) Limited

BOARD OF DIRECTORS AND SUB-COMMITTEES

BOARD OF DIRECTORS

Mr. Thosapala Hewage (*Chairman*)
Mr. K D Dhammika Perera (*Executive Deputy Chairman*)
Mr. Lalit N de S Wijeyeratne
(*Independent Non-Executive Director*)
Mr. J A S Sumith Adhihetty (*Managing Director*)
Mr. W D Nirmal H Perera (*Executive Director*)
Mr. Niroschan Udage (*Executive Director*)
Mr. B D A Perera (*Executive Director*)
Mrs. Kimarli Fernando
(*Independent Non-Executive Director*)
Mrs. Shirani Jayasekara
(*Independent Non-Executive Director*)
Mrs. Anandhiy K Gunawardhana
(*Independent Non-Executive Director*)

AUDIT COMMITTEE

Mr. Lalit N de S Wijeyeratne (*Chairman*)
Mrs. Shirani Jayasekara
Mrs. Anandhiy K Gunawardhana

REMUNERATION COMMITTEE

Mr. Thosapala Hewage (*Chairman*)
Mr. N L de S Wijeyeratne
Mrs. Kimarli Fernando

NOMINATION COMMITTEE

Mr. L N de S Wijeyeratne (*Chairman*)
Mrs. Kimarli Fernando
Mr. J A S Sumith Adhihetty

INTEGRATED RISK MANAGEMENT COMMITTEE

Mrs. Shirani Jayasekara (*Chairperson*)
Mrs. Kimarli Fernando
Mr. J A S Sumith Adhihetty
Mr. Niroschan Udage
Mr. B D A Perera

SECRETARIES

P W Corporate Secretarial (Pvt) Limited
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 Ford Rhodes Thornton & Company

BANKERS

Bank of Ceylon
Commercial Bank of Ceylon PLC
Hatton National Bank PLC
NDB Bank PLC
Nations Trust Bank PLC
Pan Asia Banking Corporation PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC
Union Bank of Colombo PLC



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This is an Integrated Annual Report

This L B Finance PLC annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.



L B Finance PLC

No. 275/75, OPA Building,

Prof. Stanley Wijesundara Mawatha, Colombo 07, Sri Lanka.

www.lbfinance.com