







If we were to put our 'reason for being' into three words it would read-sustainable value creation. This is the ethos that has driven our every strategy and endeavour on behalf of the entire stakeholder community. Delivering true sustainability and value to the community across the gamut of their aspirations and endeavours is what we are all about...through the past...the present and the future.

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Letter from the Acting Chairperson

“As a socially-oriented Company, we not only seek economic value for ourselves, although this is paramount for us to be a going concern; we also endeavour to build mutually rewarding sustainable relationships with all our stakeholders and create value for the society and environment.”

Kimarli Fernando
Acting Chairperson

Managing Director's review

“Our lending portfolio grew by 27.87 percent due to our predominant customer focussed approach coupled with aggressive marketing campaigns.”

Sumith Adhithetty
Managing Director

Business model

The triumphs LBF achieved in economic, social and environmental fronts are the outcome of the successful execution of a set of well-thought-out strategies with the efforts of a dedicated team. This chapter provides a comprehensive analysis of the Company's business model and how it affects the stakeholders.

Management discussion and analysis

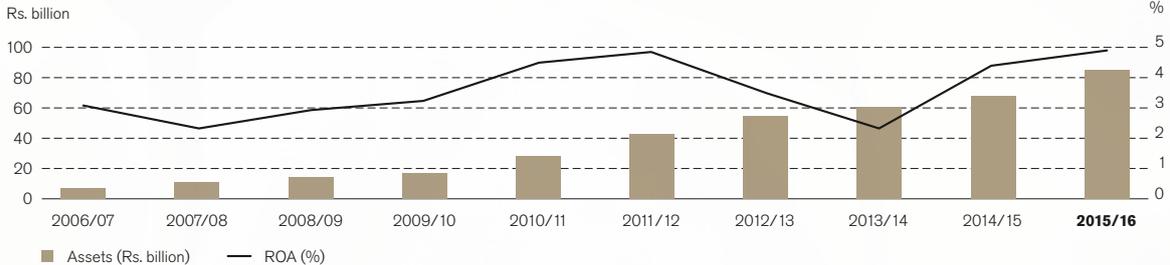
The word capital in the context of integrated reporting and the triple bottom line has moved far beyond its original meaning which was restricted to financial capital. Indeed the fact that the word is now used in the plural rather than the singular indicates the wider meaning it has taken on. In this section, how LBF derived and delivered value through the identified capitals is discussed in detail.

Why LBF?

Because ...

LBF is a financial institution with 45 years of learning and experience and an excellent understanding of the Sri Lankan customer as a result. With this institutionalised knowledge, LBF is uniquely placed to serve the varied aspirations and expectations of all its stakeholders. Its unblemished track record of conducting business with the highest degree of ethics and integrity has earned the respect and confidence of investors and customers alike.

Asset base and ROA



Because ...

LBF has a well-thought-out strategy and all the plans, programmes and products are executed according to this strategy. LBF constantly keeps scanning the environment for opportunities and threats so the strategies are based on a bedrock of understanding the realities and constraints within which the Company has to operate.

Because ...

LBF has a team of passionate, committed and motivated employees whom the Company is constantly training and developing. LBF employees are rewarded fairly for the contributions they make so they spare no pains in their efforts to keep the customers delighted. They also are a team who work in unison towards achieving the organisational goals.

Because ...

LBF is always at the cutting edge of technology and deploy it to offer unparalleled and unprecedented levels of convenience to the stakeholders, customers and employees in particular. It adds value to the products and services and the manner they are made available to the customers as well as the efficiency and effectiveness of their delivery.

Because ...

LBF has a team of professionals with financial acumen to prudently manage the investments of the stakeholders therein. Besides complying with all the regulatory requirements in the spirit of good governance, it has built necessary and adequate safeguards against downturns and any other challenges the environment may bring upon.

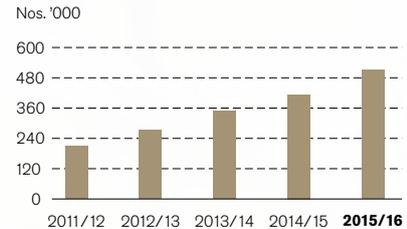
Because ...

LBF has a widespread network of branches and Gold Loan centres which is constantly expanding. It is an asset that only a few financial institutions in the country can boast of and has enabled LBF to build lasting relationships with the local communities, besides doing business.

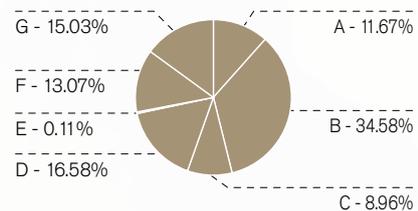
Because ...

LBF is constantly innovating and developing new products and services and channels of delivering them to keep up with the changing needs of the times and the expectations of the customers. This has enabled LBF to keep ahead of the pack.

Growth in customer base



Economic value distributed 2015/16



- A - To employees
- B - To depositors and lenders
- C - Payments to providers of capital
- D - Payments to Government
- E - To community
- F - Operating costs
- G - Economic value retained within the business

Highlights of the year

Financial highlights G4-9

Item		2015/16	2014/15	Change %
OPERATING RESULTS				
Income	Rs. million	15,646.46	14,787.75	5.81
Interest income	Rs. million	14,428.72	13,687.07	5.42
Net interest income	Rs. million	8,655.47	7,737.57	11.86
Profit before taxation (PBT)	Rs. million	5,324.61	3,331.85	59.81
Income tax expense	Rs. million	1,606.82	1,149.72	39.76
Profit after taxation (PAT)	Rs. million	3,717.79	2,182.12	70.37
Gross dividend	Rs. million	1,038.85	692.57	50.00
FINANCIAL POSITION				
Total assets	Rs. million	84,516.63	67,542.51	25.13
Lending portfolio	Rs. million	71,554.00	55,958.27	27.87
Deposits	Rs. million	53,379.80	45,430.55	17.50
Borrowings	Rs. million	17,178.51	11,232.84	52.93
Shareholders' funds	Rs. million	10,479.31	7,927.09	32.20
SHARE INFORMATION				
Market price per share	Rs.	106.10	150.20	(29.36)
Market capitalisation	Rs. million	14,696.36	10,402.42	41.28
Net asset value per share*	Rs.	75.66	57.23	32.20
Earning per share (EPS)*	Rs.	26.84	15.75	70.41
Price earning ratio (P/E)*	Times	3.95	9.53	(58.55)
Dividend per share (DPS)	Rs.	7.50	10.00	(25.00)
Dividend cover	Times	3.58	3.15	13.65
Dividend yield	%	7.07	6.66	6.16
Dividend payout ratio	%	27.94	31.74	(11.97)
STATUTORY RATIOS				
Core capital to risk-weighted assets ratio (Tier I)	%	16.84	16.02	5.12
Total risk-weighted capital ratio (Tier I & II)	%	18.81	19.70	(4.52)
Equity to deposits	%	19.63	17.45	12.50
Liquid assets to total assets	%	11.83	11.96	(1.09)
Liquid assets to deposits	%	18.73	17.78	5.34
OTHER RATIOS				
Return on assets (ROA)	%	4.89	3.40	43.82
Return on equity (ROE)	%	40.40	30.88	30.83
Interest spread	%	11.09	11.55	(3.98)
Interest cover	Times	1.92	1.56	23.08
Net interest margin (NIM)	%	12.17	12.67	(3.95)
Loan to deposits	%	134.05	123.17	8.83
Equity to assets	%	12.40	11.74	5.62
Debt to equity ratio	Times	6.73	7.15	(5.87)
Non-performing loans ratio (NPL)	%	3.28	5.15	(36.31)

*Ratios revised according to the share split in 2015/16



Success story



L B Finance PLC (LBF) is a Licensed Finance Company incorporated in 1971. At inception its majority shareholder was Lewis Brown & Company Limited, until in 1994 a controlling interest of the Company was acquired by Vanik Incorporation Limited. In 2003, the iconic entrepreneur Mr. Dhammika Perera, took over the Company and turned it around to be the vibrant and leading finance company that it is today.

While the Company had always lived up to its mantra as the place ‘where solutions begin,’ this slogan took on greater significance after 2003. LBF, focused on a well-rounded operational transformation that would help the Company better serve the economy while satisfying the financial needs of its customers.

The prudence of these strategic choices is obvious to this day. With the guidance of LBF’s management the Company has recorded another excellent performance, topping all previous achievements.

During the year, the Company placed emphasis on growing market share further by expanding its business volumes. As a result, LBF continued to maintain faster-than-average industry growth in its lending portfolio – a feat that it has achieved consistently for the past several years.

The growth in business volumes contributed to improved profitability. In addition, LBF paid special attention to improving asset quality. This in turn led to a lower overall risk profile and lower impairment charges.

Simultaneously, the Company accelerated technology-based innovations and developed new business lines. These initiatives coupled with its customer centric approach improved LBF’s overall effectiveness of delivery in all its financial services.

Consequently, among many other remarkable achievements, the Company was able to sustain its growth and record its best ever performance in 2015/16.

Non-financial highlights

Indicator		2015/16	2014/15
MANUFACTURED CAPITAL			
Total outlets	Number	146	135
Total branches	Number	110	100
Total gold loan centres	Number	36	35
New outlets opened	Number	11	3
INTELLECTUAL CAPITAL			
Brand value (LMD)	Rs. million	4,121	4,090
Brand ranking (LMD)	Number	26	26
HUMAN CAPITAL			
Total workforce	Number	2,744	2,401
New employees hired	Number	1,036	891
Employment opportunities created	Number	343	267
Employee attrition	Number	693	624
Employees who completed 20 years of service	Number	14	16
Training programmes conducted	Number	65	154
Investment in training and development	Rs. million	11.18	3.23
Training hours	Number	30,647	15,692
Average hours of training per employee	Number	11.17	6.54
Volunteer hours spent	Number	2,094	1,753
Value distribution to employees	Rs. million	1,826.37	1,512.78
Incidents of child labour (below age 16)	Number	Nil	Nil
Incidents of young workers (aged 16-18)	Number	Nil	Nil
Incidents of forced labour	Number	Nil	Nil
SOCIAL AND RELATIONSHIP CAPITAL			
Economic value added	Rs. million	3,097.60	3,208.11
Value distribution to society via Government	Rs. million	2,593.28	1,291.45
Community development programmes	Number	33	32
Investment on community development programs	Rs. million	4.99	4.15
Significant fines for violation of laws and regulations	Rs. million	Nil	Nil
Customer solutions	Number	26	25
Lending customers	Number	310,560	261,530
Deposit customers	Number	199,692	146,547
Incidents of non compliance with regulations in marketing communication	Number	Nil	Nil
Significant fines for product/service issues	Rs. million	Nil	Nil
Value distribution to investors	Rs. million	1402.49	1053.82
NATURAL CAPITAL			
Environment related projects	Number	21	20
Water consumption	m ³	28,559	23,887
Water consumption per Rs. million of revenue	m ³	1.83	1.62
Trees planted/distributed	Number	1,667	324
Trees saved from recycling	Number	545	160
Paper consumption	kg	137,255	109,706
Paper recycled	kg	32,065	9,336
E-Waste recycled	kg	247	318
Energy consumption	GJ	22,470	19,135
Energy per Rs. million of revenue	GJ	1.44	1.29
Total carbon footprint	tCO ₂ e	2,717.38	2,343
Total carbon footprint per Rs. million of revenue	tCO ₂ e	1.69	2.04
Significant environmental fines	Rs. million	Nil	Nil



Manufactured capital



4 New IT modules

Invested
Rs. 59.24 million
on IT development

9
New
branches
opened



Intellectual capital

Ranked **26th** in
Sri Lanka



Rs. 4,121 million
Brand value

Complied with
ISO 27001 : 2013
Information security standard

Human capital



343 New employment
opportunities

2,744 Total no. of
employees

30,647
Employee
training hours



No. of
promotions
309

Total cost for training
Rs. 11.18 million

Social & relationship capital



Rs. 17.27 million
Sustainability cost
62 initiatives

Rs. 14.69 billion
Market capitalisation



26
Financial
solutions



Natural capital

2,717 tCO₂e
Carbon footprint

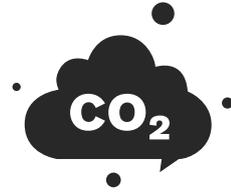
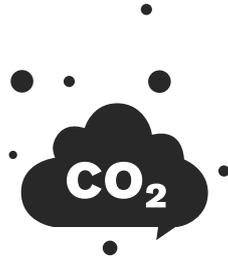
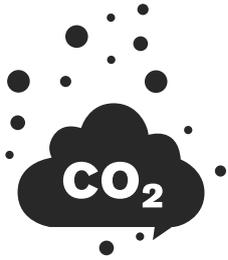


32,065 Kg
Waste paper recycled



1,667
Trees planted

Our journey towards carbon neutrality



Carbon footprint
2,006.07 tCO₂e

Carbon footprint
2,343.09 tCO₂e

Introduced Environmental Management Policy

Joined hands with Sri Lanka Carbon Fund

Carried out energy audits with assistance from Sri Lanka Carbon Fund

Identified the importance of carbon footprint

Became the first carbon conscious finance company in Sri Lanka

Promoting the importance of knowing the carbon footprint



2012/13

2013/14

2014/15



Neutralised carbon footprint
2,717.38 tCO₂e

Became the first carbon
neutral financial institution in
Sri Lanka

Implemented a Carbon
Management Policy



Reduce greenhouse gas
emission and maintain
neutral status

Self-generate
carbon credit

Introduce the first
carbon neutral product



Letter from the Acting Chairperson

We are excited and energised, yet we will not rest on our laurels. We will remain vigilant and search for bold new ways for growth and value creation. In fact, we have more things in our to-do-list for the next few years than what we have implemented in the recent past. Implementation of these initiatives will undoubtedly make us more accommodating and relevant to the stakeholders and intensify our growth further. I invite all the stakeholders to engage with us and share in our success.



It is with a great deal of satisfaction that I report to you on the financial year 2015/16. The previous year was a landmark for us as we crossed the milestone of a net profit of Rs. 2 billion. This year, despite a lacklustre global economy and only a modest growth in the Sri Lankan economy, we have been able to improve greatly on our achievement and cross the milestone of Rs. 3 billion in profits with a net profit of Rs. 3.71 billion. This demonstrates our ability to face whatever challenges the environment may bring and excel in spite of them. Our success can be attributed to the fact that we keep a watchful eye for whatever opportunities and threats that are on the horizon and formulate our strategies accordingly, and craft our operational plans and programmes aligned with these strategies.

I am honoured to chair this great corporate from now onwards.

Our profit before tax for the year reached Rs. 5,324.61 million and profit after tax a very impressive Rs. 3, 717.79 million, the latter being about 70 percent above the previous year's figure. Another significant achievement was the improvement in asset quality which was a subject for concern in 2014/15. By stringent monitoring and controls I am happy to say that we have been able to reverse the deteriorating trend. Our prudent financial management is demonstrated by our capital adequacy ratios which we have been able to maintain at very satisfactory levels, well above the minimum required, which gives us sufficient leeway for business expansion and stability in case of downturns.

Our strategies are focused on value creation with a broader application. As a socially-oriented Company, we not only seek economic value for ourselves, although this is paramount for us to be a going concern; we also endeavour to build mutually rewarding sustainable relationships with all our stakeholders and create value for the society and environment. In fact, the virtue of our stakeholder orientation complements our mission of value creation. We incorporate such considerations in all our initiatives and activities. We fervently believe that by concentrating on the broad spectrum of values, we will generate long-term value for ourselves. Some of our products and services span many aspects of value. For instance, our Islamic Financing products while generating financial value foster social inclusiveness; our microfinancing and micro-leasing products promote financial inclusiveness for the less-privileged.

Our network of outlets is ever widening, reaching out to the rural hinterlands of our country. It is our policy to build relationships with the communities within which we operate. In this way, we get closer to our customers, are able to identify their needs and are able to serve them better, tailoring our products and services to their exact requirements.

Our employees are our standard-bearers. It is they who have to interact with our customers closely, project our image to them and convince them that we are attuned to their needs. We give utmost importance to, and are willing to spend generously in training and developing them. The importance we give to information technology is one of our competitive edges. By being at the cutting edges of technology, and automating whatever processes possible, we free our employees from routine number and document crunching, leaving them free to concentrate on serving our customers better.

We could not have accomplished so much without your support and dedication.

On behalf of the Board of Directors' I wish to thank all our stakeholders for the tremendous contribution they made to the results we have achieved in 2015/16 – employees for their dedication, passion and commitment, customers for their relationships and loyalty, investors for their continued confidence in us and regulators and Government authorities for their guidance. I want to express my deepest appreciation to Mr. Sumith Adihetty, the Managing Director and the Executive Directors for the leadership and guidance they have provided. We rely on your continued support and co-operation. Finally I would like to express my gratitude to my fellow Directors for the contributions they have made to Board deliberations during the year and wish to acknowledge with gratitude the yeoman service of the outgoing Chairman Mr. Thosapala Hewage.

We are excited and energised, yet we will not rest on our laurels. We will remain vigilant and search for bold new ways for growth and value creation. In fact, we have more things in our to-do-list for the next few years than what we have implemented in the recent past. Implementation of these initiatives will undoubtedly make us more accommodating and relevant to the stakeholders and intensify our growth further. I invite all the stakeholders to engage with us and share in our success.



A handwritten signature in black ink that reads "Kimarli Fernando".

Kimarli Fernando
Acting Chairperson – 30th May 2016

Managing Director's review



We are continuously focused on delighting our customers and we spare no pains in this regard. We consider providing training and all other support necessary to our employees and motivating them as paramount so that they will be able to fulfil our customer needs. We need to continuously innovate to be able to expand and grow.

As we approach our 45th anniversary we can look back with satisfaction on four and a half decades of achievement, growth and learning. Our current year's performance is exemplary and once again we have exceeded our previous year's results. We continue to focus on our customer needs and keep pace with the changing needs of the market. We also continue to care for all our stakeholders ensuring long-term sustainability for ourselves.

OPERATING ENVIRONMENT

The operating environment during the year provides context for a meaningful review of our performance.

The global economy achieved only a modest growth of 2.9 percent in 2015. Weak growth or recession in the emerging economies was the principal cause. Among the BRICS countries, India remained the only bright spot. Emerging economies particularly were affected by depressed commodity prices and reduced trade and capital flows. Gold too did not perform too well, though there was a recovery in the second half of the year.

The Sri Lankan economy too was subdued, recording a growth of only 4.8 percent. This was mainly due to the disappointing performance of exports; however political uncertainties in the wake of two elections during the year also contributed. Delays in moving forward with major infrastructure projects also had a dampening effect. The Central Bank maintained a rather relaxed monetary policy on the whole, while attempting to stabilise inflation. The environment was conducive to expansion of credit to the private sector. The balance of payments weakened despite falling oil prices, and there was consequent depreciation of the Rupee. Depressed prices for the plantation crops badly affected some of our customers, particularly in the smallholder sector.

Despite volatile market conditions, the Financial sector proved resilient. Prudential regulatory measures were also introduced which strengthened the risk management and the public confidence in the sector. Implementation of Liquidity Coverage Ratio under Basel III Liquidity Standards for licensed banks and a maximum loan-to-value ratio of 70 percent in respect of loans and advances granted for the purpose of purchase or utilisation of motor vehicles by banks and LFCs and SLCs were some of the measures. Overall the sector showed an increase in profitability as well as an improvement in asset quality.

STRATEGY

Our predominant strategy for the year was to concentrate on customer focus and customer satisfaction. This has meant staying abreast of market trends and understanding customer needs. We also pay a great deal of attention to training and motivating our employees to go beyond merely satisfying our customer. We do not stint on training and internal or external training is provided as necessary. While we are doing excellently in attracting new customers, it was a challenge in retaining the existing ones.



PERFORMANCE G4-1

Despite the lacklustre environment, I am pleased to report that we were able to overcome the challenges and record an impressive performance and end the year in a healthy financial state. We achieved a profit before tax of Rs. 5,324.61 million and profit after tax of Rs. 3,717.79 million compared with Rs. 3,331.85 million and Rs. 2,182.12 million the previous year. A combination of expanding volumes and decreasing impairment drove a strong top line; simultaneously we were able to rein in expenses growth resulting in a healthy bottom line.

Despite declining interest rates, we were able to notch a growth of 5.42 percent in interest income. Somewhat disparate results were witnessed in net interest income and net interest margin.

Our total assets reached Rs. 84.51 billion which was an increase of 25.13 percent over the previous year. Our lending portfolio grew by 27.87 percent due to our predominant customer focussed approach coupled with aggressive marketing campaigns. While fixed deposits continued to be the main source of funds, recording a growth of 17.50 percent during the year to reach Rs. 53.37 billion. Our results in this product line are highly commendable in view of the attractive interest rates offered by commercial banks to senior citizens. We are however continuing our policy of diversifying our deposit base and expensing our savings deposits, which are a low cost source of funding.

Despite certain adverse circumstances, we were successful in significantly improving our asset quality during the year as evinced by improved NPL ratio to 3.28 percent. This was as a result of stringent evaluation and monitoring of lending portfolio.

CAPITAL MANAGEMENT

Our capital adequacy is a measure of our ability to withstand fluctuations in business and the reduction of vulnerability. We have been able to maintain capital adequacy ratios well above the Central Bank's minimum requirements. As at 31st March 2016, we had a core capital ratio of 16.86 percent and total risk weighted capital ratio of 18.83 percent.

STAKEHOLDER CENTRICITY

We are continuously focused on delighting our customers and we spare no pains in this regard. We consider providing training and all other support necessary to our employees and motivating them as paramount so that they will be able to fulfil our customer needs. We need to continuously innovate to be able to expand and grow. In expanding our products and services we continue to pay attention not only to short-term commercial considerations but to make a contribution to society, especially to bridging income disparities. We continue to engage with our wide circle of stakeholders to deliver long-term value, including aspects such as the environment.

OUTLOOK

We can look forward to a more rapid growth in the Sri Lankan economy in the coming year with more confidence in policies and large scale projects taking off. While interest rates may keep rising we do not anticipate any drastic movements so that we will be fairly assured of a stable environment. With our focus on customer centricity we can expect to ride with the wave reaping enhances returns for ourselves and value for our stakeholders. I am confident that we will have all support and commitment from our employees to capitalise on whatever opportunities the coming year will bring.

APPRECIATIONS

I respectfully acknowledge the contribution made by each and every stakeholder enabling us to report the best ever performance in 2015/16. Without your support, we would not have been able to do so.

I am grateful to the outgoing Chairman Mr. Thosapala Hewage for the valuable advice and guidance provided. While welcoming the acting Chairperson Ms. Kimarli Fernando, I would like to thank her and my colleagues on the Board for their guidance and contribution. A special word of appreciation goes to Mr. Dhammika Perera for the confidence placed in me and the support extended.

I appreciate the contribution of the Executive Directors, Mr. Niroshan Udage and Mr. March Perera. I sincerely thank our talented management team and each and every other member of staff for the wonderful commitment to and diligent execution of strategy.

I would like to express my gratitude to the customers and investors for their loyalty and confidence placed in the Company. You placed us in this pre-eminent position we are in today.

In conclusion, I would like to assure all the stakeholders that we would commit ourselves to create more and more value for you.

Sumith Adhihetty
Managing Director – 30th May 2016

About this Report

THE FOURTH INTEGRATED REPORT G4-15

Integrated Reporting, stemming from integrated thinking is inherent to Company's culture and so tends to reflect integrated thinking in the Company's operations. LBF spearheads the industry with its integrated thinking besides promoting the concept to its stakeholders. Institutional knowledge gained during-45-year operation of the Company has today placed LBF in a strong position in being able to formulate its resources in catering better to stakeholder expectations. As such, LBF exploits its so gained knowledge repository to demonstrating the Company's commitment in meeting criteria of both Integrated Reporting and Global Reporting Initiative (GRI) Standards.

All the parameters, guidelines, frameworks and best practices mentioned below, have greatly assisted LBF in its quest for value creation by bridging Sustainability Reporting with the Company's responsibility in Integrated Reporting. As such, L B Finance PLC is of the view that such a focus would spin-off benefits of enhanced transparency towards its stakeholders, especially so with the Company's outlook and its performance. Following the parameters towards being a carbon neutral organisation, LBF has focused its efforts in restricting its Annual Report to be both concise whilst being comprehensive simultaneously, with meaningful disclosures offered to its stakeholders. A shift in emphasis from previous conventional printed versions of the Annual Report to web based soft versions, has helped LBF to greatly reduce on resource utilisation.

The culture of LBF incorporates inclusiveness in order to maximise on the participation of all stakeholder categories. In meeting this objective, the Company has on this occasion, recognised the visual and hearing handicapped stakeholders by introducing a sign language video clip with a supplementary Braille page to this Annual Report. This video clip can be found on the Company's sustainability website. The Company believes that sharing uncompromised information with its stakeholders, sans any restrictions, would be its key to success in a social, economic and environmental context. This leads LBF to use its Annual Report as a primary tool in information communicated to its valued stakeholders. Being focused on LBF's materiality to

the Company's inputs, outputs and outcomes, the Company has focused its attention in providing relevant information, specific to its stakeholders.

The Company's website – www.lbfinance.com contains the Annual Report besides information on sustainability initiatives of the Company. Any additional information could also be sourced directly by stakeholders from the already disclosed public affairs contacts found on [page 15](#).

CAPITALS IN VALUE CREATION

A capital is stocks of value on which the Company depends for their success as inputs to their business model and which are increased, decreased or transformed through its business activities and outputs has recognised six such capitals, guided by the IIRC framework. They are financial, manufacturing, intellectual, human, social and relationship beside natural.

Further, comprehensive discussions on the duality of value creation along with the delivered and derived components takes place under each of the aforementioned capitals.

Through identified capitals, relevant economic, political, social, technological, regulatory and environmental factors are taken into account in the Company's approach towards reporting on responsible operation.

REPORTING PERIOD G4-28, 30

The Annual Report 2015/16 of L B Finance PLC reports for the 12 month period from 1st April 2015 to 31st March 2016. This period is consistent with the Company's usual annual reporting cycle for both financial and sustainability reporting.

DETERMINING MATERIALITY

In relation to social, economic and environmental aspects, the intention of the Company's Report is to provide a balanced, accurate and accessible information to our stakeholders with regards to organisational strategy, performance and output. In doing so, the Company discloses both qualitative and quantitative information to its stakeholders. Such disclosures focus on how materiality impacts the Company's function besides including discussions on financial, governance and risk related aspects, which impacts the integrated value creation and strategic planning at LBF.

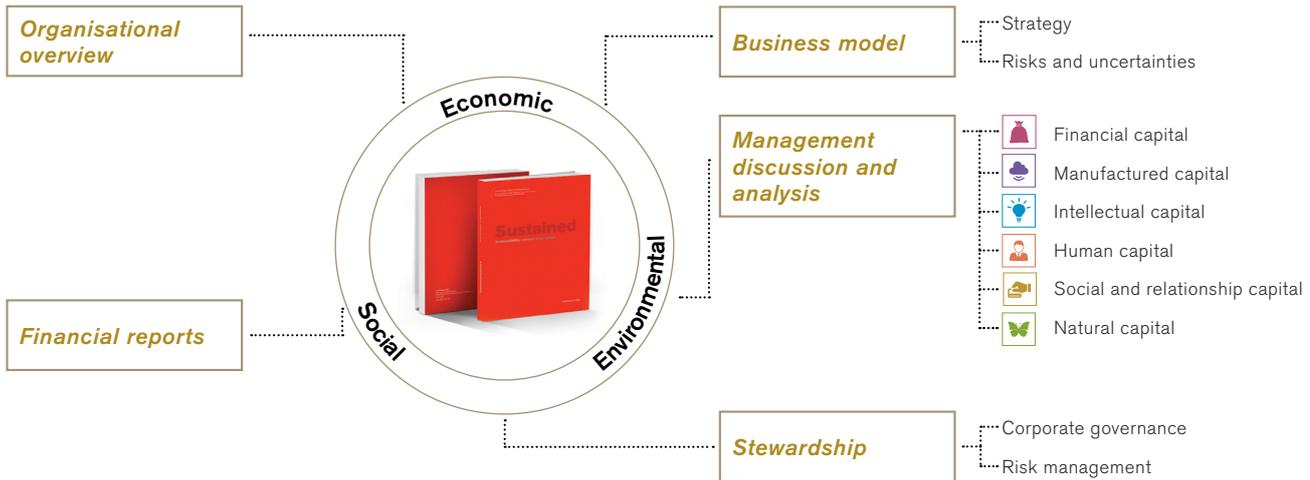


THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA



- International Integrated Reporting Framework
- Global Reporting Initiative
- A Preparers' Guide to Integrated Reporting issued by The Institute of Chartered Accountants Sri Lanka
- AccountAbility - AA1000 SES

G4-15, G4-28 G4-30	G4-17, G4-22, G4-23 G4-29, G4-31, G4-32 G4-33	
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REPORTING SCOPE AND BOUNDARIES  G4-17

The information content in this Report relates to the operations of LBF. For the purpose of reporting, the Company does not have any subsidiaries, associates, joint ventures, overseas operations or other businesses. The Company's shareholding structure, operations and its geographical presence are disclosed on pages [18](#) and [22](#) respectively.

REPORTING PRINCIPLE AND EXTERNAL ASSURANCE  G4-32, 33

The Company's Report is aligned with the requirements of GRI G4 Sustainability Guidelines and prepared in accordance with the requirements for a 'comprehensive' application level. For further details on the Company's activities and the extent of adherence specified on GRI G4, refer to the GRI content index found on [page 308](#). The credibility of the contents of the Company's Report has been externally assured by Messrs Ernst & Young. The Assurance Report can be found on [page 306](#).

COMPLIANCE

LBF is compliant with all applicable laws, regulations, standards and guidelines for voluntary disclosures in the Company's conduct of its operations.

Accordingly, financial statements audited by Messrs Ernst & Young have been prepared in accordance with Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) promulgated by The Institute of Chartered Accountants of Sri Lanka. These financial statements are also in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

In addition, the Company has complied with the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance (2013) issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission (SEC).

RESTATEMENTS AND SIGNIFICANT CHANGES FROM THE PREVIOUS REPORT AND DATE OF MOST RECENT PREVIOUS REPORT  G4-22, 23, 29

The Company's most recent report was for the financial year 2014/15. There have not been any changes in reporting scope and/or boundaries from the previous year and the Company has restated, wherever necessary, 2014/15 numbers and statements to conform to the current year's presentations. The Company changed GRI 'core' to 'comprehensive' application level.

FEEDBACK & FURTHER INFORMATION AND SUGGESTIONS  G4-31

LBF has strived to respond to your comments and suggestions received during the previous financial year, and welcome your comments and suggestions on this Report.

YOU MAY CONTACT

The Treasury Department
L B Finance PLC
Corporate Office
No. 20, Dharmapala Mawatha
Colombo 3

Email : treasury@lbfinance.lk
Tel : 011 2155000
Fax : 011 2575096

Organisational overview



LBF's 'Education 1st' is a programme that allows to invest meaningfully in the future of our country – helping students to gain the skills and knowledge they will need to build productive livelihoods in an ever changing world.

Here's just one aspect of what our investment can provide – a seminar for 800 'GCE O/L' students from the Matale District.

700
Students

Monaragala
district
2013/14

800
Students

Polonnaruwa
district
2014/15

800
Students

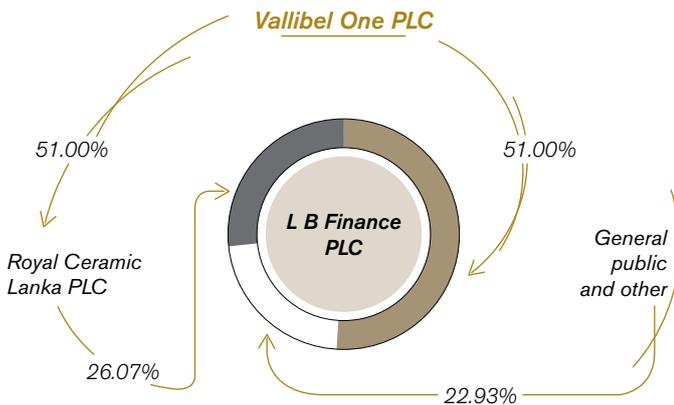
Matale district
2015/16







Shareholding structure G4-7



L B Finance PLC is a subsidiary of Vallibel One PLC which directly has a 51 percent stake in the Company. Vallibel One is a diversified conglomerate which has interests in financial services, tiles, sanitaryware and the leisure industry. In 2011, Vallibel One expanded its business interests by acquiring L B Finance PLC, Royal Ceramics Lanka PLC and Greener Water Limited, as subsidiary companies, besides acquiring stakes in Sampath Bank PLC and Waskaduwa Beach Resort. In addition to its direct holding of 51 percent in L B Finance, Vallibel One also has an indirect holding of 13.29 percent through Royal Ceramics Lanka PLC, giving it an effective holding of 64.29 percent in LBF. The Company itself does not have any subsidiary or associate companies.

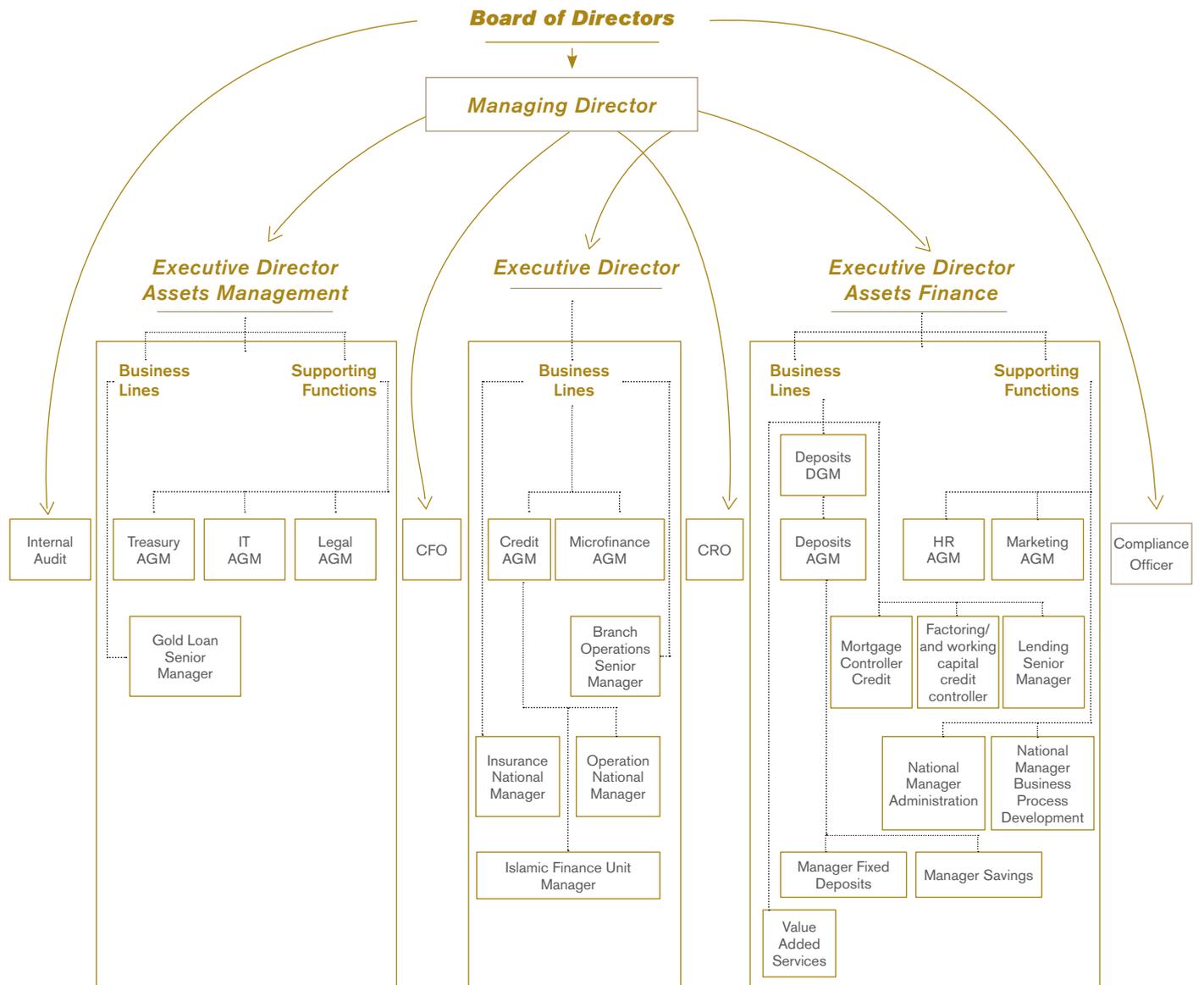
Main business activities and business segments

L B Finance PLC is a leading player in the LFCs/SLCs sector in Sri Lanka engaged in financial intermediation, primarily by mobilising funds by way of deposits and lending such funds to those who are in need of funds. With a history of 45 years behind it, the Company today offers a comprehensive array of financial products and services to individuals of all walks of life and to corporates of all shapes and sizes. It is constantly innovating itself and seeking to extend the boundaries of its operations to promote sustainability and inclusiveness. Deposits as the primary source of funding comes from fixed and savings deposits which is transformed into a spectrum of financing products that include leasing, hire purchase, gold loans, vehicle loans, mortgage loans, factoring, other working capital solutions and Islamic finance. While generating a return for itself through these activities, the Company fosters social inclusiveness, builds lasting relationships with communities and takes care of the environment, the bedrock of sustainability.

The Company's managing structure is on the basis of product lines. There are three broad categories of product lines namely, financing, investing and value added services, each of which is headed by a member of the corporate management team.

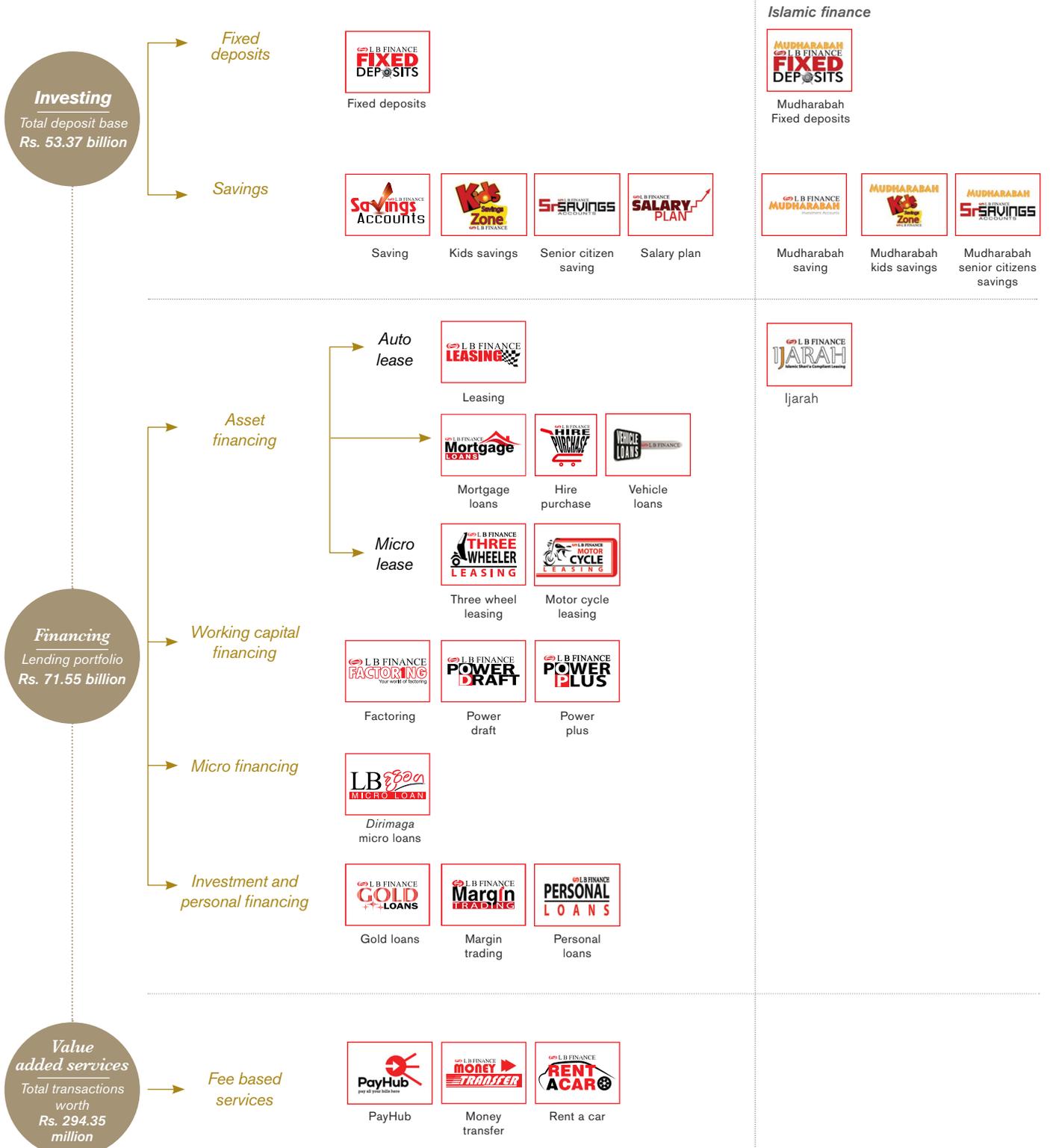


Managing structure



Key products and services

PRODUCT PORTFOLIO





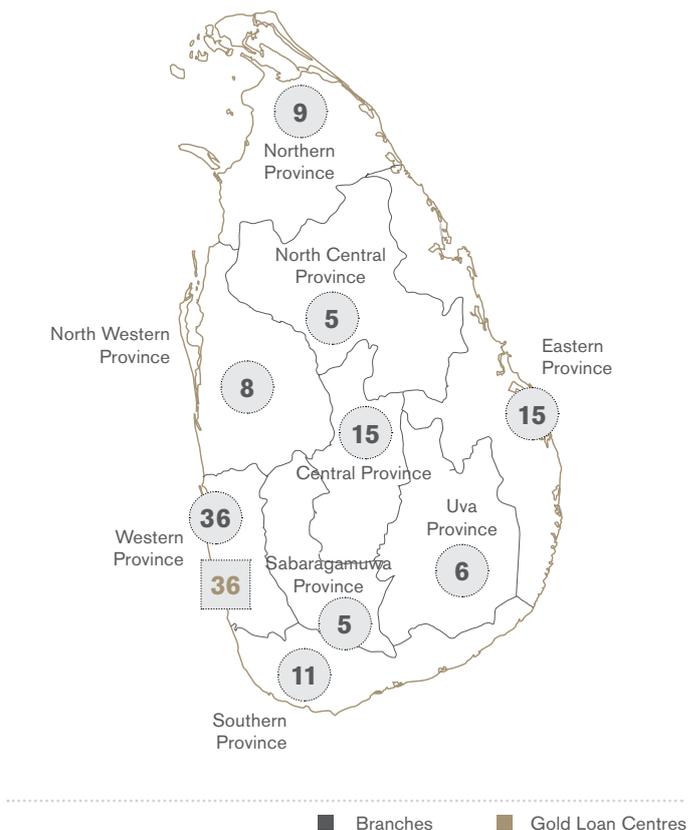
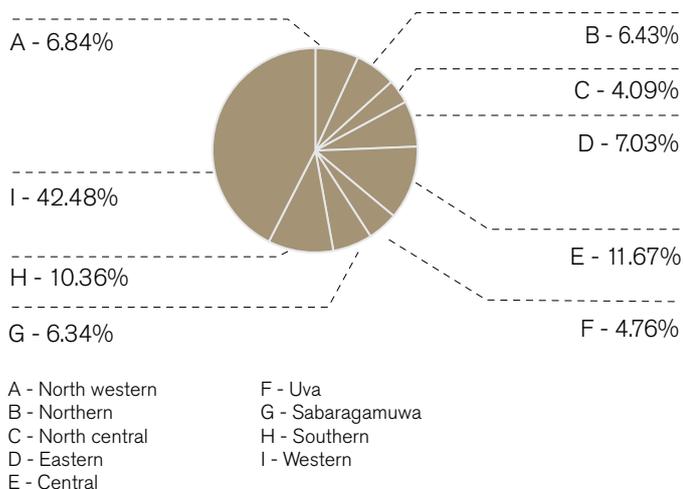
Product	Description	Key highlights	Focused stakeholder group
Fixed deposits	Fixed deposits secure higher interest rates with a range of tenures It offers an array of attractive benefits during seasonal campaigns	Fixed deposit base of Rs. 50.59 billion	Individuals (Minor, non-senior and senior citizens), Corporates
Savings deposits	'Benefits without boundaries' became the tagline to reflect the unlimited benefits offered to the customers. LBF offers four different products Kid's savings – A unique savings account that paves the path of the next generation Regular savings – A rewarding way to start saving with multiple benefits Senior citizen savings – Tailor-made account for senior citizens with privileged services and benefits Salary Plan – A perfect saving scheme for the salaried, self-employed and professionals	Second largest savings base in LFC sector 6,838 VISA shopping cards issued in 2015/16	
Mudharabah	A common equity-based Islamic mode of investment for fixed deposits and savings	Rs. 469 million deposit base	
Asset financing	Auto lease included leasing services which provides flexible financial solutions Micro lease became more popular with three wheeler leasing and motor cycle leasing which includes total hassle-free leasing service to finance the customer's choice. Vehicle loans help to finance your dream vehicle with flexible structures Mortgage loans help build your dream with convenience of providing facilities on flexible terms for longer repayment periods Ijarah asset financing complied with Shariah principles	Auto lease portfolio grew by 83.67 percent Micro lease portfolio grew by 20.35 percent Mortgage loan customers grew by 53.21 percent	Individuals, SMEs, Corporates
Working capital financing	Factoring allows a smooth cash flow giving the opportunity to innovate and develop business Power draft facility is a power solution for working capital requirements Power plus improves the daily funding requirements for smooth operation	Power draft customers grew by 144.09 percent	Individuals, SMEs, Corporates
Microfinancing	Dirimaga micro loan is for all fields of micro entrepreneurs to take the business to the next level	Number of customers grew by 181.93 percent	Individuals, SMEs
Investment and personal financing	Gold loans provide best value for gold at competitive interest rates for your urgent cash requirements Margin trading service is a flexible financial tool, which provides leverage for stock market investors, to grow the share portfolio Personal loans uniquely designed to suit various requirements for upgrading lifestyles	Gold loan portfolio grew by 26.55 percent	Individuals
	PayHub customers can pay utility bills anytime with convenience, and real time payment update Money Transfer web based remittance product supported by the latest technology	Number of PayHub transactions grew by 113.23 percent	Individuals
	Rent-a-car is a quick way to satisfy customers' travelling needs	Increased the fleet up to 27 vehicles	Individuals

Markets served  **G4-6, 8, FS-13**

The Company conducts its operations only in Sri Lanka. Equipped with a 45 years of experience and learning, as at 31st March 2016 the Company provided services through a network of 110 branches including head office and corporate office and 36 gold loan centres. With this wide network LBF can reach customers in all regions of Sri Lanka. Not being content with this LBF is continually seeking to further widen its geographical reach within the bounds of viability. This is demonstrated by opening of nine new branches and two new gold loan centres during the year.

LBF's customers include corporates, SMEs and individuals for whom the Company has crafted a wide range of fit for purpose financial solutions.

Total number of customers by province



Sustainability - key business strategy

SUSTAINABILITY PHILOSOPHY

LBF's 'reason for being', concisely expressed, is sustainable value creation. The Company's corporate social responsibility initiative was rebranded as L B Sustainability during the previous year. This signified a quantum leap in LBF's strategy and value-generation process. The Company has developed a systematic process of identifying its stakeholders' needs and aspirations and engaging with them. This has been the driving force behind LBF's corporate strategy and resulting policies have enabled the delivery of value to them to the maximum extent possible within the constraints the Company is faced with.

With LBF's focus on sustainability, the Company believes that corporates must be part of the solution to socioeconomic problems; but to attain this objective, corporates will have to change. LBF cannot function with a myopic mindset of business as usual anymore. The Company can no longer afford to concentrate merely on short-term profitability but instead must endeavour to achieve sustainable and well-balanced growth in all facets of value. While generating profits LBF has to ensure that operations generate lasting relationships with the society while helping to preserve the environment. Though this might entail some sacrifice in short-term profitability it will enable LBF to maintain and enhance profitability and build a loyal following of stakeholders in the long-term. LBF's innovative strategies,

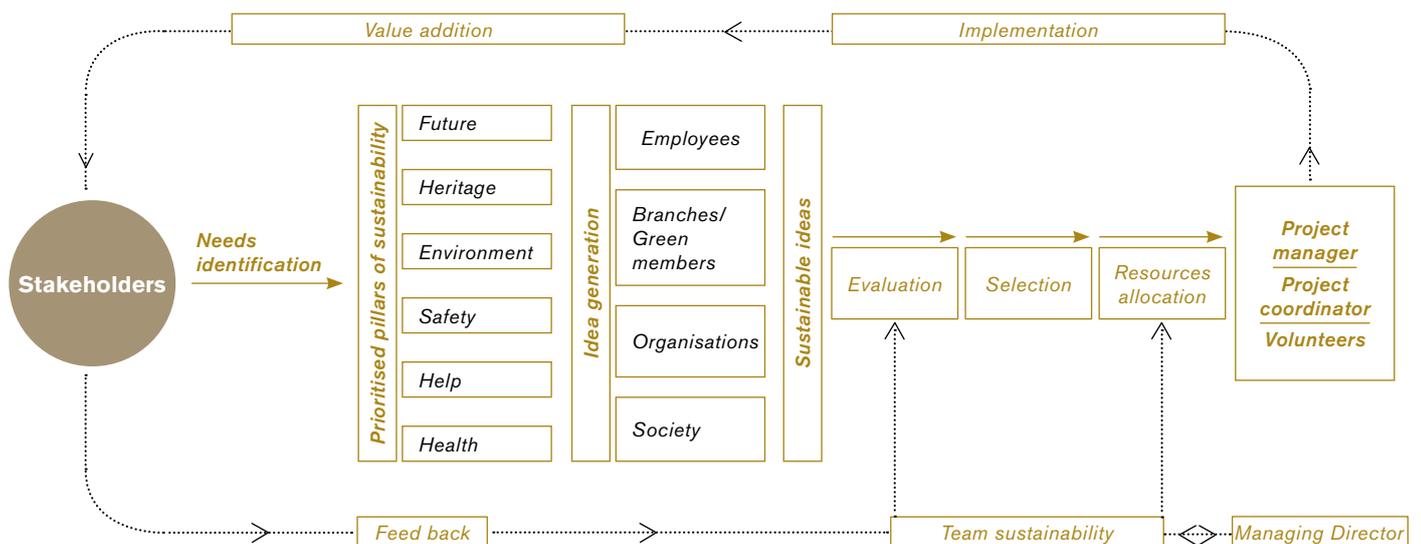
however, enabled the creation of win-win situations where LBF has been able to generate profits while contributing to the society and environment.

SUSTAINABILITY FRAMEWORK [G4-35, 36](#)

LBF needed a practical framework to implement a sustainability strategy of moving beyond a narrow commercial focus and generating and sustaining social, economic and environmental social value. To fulfil this need LBF conceptualised six sustainability pillars, namely Environmental, Future, Health, Help, Heritage and Safety. These pillars are the foundation on which LBF's strategies and operations rest, and based on this the Company has formulated a sustainability model.

APPROACH TO SUSTAINABILITY [G4-37, 47, 48, 49, 50](#)

LBF's sustainability approach is based on identifying the requirements and aspirations of its stakeholders and formulating approaches to satisfy them. The sustainability pillars mentioned above are integrated into employee volunteer activities, branches, internal clubs and societies. From the Company's perspective, to execute the strategy, a separate sustainability team has been formed. This team takes responsibility for deciding on sustainability initiatives, formulating projects, allocating resources and project follow-up. The Team Sustainability, under the guidance of the senior management, takes the Company along the sustainability path and to a future of balanced value creation.



All information on sustainability presented in the Report is approved by the Directors of the Company. Comprehensive review of the accuracy in each aspect of economic, social and environmental is carried out when necessary and is disclosed in the Annual Report.

Critical concerns on economic, social and environmental aspects are communicated to the Directors of the Sustainability Committee as and when necessary. A mechanism on keeping records on critical concerns communicated is currently being developed.

Sustainability activities of the Company have been divided among six themes in order to better focus on each aspect in providing benefits to LBF stakeholders.

Below mentioned are the themes under which the Team Sustainability carries out its activities:

Environment	Future	Health	Help	Heritage	Safety
Company focuses on improving the awareness of the need to preserve the environment and to take positive actions. Environmental initiatives are categorised into two broad segments, namely workplace and community, for which the Company takes efforts to promote sustainable development.	Improve and facilitate the children of the country for their betterment in terms of education, sports and values while empowering the younger generation to have a sustainable education.	LBF's health first programmes are common to internal and external stakeholders. The Company invests 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 helps to derive value for the Company.	LBF's help first culture believes helping others should be a natural extension of every business leader's responsibility. The Company invests in this category in order to support every aspect of the society, for those which are considered as important for sustainable development in the country.	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.	LBF's safety first culture ensures that risks are identified and addressed swiftly and decisively. The Company invests in safety training to ensure that employees can handle any situation with the utmost professionalism. Nothing is more important to LBF than the safety of employees and all external stakeholders, and LBF's initiatives are testament to that commitment.



SUSTAINABILITY INITIATIVES DURING THE YEAR G4-EN31, EC7

The list given below gives a good indication of the diversity and broad reach of LBF's sustainability activities. It also is a tribute to the lengths to which Team Sustainability has gone to identify activities which will generate social and environmental value. The activities are selected based on the materiality of various social, economic and environmental aspects and their impact on the Company's activities.

Project	Initiative	Area	No. of volunteers	No. of volunteering hours spent	Infrastructure investment Rs.	Service Rs.	Engagement type (Commercial, Pro bono, In-kind)
<i>Environment</i>							
Wildlife Conservation	Notice boards at National Parks	Udawalawe, Minneriya, Wilpattu, Wasgamuwa, Bundala	10	92	1,468,603		Pro bono/in-kind
	Outfits for Wildlife officers in National Parks	Ritigala, Horagolla, Wasgamuwa, Angamadilla, Haggala, Galway	20	144		273,352	In-kind
City Beautification	Construction of water fountain	Colombo	5	30	5,514,172		Pro bono/in-kind
Explore Sri Lanka	Photography competition among employees	All Island	14	128		1,384,132	Pro bono/in-kind
Zero Carbon company	Carbon Neutrality	All Island	7	158		549,483	Pro bono



Project	Initiative	Area	No. of volunteers	No. of volunteering hours spent	Infrastructure investment Rs.	Service Rs.	Engagement type (Commercial, Pro bono, In-kind)
Clean Beach	Beach cleaning projects	Panadura, Negombo	56	263		90,170	Pro bono
Plant a tree Plant a hope	Plant distribution project	Colombo, Matara, Kurunegala, Bandarwela, Dambulla, Trincomalee, Tangalle	91	353		332,911	In-kind
Environment sustainability	Public awareness	Colombo	5	23	2,508,820		Pro bono/in-kind
	Sustainability pledge	Colombo	9	50		21,422	Pro bono
	Training and seminars	Colombo	-	-		34,515	In-kind
	Other programmes	Colombo	8	102		15,922	Pro bono/in-kind
<i>Future</i>							
Education and sports	Ordinary level examination seminar series	Matale	8	183		636,915	Pro bono/in-kind
	Computer donations	Kinniya, Chilaw	8	16	53,531		Pro bono/in-kind
	Sponsorship of children's education programmes	Colombo, Matara, Ambalangoda, Akuressa	25	73		294,389	In-kind
	Sponsorship of children's sports event	Kurunegala, Kottawa, Dehiattakandiya	21	172		659,156	In-kind
	Other sponsorships	Jaffna, Mahawa, Maharagama, Beruwala	12	30		451,797	In-kind
<i>Health</i>							
Walking club	Health awareness seminars	Colombo	-	-		3,600	Pro bono/in-kind
Health screening	Health screening for employees	Colombo	16	65		12,654	Pro bono/in-kind
<i>Help</i>							
Helping community	Supply of clean water	Kinniya, Kalawanchikudy	-	-	146,000		Pro bono/in-kind
	Blood donation campaigns	Colombo, Tangalle	23	92		110,638	Pro bono/in-kind
	Provided lenses to National Eye Hospital	Colombo	5	15		2,006,323	In-kind
	Sponsoring for programmes, sports events	Gampaha	4	10		181,342	Pro bono/in-kind
	Seminars and public awareness programmes	Madampe	16	64		281,362	Pro bono/in-kind
	Other contributions	Polonnaruwa, Anuradhapura, Colombo	10	25		135,100	In-kind
LB Abimana	Recognition of contributions to the society	Colombo	-	-		41,600	In-kind
<i>Safety</i>							
Employee safety	Safety awareness seminars and workshops	Colombo	2	6		68,466	Pro bono/in-kind
	Total		375	2,094	9,691,126	7,585,251	

A strategy driven corporate...ten years and more of sustainable growth

2005

Enhancing volumes

LBF's strategic focus in 2005 was on increasing business volumes, as the Company believed that it would be able to build on this to achieve sustained growth in the future. During the 15 months ended 31st March 2005 LBF's top line surged to Rs. 779 million, a sharp growth of 44 percent, while the bottom line increased from Rs. 45 million, to Rs. 48 million. Total advances ballooned to Rs. 3,730 million while deposit base increased by 30 percent to surpass Rs. 2,600 million.

2006

Sustaining growth

During 2006, LBF adopted strategies to consolidate the successes of the previous year and adopted strategies to sustain the growth. The total advances maintained a growth rate of 41 percent while the Company's deposit base grew by 28 percent. Gross income reflected the growth momentum with an increase of 17 percent and net profit rose by 59 percent.

2007

Improving portfolio quality

During 2007 LBF's strategy was to improve the quality of the lending portfolio. Successful measures were taken to re-engineer internal processes especially on recoveries, credit and portfolio management, bringing results in terms of a year-on-year drop of Rs. 11 million in our non-performing advances balance for 2007, a reduction of 4 percent. The NPL ratio too was curtailed to 4.83 percent from 7.59 percent, in the previous year.

2016

Customer centric

LBF's strategy for 2016 is based on customers. The Company strives constantly to place the customer at the heart of its strategy. LBF expects to further broaden and deepen its involvement in getting closer to the customer, identifying their unmet needs and developing innovative products, thereby creating more value for the Company and for all its stakeholders alike. Plans have been drawn up to further diversify into new business sectors thereby exploiting new and underserved market segments.

2015

Volume driven

In 2015, LBF shifted its 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, this strategy has paid off handsomely securing the largest deposit base and the third largest asset base among all LFCs in Sri Lanka as at 31st March 2015.

2014

Being responsive

LBF's strategy for 2014 was based on becoming closer to stakeholders in identifying their needs and addressing them, thus differentiating LBF from competitors. As stakeholder relationships become deeper and as LBF is more able to place itself in the shoes of stakeholders, the Company is able to add more value to products and services, as the Company perfects the art of responsiveness and integrates it into all aspects of business operations in mastering a lean business model.

2017

Strengthening client relationships

A company driven by the pursuit of noble values fortifying its foundations is evolving to meet change. 2017 strategic initiatives are driven by the shared focuses of 'customer perspective', 'technology-driven approach', and 'productivity improvements'.

'Customer perspective' is considered paramount at LBF's strategy development process in driving the core business from strength to strength, satisfying stakeholders' desires with tailor-made solutions.

'Technology-driven approach' urges LBF to lead lifestyle changes through technological

advancements and accelerate innovations in technology and business lines.

'Productivity improvements' is LBF's commitment to boosting competitiveness and put forth a range of innovative financial products thus improving the effectiveness of the financial service.

2008***Exploring opportunities***

Diversification into new business sectors and exploiting new and underserved market segments were the main facets of LBF's strategies in 2008. LBF focused on expanding gold loans and microfinancing segments and plans implemented resulted in a massive 89 percent growth in gold loans advances to Rs.1.170 billion.

2009***Strengthening business fundamentals***

LBF faced serious challenges due to the economic environment during this year. A measured growth tempered by tight internal control measures helped in facing these challenges. A rigidly controlled strict policy, especially in the areas of credit, administration and risk management, helped to remove non-value adding activities and focus on the strategic direction.

2010***Aggressively expanding reach***

In 2010, LBF took advantage of new opportunities opened up by the end of the conflict, to expand our operations into formerly conflict ridden areas. LBF expanded lending and deposit operations with six new branches across the country, of which three were located in the former war-torn areas of Batticaloa, Trincomalee and Ampara. Rising to the challenge of a tight economic climate, LBF opened 18 new gold loans centres, including a centre in Sahinthamarthu.

2013***Building brand value***

The key focus for 2013 was building brand value through wealth creation for LBF stakeholders. LBF achieved 27.17 percent asset growth and increased market share considerably by paying attention to the needs of customers and improving the efficiency and effectiveness of customer service. LBF enhanced the Company's reach with tailor-made financial solutions to suit customer requirements. The accolades, rankings and awards won are testimony to the success of LBF's corporate strategy.

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

In 2012 the Company sustained its growth trajectory while redefining its strengths. One of the key initiatives undertaken this year was capacity building of LBF's human capital through effective implementation of people management policies, processes and technology. The architectural elegance and grandeur of the new corporate office also reflects the glorious four decades of tradition that LBF proudly flaunts which provides an international level atmosphere for customers and employees.

2011***Gearing for profitability***

2011 saw the Company build on the successes even in the former adverse climate. Through success even in the face of adversity LBF had built itself into a solid and unshakeable financial institution. LBF recorded impressive results in 2010/11; profit before tax reached Rs. 2 billion, recording a staggering year-on-year growth of 90 percent. Deposits grew tremendously during the year to reach Rs. 20 billion. Recording a remarkable increase of 57 percent, LBF successfully ballooned total assets to reach Rs. 28 billion recording a year-on-year growth of 63 percent.

Key achievements



Certification of Carbon Neutrality presented to L B Finance PLC for the year 2015 by Sri Lanka Climate Fund.



United Nations
Framework Convention on
Climate Change

In 2015/16, the Company received a series of awards and acknowledgements that contributed to strengthen LBF's reputation. Significant accomplishments are highlighted below:

CA Sri Lanka's 51st Annual Report Awards



Organised by The Institute of Chartered Accountants of Sri Lanka, this award acknowledges companies with transparency, accountability and good governance in financial reporting. Here LBF grabbed the Silver award for Finance Companies Category and the Bronze award for overall excellence in Integrated Reporting.



CMA Excellence in Integrated Reporting Awards



Organised by Certified Management Accountants of Sri Lanka, this award acknowledges companies with best integrated reports. LBF won the overall Silver award for the Annual Report.



ACCA Sri Lanka Sustainability Reporting Awards



Organised by ACCA Sri Lanka, this award acknowledges companies which report and disclose environmental, social or full sustainability information to the best. LBF won the Joint runners-up under financial services and insurance category.



STING Corporate Accountability Index



This rating is done by STING Consultants and it measures the extent to which companies in Sri Lanka have integrated responsible business practices throughout their operations. LBF won the Silver award.



Business model



We believe that with respect to inclusiveness and the non-compromised sharing of information, we should 'leave no one behind'. A special project run by the Company has seen the inclusion of a page in Braille in our Annual Report, prepared in collaboration with students from the Ceylon School for the Deaf and Blind. This is but a single, preliminary step taken in a journey that we fully intend to pursue, as we share our route to success with all.

සමාජ සේවකයන්ගේ සහය
සමාජ සේවකයන්ගේ සහය





Stakeholders

G4-24, 45

Stakeholders are people, groups or organisations that have interests or concerns in the Company or can affect or be affected by LBF's actions, objectives and policies. Meeting the needs and aspirations and addressing the concerns of stakeholders is a cornerstone of the Company's strategy. All the stakeholders would relate to the Company through being concerned with its performance in one or more of the aspects such as economic, social and environmental. Through a continuous process of dialogue and consultation with stakeholders LBF is able to comprehend their needs, aspirations and concerns and are able to formulate strategies to address them. LBF has also been able to assess the materiality of the concerns of stakeholders, prioritise them and formulate suitable programmes and action plans accordingly. The process of maximising value is a two way process – delivering value to the stakeholders and deriving value for the Company.

By assessing the impact from the results of the Company's outcomes, LBF has identified key stakeholder groups with whom LBF needs to constantly be in dialogue and engage with:

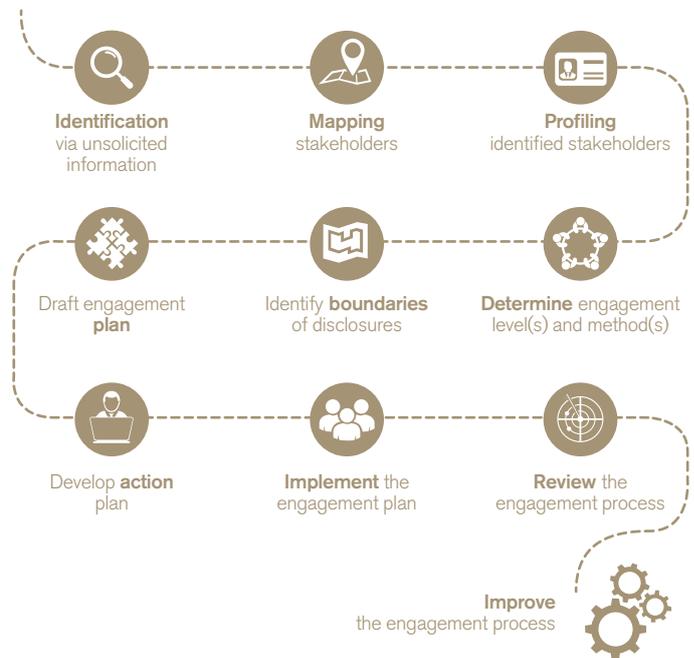
- Investors
- Customers
- Employees
- Business partners
- Government and institutional regulators
- Society

THE STAKEHOLDER ENGAGEMENT PROCESS G4-25

Our primary goal is achieving sustainability in economic, social and environmental aspect. To attain it LBF needs to build strong and lasting relationships with stakeholders. The model LBF uses for stakeholder engagement is in accordance with the AA1000 Stakeholder Engagement Standard. AA1000 is a generalised framework for assessing, designing, communicating, and implementing stakeholder engagement. It has been designed to enhance the Company's ability to respond in a balanced way to material issues, impacts and opportunities. The stakeholder engagement model is used to assess issues identified through engagement with the stakeholder. This facilitates the Company to achieve lasting and sustainable outcomes.

Stakeholder engagement

Planning process

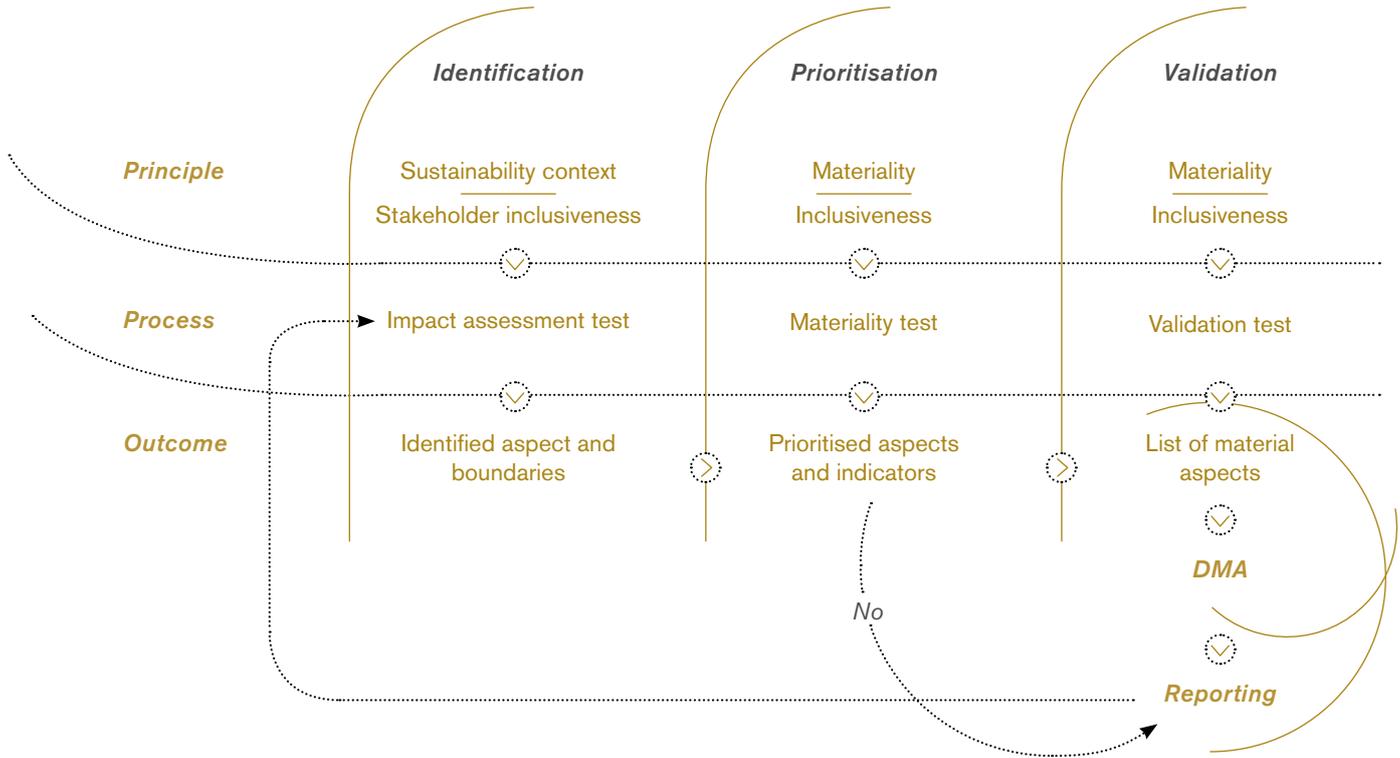



STAKEHOLDER ENGAGEMENT MECHANISM  **G4-26, 27**

Stakeholder	Level of engagement	Engagement mode	Frequency	Topics and concerns
Investors/ Shareholders	Consult	Shareholder meetings/Annual General Meetings	Annual	Company performance
	Consult	Extraordinary General Meetings	Ad hoc as and when necessary	
	Inform	Annual Report	Annual	Company performance
	Inform	Interim financial statements	Quarterly	Financial performance
	Inform	Announcements to CSE	Ad hoc as and when necessary	
	Remain passive	Press conference and media releases	Ad hoc as and when necessary	
	Consult	One-to-one meetings	As necessary	Investor relations
	Remain passive	Website information updates	On a regular basis	Company information
Employees	Consult	Monthly review meetings	Monthly	Review operational performance
	Consult	Management meeting	Monthly	Review business performance
	Inform	HR newsletter	Annual	Communication
	Collaborate	Company social events	Annual/Ad hoc	Work life balance
	Inform	E mail updates	On a regular basis	Operational changes
	Involve	HR Portal	On a regular basis	HR information
	Inform	Employee notice board	On a regular basis	Company events
	Consult	Employee direct meetings	On a regular basis	Open door policy
Customers	Involve	Customer hotline	As necessary	Customer complaints/ suggestions
	Consult	Customer surveys	Annual	Service quality
	Consult	One-to-one meetings	As necessary	Customer relations
	Consult	Direct customer feedbacks	On a regular basis	Dispute resolution
	Remain passive	Media campaigns/advertisements	On a regular basis	Awareness
	Remain passive	Website information updates	On a regular basis	Product information
Business partners	Consult	Supplier meetings	As necessary	Contractual performance
	Involve	Letters/E mails/Telephone conversations	On a regular basis	Responsible sourcing
	Transact	Supplier get-together	Annual	Networking
	Consult	One-to-one meetings	As necessary	Future business opportunities
	Consult	Periodic visits	As necessary	Supplier relations
Regulatory and Government	Consult	Directives and circulars	As necessary	Compliance
	Consult	On-site review by CBSL	Annual	Compliance
	Remain passive	Press releases	As necessary	Compliance and information
	Consult	Meetings and discussions with Board and Senior Management	As necessary	
	Inform	Submission of returns and status reports	Periodic deadlines	Compliance
	Consult	Training and workshops organised by regulators	As necessary	Awareness and knowledge
Society	Remain passive	Media advertisements and press releases	As necessary	Communication
	Collaborate	Public events	On a regular basis	Public relations
	Collaborate	Community projects	As necessary	Serve community
	Consult	Call centre conversations	As necessary	General inquiries
	Collaborate	Interact through branch network	As necessary	Financial inclusion
	Remain passive	Social media	On a regular basis	Public relations and communication
	Remain passive	Sustainability website	On a regular basis	Sustainability initiatives

Materiality

REPORT CONTENT AND ASPECT BOUNDARIES [G4-18](#)



It is not feasible to address every single issue, especially when it comes to social, relationship and environmental concerns. Therefore, a process of prioritisation becomes inevitable. While LBF does the utmost to identify relevant topics and concerns, the Company needs to assess the impact they have on LBF's activities, products, services, relationships and reputation. This process needs to take a long-term perspective and not be driven merely by the needs and concerns of the moment and is based on the principles of sustainability, materiality and stakeholder inclusiveness. Impacts need to be considered as either internal or external. However the boundary, in terms of whether the impact is primarily internal or external needs also to be identified. Thus of all issues which come under the radar, what gets addressed ultimately depends on their significance to LBF's stakeholders and significance to LBF's economic, social and environmental sustainability. This filtering process involves assessing the material aspects against scope, aspect boundaries and time. Once the identified material aspects list has received management approval, it is translated into Disclosure Management Approach – DMA. This is an ongoing process.

The tool used for the materiality analysis is the AA1000 Stakeholder Engagement Standard guidelines relating to the identification, mapping and prioritisation of stakeholders and the analysis of their involvement. The guidance notes on

accountability and the criteria defined by the GRI-G4 also are used as a resource for outlining an approach to the materiality principle and the identification of material issues.

IDENTIFICATION OF MATERIAL ASPECTS AND BOUNDARY [G4-19, 20, 21](#)

The process for identifying and prioritising material issues that could seriously impact LBF's outcomes (looked at from a holistic perspective) was initiated at the outset of LBF's sustainability reporting. However the environment is dynamic and LBF needs to update the list annually to keep current with the priorities and concerns of stakeholders.

LBF assesses each issue in terms of the:

- Potential economic impact on LBF's business
- Degree of impact on LBF's stakeholders and the Company itself
- Likely future trends in terms of significance and impact on LBF's business and stakeholders
- Business opportunities it presents
- Level of risk it poses

The process of updating the materiality diagram was carried out this year as well, by conducting a survey among the departments. This has led the Company through stakeholder mapping

G4-18, G4-19
G4-20, G4-21G4-19
G4-20, G4-21

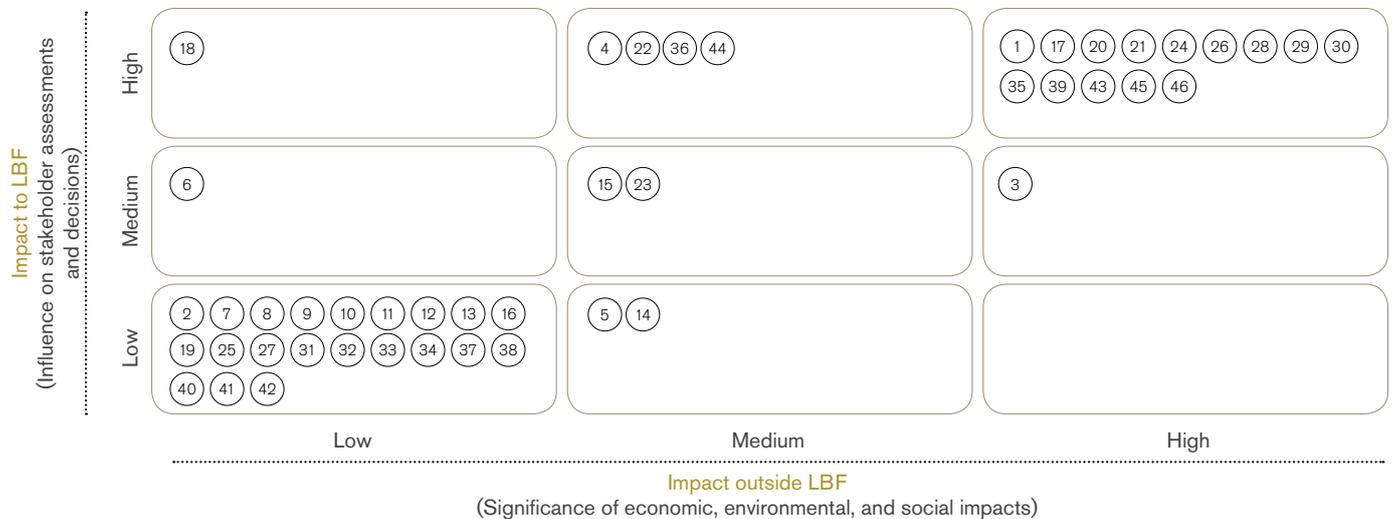
to identify the most influential stakeholders as well as ascertain the relevant aspects that reflect significant economic, social and environmental concerns which will impact on the attitudes, assessments and actions of these stakeholders.

MATERIALITY ASSESSMENT G4-19, 20, 21

No.	Aspect	Aspect boundary	Impact to LBF	Impact to outside LBF	Materiality	Reporting status
Economic						
1	Economic performance	LBF	High	High	High	Reported
2	Market presence	LBF	Low	Low	Low	Not reported
3	Indirect economic impacts	Community	Medium	High	High	Reported
4	Procurement practices	Suppliers	High	Medium	High	Reported
Environmental						
5	Materials	LBF	Low	Medium	Low	Reported
6	Energy	LBF	Medium	Low	Medium	Reported
7	Water	LBF	Low	Low	Low	Reported
8	Biodiversity	LBF	Low	Low	Low	Not reported
9	Emissions	LBF	Low	Low	Low	Reported
10	Effluents and waste	Environment	Low	Low	Low	Not reported
11	Products and services	LBF	Low	Low	Low	Not reported
12	Compliance – Environment	LBF	Low	Low	Low	Reported
13	Transport	Community	Low	Low	Low	Not reported
14	Overall	LBF	Low	Medium	Low	Reported
15	Supplier environment assessment	Suppliers	Medium	Medium	Medium	Reported
16	Environment grievance mechanism	LBF	Low	Low	Low	Reported
Labour practices and decent work						
17	Employment	LBF	High	High	High	Reported
18	Labour/management relations	Employees	High	Low	High	Reported
19	Occupational health and safety	Employees	Low	Low	Low	Not reported
20	Training and education	Employees	High	High	High	Reported
21	Diversity and equal opportunity	LBF	High	High	High	Reported
22	Equal remuneration for women and men	LBF	High	Medium	High	Reported
23	Supplier assessment for labour practices	Suppliers	Medium	Medium	Medium	Reported
24	Labour practices grievance mechanisms	Employees	High	High	High	Reported
Human rights						
25	Investment	LBF	Low	Low	Low	Not reported
26	Non-discrimination	LBF	High	High	High	Reported
27	Freedom of association and collective bargaining	LBF	Low	Low	Low	Not reported
28	Child labour	LBF	High	High	High	Reported
29	Forced and compulsory labour	LBF	High	High	High	Reported
30	Security practices	LBF	High	High	High	Reported

No.	Aspect	Aspect boundary	Impact to LBF	Impact to outside LBF	Materiality	Reporting status
31	Indigenous rights	LBF	Low	Low	Low	Not reported
32	Assessments - Human Rights	LBF	Low	Low	Low	Not reported
33	Supplier human rights assessment	LBF	Low	Low	Low	Not reported
34	Human rights grievance mechanisms	LBF	Low	Low	Low	Reported
Society						
35	Local communities	Community	High	High	High	Reported
36	Anti-corruption	LBF	High	Medium	High	Reported
37	Public policy	LBF	Low	Low	Low	Not reported
38	Anti-competitive behaviour	LBF	Low	Low	Low	Not reported
39	Compliance – Society	LBF	High	High	High	Reported
40	Supplier assessment for impact on society	Suppliers	Low	Low	Low	Not reported
41	Grievance mechanism for impact on society	Suppliers	Low	Low	Low	Not reported
Product responsibility						
42	Customer health and safety	Customers	Low	Low	Low	Partially reported
43	Product and service labelling	LBF	High	High	High	Reported
44	Marketing communications	Community	High	Medium	High	Reported
45	Customer privacy	Customers	High	High	High	Reported
46	Compliance – Product Responsibility	LBF	High	High	High	Reported

MATERIALITY SCALE MATRIX  [G4-19, 20, 21](#)



Operating environment

G4-19, G4-20,
G4-21



GLOBAL ECONOMIC LANDSCAPE IN 2015

The world economy remained subdued in 2015 and is not expected to improve much in the short term. Growth was 2.9 percent in 2015 and weak growth in emerging economies was the major contributing factor to the dismal showing. In particular the emerging economies were affected by weak commodity prices and reduced global trade and capital flows. There was however a modest recovery in high-income countries in 2015. In spite of the adverse global environment, the US economy has expanded and is expected to continue to expand at a moderate rate as a result of the increase in household spending and the strengthening of the labour market.

Except for India, there was a slowdown in all the other BRICS countries. China, though still growing at a satisfactory rate, is lagging when compared to its past record. Some observers see this as an adjustment that had to happen at some point as the growth rates of the past could not be sustained. China however, is faced with the task of rebalancing its growth strategy from one driven by investment to one driven by domestic demand. Brazil and Russia have been going through difficult adjustments in the face of commodity prices, international and domestic challenges. The fact that the BRICS economies have lost their dynamism will have significant spillover effects for the rest of the world and does not augur well for global economic growth in 2016.

Between August 2015 and February 2016, the currencies of advanced economies tended to strengthen, and those of commodity exporters with floating exchange rates – especially oil-exporting countries – tended to weaken further.

The past year was a sluggish one for commodities generally. Strong supply from members of OPEC and Russia and expectations of higher supply from Iran fuelled a 32 percent drop in oil prices between August 2015 and February 2016. Coal and natural gas prices also suffered through links with oil. Oil prices are unlikely to rise significantly in the short-term.

Global gold demand in 2015 was virtually stagnant compared to 2014 according to the World Gold Council. Despite a challenging start to the year, gold demand rebounded in the second half of 2015 as a result of sustained buying from central banks and strong demand from China and India. Furthermore gold prices rallied phenomenally in the first quarter of 2016 rising 17 percent in US Dollar terms, outperforming competing investments like stocks, bonds and other commodities. The general outlook for gold is not optimistic with many observers foreseeing a drop in 2016.

World Economic Outlook (WEO) projections for global growth are 3.2 percent in 2016 and 3.5 percent in 2017. Despite the problems in emerging market and developing economies they are still expected to account for the bulk of the growth. Beyond 2017 growth is forecasted to pick up to about four percent until the end of the forecast horizon in 2021, again dependant on a pickup in emerging market and developing economies.

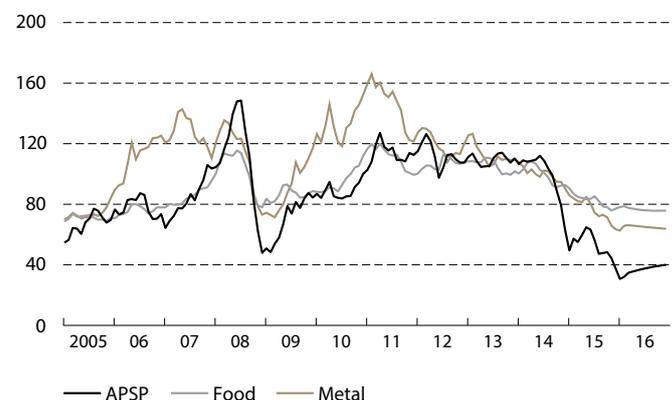
SUMMARY OF WORLD OUTPUT

	2013	2014	2015	2016	2017
	%	%	%	Projections %	
World	3.3	3.4	3.1	3.2	3.5
Advanced economies	1.2	1.8	1.9	1.9	2.0
United States	1.5	2.4	2.4	2.4	2.5
Euro Area	(0.3)	0.9	1.6	1.5	1.6
Japan	1.4	0	0.5	0.5	(0.1)
Emerging market and developing economies	4.9	4.6	4.0	4.1	4.6
Russia	1.3	0.7	(3.7)	(1.8)	(0.8)
Emerging and developing Asia	6.9	6.8	6.6	6.4	6.3
China	7.7	7.3	6.9	6.5	6.2
India	6.6	7.2	7.3	7.5	7.5

Source: World Economic Outlook, April 2016, IMF.

Real Commodity Price Indices

(Deflated using U.S. consumer price index; index, 2014 = 100)

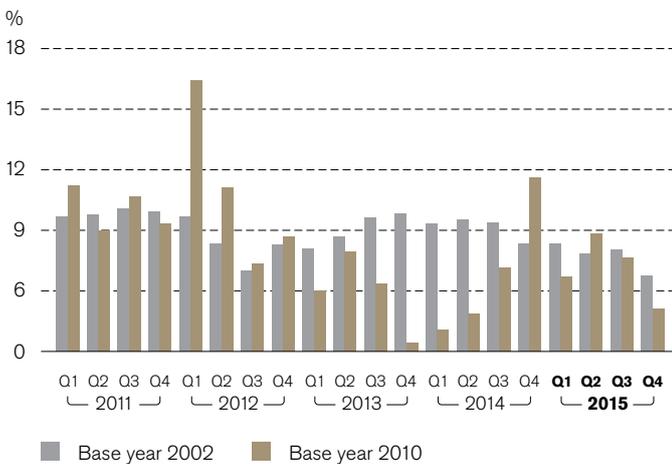


Source: World Economic Outlook, April 2016, IMF.

SRI LANKAN ECONOMY – A BIRD’S EYE VIEW

The Sri Lankan economy showed a rather lacklustre performance in 2015 with growth marginally slowing to 4.8 percent compared to 4.9 percent in 2014. This was mainly due to the disappointing performance of exports but the impact on the balance of payments was mitigated due to the lowering in the international commodity prices. While agriculture and services grew by 5.5 percent and 5.3 percent respectively industrial activities grew by only 3 percent. The growth in GDP was mainly driven by consumption demand with investment making only a modest contribution.

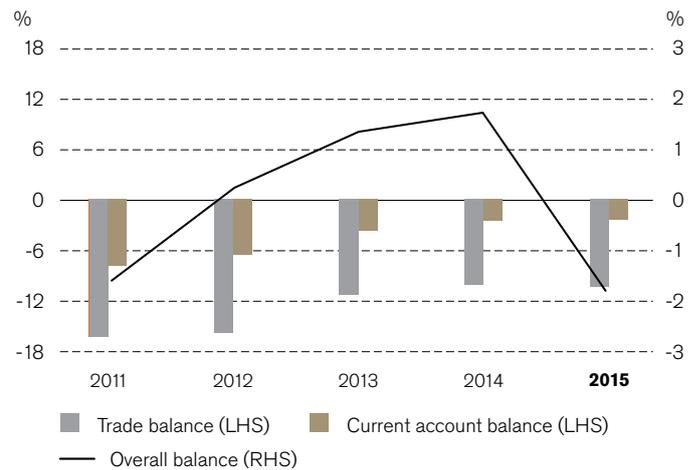
Quarterly real GDP growth (YoY)



Source: CBSL Annual Report 2015.

The economic environment, both local and international had a somewhat adverse impact on the balance of payments and the Rupee. In spite of falling oil prices the merchandise trade deficit widened marginally by 1.7 percent over the previous year. The balance of payments too became increasingly adverse with a deficit of US Dollar 1,489 million during the year. In response to this the Central Bank decided to allow the Rupee to float more freely against the Dollar, resulting in the Rupee depreciating by 9.03 percent against the Dollar by end 2015.

Balance of payment



Source: CBSL Annual Report 2015.

The ratio of Government revenue to GDP improved somewhat from 11.4 percent in 2014 to 13.0 percent in 2015. This was mainly due to several one-off taxes and the revenue from excise duties on increased motor vehicle imports. It could also be attributed to several measures taken to streamline tax collection and expand the tax base.

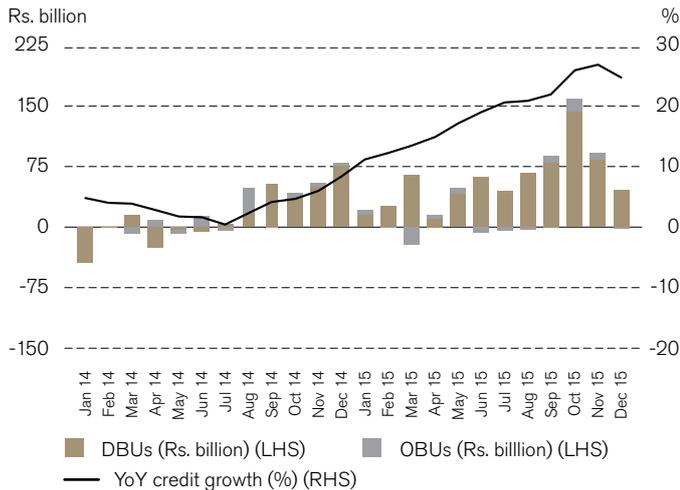
INFLATION

Inflation based on CCPI was below 5 percent throughout the year. In fact headline inflation as measured by year-on-year change in CCPI plummeted sharply from 3.2 percent in January 2015 to 0.6 percent in February 2015 due to price reductions introduced in the interim budget for 2015. CCPI based year-on-year core inflation however, increased to 4.5 percent at end year 2015 from 3.2 percent at end year 2014.

MONETARY POLICY

During the year the Central Bank conducted monetary policy within an enhanced monetary policy framework with features of both monetary targeting and flexible inflation targeting. Under this enhanced monetary policy framework the Central Bank attempted to stabilise inflation in mid-single digits over the medium term, while supporting the growth momentum of the economy. In the context of the relaxed monetary policy, credit extended to the private sector by the banking system expanded. In the year under review there was an increase of 25.1 percent on a year-on-year basis compared to an 8.8 percent growth at end 2014.

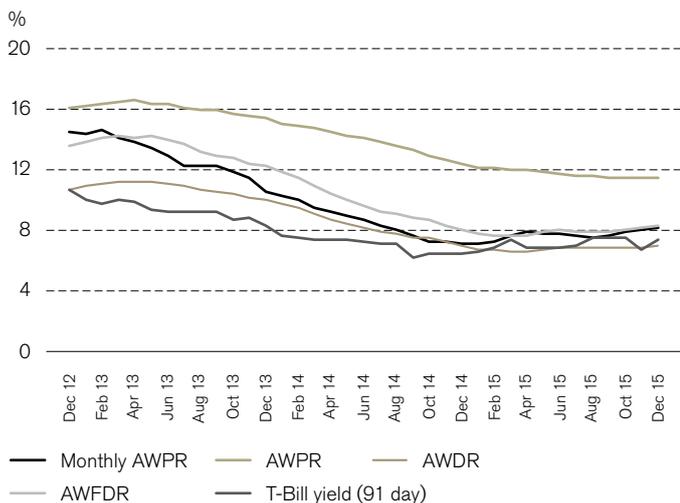
Credit to the private sector by commercial banks



Source: CBSL Annual Report 2015.

During the year, domestic financial markets operated with relatively high volatility consequent to monetary and balance of payment conditions emanating partly from global developments. The domestic money market recorded gradual decline in excess Rupee liquidity to Rs. 105.3 billion at the end of 2015 from Rs. 325.6 billion in 2014.

Movement of selected market rates



Source: CBSL Annual Report 2015.

INTEREST RATES

Due to the relatively relaxed market conditions interest rates remained low although some upward movements were witnessed occasionally. The Central Bank of Sri Lanka left its standing deposit facility rate on hold at 6.5 percent on 26th April 2016, considering the fact that tightened monetary policy measures have already been adopted and the impact is yet to be reflected in monetary conditions in full. Interest rate in Sri Lanka averaged 7.96 percent from 2003 until 2016, reaching an all time high of 10.50 percent in February of 2007 and a record low of 6 percent in April of 2015.

SECTORAL PERFORMANCE

Regarding sectoral performance the slowing down in the industrial sector was due to contraction of construction, mining and quarrying. However manufacturing showed a fair growth of 4.7 percent. The plantation sector was beset by low prices, with growing of tea and rubber contracting by 2.6 percent and 10.1 percent respectively. The Government implemented measures to overcome the difficulties faced by tea factory owners providing an interest rate subsidy.

Within the services sector, which had a satisfactory growth of 5.3 percent the financial services grew by an impressive 15.8 percent. This was largely as a result of benefiting from the relaxed monetary policy stance.

LOOKING AHEAD

Sri Lanka is expected to achieve a growth of around 5.8 percent in 2016 and strengthen in the medium term to increase to around 7 percent. The increased growth is expected to be achieved from growth in investor sentiments and the efforts of the Government to spur growth across the economy and increase private sector participation through creation of an investor friendly environment.

FINANCIAL SECTOR

In 2015, the financial sector demonstrated its resilience to volatile market conditions emanating from domestic and global uncertainties. The financial sector performance in 2015, reflected the underlying economic performance and supportive prudential regulatory measures, which has led to further strengthening the financial system stability of the country. The improved performance was reflected in leading indicators of financial institutions, financial markets and payment and settlement systems.

SNAPSHOT OF FINANCIAL SECTOR

	No. of players		No. of branches and outlets		Total assets (Rs. billion)	
	2015	2014	2015	2014	2015	2014
Licensed Commercial Banks	25	25	5,784	5,764	6,974	5,884
Licensed Specialised Banks	7	9	799	827	1,103	1,087
Licensed Finance Companies (LFCs)	46	48	1,128	1,028	915	743
Specialised Leasing Companies (SLCs)	7	8	88	104	81	72
Insurance Companies	28	21	N/A	1,498	454	414
Total	113	111	6,583	9,221	9,527	8,200

Source – CBSL Annual Report 2015.

As regards the new prudential regulations, a number of regulatory policies were introduced in 2015 to further strengthen the risk management and public confidence in the financial sector.

LFC/SLC SECTOR PERFORMANCE

	2015	2014	2013
Capital adequacy			
Regulatory capital to risk weighted assets (%)	11.2	13.5	14.8
Debt to capital funds (times)	2.6	1.9	2.0
Assets quality			
Loans and advances (Rs. billion)	795.8	603.7	521.3
NPL (%)	5.7	6.9	6.7
Provision coverage (%)	61	59.3	56
Liquidity			
Total deposits (Rs. billion)	480.6	414.1	337.3
Total borrowings (Rs. billion)	314.3	217.4	193.1
Capital (Rs. billion)	123.1	116.9	96.6
Liquid assets to total assets	7.6	9.6	8.0
Earnings			
Interest income (Rs. billion)	150.4	131.2	117.3
Profit before tax (Rs. billion)	28.5	23.9	13.8
ROE (%)	12.4	14.0	9.0
ROA (%)	3.0	3.1	2.3

Source – CBSL Annual Report 2015.

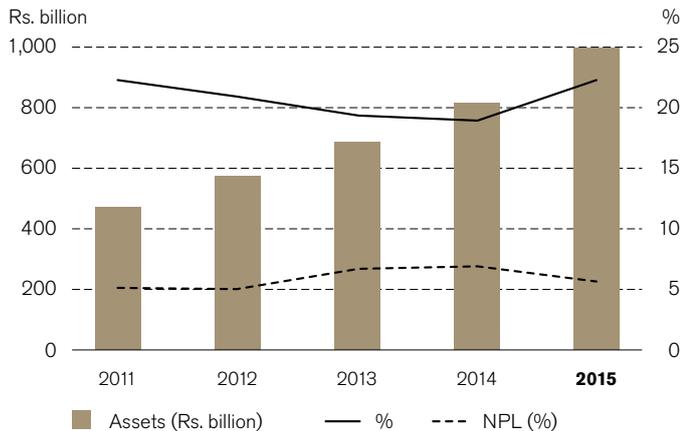
The performance of the LFC/SLC sector remained robust during 2015 in terms of the expansion of both business volume and outreach, reflecting the extended economic activities, appropriateness of policy initiatives and supportive regulatory and supervisory measures in place. This sector comprised 46 LFCs and 7 SLCs by end 2015.

The sector expanded its geographical reach further in 2015 by opening 84 new branches taking it to a total of 1,216 branches with emphasis placed on areas outside the Western Province. This demonstrates the eagerness of the sector to reach out to hinterlands of the country including former conflict-affected areas.

Total assets of the LFC/SLC sector expanded in 2015 at a higher pace. The sector demonstrated a strong asset growth of 22.3 percent or Rs. 181.6 billion in 2015 compared to a growth of 19.0 percent or Rs. 130.0 billion in 2014. The main source of the growth in assets was the increase in borrowings by 44.6 percent or Rs. 96.9 billion and deposits by 16.1 percent or Rs. 66.5 billion. The growth in deposits shows there is large section of the investing public who do not see investing in the sector as unduly risky and are attracted by the relatively high rates offered by LFC/SLCs compared to banks. Funds mobilised were largely utilised in granting loans and advances.

Throughout 2015, demand for credit on vehicle leasing and other secured loans remained strong. This demonstrates the contribution the sector is making to the middle and less affluent classes of the population. Credit growth accelerated as indicated by loans and advances which robustly grew by 31.8 percent or Rs. 192.1 billion to Rs. 795.8 billion at end 2015, compared to a growth of 15.8 percent or Rs. 82.4 billion during 2014 due to high growth in other secured loans and finance leases.

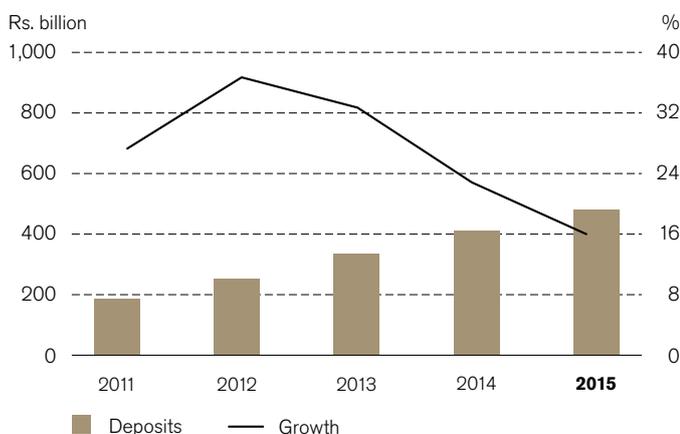
Assets quality of LFC/SLC sector improved in 2015 compared to 2014 as evident by improved NPL and provision coverage ratios. Gross and net NPL ratios decreased to 5.7 percent and 1.6 percent, respectively, in 2015 from 6.9 percent and 2.3 percent, respectively, in 2014, mainly due to higher growth of loan portfolio. Meanwhile, the increase in NPL of Rs. 3.3 billion in 2015 was not significant when compared to Rs. 7.1 billion in 2014.

LFCs/SLCs sector assets growth

Source – CBSL Annual Report 2015.

Deposits decreased to 48.2 percent in 2015 from 50.8 percent in 2014. However, there was a steady growth in deposits as the sector continued to attract depositors due to relatively high deposit rates offered by LFCs compared to those of banks. Total deposits grew by 16.1 percent or Rs. 66.5 billion to Rs. 480.6 billion in 2015 at a lesser magnitude, compared to a 22.8 percent growth in 2014. The deposit mobilisation was mainly through time deposits accounting for 95 percent of the total deposits whilst a slight increase was shown in the savings deposit base.

Liquidity levels in the LFC/SLC sector remained healthy. The overall statutory liquid assets available in LFC/SLC sector by end 2015 recorded a surplus of Rs. 13.7 billion compared to the stipulated minimum requirement of Rs. 65.7 billion. Further, the liquid assets to deposits ratio was well above the statutory minimum of 10 percent of time deposits and 15 percent of savings deposits. The liquid assets to total assets ratio decreased to 7.6 percent in 2015 from 9.6 percent in 2014 as a result of robust credit growth in the sector.

LFCs/SLCs sector deposits growth

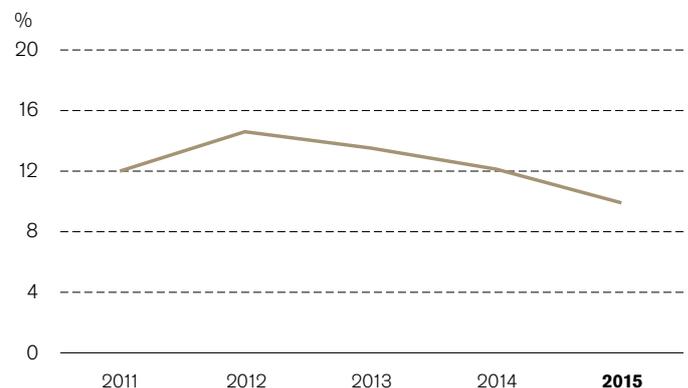
Source – CBSL Annual Report 2015.

Borrowings recorded a notable increase of 44.6 percent or Rs. 96.9 billion to reach Rs. 314.3 billion by end 2015 compared to 12.6 percent in 2014 and the share of borrowings increased to 31.6 percent in 2015 from 26.7 percent in 2014. High growth in borrowings was largely due to funds obtained from the banking system and debenture issues.

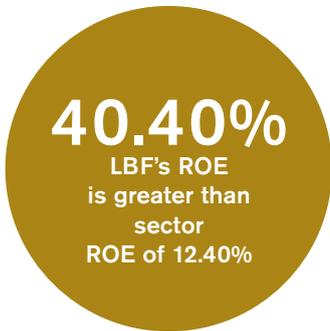
During 2015, the LFC/SLC sector recorded a profit after tax of Rs. 15.2 billion compared to Rs. 14.8 billion in 2014. Despite the improvements of core business operations, a large increase in profits could not be realised due to sharp increase of operational costs. The net interest income showed a significant increase of 32 percent to Rs. 82 billion due to expansion of credit portfolio. This has resulted in improving the net interest margin to 8.7 percent in 2015 from 8.0 percent in 2014. The marginal increase in non-interest income recorded in 2015 was due to increased revenue from default charges and service charges.

ROA and ROE during the year also decreased to 3.0 percent and 12.3 percent respectively compared to 3.1 percent and 14.0 percent in 2014.

Total regulatory capital increased by 5.8 percent to Rs. 92.8 billion due to retention of profits. The total capital adequacy ratio (as a percentage of risk-weighted assets) decreased to 11.2 percent at end 2015 from 13.5 percent at end 2014 and the core capital ratio decreased to 10.5 percent in 2015 from 12.8 percent in 2014. The reduction of capital ratios was largely due to greater increase of risk weighted assets. However, both ratios remained above the minimum required levels.

LFCs/SLCs sector CAR

Source – CBSL Annual Report 2015.



REGULATORY FRAMEWORK

A new regulatory framework was designed to strengthen and streamline the existing policies and practices in respect of the opening, closure and relocation of branches and other outlets of LFC/SLC.

Main regulatory authorities that 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
- Department of Registrar of Companies
- Sri Lanka Customs



COMPLIANCE **G4-SO8, EN29**

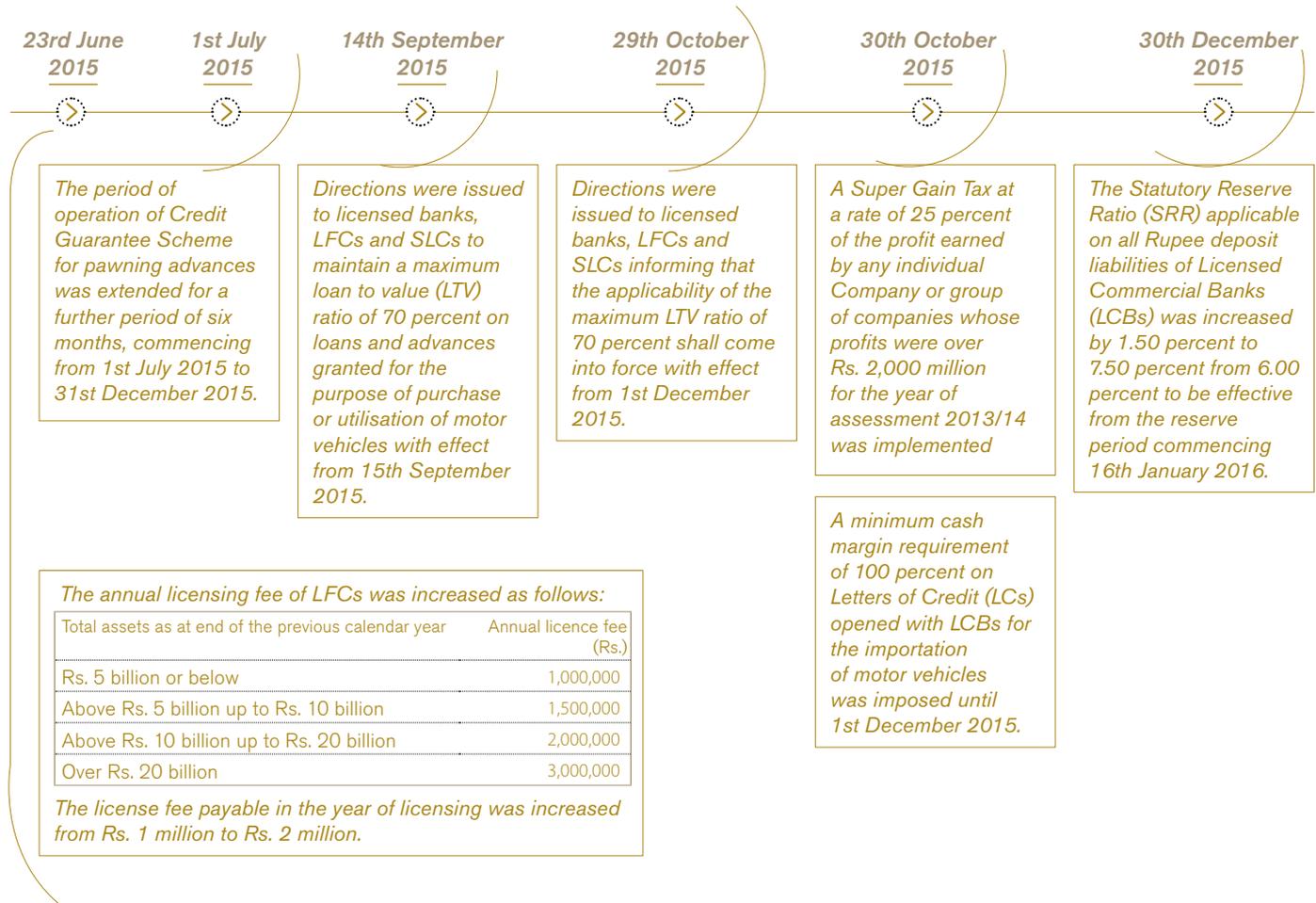
No significant fines and non-monetary sanctions were recorded during the year due to non-compliance with laws and regulations.

GOVERNMENT SUPPORT **G4-EC4**

During the year under review, the Company did not receive any direct financial assistance from the Government



ECONOMIC POLICY CHANGES AND MEASURES



OUTLOOK

Considering the local and global scenario LBF faces challenges, but can look forward to opportunities too. The plantation sector is unlikely to see better times in the near future and hence, our customers in this sector are likely to continue to face problems. However, there is a strong possibility of higher growth in other export sectors, particularly industries. If so, some of this should spill over into the SME sector.

One reason for the economic slowdown in the past year was the absence of new large scale infrastructure projects. However, this should change with the Port City and the megapolis projects taking off. While interest rates and inflation may rise they are unlikely to be very rapid changes in the short term and hence, the Company can look forward to a fairly stable environment in this regard.

Risks and opportunities

G4-2, 47

Discussed below are the risks and opportunities in the market/environment which the Company operates in. This analysis aims to shed light on how LBF is impacted. These risks and opportunities are related to capitals and stand as the backdrop to decision making process and strategy formulation.

Impacted capital	Principal risk	Cause/Movement	Mitigation	Opportunities
Financial	Scarcity of Tier II funding	Raising of long term funding to strengthen Tier II capital is increasingly difficult due to lack of market liquidity.	Company has maintained strong core capital base to withstand market stress arising from lack of liquidity.	Lack of liquidity and resultant high market rates incentivise savings among public. This offers an opportunity to introduce savings products with high returns.
Human	High attrition rate among front-line employees	Scarcity of trained front-line staff in the industry results in competing firms recruiting trained staff from LBF.	Increase the loyalty and level of engagement among front-line employees by offering career advancement opportunities.	This challenging environment offers an opportunity to further improve Company's HR practices with the aim of becoming the 'employer of choice' among job seeking youth.
Manufactured	Maintaining integrity and confidentiality of information	Over the years with the rapid expansion of products and services offered by the Company, IT operations have grown in scale and complexity. This complexity also makes the Company vulnerable to cyber attacks.	Compliance with International Standards in Information Security. ISO 270001:2013.	Technological advancements have widened outreach and distribution channels to bring the Company closer to customer and provide 24/7 access.
Social and relationship	Loss of customers to competitors	Intensified competitor behaviour coupled with loss of customer focus could drive away Company's customers to competitors	Reshaping the way the Company interacts with customers, will boost customer satisfaction and deepen customer engagement.	In its efforts to retain customers the Company will be forced to innovate products and improve processes offering a superior value proposition.



Impacted capital	Principal risk	Cause/Movement	Mitigation	Opportunities
Natural	Natural catastrophes adversely affecting our customers, suppliers, employees causing direct and indirect impact to the Company	Unsustainable environment practices and unplanned urbanisation disturbing the ecosystem.	Focus on reducing greenhouse gas emission and promoting the importance of the carbon footprint amongst stakeholders while carrying out green initiatives.	Such challenging circumstances will create opportunities to offer long term rebuilding financial assistance to our valued stakeholders, increasing loyalty.
Intellectual	Reputational loss events adversely affecting the Company's brand value	Competitor actions, disgruntled customers, lack of sensitivity to market pulse could create a negative perception.	Promote brand loyalty by introducing a customer loyalty scheme, be mindful of environmental and social impact of the Company's products, processes and practices.	A positive brand image could provide the necessary competitive edge to attract and retain socially and environmentally conscious customers.

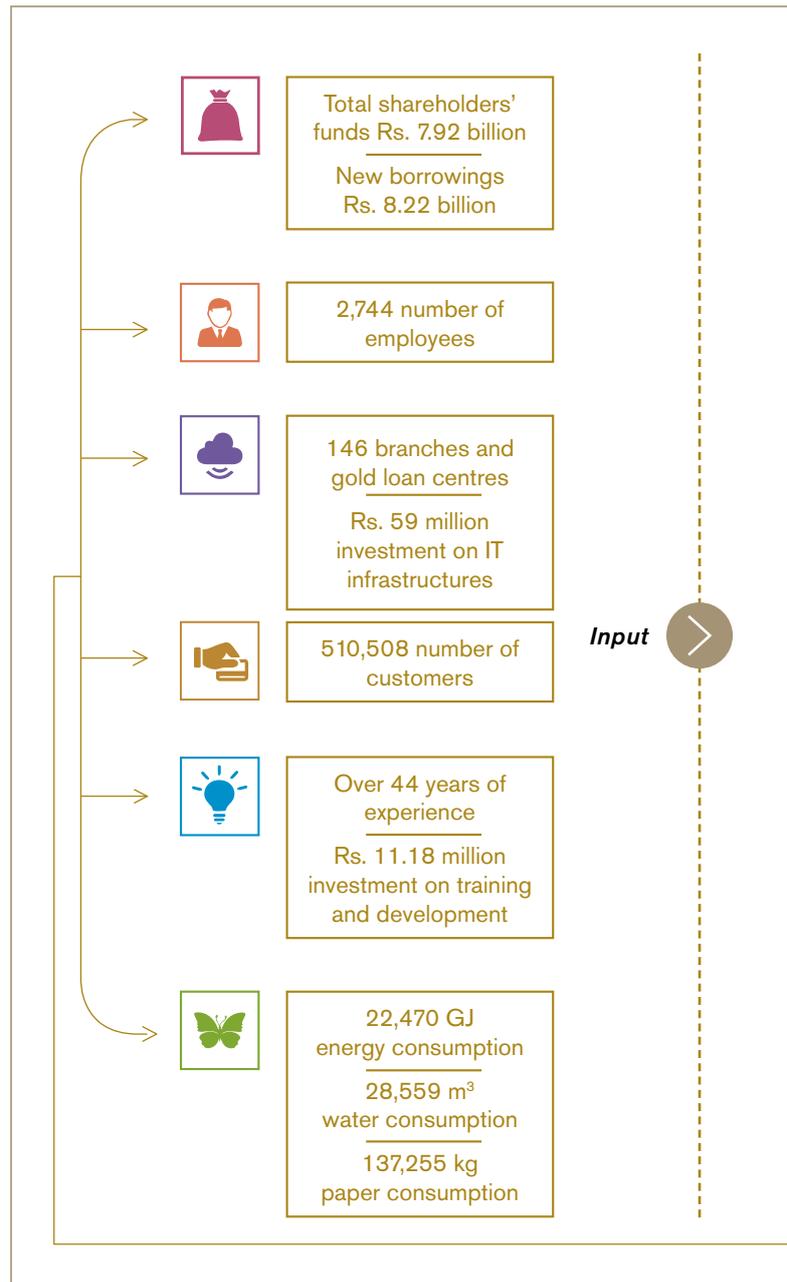
Business model and value creation

The continued growth of the Company has been due to the evolving business model that has been created to ensure an entity which caters to the current day demands. The main focus of the business model is the creation of value to all LBF's stakeholders. The creation of value is mainly approached by the use of capitals, namely financial, manufactured, employee, natural, social and relationships and the intellectual. The strategic management of these 6 capitals governed by the Company's focus on sustainability and stewardship has ensured that LBF has surpassed performance year on year. The outstanding performance achieved by LBF stands evident to the forte of its business model.

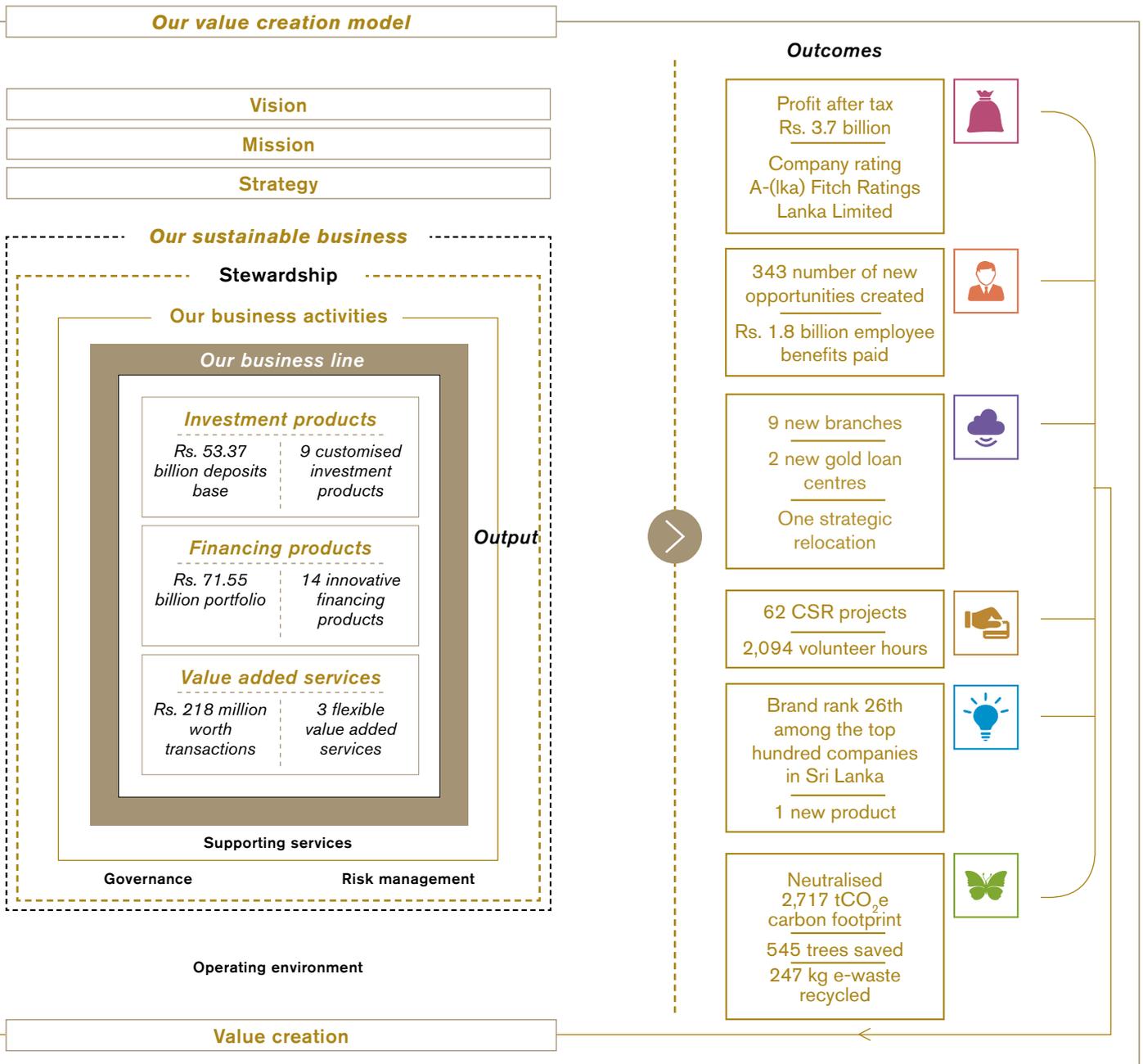
The forever changing landscape of the business environment is one of the greatest challenges that LBF faces. This has resulted in LBF becoming a very receptive Company focused on market variables and the changes taking place with the customer preferences. LBF has not limited this scope to the micro environment in which the Company operates, as well as the macro environment which would have other sectors unfolding impacts on the Company's performance. As a responsible corporate, the input that LBF places in to the businesses plays a critical role in ensuring that the delivered outcome has a positive impact on the triple bottom line and simultaneously not only preserving but adding value as well. These value additions would constitute of both financial as well as non-financial significance.

The simplicity of LBF's business model has delivered a clear laid out strategy aligned with the vision, mission and strategic objectives. Continuous dialogue with key stakeholders have ensured to help the Company reach its committed goal of reaching stakeholder expectations. Living by as a responsible corporate citizen has further built the belief of these stakeholders. LBF's goal of value creation to its stakeholder has always kept the Company to leverage on building core strengths that have collaborated the Company's capitals to the business domains.

The diagram endeavours to capture and present LBF's sustainability performance in a nutshell. Material sustainability measures of the Company have been translated into Key Performance Indicators (KPIs). This diagram thus presents the broad picture of LBF's economic, social and environmental performance.



- Financial capital**
Pages [52](#) to [67](#)
- Human capital**
Pages [78](#) to [91](#)
- Manufactured capital**
Pages [68](#) to [73](#)
- Social and relationship capital**
Pages [92](#) to [123](#)
- Intellectual capital**
Pages [74](#) to [77](#)
- Natural capital**
Pages [124](#) to [131](#)



Our business lines

Investment products	Pages 100 to 101
Financing products	Pages 102 to 107
Value added services	Pages 107 to 108

Business model

Vision, Mission, Strategy	Page 48
Operating environment	Pages 37 to 45
Sustainability	Pages 23 to 29

Stewardship

Risk management	Pages 194 to 215
Governance	Pages 141 to 193

Strategy and resource allocation

Vision

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



Mission

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

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



Financial Capital



Human Capital



Manufactured Capital

Strategic priorities

- Healthy asset quality
- Improve cost management
- Continuous growth in income

- Creating a performance driven culture
- Develop a qualified and experienced team
- Strengthen the workforce
- Provide safe and healthy work environment

- Expand customer reach
- To provide a superior customer experience
- To deliver operational excellence by improving efficiency

Initiatives

- Streamlined credit operations process/Continuous follow ups
- Obtain low cost funding
- Introduced new products and restructuring existing products

- Promotions based on performance
- Attract qualified employees and provide educational opportunities for existing employees
- Recruit employees in line with growth of operations
- Health and safety training programmes/Eliminate any health risk due to work environment

- Expansion in regional presence
- Relocation with modern layouts
- Investment in PPE
- New IT module implementation

KPIs

- Non performing loans (NPL)
- Cost to income ratio
- Net interest margin (NIM)/Profit after taxation (PAT)
- Portfolio growth
- No. of awards achieved for financial reporting

- No. of promotions
- No. of graduates recruited/ No. of employees eligible for subscriptions
- No. of new job opportunities created
- Training hours for health and safety/ Investment on safety

- No. of new outlets opened
- Capital expenditure
- No. of new systems implemented

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

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

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



Values

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



Social and relationship Capital

- Enhance customer service
- Improve customer loyalty
- Sustain investor confidence
- Supplier networking

- Continuous training programmes on service excellence
- Personalised customer visits
- Supplier get togethers/strengthen partnerships with suppliers
- Engaging with the community

- Reduction in customer complaints
- Customer retention ratio
- ROE/DPS
- No. of supplier get together/No. of MOUs signed during the year
- Investment in community development projects



Intellectual Capital

- Effective usage of social media
- Improve services and enhance security features
- Enhance brand value and reputation

- Upgrade network infrastructure and communication platform
- SMS alerts for every transaction/ Introduced an online platform for customers
- Advertising and promotions on brand building

- Investment in communication infrastructure development
- No. of customers registered for the online platform
- Brand value and ranking



Natural Capital

- Achieve carbon neutral status
- Responsible waste management practices

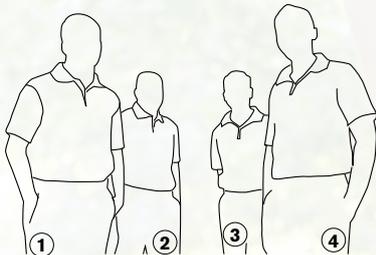
- Implement a carbon policy
- Awareness programmes/ Partnerships with waste management organisations

- Carbon footprint
- No. of Kgs of paper recycled/No. of Kgs of e-waste recycled/No. of trees saved/No. of awareness programmes conducted

Management discussion and analysis



The Company recognised and rewarded its top performing sustainability team members for the year. The areas of reward ranged far and wide – most number of projects completed, design and maintenance of the Company’s sustainability website, most efficient administration and co-ordination of projects and the best sustainability oriented photography.



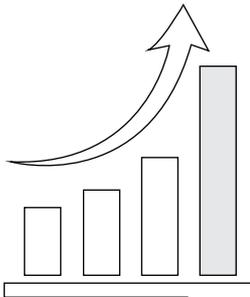
1. Designing and maintaining the Sustainability website – Chamika Goonetilaka – 80 Volunteering hours
2. Dedicated sustainability photographer – Sajaan Peiris – 28 Projects
3. Highest number of projects carried out – Sameera Wanninayaka – 9 Projects
4. Best administration and coordination – Kumuditha Aparakka – 37 Projects



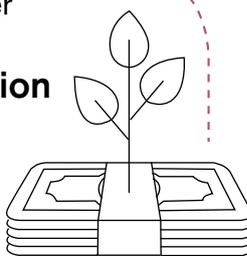


Financial capital

Fitch Rating assigned 'A-(Ika)' rating with a stable outlook

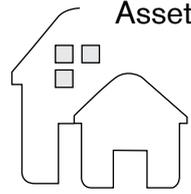


Achieved highest ever profit of **Rs. 3.71 billion**



Asset base surpassed **Rs. 84 billion**

NPL maintained below the industry average

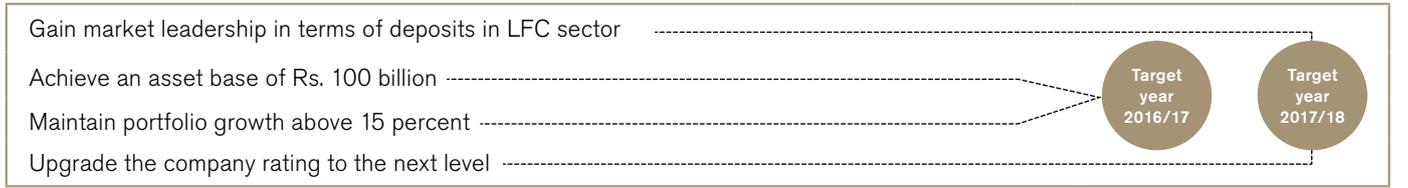


2015/16 Highlights

2015/16 Progress towards objectives			
Objective	Status		Page
Maintain portfolio growth above 10 percent	●	27.87 percent	P 04
Achieve excellence in financial reporting	◐	4 awards achieved	P 29
Maintain cost to income ratio maintain below 40 percent	●	35.89 percent	P 55
Maintain NPL ratio below 5 percent	●	3.28 percent	P 57

◐ Ongoing
 ● Achieved
 ○ Not achieved

Objectives 2016/17 and beyond



Challenges



Volatility in macroeconomic conditions
[Page 38](#)



Special interest rate schemes offered for senior citizens by commercial banks
[Page 100](#)



Changes in directions on loan to value ratio
[Page 102](#)



In a turbulent environment, the Company faced challenges of changing interest rates, matching maturities of assets and liabilities, liquidity management and controlling costs during the year. Always guided by our business strategy, we were able to achieve a steady growth in our lending portfolio while also growing our deposits base. The Company ended the year in a healthy financial state which would ensure delivering sustainable value to all our stakeholders, both in the short and long terms. For a meaningful analysis of our results, the principal components and changes therein are detailed below.

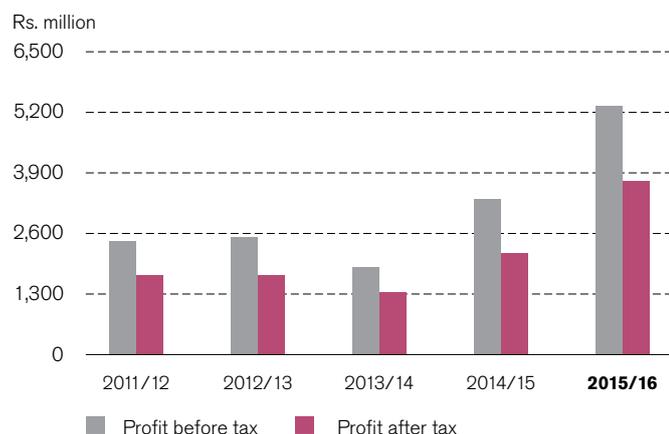
ANALYSIS OF FINANCIAL PERFORMANCE

A SUMMARY OF THE INCOME STATEMENT

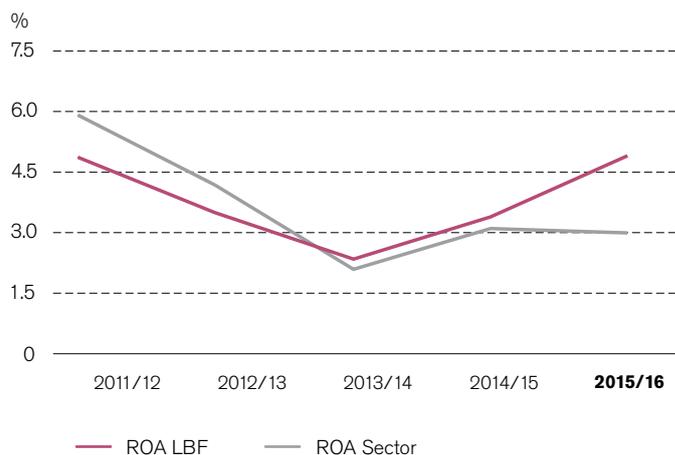
Item	2015/16 Rs. million	2014/15 Rs. million	Increase/ (decrease)	Growth %
Net interest income	8,655.47	7,737.57	917.90	11.86
Non-interest income	1,217.73	1,100.68	117.05	10.63
Operating expenses	3,543.35	3,171.40	371.94	11.73
Impairment charge	382.43	1,804.83	(1,422.40)	(78.81)
Taxation	2,200.27	1,464.95	735.31	50.19
Profit after tax	3,717.79	2,182.12	1,535.66	70.37

PROFITABILITY

Profit before tax and profit after tax



ROA – LBF vs LFC Sector

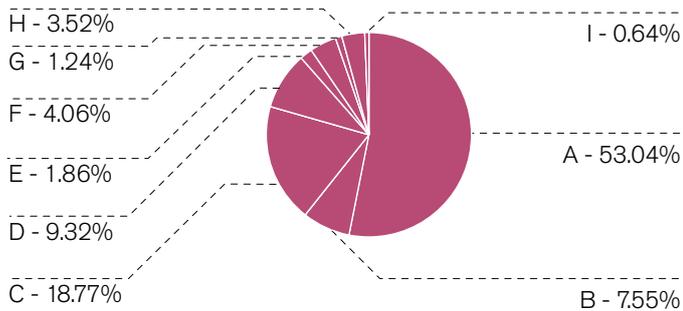


ROE – LBF vs LFC Sector

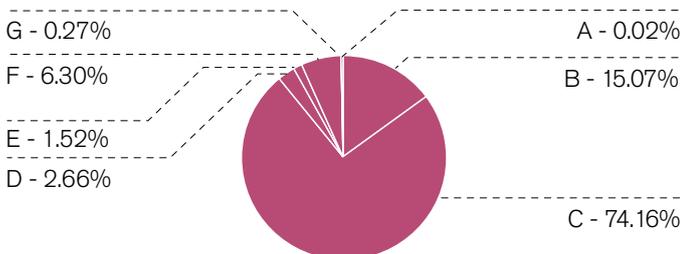


Despite a somewhat adverse operating environment, the Company continued with its growth and notched a praiseworthy profitability performance. The profit before tax for 2015/16 reached Rs. 5,324.61 million and profit after tax Rs. 3,717.79 million compared with Rs. 3,331.85 million and Rs. 2,182.12 million respectively recorded in 2014/15. A strong top line, attributable to expanding volumes with decreased impairment charges, combined with curtailed expense growth drove the increased profitability.

The growth in profits had a positive impact on profitability ratios. For the year ended 31st March 2016, the Company recorded ROA and ROE of 4.89 percent and 40.40 percent against 3.40 percent and 30.88 percent in 2014/15 respectively. Significantly, the Company's performance in both ROA and ROE is well above the industry average which stood at 3 percent and 12.3 percent respectively.

NET INTEREST INCOME**Interest income composition-2015/16**

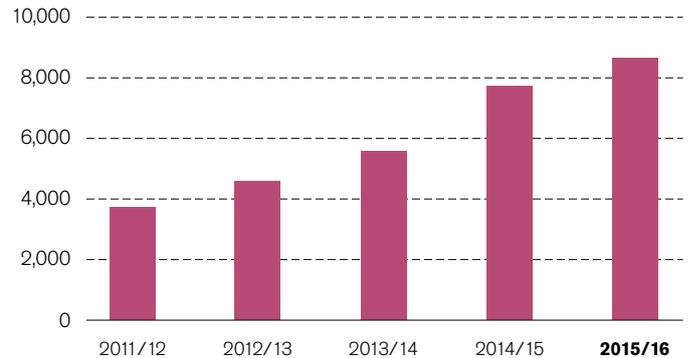
- A - Lease
- B - Hire purchase
- C - Gold loans
- D - Vehicle loans
- E - Medium and short term loans
- F - Mortgage loans
- G - Power drafts
- H - Other financial assets
- I - Other interest income

Interest expense composition-2015/16

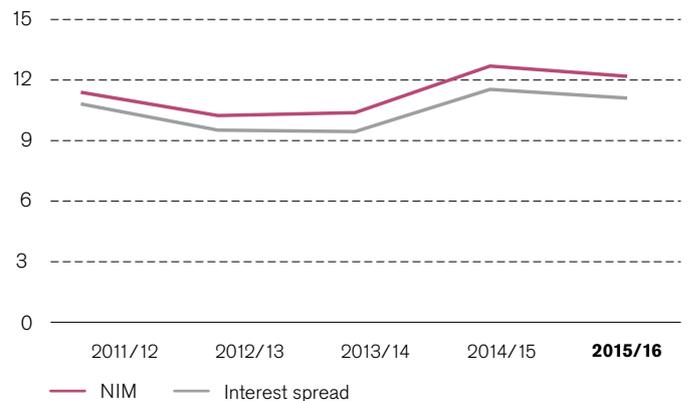
- A - Bank overdrafts
- B - Syndicated loans and other bank facilities
- C - Fixed deposits
- D - Savings deposits
- E - Securitized borrowings
- F - Unsecured debentures
- G - Other interest expenses

Net interest income

Rs. million

**NIM and interest spread**

%



LBF successfully overcame the challenges posed by declining interest rates to impressively surpass the previous year's results. The Company's interest income amounted to Rs. 14,428.72 million in 2015/16 compared to Rs. 13,687.07 million in 2014/15 which amounted to a commendable growth of 5.42 percent. The growth in lending portfolio drove the Company's strong top line growth.

During the year under review leasing took the top spot among income generators with a contribution of 53.04 percent of the total. Our strategic approach of focusing more on customer retention and market penetration paid off handsomely in gold loans; the product notched the second largest contribution of 18.77 percent to interest income with an increase of 23.62 percent over the previous financial year. Interest income from mortgage loans recorded an impressive growth of 46.94 percent to Rs. 585.62 million.

Our well-timed re-pricing decisions and proactively adjusted funding structure brought results by way of a reduction of interest expenditure by 2.96 percent to Rs. 5,773.25 million compared to Rs. 5,949.49 million in 2014/15.



Deposits contributed 77.08 percent to the Company's total interest expenses, accounting for 63.16 percent of the funding mix. A substantial portion of this was short tenured and was sensitive to the changes in the market interest rates due to re-pricing. Interest costs on deposits declined by 12.63 percent to Rs. 4,450.13 million during the year.

However, interest on bank loan facilities rose sharply increasing by 324.45 percent during the year. This could be explained however by the fact that bank facilities of Rs. 8.22 billion were obtained, to take advantage of low interest rates prevailed, strengthen the liquidity position and bridge maturity mismatches by longer tenure facilities.

NET INTEREST MARGIN AND INTEREST SPREAD

Somewhat disparate results were witnessed in net interest income and net interest margin (NIM). Net interest income recorded an increase of 11.86 percent. Nevertheless, under the adverse effects of low interest rates NIM declined from 12.67 percent in the previous year to 12.17 percent. Interest spread too decreased to 11.09 percent from 11.55 percent in 2014/15 reflecting the effect of constrained margins.

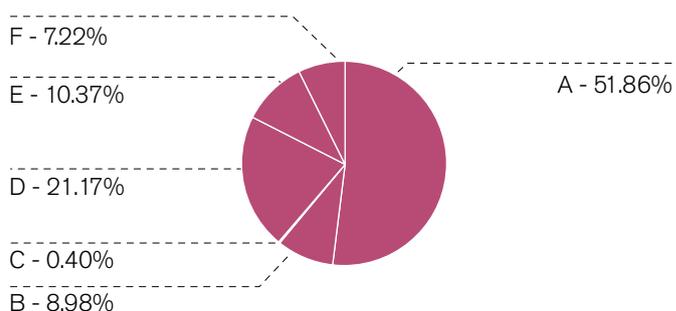
NON-INTEREST INCOME

Non-interest income comprises fee and commission, net trading income and other operating income. Fee and commission income is the principal component of non-interest income which includes fee charged from credit-related activities and service charges received mainly from gold loans. Fee and commission charged from credit-related activities accounted for 69.99 percent and service charges accounted for 30.01 percent of fee and commission income. This showed an increase of Rs. 208.84 million with a growth of 21.76 percent during the year. This growth is mainly accounted for by increased business volumes in leasing and gold loans.

Net trading income includes dividend income and changes in market value of equity securities held for trading. Drop in market value resulted in a decrease of net trading income. Income earned on other sources, which are not directly related to the core business operations of the Company is recognised as other operating income. This decreased by 65.18 percent to Rs. 48.08 million from Rs. 138.09 million. Scaled down operations in operating leases primarily accounted for this decline.

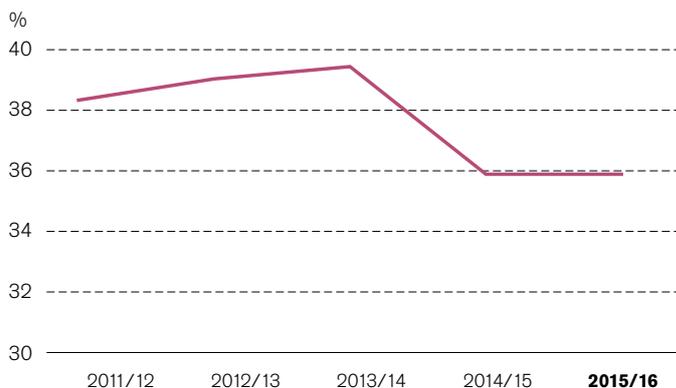
OPERATING EXPENSES

Operating expense composition – 2015/16



- A - Personnel expenses
- B - Depreciation of property, plant & equipment
- C - Amortisation of intangible assets
- D - Office administration and establishment expenses
- E - Advertising and business promotional expenses
- F - Other expenses

Cost to income ratio



Rising personnel expenses mainly drove an increase of operating expenses from Rs. 3,171.40 million in 2014/15 to Rs. 3,543.35 million in 2015/16 with a growth of 11.73 percent. The Company gives great importance to growing its human capital so it continued to invest in employees, especially in training. In addition, infrastructure development and aggressive advertising and business promotions carried out during the year resulted in an increase in operating expenses.

Personnel expenses recorded a growth of 21.21 percent to Rs. 1,837.55 million. Salary and other related expenses, that increased by 20.57 percent to Rs. 1,573.91 million compared to Rs. 1,305.41 million in the last financial year, accounted for the bulk of this.

Other operating expenses increased by 5.32 percent to Rs. 1,373.37 million as against Rs. 1,303.96 million in the previous year. Office administration and establishment expenses and advertising and business promotional expenses are the key components of other operating expenses. However, office administration and establishment expenses only increased marginally by 0.24 percent to Rs. 750.22 million whereas advertising and business promotional expenses increased by 16.27 percent to Rs. 367.29 million.

The Company strives continuously to improve its operating efficiency, and monitors and control costs. As a result, cost to income ratio was managed within the expected limit which recorded at 35.89 percent over the previous year's 35.88 percent. Increased net interest income also supported to maintain this at anticipated levels.

IMPAIRMENT CHARGE

Item	2015/16 Rs. million	2014/15 Rs. million	Increase/ (decrease)
Loans and receivables	61.44	185.85	(124.40)
Lease rental receivables and stock out on hire	345.82	1,621.73	(1,275.91)
Other losses	63.49	0.05	63.43
Recovery of written off debts	(88.33)	(2.80)	(85.52)
Total	382.43	1,804.83	(1,422.40)

In the past year, the Company has made strenuous efforts to resolve non-performing assets and control risks, thus ensuring effective control of asset quality. The Company worked out a holistic program for resolving non-performing assets, combining various measures such as regular meetings between the recovery department and management led to specific recommendations where the asset quality was controlled within the target range.

The Company set aside an impairment charge of Rs. 382.43 million for the year, a decrease of Rs. 1,422.40 million or 78.81 percent as compared to the previous year's impairment charge of Rs. 1,804.83 million. Impairment charge on loans and receivables decreased by 66.94 percent or Rs. 124.40 million to Rs. 61.44 million. Impairment charge on lease rental receivables and stock out on hire decreased by a significant amount of Rs. 1,275.91 million to Rs. 345.82 million compared to last year's Rs. 1,621.73 million.

The improved quality of the lending portfolio and also increased vehicle prices triggered to a lower realizable loss relative to the assumed loss given default were the main reasons for the overall reduction of the impairment charge in 2015/16.

TAXATION

During the year under review, income tax including deferred tax expenses of the Company amounted to Rs. 1,606.82 million compared to previous year's Rs. 1,149.72 million.

A marginal decrease in the effective tax rate to 30.18 percent compared to 34.51 percent in 2014/15. The reason for this reduction of income tax expense is due to reduction of deferred tax expense compared to 2014/15 mainly due to claiming of more capital allowances on leasing. The lease portfolio increased by 51.90 percent during the year under review.

Tax on financial services increased to Rs. 593.45 million from Rs. 315.23 million in 2014/15. The main reason for this is applying Financial Service Tax for leasing by the Value Added Tax Amendment Act No. 11 of 2015.

ANALYSIS OF FINANCIAL POSITION

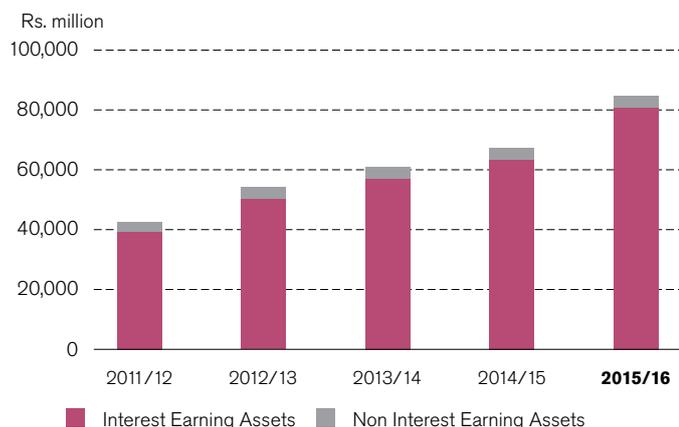
A SUMMARY OF BALANCE SHEET ITEMS

Item	2015/16 Rs. million	2014/15 Rs. million	Increase/ (decrease)	Growth %
Assets	84,517	67,543	16,974	25.13
Lending portfolio	71,554	55,958	15,596	27.87
Lease	42,592	28,039	14,553	51.90
Gold loans	13,136	10,381	2,756	26.55
Vehicle loans	5,100	7,195	(2,096)	(29.13)
Mortgage loans	3,712	2,240	1,471	65.68
Other	7,014	8,103	(1,089)	(13.44)
Liabilities	74,037	59,615	14,422	24.19
Deposits	53,380	45,431	7,949	17.50
Fixed deposits	50,596	42,782	7,814	18.26
Savings and other	2,784	2,648	136	5.12
Borrowings	17,179	11,233	5,946	52.93
Shareholders' funds	10,479	7,927	2,552	32.20

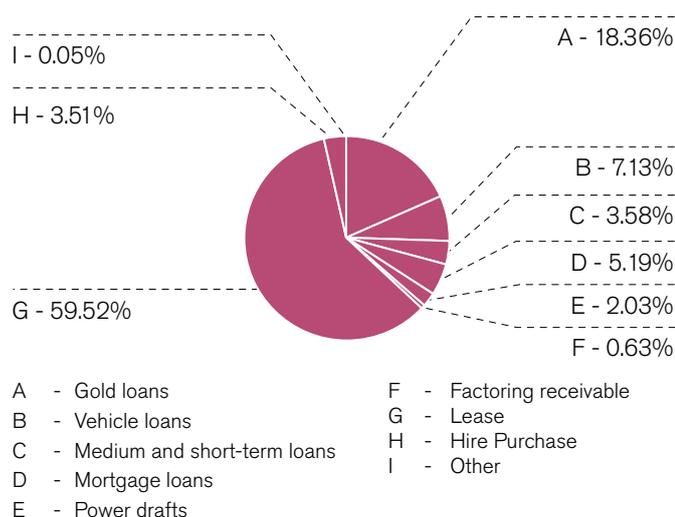


ASSETS

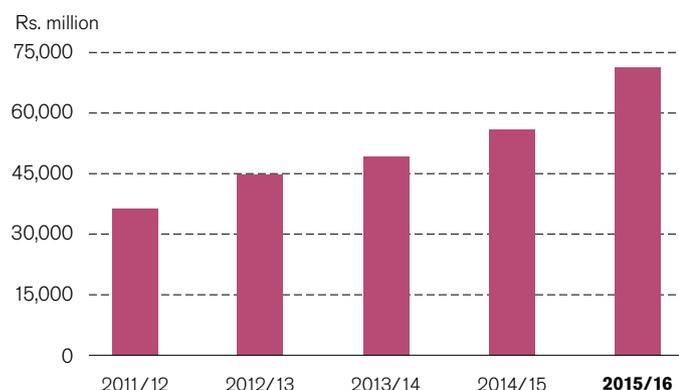
Interest earning assets and non-interest earning assets



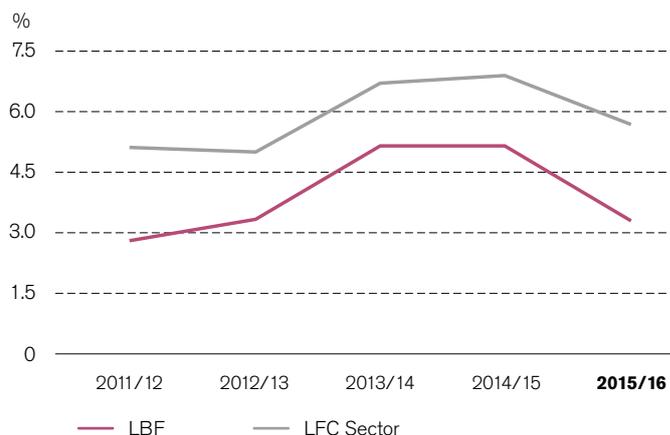
Lending portfolio composition – 2015/16



Lending portfolio



NPL Ratio – LBF Vs LFC Sector



The Company's asset base reached Rs. 84.51 billion an increase of 25.13 percent over the previous year. This increase was mainly due to 27.87 percent increase in the lending portfolio which accounted for 84.66 percent of total assets.

The Company continued to focus on core business activities. Therefore interest earning assets, which represent 95.95 percent of the total assets, rose by 27.42 percent to Rs. 81.09 billion. This demonstrates our adherence to our policy of concentrating on core business activities.

LENDING PORTFOLIO

Lending portfolio of the Company which includes leasing, hire purchase, gold loans, vehicle loans and other diversified products, increased to Rs. 71.55 billion in 2015/16 compared to Rs. 55.95 billion in the previous financial year.

Leasing continues to dominate the Company's lending portfolio with a share of 59.52 percent during 2015/16 recording a growth of 51.90 percent. Leasing portfolio reached Rs. 42.59 billion from Rs. 28.03 billion. This phenomenon was resulted due to expansion of our reach, aggressive marketing campaigns coupled with the exemptions of finance lease from VAT, resulted customers to shift from hire purchase and vehicle loans to leasing.

The second largest contributor to the lending portfolio; gold loans reached Rs. 13.13 billion with a 26.55 percent growth compared to the last year 29.64 percent. Stable trend in gold prices created a conducive environment for gold loans. Additionally expanded branches and gold loan centres with a market penetration approach provided a scalable platform for growth.

Continuing the Company's strategy to diversify from traditional products; prudent steps were taken to promote mortgage loans during the year as well. This resulted in 65.68 percent growth in mortgage loans recording Rs. 3.71 billion at the end of the year.

ALLOWANCE FOR IMPAIRMENT LOSSES

Item	2015/16 Rs. million	2014/15 Rs. million	Increase/ (decrease)	Growth %
Collective impairment	429.19	295.28	133.90	45.35
Individual impairment	2,212.56	2,372.34	(159.77)	(6.73)
Total impairment	2,641.75	2,667.63	(25.87)	(0.97)
Individual impairment as a % of lending portfolio	2.98	4.05	-	(26.42)
Collective impairment as a % of lending portfolio	0.58	0.50	-	16.00
Total impairment as a % of lending portfolio	3.56	4.55	-	(21.76)
Individual impairment as a % of individually impaired lending portfolio*	72.76	66.97	-	8.65
Collective impairment as a % of collectively impaired lending portfolio*	0.6	0.54	-	11.11

*Before impairment provision

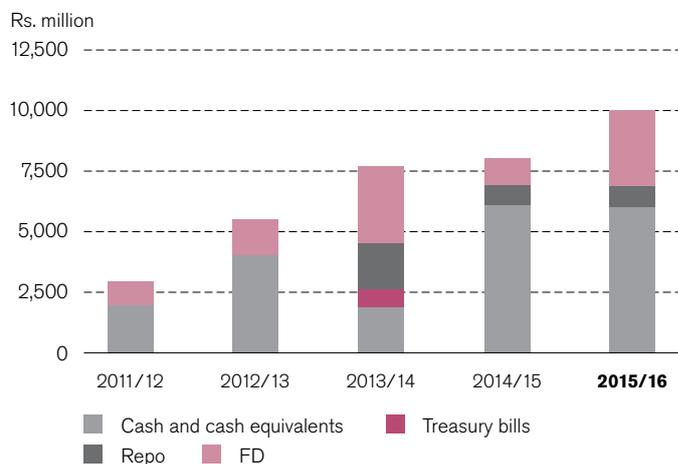
Despite the challenges of the operating environment during the year, the Company sought to maintain and improve the quality of its loan portfolio by exercising caution when granting loans and leases and keeping strict tabs on recoveries. This has brought results in the reduction of the ratio of total impairment to lending portfolio to 3.56 percent from the previous year's 4.55 percent. The total provision for impairment declined marginally to Rs. 2,641.75 million from Rs. 2,667.63 million in the previous year. The net disposable value of the vehicles where the impairment provision was previously made gradually increased during the year 2015/16 due to the significant increase of the vehicle prices. This led to a reversal of impairment on the excess amount of the impairment provision made.

ALLOWANCE FOR PRODUCT-WISE, IMPAIRMENT LOSSES

Item	2015/16 Rs. million	2014/15 Rs. million	Increase/ (decrease)	Growth %
Leases	1,552.54	1,548.99	3.55	0.23
Hire purchase	365.24	441.70	(76.46)	(17.31)
Gold loans	28.63	55.96	(27.33)	(48.84)
Vehicle loans	249.13	254.24	(5.11)	(2.01)
Mortgage loans	216.30	169.72	46.58	27.44
Other	229.89	197.00	32.89	16.69
Total	2,641.75	2,667.63	(25.88)	(0.97)

NON-PERFORMING LOANS (NPL)

The Company continued to adhere to the Central Bank's classification policy for provisioning of non-performing loans. The NPL ratio (as per the CBSL regulations) recorded at 3.28 percent with, a significant reduction compared to 5.15 percent in the last year. During the year the Company was able to extricate itself from the worsening trend in non-performing loans. Continuing the strategy begun the previous year to strengthen the recovery function and processes, driven by stringent monitoring by the management, the Company was successful in bringing down the NPL ratio below 5.7 percent in the LFC sector. Furthermore in accordance with the writing off policy, the Company wrote off Rs. 433.14 million of fully provided loans.

LIQUIDITY**Liquid assets composition**



Liquid assets to deposits ratio



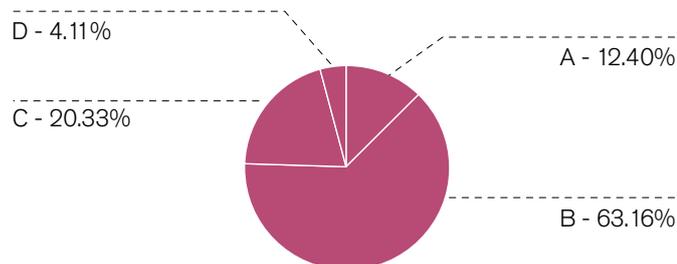
The Company maintained an equitable balance between profitability and liquidity during the year and liquidity levels were kept well above the statutory requirements. Liquid assets are maintained in cash form, investments in government securities and bank deposits.

The Company sought to capitalise on the low interest rates that prevailed in the first half of the year, and therefore funds were aggressively sought from deposits and borrowings. The increase in these had a consequent positive effect on liquidity.

The total liquid assets amounted to Rs. 9.99 billion showing a growth of 23.79 percent. This very favourably compares with the growth of only 4.92 percent in 2014/15 when it reached Rs. 8.07 billion. Liquid assets to deposits ratio was 18.73 percent compared to 17.78 percent last year. In addition to the total liquid assets, the Company had Rs. 1.38 billion of unutilised funding lines at the end of 2015/16 reflecting strong liquidity position.

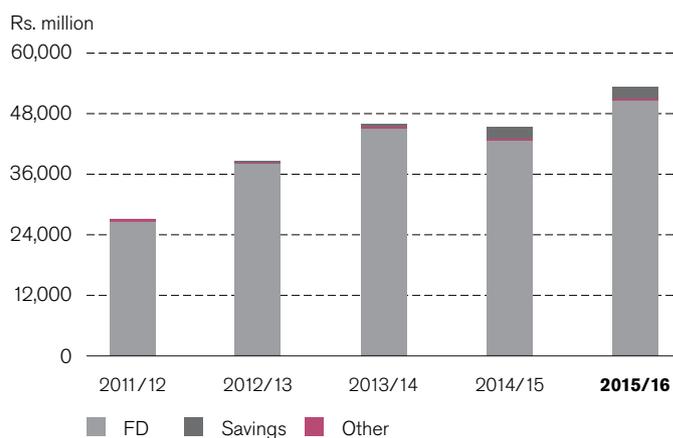
LIABILITIES

Funding mix – 2015/16

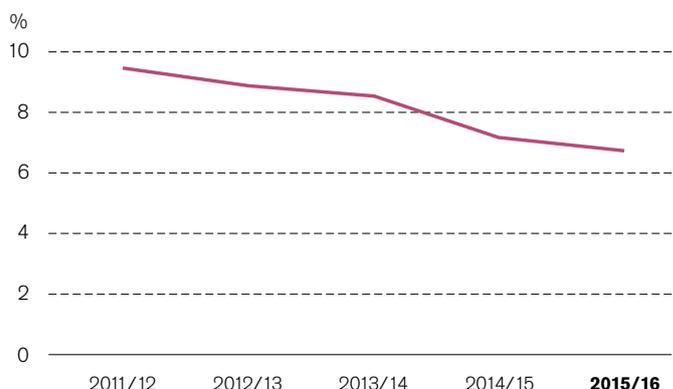


A - Equity C - Borrowings
B - Deposits D - Other

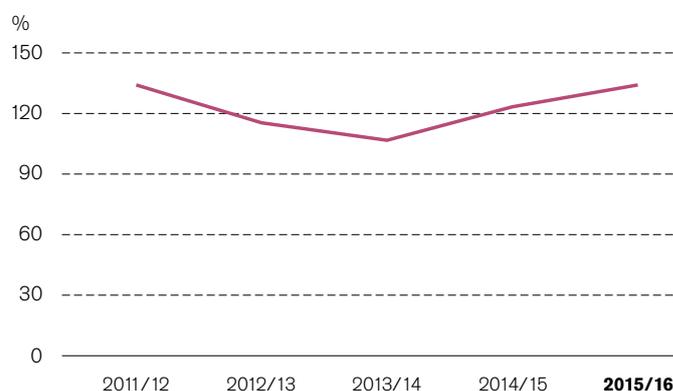
Deposits base and composition



Debt to equity ratio



Loans to deposits ratio



Total liabilities increased to Rs. 74.03 billion from Rs. 59.61 billion in the previous financial year, demonstrating a growth of 24.19 percent. The main sources of this increase were fixed deposits and bank borrowings.

DEPOSITS

Deposits continue to account for the bulk of funding comprising 63.16 percent of funding mix. It recorded a strong growth of 17.50 percent amounting to Rs. 7.94 billion at the end of the year. Fixed deposits and savings deposits are the main components of the deposits base. Fixed deposits contributed 94.78 percent of the total deposits, reaching Rs. 50.59 billion showing a growth of 18.26 percent over the previous year. The Company recorded this growth in a background where commercial banks were offering comparatively higher rates for senior citizens' fixed deposits. This is a demonstration of the solid customer loyalty enjoyed by the Company throughout.

The low cost of savings deposits makes it an attractive method of funding. The savings deposits base recorded a growth of 6.45 percent and reached Rs. 2.59 billion making it the second largest savings deposit base in the LFC sector. To sustain this growth momentum the Company has equipped the savings product with many features and value additions.

BORROWINGS

This is the second main funding source to the Company and has reduced the dependence of funding on customer deposits. The components of this are borrowings from banking sources, debt instruments issued and other borrowed funds. During the year, the Company recorded 52.93 percent growth in borrowings from Rs. 11.23 billion to Rs. 17.17 billion by end of 2015/16.

The growth primarily came from loan syndications and term loans obtained during the year. Facilities amounting to Rs. 8.22 billion were obtained, in order to achieve a further level of stability in overall borrowings. Majority of borrowings were longer tenure and obtained with a fixed rate or with an interest rate cap. During the year the Company did not issue any debt instrument.

LOANS TO DEPOSITS RATIO

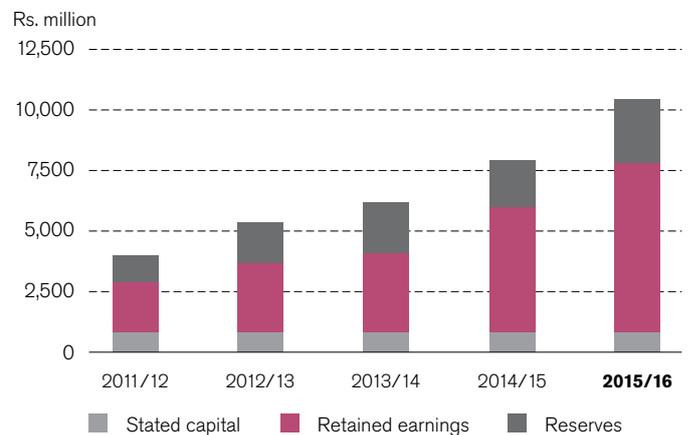
The Company's loans to deposits ratio was 134.05 percent as at 31st March 2016 compared to the ratio of 123.17 percent a year before. This positive growth is attributable to Rs. 15.59 billion growth in the lending portfolio in comparison to Rs. 7.94 billion growth in deposits. This indicates that the Company is making the optimum use of deposit financing by transforming them into interest earning assets and other funding sources have been utilized to fill the gap.

DEBT TO EQUITY RATIO

The debt to equity ratio of the Company improved to 6.73 times from 7.15 times in 2014/15 reflecting an improvement in the leverage position of the Company due to internal capital generation.

SHAREHOLDERS' FUNDS

Shareholders' funds composition



During the year the Company scored a landmark achievement, by recording the highest ever profit after tax of Rs 3.71 billion which boosted the shareholders' funds by 32.20 percent to Rs. 10.47 billion compared to Rs. 7.92 billion in the previous year. Continuously the Company's internal capital generation has become stronger which is evidenced by the impressive compound annual growth rate of profit after tax recorded at 29.51 percent over the past five years.

In the year under review, every ordinary share in issue was subdivided in to two ordinary shares which resulted in an increase in the number of shares to 138,514,284 without any impact on the stated capital that remained unchanged at Rs. 838.28 million. The retained earnings grew by 34.55 percent during the year to reach Rs. 6.97 billion compared to the last year's figure of Rs. 5.18 billion after adjusting for the Super Gain Tax paid by the Company. As per the interim budget 2015, any individual company or group which has exceeded the threshold of Rs. 2 billion profit after income tax for the assessment year starting 1st of April 2013, became liable to Super Gain Tax.



Vallibel One fell into the super gain tax bracket by exceeding the Rs. 2 billion threshold. According to the legislation, all Vallibel One subsidiaries and holding company are obliged to pay Super Gain Tax. Therefore LBF paid super gain tax amounting Rs. 484.23 million. In compliance with the Central Bank Direction No. 1 of 2013 the Company transferred Rs. 743.55 million to statutory reserve increasing the reserves to Rs. 2.67 billion at the end of the year.

ANALYSIS OF CASH FLOW

Cash and cash equivalents net of bank overdrafts balance stood at Rs. 5,352.62 million as at 31st March 2016 compared to Rs. 5,085.75 million of last year.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows from operating activities amounted to an outflow of Rs. 5,337.75 million compared to the last year net cash outflow of Rs. 1,407.55 million.

Although operating profit before working capital changes amounted to Rs. 5,625.75 million, this was offset by the net outflow from working capital of Rs. 9,220.46 million due to increased business volumes amounting to an outflow of 15,944.02 million. Due to our drive for fund mobilisation, deposits recorded a net inflow of Rs. 7,949.24 million as against last year's outflow of Rs. 664.65 million. Income tax and Super Gain Tax paid amounted Rs. 1,736.69 million.

CASH FLOWS FROM INVESTING ACTIVITIES

Company's cash flows from investing activities amounted to only Rs. 69.01 million, a sharp drop from last year's net inflow of Rs. 1,728.46 million. Higher net inflow recorded in 2014/15 was due to ceasing of Investment Fund Account and disposal of the portfolio of investment. Cash outflows on acquisition of property and equipment during the year amounted to Rs. 434.55 million.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash inflows from financing activities amounted to Rs. 5,535.61 million, which was mainly attributable to obtaining term loan facilities and syndicated loans from banking sources.

CAPITAL ADEQUACY

Capital adequacy is the measure of financial strength of a Company expressed as a ratio of its capital to its risk-weighted assets. This ratio indicates the Company's ability to maintain adequate capital in the form of equity and subordinated debts to meet any unexpected losses. The more capital the company has relative to the risks it takes, the more assured the stakeholders can be that it will meet its obligations to them.

**Rs. 15,646.46
million**

Economic
value generated

95.95%

Interest earning
assets

**Second largest
savings base
in the LFC
sector**

There are two types of capital measures that are used;

Tier I – Core Capital – representing permanent shareholders equity and reserves created or increased by appropriations of retained earnings or other surpluses. This capital is permanently and freely available to absorb losses without the Company being obliged to cease operations.

Tier II – Supplementary capital – representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt. This capital which generally absorbs losses only in the event of a winding-up of a company and so provides a lower level of protection.

The Central Bank has introduced two defined acceptable levels of capital that a finance company would require to maintain at any given moment. According to the Finance Companies Direction No. 02 of 2006, every Finance Company needs to maintain a core capital not less than 5 percent of risk weighted

assets (Tier I – Core Capital) and the total capital at a level not less than 10 percent of its total risk weighted assets (Tier I and II – Total Capital).

As of 31st March 2016, the Company reported a core capital (Tier 1) ratio of 16.84 percent which is an improvement over the previous year's ratio of 16.02 percent. On the other hand, the total risk weighted capital ratio, which comprises Tier I and II, which was 18.81 percent, has reduced compared to the previous year's 19.70 percent due to the reduction in the eligibility amount of unsecured subordinated debts. Both ratios however, have maintained a wide margin above the CBSL's minimum capital requirements.

With the proposed dividend of Rs. 7.50 per share, there will be an impact in the core capital resulting the core capital ratio and total risk weighted capital ratio to reduce marginally. As a result the proposed dividend adjusted Tier I ratio would be 15.17 percent and dividend adjusted Tier I and II ratio would be 17.14 percent.

COMPUTATION OF RISK WEIGHTED ASSETS

Assets (Rs. million)	Principal amount of on-balance sheet item*	Credit equivalent of off-balance sheet item	Total	Risk weight %	Risk weighted assets amount
Cash and current accounts with banks	1,086.43	–	1,086.43	0	–
Deposits with banks	3,080.00	–	3,080.00	20	616.00
Sri Lanka government treasury bills	5,720.00	–	5,720.00	0	–
Loans and advances:					
Against deposits with the Company	1,389.83	22.66	1,412.49	0	–
Loans against gold and gold jewellery	13,136.35	–	13,136.35	10	1,313.63
Loans against real estates (Performing)	0.37	–	0.37	50	0.19
Other loans and advances	57,027.78	36.64	57,064.43	100	57,064.43
Other investments (excluding items deducted from the total capital)	62.89	–	62.89	100	62.89
Property, plant & equipment	2,080.06	–	2,080.06	100	2,080.06
Other assets	904.95	–	904.95	100	904.95
Total	84,488.34	59.30	84,547.65		62,041.99

* Computation as per CBSL Direction



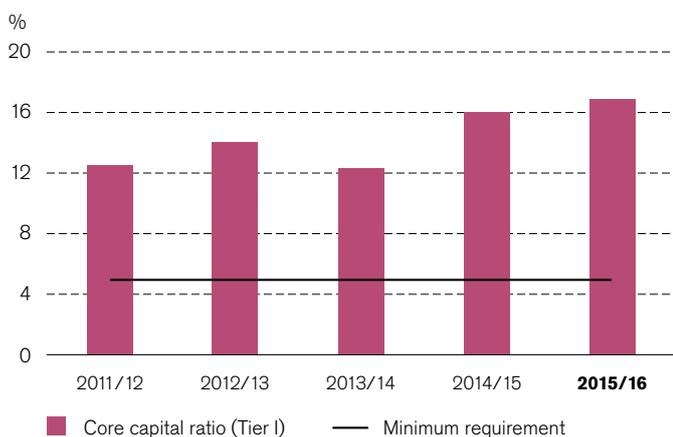
CONSTITUENTS OF CAPITAL

Capital	Amount Rs. million
Tier I : Core capital	
Issued and paid-up ordinary Shares	692.57
Share premium	145.71
Statutory reserve fund	2,641.04
Published retained profits	6,970.49
Tier II : Supplementary capital	
Eligible Tier II capital	1,309.00
Total capital	11,758.82
Deduction: Investment in capital of other banks/ financial associates	86.16
Capital base	11,672.66

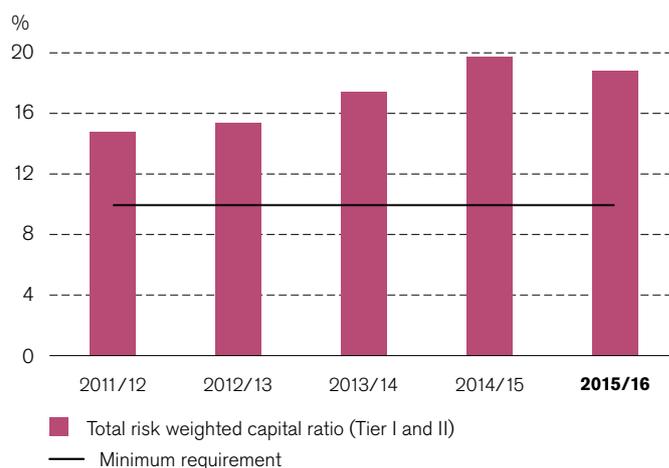
CAPITAL ADEQUACY RATIOS

Item	Amount Rs. million
Tier I : Core capital	10,449.82
Capital base	11,672.66
Total risk weighted assets	62,041.99
Core capital ratio	16.84%
Total risk weighted capital ratio	18.81%

Core capital ratio (Tier I)



Total risk weighted capital ratio (Tier I and II)



ECONOMIC CONTRIBUTION

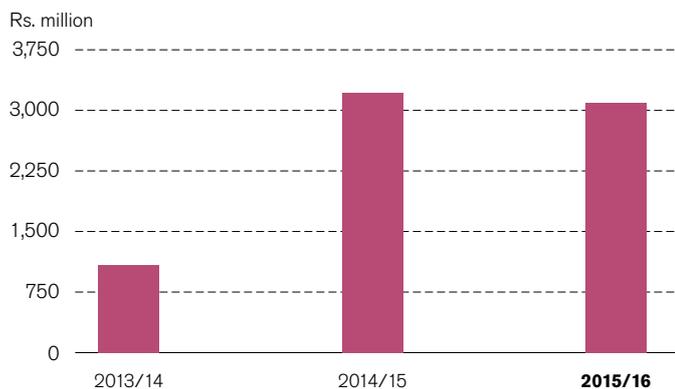
The Company's approach to value creation is armed with strategies focusing on operational excellence and sustainability. This is not merely short term but seeks with the long term on more value focused on triple bottom line, based on sustainable business practices.

ECONOMIC VALUE ADDED – (EVA)

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

ECONOMIC VALUE ADDED STATEMENT

Item	2015/16 Rs. million	2014/15 Rs. million	2013/14 Rs. million
Invested equity			
Shareholders' funds	10,479.31	7,927.09	6,206.68
Add: Cumulative loan loss provision/provision for impairment	2,641.75	2,667.63	1,754.91
Total	13,121.06	10,594.72	7,961.60
Earnings			
Profit attributable to shareholders	3,729.02	2,170.57	1,358.36
Add: Loan losses and provisions/impairment provision	382.43	1,804.84	570.33
Total	4,111.45	3,975.41	1,928.69
Economic cost % (Average Treasury Bill rate plus 2% risk premium)	8.55	8.27	11.68
Economic cost	1,013.85	767.30	848.81
Economic value added	3,097.60	3,208.11	1,079.88

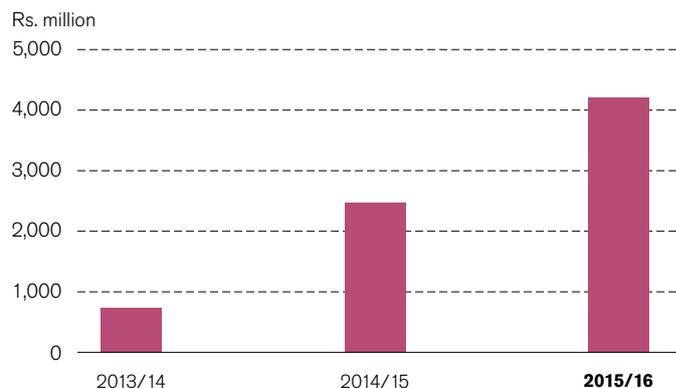
Economic Value Added

The Company's economic value creation during the year 2015/16 amounted Rs. 3,097.60 million comparing to the last year Rs. 3,208.11 million. Company showed positive economic value over the years that ensure the Company is creating value to the economy.

MARKET VALUE ADDED (MVA) STATEMENT

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

Item	2015/16 Rs. million	2014/15 Rs. million	2013/14 Rs. million
Market capitalisation			
Market value of equity	14,696.36	10,402.42	6,932.63
Less: Equity owners' funds			
Shareholders' funds	10,479.31	7,927.09	6,206.68
Total equity owners' funds	10,479.31	7,927.09	6,206.68
Market value added	4,217.05	2,475.33	725.95

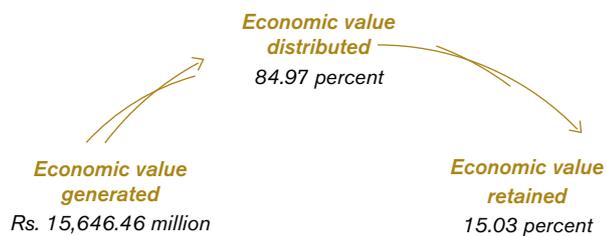
Market Value Added

The Company's market value creation during the year 2015/16 amounted Rs. 4,217.05 million compared to the previous year Rs. 2,475.33 million. The increase in MVA indicates that the Company has created significant wealth for the shareholders over the years.

ECONOMIC VALUE GENERATED AND DISTRIBUTED

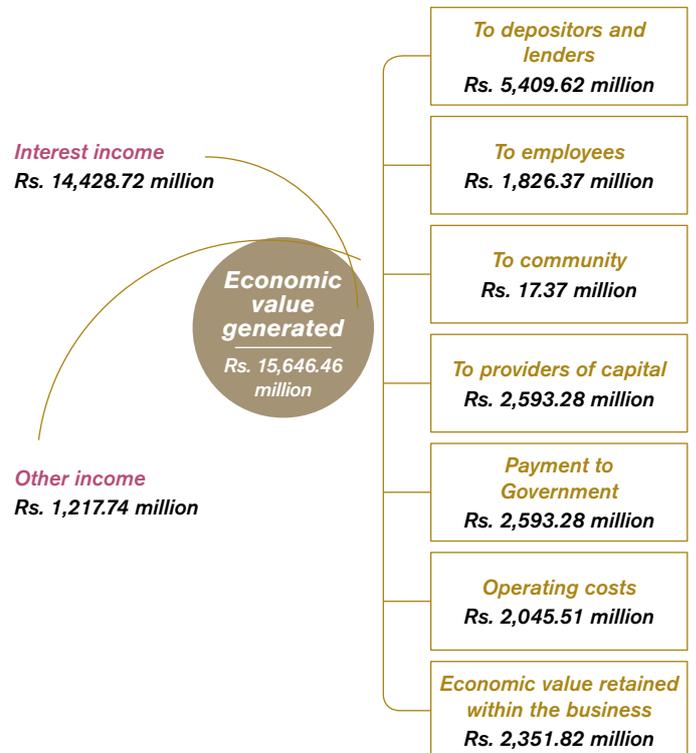
G4-EC1, EC8

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



Value generated for the year recorded Rs. 15,646.46 million, an increase of 5.81 percent compared to the previous year. During the year, 84.97 percent of the value generated distributed amongst key stakeholders and 15.03 percent retained within the Company. The value retained was for the purpose of growth and expansion of the Company.

Set out below is a snap shot of the value generated and distributed, reflecting the economic value generated, distributed and retained for the financial year 2015/16.

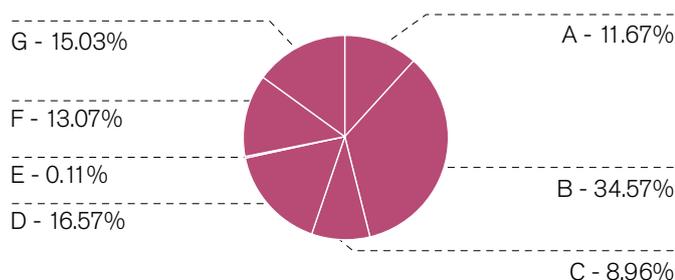


DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED  **G4-EC1**

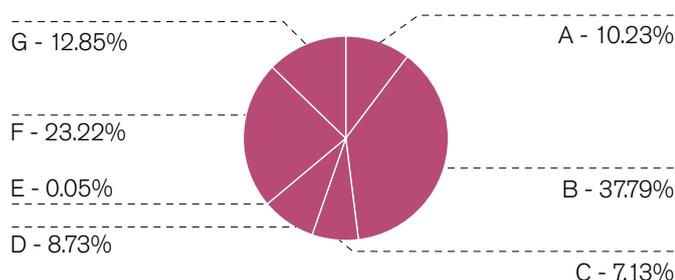
For the year ended 31st March	2015/16 Rs. million	%	2014/15 Rs. million	%
Direct economic value generated				
Interest income	14,428.72		13,687.07	
Fee and commission income	1,168.68		959.83	
Net gain/(loss) from trading	0.96		2.75	
Other operating income	48.09		138.09	
Economic value generated	15,646.46		14,787.75	
Economic value distributed				
To employees				
Employees, salaries and benefits	1,826.37		1,512.78	
	1,826.37	11.67	1,512.78	10.23
To depositors and lenders				
Interest expenses	5,409.62		5,588.24	
	5,409.62	34.58	5,588.24	37.79
Payments to providers of capital				
Dividend to shareholders	1,038.86		692.57	
Interest to debenture holders	363.63		361.25	
	1,402.49	8.96	1,053.82	7.13
Payments to government				
Income tax expenses	1,479.08		954.30	
Super gain tax	484.23		–	
VAT and NBT on financial services	593.45		315.23	
Crop and insurance levy	36.52		21.92	
	2,593.28	16.58	1,291.45	8.73
To community				
Social responsibility projects	17.27		7.85	
Donations	0.10		0.10	
	17.37	0.11	7.95	0.05
Operating costs				
Depreciation and amortisation set aside	332.42		351.42	
Impairment charge for loans and other losses	382.43		1,804.83	
Training cost	11.18		3.23	
Other operating expenses	1,319.48		1,274.09	
	2,045.51	13.07	3,433.57	23.22
Economic value retained	2,351.82	15.03	1,899.94	12.85
Economic value distributed	15,646.46	100.00	14,787.75	100.00



Economic value distributed – 2015/16



Economic value distributed – 2014/15



- A - To employees
- B - To depositors and lenders
- C - Payments to providers of capital
- D - Payment to Government
- E - To community
- F - Operating costs
- G - Economic value retained within the business

CREDIT RATING

A-(LKA) STABLE

During the year under reviews Lanka Ratings Agency Limited was suspended from operating as a registered credit agency by Securities and Exchange Commission of Sri Lanka. With the suspension Company shifted the rating management process to Fitch Ratings Lanka Limited. Fitch Ratings is a global rating agency which pioneered credit ratings in Sri Lanka.

A credit rating of a financial institution is dependent on several factors, including its asset quality, risk appetite, capitalisation, profitability, funding and liquidity levels as well as management quality.

In December 2015 Fitch Ratings assigned a National Long-Term Rating at 'A-(lka)' with a Stable Outlook to the Company.

'A' National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category. + or - may be appended to a National Rating to denote relative status within a rating category.

Company's rating reflects its established franchise among licensed finance companies its higher yielding exposures that supported sound profitability. Fitch views the Company's capital as satisfactory taking into account its good revenue generation.

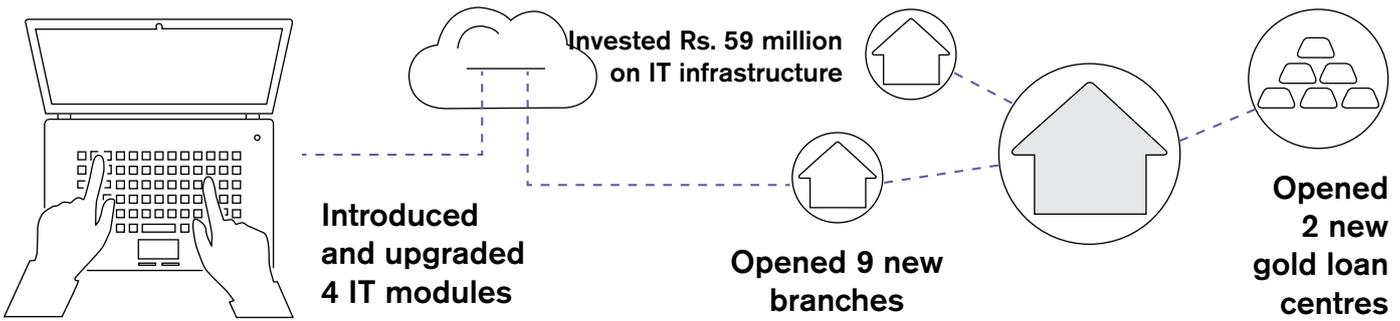
An upgrade of rating is contingent upon achieving stronger capitalisation levels along with a moderation of its risk appetite demonstrated through lower exposure to risky assets. A more comfortable liquidity position would also support the rating. Downgrade of rating is contingent upon the company failing to maintain its capital levels, weaker profitability or if there is a sustained deterioration of its asset quality. An increase in liquidity risk could also lead to a downgrade.

The consistent improvement in the Company's financial stability and creditworthiness is reflected by the upgrade of its credit rating over several years. Since year 2006 the Company's long-term financial institution ratings were upgraded by three notches, a significant achievement by the Company.

THE COMPANY'S RATING HISTORY

Month	Rating agency	Rating	Outlook
2006-May	RAM Ratings Lanka limited	BBB-	Stable
2009-July	RAM Ratings Lanka limited	BBB	Stable
2010-November	RAM Ratings Lanka limited	BBB+	Stable
2011-July	RAM Ratings Lanka limited	BBB+	Positive
2011-November	RAM Ratings Lanka limited	A-	Stable
2015-December	Fitch Ratings Lanka limited	A-	Stable

Manufactured capital



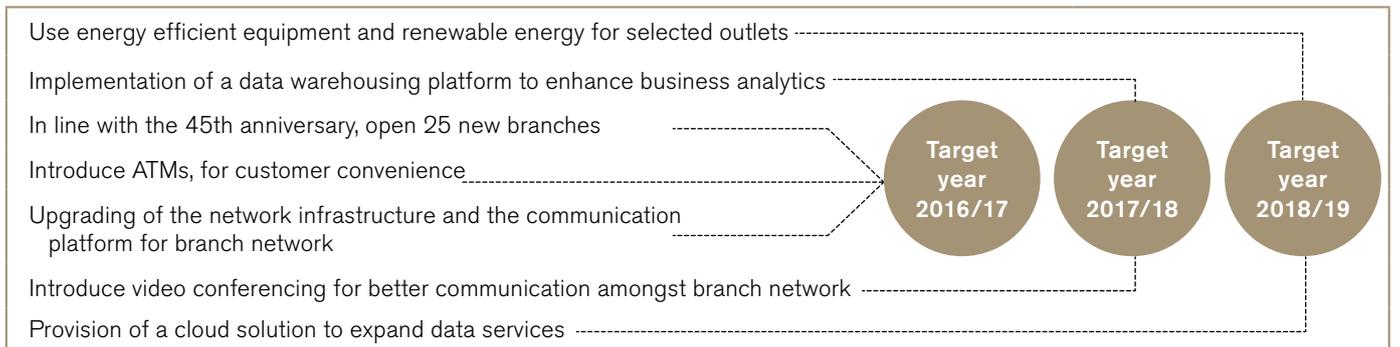
2015/2016 Highlights

2015/16 Progress towards objectives

Objective	Status	Page
Expansion in regional presence	🔄 Represent in all 9 regions	P 69
Creating efficient and customer friendly branch layouts	🔄 2 premier branches	P 69
Introduction of online platform to our customers	🔄 LB e-connect	P 72
Upgrading of the network infrastructure and the communication platform	● Upgraded 183 connections	P 72

🔄 Ongoing ● Achieved ○ Not achieved

Objectives 2016/17 and beyond



Challenges



Cost implications of branch upgrading and relocation
[Page 69](#)



Maintaining integrity and confidentiality of information via information security systems
[Page 71](#)



Moving forward with the latest technology
[Page 71](#)

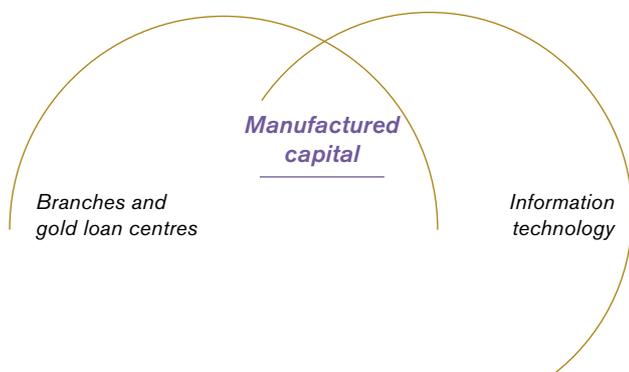


Finding strategic locations for further expansion
[Page 73](#)



OVERVIEW

The components of the Company's manufactured capital, as shown in the diagram below, include both 'hard' and 'soft' elements. LBF needs to optimise the allocation of resources, the way in which to serve customers best while minimising cost and enhancing efficiency and profitability.

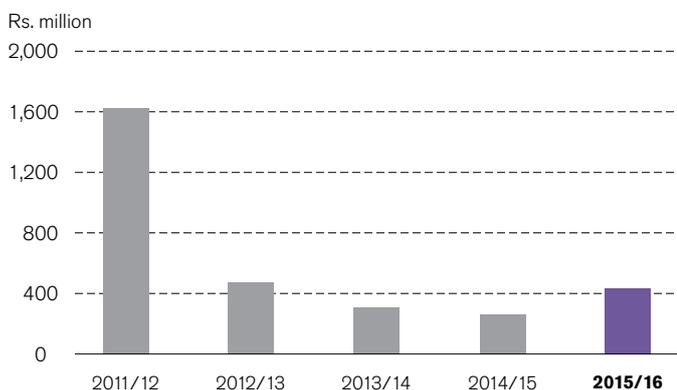


VALUE EXPANSION DURING THE YEAR

When investing on manufactured capital the Company cannot afford to take a short-term view. Investment in new branches or IT systems naturally need time to generate returns. LBF needs to consider the ROI in the medium and long-term in a sustainable manner to achieve our high-level goals and strategies.

The graph below shows the investment on manufactured capital in the last 5 years.

Investment on manufactured capital



During the year under review, the Company invested Rs. 434.55 million on manufactured capital including Rs. 375.31 million on branches and gold loan centres and Rs. 59.24 million on information technology developments.

DISTRIBUTION NETWORK G4-8, 13

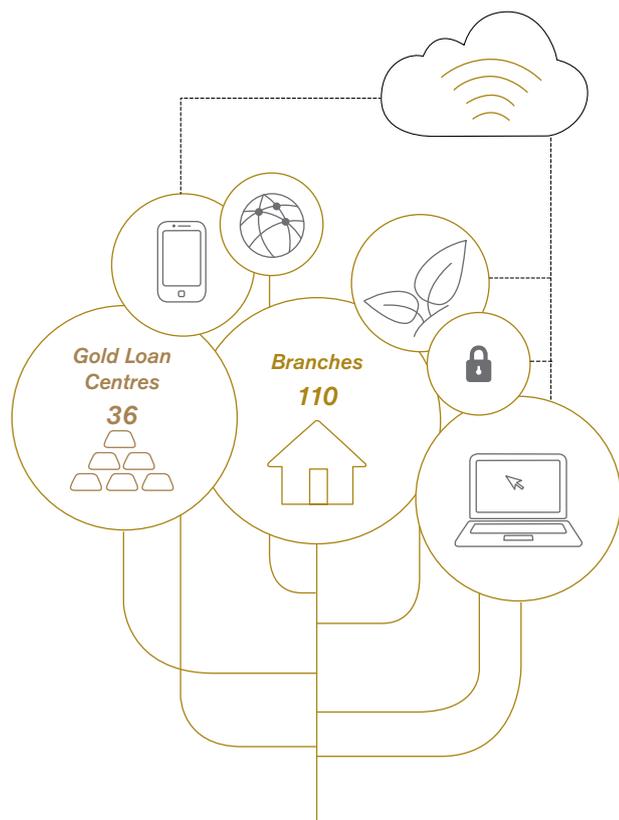
LBF's network of branches and GL centres are the outlets through which the Company reaches customers and offers LBF's products and services to them. This constitutes the customer facing arm of our business. In the year under review LBF invested in expanding, repositioning and upgrading existing branches and GL centres to expand geographical reach while enhancing customer convenience.

During the year under review, 9 new branches and 2 GL centres were opened across the country. When LBF expands and upgrades delivery channels, the Company expends financial capital to build relationship capital by way of enhancing customer convenience further. This will ultimately lead to generating value and financial capital for the Company.

Branches and GL centers are LBF's primary contact points with customers. GL centers are entry level outlets which do not accept deposits. Opening GL centres, which involve low capital investment and low operating cost, enables the Company to 'test the waters' when opening up operations in a new area. This initial strategic entry will end up with a fully-fledged branch if more opportunities are available to serve customers with all LBF financial solutions.

LBF also has premier branches which provide superior service with VIP atmosphere. The service provided within such centres will indeed make such customers feel that they are valued. This concept has led to deeper and wider brand recognition. To provide red carpet service to our gold loan customers, the Company opened a VIP gold loan centre at corporate office. At the top of the pyramid in terms of physical capital, the importance paid to the physical environment in projecting the LBF image is also reflected in the grandeur of the Company's corporate office.

The geographical distribution of the LBF network is depicted in [page 22](#).



Total number of branches and GL centres grew by 11 during the year increasing total branch and GL centres to 146 at the end of the year. The Company added 9 new branches and 2 new GL centres while 1 GL centre was upgraded to a branch.

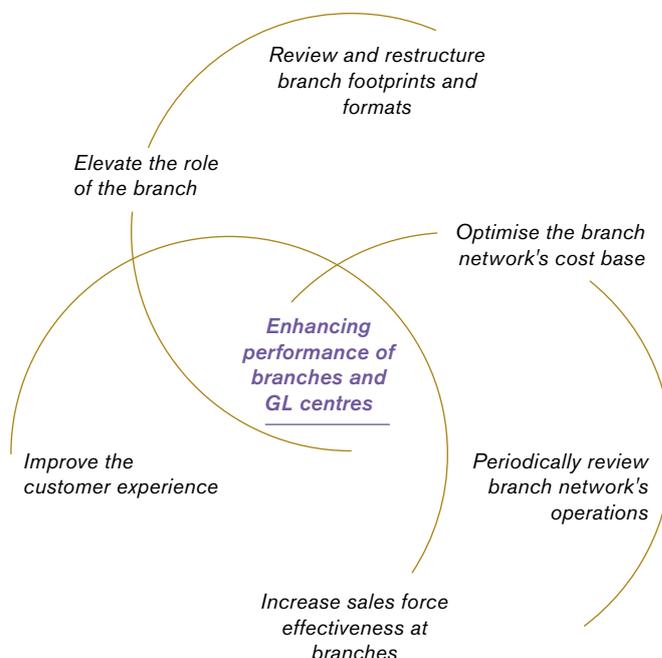
MOVEMENT IN BRANCHES AND GL CENTRES

Category	2015/16	2014/15	2013/14
Conversions (Upgrades)	1	-	2
Closed down	-	2	-
New branches	9	3	8
New GL centres	2	-	-
Strategic relocations	1	3	-

New branches opened in Valachchenai, Gampola, Kottawa, Dehiaththakandiya, Kokkadicholei, Gelioya, Katugasthota, Kinniya, and Anamaduwa. GL centres were opened in Baduraliya and Hanwella areas. The Wattala GL Centre was upgraded to a branch.

ENHANCING NETWORK PERFORMANCE

The process of enhancing the performance of our branches and GL centres is shown diagrammatically below. This strategy leads to a higher return on LBF's manufactured capital investment by way of improving quality of service.



Conventional branches are transformed to new age customer convenience centres by upgrading the ambience and service standards. Technological improvements are vital and LBF has identified the relevant infrastructure development requirements which will be invested in future. The branches and GL centres will be converted to high-profit centres with operational strategies stemming from the overall corporate strategy. Sales targets will be set accordingly after comprehensive market research and analysis in driving core business functions. Relevant training requirements will be identified at the branch level and strategic human resource development solutions will be provided to enhance employee performance. Every branch and GL centre will be reviewed periodically, identifying strengths and weaknesses while updating their set goals followed by a review.

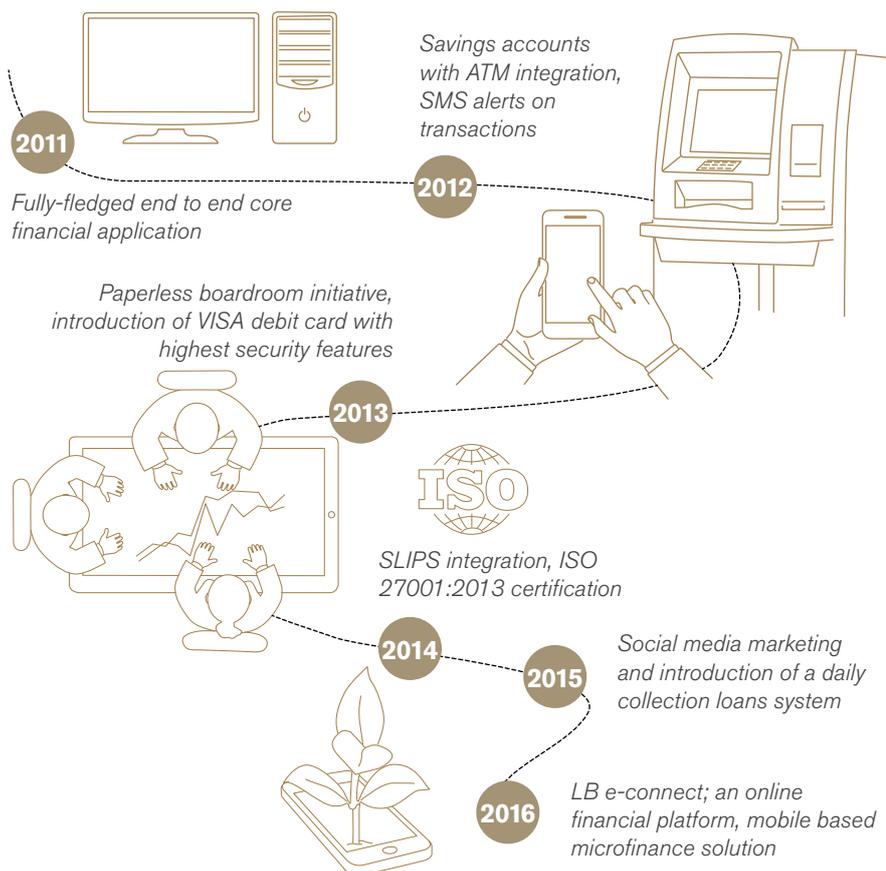


INFORMATION TECHNOLOGY

The latest technological solutions have driven the Company to reach beyond and create innovative financial solutions. Being in an industry such as financial service, IT is a major component of LBF's competitive edge. IT being such a fast moving field, LBF has to constantly seek new ways of using it to add value to services and increasing the productivity of employees as well as bringing them greater job satisfaction. Thus, the Company needs to constantly keep innovating and developing new solutions. Continuous development and improvement of the IT resources have provided an IT infrastructure capable of spearheading all technological directives of the Company. During the year a significant amount was invested in new technological equipment and system developments. It is thus an investment of financial capital which should result in a return in terms of financial capital as well.

DIGITAL JOURNEY:

LBF's step-by-step progress in enhancing business through the power of technology is shown below:



The IT function is responsible for planning, designing, implementation and maintenance of all information technology related areas of the Company which includes all core business application systems, support systems, infrastructure, telecommunications and office automation systems. It is now developed to the point where, given a requirement, it can take the lead in technology development and implementation.

Opened a
VIP gold loan
centre

24
Branches in
North and East
provinces

11
New branches
and GL centres
opened
during the year



IT INFRASTRUCTURE DEVELOPMENTS CONDUCTED DURING THE YEAR

Infrastructure development	Objective	Impacted areas
Treasury management system	Digitalised the treasury function	All business lines
LB e-connect	Remote access 24 x7	Savings
Microfinance mobile application	To provide a door-to-door service	Microfinance
Sustainability website	Enhanced sustainability communication	All stakeholders
Upgrade the telecommunication platform	Effective communication channel	All business lines
Legal system	Streamline legal function	Credit and legal
Upgrade Islamic finance system	Compliance	Islamic finance

TREASURY MANAGEMENT SYSTEM

During the year, LBF implemented a fully-fledged Treasury Management System (TMS) in order to streamline the processes, improve efficiency and transform the treasury function into an enabler of business integration. The focused key areas of functionalities are investments, borrowings and collateral management, payments, bank management, cash flow management and forecast, debt instruments, liquidity risk management, accounting and decision support. The system will allow the Company to efficiently communicate with all relevant stakeholders.

The significant drivers behind the implementation of TMS are to improve automation, cost reduction, cycle time reduction, risk and control and more accurate financial reporting resulting in improvements in overall profitability.

LB E-CONNECT ONLINE PLATFORM

LBF identified that customer convenience delivered through technology and digital solutions, would be the key differentiation among competitors. Giving an all-in-one solution, LBF introduced 'LB e-connect' with amazing conveniences to our customers. The LB e-connect is designed to bring superior 24x7 online experience, facilitating remote access to depositors to their accounts with a few clicks. Encompassing the option of account inquires, fund transfers, utility bill payments and credit card payments pertaining to selected banks are the highlighted features of the LB e-connect platform.

As future initiatives, LBF looks forward to enabling real time transaction ability through Common Electronic Fund Transfer System (CEFTS). LB e-connect will become the milestone of the Company's digital journey that will extend LBF's future boundaries.



BUSINESS PROCESS ENHANCEMENT

With the purpose of smoothening microfinance collection process we introduced a mobile application to assist credit and marketing field officers that facilitate real time data processing and provide door-to-door service to our microfinance customers.

In the year under review LBF relaunched the Islamic Finance System with new improvements to comply with the Sharia standards. This helped to make Islamic finance operations easier with addressing problems identified within the system.

The in-house developed legal system implemented during the year has enhanced and streamlined the legal process. Upgrading the telecommunication platform was focused on within the year, to enhance and exaltation of the existing telecommunication system.

SUSTAINABILITY WEBSITE

During the year, the sustainability website was launched. This facilitates sharing of sustainability ideas and the benefits received by the people, the economy and the environment due to the sustainability initiatives conducted by the Company. Effective collaboration of technology and LBF's expertise were the key factors for the launch of this website.

OUTLOOK

LBF will leverage on the Company's strength by opening 25 new branches in line with the expansion strategy while celebrating the 45th anniversary of the Company and focus on enhancing business volumes and service quality to offer superior customer service. The Company's widened network will not only benefit direct customers but will also serve a wider circle of stakeholders such as the local communities by way of the social and environmental programmes provided.

Having analysed the market and customer expectations, in the next year LBF will implement an ATM network in strategic locations to provide customer convenience.

Managing and mining big data is one of the main requirements for a corporate reaching towards high standards. Therefore, LBF focused on data analytics through implementation of a data warehousing platform and cloud solutions to expand our data services. This will improve information availability for strategic decision-making.

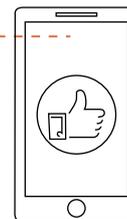
LBF focuses on upgrading of the network infrastructure and the communication platform for the branch network, and extension of the fibre connectivity to all branches island-wide to enable services such as video conferencing and voice mail. In order to create a sustainable approach to manufactured capital, LBF plans on promoting the Company's approach by more green initiatives and practices to reduce emission and to achieve sustainable outcomes.

Intellectual capital

Continued with the ISO 27001:2013 certification



Reached a brand value of
Rs. 4,121 million LMD brand 2016



Reached 5,081 likes on social media

2015/16 Highlights

2015/16 Progress towards objectives

Objective	Status		Page
Recruit and retain professional and industrial experts	🔄	Continuously attract professional and industrial experts	P 75
To have a brand with zero environment impact	●	Carbon neutral company	P 76
Strengthen information security	🔄	Comply with ISO 27001:2013	P 76
Create a culture of service excellence giving a unique experience to customers	🔄	Customer service focused training hours 12,784	P 77
Enhance information security awareness	🔄	4 campaigns	P 77

🔄 Ongoing ● Achieved ○ Not achieved

Objectives 2016/17 and beyond



Challenges



Retention of knowledge
[Page 75](#)



Growing the brand value
[Page 76](#)



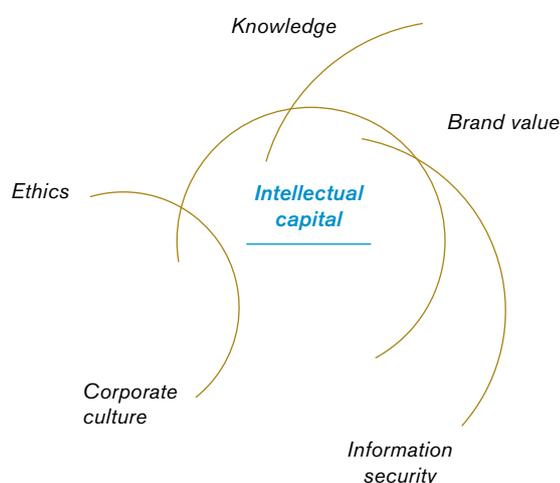
Information security threat
[Pages 77 and 78](#)



OVERVIEW

LBF recognises that intellectual capital is a true business asset which adds significant value to business operations, however measuring the value added and the impact of this can be difficult, but this does not mean that it can be disregarded. LBF will not be surprised if it becomes the most valuable business asset in the years ahead.

The following diagram illustrates the components of intellectual capital:



The industry is extremely competitive and it is not easy to stand out in such a milieu. The components of the intellectual capital shown above are what provides the Company with a competitive edge. To be sustainable in such a competitive industry LBF needs a well defined strategy; this strategic approach laid the foundation for building LBF's intellectual capital.

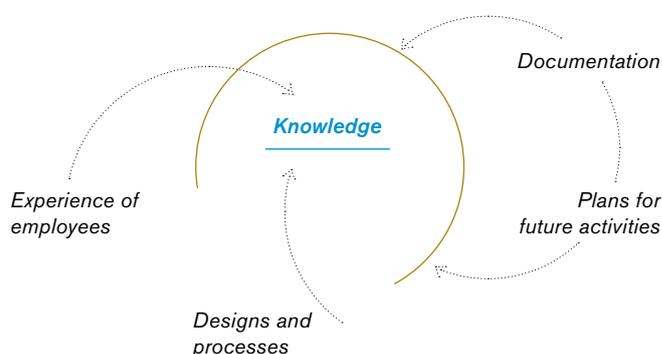
There are so many diverse aspects which impinge on the Company's business model. LBF has to allocate resources to integrate the activities of functional areas into a seamless whole, where the whole will be more than just the sum of the parts. The Company's high-level strategies have to be translated into practical action plans taking into account priorities. The action plans have to be communicated to employees and where necessary other stakeholders, so that they will be dedicated to its implementation and be accountable and responsible.

In retrospect there are a number of elements in the resources, organisation, strategy and plans that have to be balanced and made cohesive in order for the Company to generate long-term value. If there are internal practices, values and routines that are not in accordance with LBF's objectives and strategies, the Company needs to weed them out. As a diverse Company in a diverse society LBF needs to respect and promote cultural and other diversity. LBF needs to constantly assess the impact and

return on investment of IT systems. To reduce cost LBF also needs to as far as possible borrow from previous experience when solving business problems. As a socially conscious Company LBF also must monitor ethical impacts on social and environmental performance.

KNOWLEDGE

LBF has been in existence for over four decades and therefore possess a treasure of organisational learning and a knowledge base. At LBF, knowledge is cultivated through the following four main aspects.



During the last four decades, LBF's strategy in creating a knowledge base was through combining a tacit and explicit knowledge pool. This included the recruitment, development and retention of LBF's Human Capital.

LBF possesses a vast reservoir of knowledge which is strengthened by expertise and an experienced workforce to conduct business affairs. This pool of knowledge comprises operational team to the Board of Directors including professionals with diverse qualifications and expertise. The necessary strategic direction is provided to sustain LBF's position in the industry. However this needs to be backed up by competent employees with the required levels of knowledge and expertise at each level. Prospective employees are carefully screened through the recruitment process and attracted by remuneration and other benefits. The opportunities LBF offers for career growth ensure an expected rate of retention even in the present environment where employee's are enticed by numerous other opportunities. LBF is generous with employee training and opportunities for development. Further, the Company gives them access to the latest industry knowledge as well, ensuring that they stay current.

The processes and procedures which are developed over the years are invaluable for the Company. Especially in developing new products and services the Company adheres to a very comprehensive and systematic process with the help of the management in generating new ideas and training the best.

LBF brand was ranked as 26th with an estimated value of Rs. 4,121 million

LBF possesses a vast reservoir of knowledge which is strengthened by expertise and an experienced workforce

The Company continued with the ISO 27001:2013 Certification

BRAND VALUE

Brand value reflects the image of the Company in the eyes of customers, existing or potential and other important stakeholders. Since LBF recognises the importance of brand as a key value driver the Company is constantly striving to preserve and nurture it. Over the past four decades and more LBF has been building the image by studying customers, actual and potential, and developing suitable financial solutions for them. The value which the Company provides to stakeholders has its return in the brand value the Company derives for itself.

LBF could scarcely believe that the customers' perception about services provided to them, could become stronger than the advertisement and promotion which the Company uses for awareness purpose. But it turned out to be true. LBF's belief in sustainability has also enabled to notch another first – LBF is the 1st finance company in Sri Lanka to be a carbon neutral. The Company's initiatives will also tempt competitors to follow LBF's lead and become environment friendly in their operations, thereby widening the circle of influence.

In recent years many initiatives have also been taken to strengthen the Company's brand image. During 2016 the Company was ranked 26th among the top 100 brands in the country by Brand Finance. LBF was able to maintain brand value while most other finance companies were slipping in their brand position. LBF's target is to reach the top 20 in the coming years as planned in the previous year.



INFORMATION SECURITY

LBF is 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 the Company even if they are located in rural and remote areas. Intensive use of technology contributes to significantly enhance delivering of services and it has become one of the Company's competitive advantages. LBF prioritises efforts in the development of platforms and services that use the best technology for the purpose of simplifying and making easier the lives of all stakeholders by focusing on mobility and convenience.

With the focus of maintaining information security standards, the Company continued with the ISO 27001:2013 Certification in compliance with relevant standards and regulations. To ensure the adhering of the respective standards, an external party audit was carried out by Bureau Veritas in August 2015.



To ensure that the Company is up-to-date and the security risks are mitigated, new policies and procedures are introduced and implemented on a regular basis. The password expiration policy was further developed to comply with the CBSL and ISO Standards. In order to create awareness amongst the employees regarding information security, an information security awareness poster campaign was launched. Along with this campaign, an online information security questionnaire was circulated and feedback was received from more than 1,500 employees. In order to improve business efficiency, new features have been made available in our communication channels. Additional investments have been made to improve and create new tool to meet the expansion of our operations, providing quality in transitions in an agile, modern and safe environment.

CORPORATE CULTURE [G4-56](#)

There are six facets of the Company culture; excellence, ethics, professionalism, transparency, innovation and quality. These values are the underlying philosophy which form the basis for LBF's strategic plans and actions. The end result is a service of the highest standard to customers and other stakeholders.

Being a service provider, service excellence culture is paramount to draw and retain customers. LBF has developed an action plan to monitor, improve and sustain customer experience while setting service quality standards across the Company. As an initiative LBF carried out a series of training programme to enhance LBF's corporate cultural values.

ETHICS [G4-56, 57, 58](#)

The Company believes that commitment to ethical conduct offers one of the strongest return on investment across the Company. It helps to attract and retain customers, business partners, and talented employees. As LBF enters new markets and offers new products and services, ethical challenges and concerns may arise. LBF's commitment to ethical behaviour guides through Code of Conduct, our business decisions and how the Company approaches technological advances.

Whistle-blowing policy endeavours to encourage all personnel to raise concerns, expose irregularities, help uncover financial malpractices and prevent frauds without any fear of reprisal or adverse consequences. Employees are trained to operate within the set parameters and organisational values to avoid any unlawful and unethical activities. Employees at every level are encouraged to report any sort of activity which can be determined as unlawful or unethical and will be reviewed through a committee comprised with senior management.

More details pertaining to ethical practices are contained in the segment on 'Corporate Governance' appearing on [page 147](#).

LEGAL ASPECTS

The nature of LBF's business makes it inevitable that the Company confronts many legal issues and has requirement for legal services which are provided by the Legal Department. The legal function has its own system to facilitate its duties and fulfill its responsibilities within a legal manner and to provide instructions and guidance to the Company to conduct business operations seamlessly while adhering to the rules and regulations.

OUTLOOK

LBF enhances the brand image by providing innovative tailor-made customer solutions from which the Company both derives and delivers value. The Company continuously scans the environment to become cognisant of new issues and new opportunities that may arise. LBF innovates continuously so as to provide appropriate solutions for each market segment.

To realise the corporate vision, the Company does not stint in making the necessary investments in human capital, and information technology. LBF emphasises on and is generous in spending for employee training and development, improving skills and knowledge, while sourcing the best skilled resource persons into the LBF team. The Company will continue with new innovations and developments in coming years, which will reshape operations and procedures and which will be shared across all the processes and systems.

Human capital

309 Employees were promoted

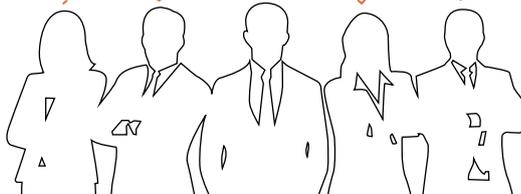


Launched the LB Insight employee newsletter



Launched readers club

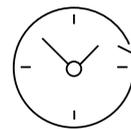
Internal employee social network



Total No. of employees – 2,744

Employee training hours

30,647



Rs. 11.18 million
Total cost for training

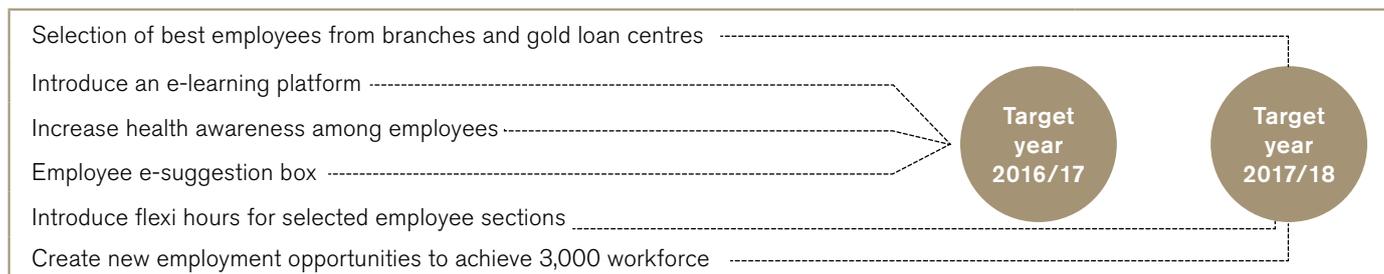
2015/16 Highlights

2015/2016 Progress Towards Objectives

Objective	Status	Page
Attract people of talent, aptitude and aspiration who are passionate about excelling in their position	1,036 new recruitments	P 80
Launch a new performance management system	30 percent complete	P 83
Encourage work-life balance	4 initiatives	P 84
Establishing an emergency response team	16 members	P 84
Recognise creativity through team building	3 events	P 84
Rewarding LBF's employees children for their achievements	3 children awarded	P 86

Ongoing Achieved Not achieved

Objectives 2016/17 and beyond



Challenges



Local recruits for rural branches
[Page 80](#)



Employee attrition
[Page 81](#)



Moulding to the needs of generation Y
[Page 87](#)



Providing training for employees in rural branches
[Page 87](#)



Employee willingness for engagement
[Page 89](#)

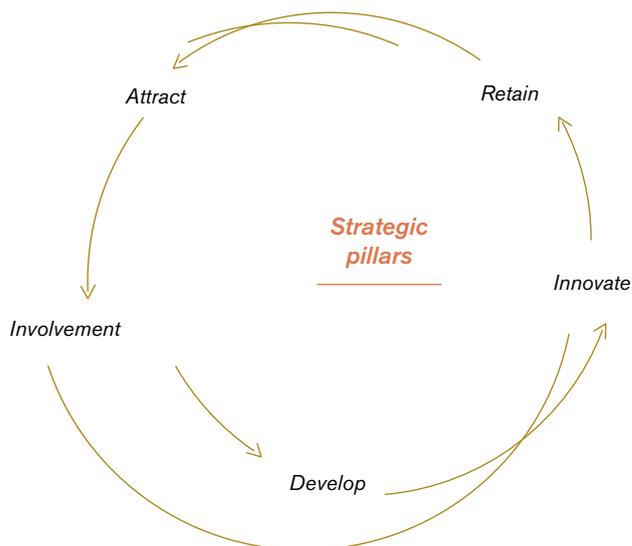


OVERVIEW

The fact that people are the most valuable resource is a truism that is frequently repeated. At LBF however, the Company does not just advocate it, it lives up to it and makes it an integral part of its strategy. LBF seeks to align the Company human resource policies with strategies and objectives so that the Company can derive the maximum value from its human resources and in turn enrich their lives. LBF does not believe in just providing the minimum required by law but strives to go far beyond it.

LBF believes that to draw the best out of its employees, it is necessary to treat them fairly and equally. To fulfil the Company's vision, mission, strategies and goals LBF requires staff with a range of knowledge, skills and attributes and LBF needs to attract such people into the Company, nurture and retain them. The Company has to inculcate LBF's vision and mission into staff so that they will work in unison to achieve the Company's goals. LBF has to pay attention to the issues and problems that they bring forward. It is by focusing on the Company's employees that will pave the way for LBF to become a leader in the financial services industry.

To obtain and retain the Company's human resources LBF has a five-pronged strategy – attraction, retention, development, involvement and innovation.



ATTRACTION

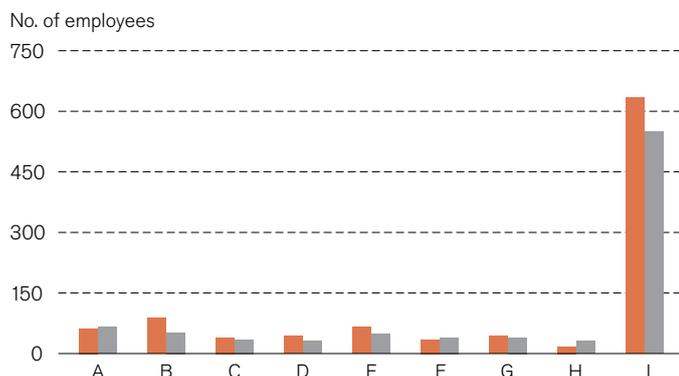
LBF has a professional, well thought out and flexible recruitment process that ensures the Company recruits people for the jobs that suit their talents and capabilities. LBF's process is streamlined so that the Company does not expend unnecessary resources on the recruitment process and caters to realising equal opportunity and diversity. LBF has links with universities and professional bodies to facilitate recruitment.

As far as possible, LBF seeks to fill vacancies by internal recruitment. This preserves employee morale and ensures career growth for the Company's employees.



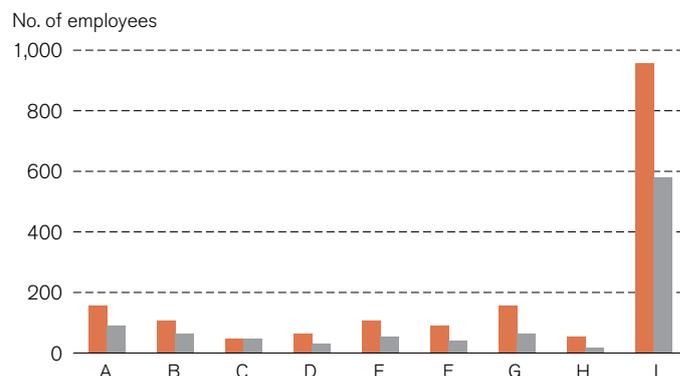
TOTAL NUMBER AND RATES OF NEW EMPLOYEES HIRED BY AGE GROUP AND GENDER  **G4-EC6, LA1**

Category	2015/16				2014/15			
	No. of employees		%		No. of employees		%	
	Male	Female	Male	Female	Male	Female	Male	Female
Senior Management and above								
Below 30 years	0	0	0	0	0	0	0	0
30-50 years	3	0	0.43	0	2	0	0.29	0
Over 50 years	0	0	0	0	0	0	0	0
Middle Management								
Below 30 years	6	0	0.86	0	12	0	1.74	0
30-50 years	32	1	4.60	0.29	28	0	4.05	0
Over 50 years	1	1	0.14	0.29	1	0	0.14	0
Executive								
Below 30 years	86	23	12.37	6.74	117	14	16.93	7.00
30-50 years	34	4	4.89	1.17	35	2	5.07	1.00
Over 50 years	3	0	0.43	0	2	0	0.29	0
Clerical								
Below 30 years	496	310	71.37	90.91	466	182	67.44	91.00
30-50 years	15	2	2.16	0.59	5	2	0.72	1.00
Over 50 years	0	0	0	0	0	0	0	0
Minor								
Below 30 years	12	0	1.73	0	18	0	2.60	0
30-50 years	7	0	1.01	0	5	0	0.72	0
Over 50 years	0	0	0	0	0	0	0	0
Total	695	341	100	100	691	200	100	100

Total number of new employees hired by region  **G4-10**

A – Central
B – Eastern
C – Northern
D – North central
E – North western
F – Sabaragamuwa
G – Southern
H – Uva
I – Western

■ 2015/16
■ 2014/15

Total number of employees by region and gender 2015/16  **G4-10**

A – Central
B – Eastern
C – Northern
D – North central
E – North western
F – Sabaragamuwa
G – Southern
H – Uva
I – Western

■ Male
■ Female


COMPOSITION OF THE BOARD AND EMPLOYEES BY EMPLOYEE CATEGORY AND AGE GROUP

Category	2015/16			2014/15		
	Age Group			Age Group		
	Below 30 years	30-50 years	Over 50 years	Below 30 years	30-50 years	Over 50 years
Board of Directors	0	6	6	0	3	7
Senior Management	0	17	2	0	18	2
Middle Management	0	18	2	15	113	11
Executive	755	361	10	441	261	7
Clerical	1,422	54	3	1,391	65	5
Minor	51	41	4	34	31	4
Total	2,228	497	27	1,881	491	36

ANALYSIS OF EMPLOYEES BY CONTRACT TYPE AND GENDER

Employee type	2015/16		2014/15	
	Male	Female	Male	Female
Full-time employees	1,746	995	1,561	838
Employees on contract basis	3	–	2	–
Total	1,749	995	1,563	838

TOTAL NUMBER OF EMPLOYEES BY REGION AND GENDER

Category	2015/16			2014/15		
	No. of employees			No. of employees		
	Male	Female	Total	Male	Female	Total
Central	157	91	248	141	74	215
Eastern	108	66	174	71	42	113
Northern	49	48	97	66	38	104
North-central	65	27	92	53	21	74
North-western	107	54	161	79	42	121
Sabaragamuwa	92	42	134	68	32	100
Southern	154	68	222	130	64	194
Uva	56	20	76	48	17	65
Western	961	579	1,540	907	508	1,415
Total	1,749	995	2,744	1,563	838	2,401

TOTAL NUMBER OF NEW EMPLOYEES HIRED & EMPLOYEE TOUROVER BY REGION G4-LA1

Employee type	Total no. of new employee hired		Employee turnover	
	2015/16	2014/15	2015/16	2014/15
Central	64	67	44	49
Eastern	88	53	47	31
Northern	40	34	26	39
North-central	44	29	33	27
North-western	66	49	31	18
Sabaragamuwa	35	38	31	34
Southern	46	42	29	33
Uva	18	29	14	14
Western	635	550	438	379
Total	1,036	891	693	624

RETENTION

Today when employees can be lured by so many opportunities, retaining is indeed a challenge. To ensure retention, LBF has developed the “Triple-E” approach described below.

- Education – Develop the Company's employees' skills through learning experiences
- Experience – Move employees across divisions and jobs enriching their work experience
- Exposure – Give them opportunities to interact with Senior Management, provide them with mentoring and training and prepare them for the positions they will hold tomorrow

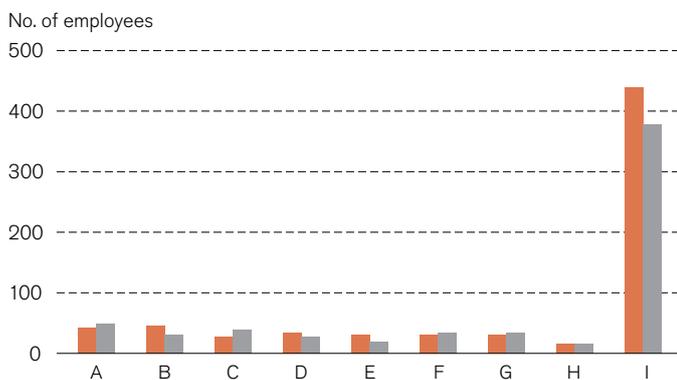
LBF recruits and trains school leavers at entry levels, contributing to providing employment opportunities in return which may support to reduce unemployment in Sri Lanka. These employees are provided with extensive training and indepth industry knowledge. They are highly sought after by most of LBF's competitors due to their ability to perform. During the year under review, the Company's employee retention ratio has increased to 76 percent from 75 percent.

TOTAL NUMBER AND RATES OF EMPLOYEE TURNOVER BY AGE GROUP AND GENDER*  **G4-LA1**

Category	2015/16				2014/15			
	No. of employees		%		No. of employees		%	
	Male	Female	Male	Female	Male	Female	Male	Female
Senior Management and above								
Below 30 years	0	0	0.00	0.00	0	0	0.0	0.00
30-50 years	2	0	0.39	0.00	0	0	0.0	0.00
Over 50 years	1	0	0.20	0.00	0	1	0.0	0.53
Middle Management								
Below 30 years	0	0	0.00	0.00	7	1	1.6	0.53
30-50 years	26	0	5.12	0.00	18	0	4.1	0.00
Over 50 years	1	0	0.20	0.00	4	0	0.9	0.00
Executive								
Below 30 years	104	27	20.47	14.59	104	33	23.9	17.46
30-50 years	38	16	7.48	8.65	26	10	6.0	5.29
Over 50 years	3	0	0.59	0.00	0	0	0.0	0.00
Clerical								
Below 30 years	306	138	60.24	74.59	255	142	58.6	75.13
30-50 years	10	4	1.97	2.16	7	2	1.6	1.06
Over 50 years	0	0	0.00	0.00	0	0	0.0	0.00
Minor								
Below 30 years	14	0	2.76	0.00	10	0	2.3	0.00
30-50 years	3	0	0.59	0.00	3	0	0.7	0.00
Over 50 years	0	0	0.00	0.00	1	0	0.2	0.00
Total	508	185	100.00	100.00	435	189	100.0	100.00

*Excluding retirements

Employee turnover by region  **G4-LA1**



A – Central F – Sabaragamuwa ■ 2015/16
 B – Eastern G – Southern ■ 2014/15
 C – Northern H – Uva
 D – North central I – Western
 E – North western

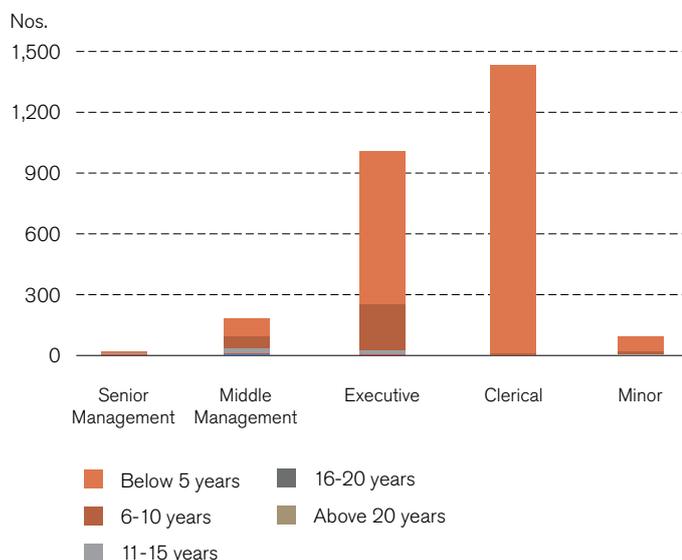
EMPLOYEE TURNOVER BY REASON

Reason	2015/16				2014/15			
	Male	Female	Total	%	Male	Female	Total	%
Resignation	508	185	693	99.54	433	188	621	99.5
Retirement	3	0	3	0.46	2	1	3	0.5
Premature retirement	0	0	0	0	0	0	0	0
Deceased	0	0	0	0	0	0	0	0
Termination	0	0	0	0	0	0	0	0
Total	511	185	696	100	435	189	624	100

SERVICE ANALYSIS

Further reflecting the Company's effort on retention, the service analysis demonstrates that 22.22 percent of Executive employees were between 6 -10 years of service, while 18.03 percent of Middle Management was above 10 years of service.

Service analysis of employees by category 2015/16



LABOUR PRACTICES AND DECENT WORK POLICIES

LBF respects the rights of workers and believes in providing them a safe and conducive working environment. The Company endeavours to provide satisfaction with working conditions and remuneration, physical safety, opportunities to contribute to society as well as giving them opportunities to come forward with their suggestions and express their opinions.

MINIMUM NOTICE PERIOD FOR OPERATIONAL CHANGES

G4-LA4

Type of change	Minimum notice period
Transfers	4 Weeks
Retirements	12 Weeks
Terminations/Resignations	4 Weeks

G4-53

Currently the Company does not seek or take into account stakeholder views regarding remuneration, including the results of votes on remuneration policies and proposals.

COMPENSATION AND INCENTIVES FOR EMPLOYEES

G4-LA2

LBF has developed a compensation structure that rewards employees fairly according to their contribution and keep the Company's remuneration above industry norms. In addition to basic pay, LBF provides numerous other benefits such as performance related bonuses, fuel and travelling allowances, vehicle allowances, loans and lease facilities below market interest rates, medical and insurance benefits, gratuity and reimbursement of membership for professional bodies. The remuneration offered by LBF is either on par or above the sector and higher than the minimum wage rates prevailing in the country.

RETURN TO WORK AND RETENTION RATES AFTER PARENTAL LEAVE, BY GENDER

G4-LA3

Description	2015/16	2014/15
Total number of female employees	953	838
Total number of employees that took maternity leave	49	33
Number of employees who returned to work after maternity leave ended	44	31
Number of employees who returned to work after maternity leave ended and still employed twelve months after their return to work	19	31
Return to work rate	89.80	93.94
Retention rate	61.29	93.94

REWARDS AND RECOGNITION FOR OUR EMPLOYEES

G4-LA2, EC3

Sharing the success with LBF's employees has become a part of the Company culture which has led to creating a strong bond between the Company and its employees. LBF's reward scheme provides compensation and benefits that are competitive within the market and the industry.

BENEFITS WHICH ARE STANDARD FOR FULL-TIME EMPLOYEES OF THE ORGANISATION

Employee benefits	2015/16 Rs. million	2014/15 Rs. million
Salaries and other related expenses	1,573.92	1,305.41
Employer's contribution to EPF	129.99	106.64
Employer's contribution to ETF	26.00	21.33
Gratuity	33.04	26.90

PERFORMANCE MANAGEMENT

G4-LA11

LBF is in the process of creating a performance management system. No comprehensive performance management appraisal mechanism was carried out during the year by the Company.

COMPLIANCE, HEALTH, SECURITY AND WELLNESS  **G4-14**

One of LBF's prime objectives is employee health and safety. The Company therefore does its utmost to promote their health and comfort and promote programmes and educate them on health safety and wellness matters. Some of the programmes carried out during the year are described below:

- Emergency response – Training is provided for emergency situations such as first aid and emergency evacuation. A total of three such programmes were carried out during the year. Further LBF has 16 fire wardens specially trained to respond during a fire
- Health and wellness - Such programmes not only address health problems but strive to inculcate a healthy life-style in the employees in a 'fun' manner. Some of the programmes were;
 - You're our eyes – Eye camp that provide routine eye check-up
 - Water intake project – This was focussed on promoting the consumption of daily water intake for the employees.
 - Lanka coalition pledge – A pledge to support and uphold in preventing HIV and AIDS
 - Walking club – With the motto of 'walking the way to health'; this was carried out through BMI checking, no lift days, monitoring weight gain and loss and having programs focussing on healthy living habits.

**The Walking Club**

Objective – Promoting health and fitness among the employees.

Key Initiatives –

BMI monitoring and rewarding
Health screening

Walking Club
OF LB FINANCE 

Date formed
7th February
2014

Number of members
122

- Work-life balance – LBF fervently believes that employees need work-life balance, rest, relaxation and leisure to be productive. To this end the Company promotes
 - Sports – LBF promotes sports through engaging its employees in corporate sports events. Similarly the Company has LBF sports day.
 - Photographic club – In order to promote talent within the organisation, LBF initiated photographic society. The Company collaborated with the club and have had exhibitions, competitions and providing opportunity for internal photography opportunities.
 - Dress down day – Friday has been selected as the dress down day which allows employees to wear casual attire along with the Company T shirt.
 - LB night – Annually, the Company organises an extravagant get-together for all employees
 - Creativity and team work – LBF has a series of events to enhance creativity and team building. The best talents were recognised and rewarded.

Photographic Society

Objective – Make an enjoyment of photography accessible to all staff for stress management and promoting good mental health.

Key Initiatives – Explore Sri Lanka corporate desk calendar – nature

Under the theme of 'Explore Sri Lanka' twelve selected photographs taken by the members of the photographic society were included in LBF's annual calendar 2016.



Photographic Society
of LB Finance

Date formed
6th February 2014

Number of members
146



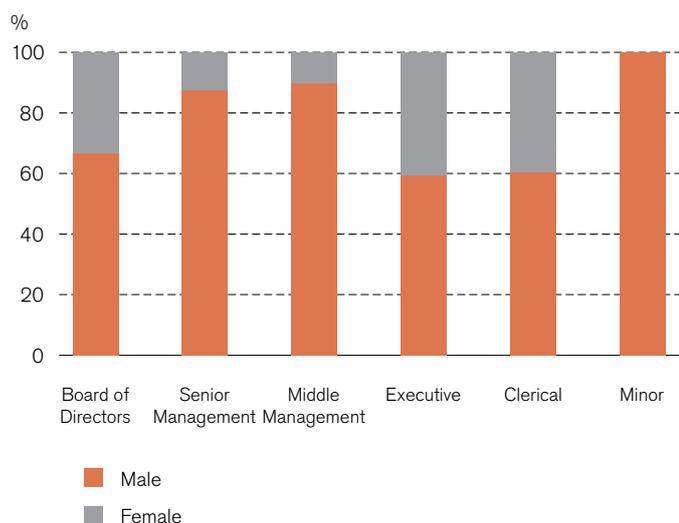
DIVERSITY AND EQUAL OPPORTUNITY

Diversity is recognised and valued within LBF's culture. The Company has always believed that best diversity practices contribute to the positive results in the work environment. LBF valuing diversity policy, describes how diversity practices should be present in the work environment. This policy comprises actions focused on facing discrimination attitudes and practices and is underlined by three main principles.

- Fair assessment of employee in view of their difference.
- Diversity within the Company
- Implementation of policies and projects to value and encourage diversity

LBF's commitment to creating diversity, is in-line with the voluntary-contribution in creating equality within the society.

Analysis by employment category and gender 2015/16



RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN BY EMPLOYEE CATEGORY [G4-LA13](#)

Category	Ratio of basic salary men to women			
	2015/16		2014/15	
	Female	Male	Female	Male
Senior Management	1	2.42	1	2.36
Middle Management	1	0.91	1	0.90
Executive	1	1.05	1	1.09
Clerical	1	1.01	1	0.99

COMPENSATION OF THE HIGHEST PAID EMPLOYEE

[G4-54, 55](#)

Due to confidentiality the Company will not disclose the ratio of the annual total compensation for the Company's highest paid employee and the ratio of percentage increase in annual compensation for the highest paid employee as a percentage to the median compensation for all employees.

OPEN DOOR POLICY

This policy has demonstrated the accessibility to LBF's employees to allow direct interaction despite the employee's position with the Corporate Management. This has encouraged an open flow of communication and faster accessibility to information on current and important situations while building a closer working relationship.

COLLECTIVE BARGAINING [G4-11](#)

Due to the values, practices and policies that the Company upholds it has been able to eliminate the need for trade unions and collective bargaining agreements. During the year under review, the Company has not faced any type of industrial disputes.

HUMAN RIGHTS [G4-HR7, HR12](#)

As a Company which safeguards human rights, LBF has focused on supporting and preserving the UN Global Compact initiative on Human Rights to uphold a healthy work environment. The Company follows best practice in providing a safe work environment and an effective abolishment of any type of infringement of human rights. During the year, LBF did not conduct any training programmes related to human rights.

NON DISCRIMINATION [G4-HR3](#)

Non-discrimination and the fair treatment policy is not only a standard within the Company but a culture as well. Non-discrimination applies not only to employees, but to stakeholders whom LBF directly functions with as well. All recruitment, promotion and recognition processes within the Company are carried out without bias to age, gender, religion or ethnicity. During the year, there were no discrimination incidents reported.

GRIEVANCE HANDLING [G4-HR12, LA16](#)

LBF believes that grievances take the form of collective disputes when they are not resolved. Also, they will then lower the morale and efficiency of the employees. Unattended grievances result in frustration, dissatisfaction, low productivity, lack of interest in work, absenteeism, etc. In short, grievance arises when employees' expectations are not fulfilled from the company as a result of which a feeling of discontentment and dissatisfaction arises. LBF addresses its employees' grievances through quick action, acknowledging grievance, gathering facts, examining the causes of grievance, decision-making, execution and review. Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms was not reported in any instance during the year.

CONCERN FOR EMPLOYEES

• Awareness of HIV/AIDS

Sri Lanka is fortunate to have a low HIV/AIDS prevalence in the country. However the risks of it escalating are ever present. The measures that the Company can take to prevent this are to be proactive through its workforce. LBF has received the membership of the Sri Lanka AIDS foundation, which provides knowledge and assistance in prevention of AIDS. LBF believes that the Company can be a catalyst bringing together government, business and civil society to overcome this scourge. LBF will be able to implement a workplace policy to counter AIDS discrimination and remove stigma towards those living with the disease.

Our AIDS program includes:

- Annual program for employee awareness for HIV/AIDS
- Commemorating World AIDS day by way of red ribbons and AIDS awareness posters and adding the day to LBF's calendar.
- Providing HIV/AIDS awareness through professional trainers. During the year, 198 hours were spent on AIDS training.

• Awareness on first aid

Knowledge on first aid is indispensable when a person suffers from illness or injury. LBF carries out first aid training programmes to educate the Company's employees on basic first aid; a competent volunteer from the employees assists in this. A first aid kit was also distributed to every department to facilitate learning first aid skills.



• Safety driving seminar on defensive driving

Road accidents have become a fatal issue in Sri Lanka and its increasing day by day. With the aim of creating awareness on safe driving and reducing the number of accidents in roads, LBF organised two seminars on defensive driving for the employees

to improve the awareness on road rules, signals, signs, driving in bad weather and on economical driving tips.

• Rewarding employees children for their achievements

With the aim of motivating the achievement of educational success, the company carried out a scholarship programme for the employee's children. Among the applicants top three performers of the grade 5 scholarship were awarded with valuable gifts.

• Promoting health and healthy living

A health screening programme was conducted together with Hemas Pharmaceuticals on health awareness and disease prevention. The programme stresses on the early detection of non-communicable diseases. A healthy living seminar was also conducted by a specialist on life-style, exercise and healthy eating habits.



• Sustainability messages on the water bottle

The employee utilises the personal water bottle on a frequent basis and it is one of the best sources and modes to convey a valuable message to them. With the aim of passing the health and green messages that educate on energy saving, healthy habits, and waste management among the employees, LBF initiated a water bottle sticker campaign.

• Getting the most out of smart phones

There are many features that are available in a smartphone that would significantly facilitate convenience and productivity. However due to the lack of knowledge, many users do not know how to make the maximum benefit of these features. A volunteer from the internal staff conducted a seminar for LBF's employees on how to get the best out of smartphones by using its applications.



• Readers club

To promote reading habits among LBF's staff members during the year, the Company formed the readers club which enables employees to obtain reading resources to a wide range of books under different themes to promote "to think out of the office" by not having non-technical or job related books. LBF's focus is to introduce electronic books for the Company's staff members in remote locations.

Readers club

Objective – Providing a platform for expanding the scope of knowledge and innovative thinking.

Key Initiatives –

- Launching the library with a wide collection of books.
- Introducing of LB Lunch Time Knowledge TV.



Readers Club

Date formed
8th March
2016

Number of members
83

• Workshop on home gardening

Home gardening provides a great sense of joy and accomplishment. Further it also reduces the family's food budget. Home gardening provides both green therapy and green exercise while reducing the food mile. So with all that in mind LBF organised a workshop on home gardening for employees and the seminar was conducted by Mr. Udaya de Silva, a well-known television programme presenter on home gardening and agriculture. In the seminar valuable seeds packets and home gardening handbooks were distributed among the participants motivating the employees for home gardening.



DEVELOPMENT

LBF does not stint on investing the Company's financial capital in training as it believes it will give long-term returns to the Company. While long-term HR needs, employee performance, succession planning and inputs from performance appraisals are prime considerations in training programs, LBF is open to requests from employees.

Some aspects on which training and development are based are given below:

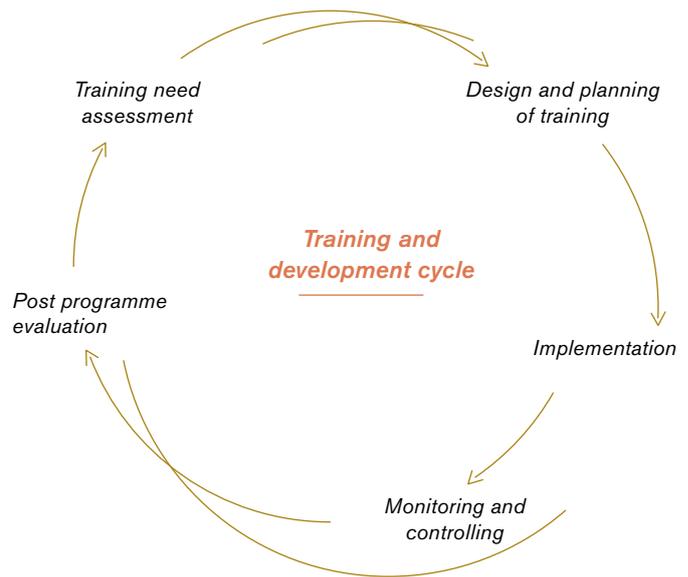
- Training and career development – Training is an essential component of career development and LBF's Training Centre takes the lead in this and gives guidance.
- Skills development – Imparting specialised skills is a part of career development. Diverse learning environments are provided depending on the subject of the training and employee capabilities. During the year the company invested Rs. 11.18 million on training and development covering 30,647 training hours; in which Rs. 8.56 million was spent on lifelong training.
- Career progression – LBF wishes to retain the Company's employees and for them to have long and rewarding careers at LBF and training is geared towards this.
- Career aspiration – Providing guidance on short and long-term career goals especially moulded towards Generation Y.
- Lifelong learning – LBF encourages and assists the Company's employees to obtain professional qualifications through the reimbursement of membership fees. In the current year, the expenditure on this was Rs. 394,402.
- Promoting innovation – The Product Development Committee which is formed of cross-functional departments gives opportunities for employees to brainstorm and help develop new products. Thus, they contribute to long-term value creation for many stakeholders. During the year, Power Plus was added to LBF's product portfolio.

THE EMPLOYEE DEVELOPMENT PROCESS  **G4-LA9, LA10**

LBF's training and development efforts bring returns in the form of productivity, effectiveness, commitment and loyalty. By helping employees to develop their talents to the maximum, LBF promotes employees motivation and retention. The range of training provided during the year included technical, functional, language, information technology, soft skills, life skills and general management.

**AVERAGE HOURS OF TRAINING PER EMPLOYEE BY GENDER
AND BY EMPLOYEE CATEGORY**  **G4-LA9**

Employee category and type of programme	2015/16						Average training hours by employee category
	Training hours			No. of Participants			
	Male	Female	Total	Total Males	Total Females	Total	
Senior Management							8.31
Technical	150	9	159	13	85	98	
Soft skills	663	26	689	1	3	4	
Middle Management							8.65
Technical	687	55	742	63	8	71	
Soft skills	1,648	161	1,809	205	19	224	
Executive							7.73
Technical	1,357	3,305	4,662	200	78	278	
Soft skills	5,239	581	5,820	643	435	1,078	
Clerical							7.03
Technical	2,234	1,280	3,514	384	193	577	
Soft skills	7,986	5,058	13,038	1,084	695	1,779	
Minor							7.13
Technical	-	-	-	-	-	-	
Soft skills	214	-	214	30	-	30	
Total	20,178	10,469	30,647	2,623	1,516	4,139	
Avg training hours per employee							11.17
Avg training hours per employee by gender – Male							11.53
Avg training hours per employee by gender – Female							10.53

TRAINING AND DEVELOPMENT CYCLE

LBF uses diverse training resources, both local and international to fulfill its training needs. The various training methods used to develop the Company's employees are shown in the table below.

LIFELONG TRAININGS CARRIED OUT DURING THE YEAR **G4-LA10**

Type of training	2015/16		2014/15	
	No. of employees	Cost (Rs.)	No. of employees	Cost (Rs.)
Employee motivation	198	189,154	58	375,000
Marketing skills	329	406,500	1	12,850
First aid training	19	-	38	5,000
Grooming session	-	-	106	81,000
Internal customer service	292	175,428	46	37,000
Service excellence	1,598	2,322,050	214	301,500
Microsoft Office packages	12	-	10	76,000
Performance management	-	-	1	6,250
Soft skills training	2,966	4,666,752	49	1,702,000
Managerial skills	88	619,152	64	40,000
Telephone etiquette	-	-	3	15,000
Information and communication technology	74	189,000	25	12,500
Training programme on people management	-	-	1	7,500
Total	5,576	8,568,036	616	2,671,600

The skill set needs of the Company and the employees' career development needs are both an input in deciding training needs. These training needs are aligned with the business plan of the Company, specific projects to be implemented, formal performance reviews, regular performance assessments. LBF also plans to venture in to the realm of experiential learning as the Company does understand that this is more effective and result in giving today's training context.

Training will be implemented and carried out as per plan with due diligence to set norms and standards of the Company. HR Department closely monitor employee behaviour and performance after the implementation of the programmes; this is done by customer surveys, mystery shoppers, call centre complaint monitoring and assessment of the overall customer retention and repeat customer figures. The Training Evaluation Form is used as a tool in monitoring the effectiveness of training delivered. The expected benchmark would be 70 percent of positive responses from such surveys.

LBF's approved employer status with professional organisations and universities are testament of the Company's mentoring culture. LBF provides trainees and interns the relevant training on specific areas which is certified by the line managers, to enable them to gain professional membership. The Company also encourages employees to obtain professional qualifications through the reimbursement of membership fees on successful completion of the qualification.

NO. OF INTERNS TRAINED UNDER APPROVED TRAINING PARTNER AGREEMENTS.

Institute/University	2015/16		2014/15	
	Male	Female	Male	Female
The Institute of Chartered Accountants of Sri Lanka	4	5	7	1
Chartered Institute of Management Accountants – UK	2	4	–	1
Association of Accounting Technicians – Sri Lanka	4	4	2	–
The Association of Certified Chartered Accountants	–	1	–	1
University of Sri Jayewadenepura	–	1	1	1
University of Colombo	–	1	1	–
National Institute of Business Management	1	–	1	1
Sri Lanka Institute of Information Technology	1	–	2	1
Institute of Certified Management Accountants of Sri Lanka	1	1	–	–
Total	13	17	14	6

EMPLOYEE INVOLVEMENT

LBF believes that employees have valuable information and ideas to contribute which should be incorporated into the Company's strategies and plans. LBF has mechanisms to obtain such ideas and information. This has enabled the creation of realistic objectives and a unified team working towards a common goal. However in this process LBF has discovered that the Company is lagging in some areas. The following are some channels of employee involvement.

DIRECT EMPLOYEE CONNECT

LBF has 2,744 employees at 146 locations island wide, thus connecting is not easy. However, LBF employees do get the opportunity to interact with Senior Management by way of formal 'all hands meetings'. Employees also have the opportunity to speak to LBF Management in person – at Company meetings or informal gatherings or through their managers. Feedback is shared with relevant departments and communicated to staff.

EMPLOYEE PULSE

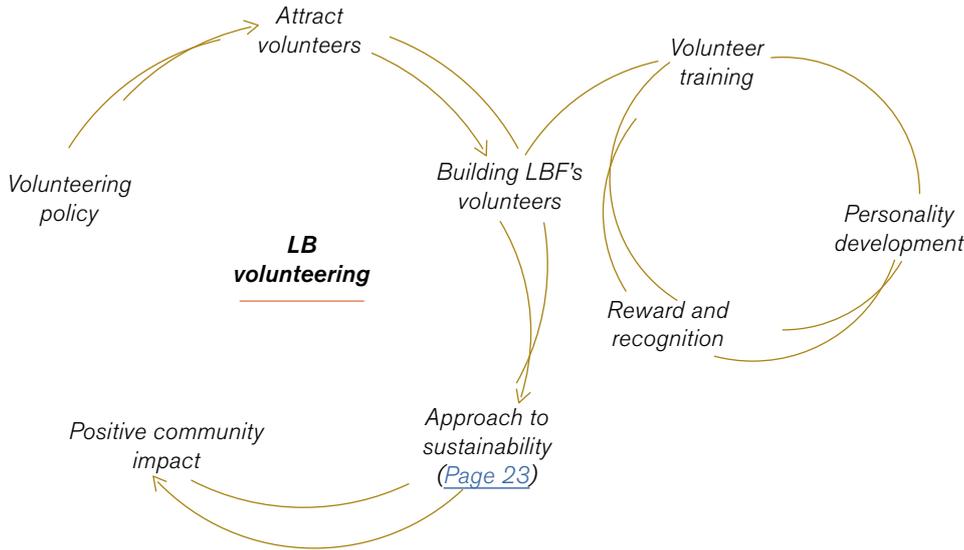
One of the Company's most important listening tools is the annual Pulse Survey. LBF uses the findings to refine the ways it engages with employees, enhances their experiences, and improves the Company's business. The survey sample was marketing officers covering credit, gold loans, recovery and few support functions. The survey covered the following:

- Difficulties faced by employees in their current job
- Feedback about the supervisor or Head of the Department
- Feedback on the working environment
- Education level of employees
- Work-life balance
- Overall satisfaction level of employees

WHISTLE-BLOWING G4-58

LBF seeks to conduct honestly and with integrity at all times. The Company does acknowledge that all corporates face the risk of maladministration, from time to time or of unknowingly harbouring malpractice. LBF believes it has a duty to take appropriate measures to identify such situations, with a view to remedying the same. Accordingly, LBF wishes to provide a mechanism to enable its personnel to voice concerns internally, in a responsible and effective manner, when they reasonably suspect or discover information which they believe shows serious malpractice or wrongdoing. The whistle-blowing policy endeavours to encourage all personnel to raise concerns, expose irregularities, help uncover financial malpractices and prevent frauds without any fear of reprisal or adverse consequences.

LBF VOLUNTEERING



<p><u>LBF Volunteering</u></p>	
<p>Objective – To encourage and guide volunteering at LBF and to impact not only communities but also employee wellbeing.</p>	<p>Date formed 11th November 2014</p>
<p>Key Initiatives – Rewarding and recognition of key performers</p>	<p>Number of members 182</p>
<p>Surpassed the set target of 2,000 volunteering hours for this year.</p>	

LBF is not only seeking profits for itself but endeavours to make a positive economic, social and environmental impact for the country as a whole. LBF wishes employees to be a part of this too and thereby gain the satisfaction that they are contributing to society. The 'LB Volunteering', encourages employees to be a part of the equation by contributing their time, skills and talent. The sustainability projects carried out by the volunteers bear testament to the enthusiastic involvement of employees. LBF focuses and reports annually on the Company's volunteering and sustainability activities. This makes it easier for LBF as a Company to reach beyond business. LBF's volunteer programme is geared to making a sustainable social impact in the longer term and also increasing employee job satisfaction.

LBF's aim is to make a positive impact to the society and provide employees the choice to do what they enjoy and for everyone to have a great experience. The Company's volunteering policy has been developed to "do more, do better and reach further" in saving lives and changing minds. LBF makes it easy for busy employees to volunteer by removing barriers and obstacles to their participation. The Company has a great volunteering experience that ensures time is put to great use. LBF provides volunteer choice by helping volunteers make an impact for a cause in which they believe. This makes sustainable outcomes and many will go on to develop long-term positive impacts. Through LB Volunteering, the Company is planning on reaching:

- To benefit both society at large and the individual volunteer by strengthening trust, solidarity and mutuality
- Aim for high standard of efficiency, reliability and quality in volunteering
- Work in partnership with staff and the general public in conducting voluntary work
- Achieve the best possible experience by getting involved and enjoying volunteering
- To improve employee engagement, job satisfaction and commitment



LBF's range of volunteer projects includes environmental conservation, wildlife conservation, community service, health and safety, and development in arts and culture. The Company has conducted a survey on volunteering, which is disclosed in the following.

- 96 percent of volunteers rate their experience as excellent or good
- 87 percent of volunteers learn something new
- 95 percent rate the team work benefits as excellent or good
- 81 percent of volunteers managed their job responsibilities without any disturbance while volunteering

Further details on volunteering is provided on [page 117](#).

INNOVATION

To sustain the competitive advantage, the Company has institutionalised the innovation process by creating an environment in which creative thinking is central to the values, assumptions and actions of all employees. This culture of innovation allows the Company to pursue opportunities for business growth, connecting people and uplifting lives.

LBF PORTAL

LBF's centralised web portal provides information, tips and tools to keep employees informed and an open communication. In addition to these, it has all Company policies, news and a gallery of all the Company events. This links the branch network and all staff members to a centralised platform to share.

HR SYSTEM

LBF has taken full advantage of the HR System to enable employees in asking questions and providing feedback. This has created a closer relationship with its employees.

OTHER ASPECTS OF HUMAN CAPITAL

CHILD LABOUR G4-HR5, HR6

There is no child labour or forced labour within the Company and LBF strictly does not support the use of these forms of labour. Furthermore, the Company does not conduct any operation or business with a third party or stakeholder that would employ such practices.

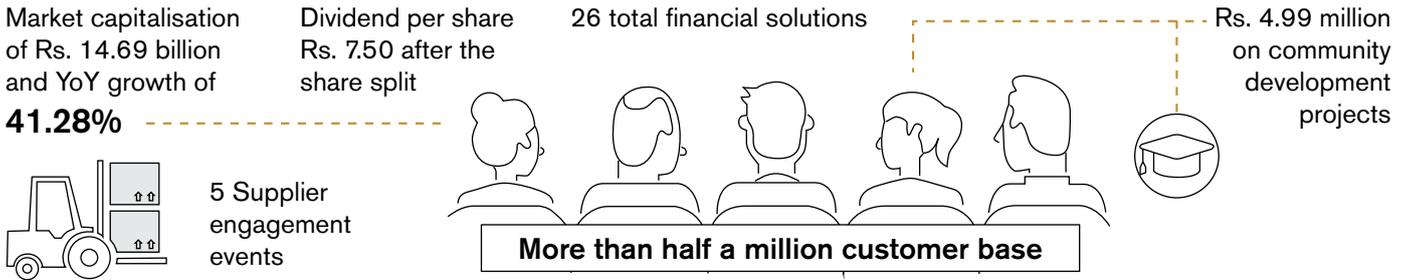
ANTI-CORRUPTION G4-SO3, SO4, SO5

It is the policy of the Company to comply with anti-bribery laws and regulations of Sri Lanka. The legal function is responsible for setting Company-wide standards with respect to anti-corruption laws and interactions with professionals. As a general rule, the finance function is responsible for ensuring appropriate accounting controls are in place at all levels of the organisation. This is to guarantee the accuracy of financial reporting, including the investigation of potential frauds, thefts, losses and falsification of financial results. LBF is also responsible for evaluating, testing and monitoring accounting control systems on an ongoing basis to be reasonably assured that the controls in place continue to be appropriate and function properly. Part of this evaluation includes documenting all steps taken to evaluate and monitor controls, as well as documenting existing accounting and internal control systems and procedures.

All the functions are audited on either a three-year or a five-year cycle depending on the risk profile of the particular function. In addition, LBF conducts additional monitoring and testing of all operations on operating functions for compliance with the Company's policies on a regular basis. The scope and frequency of such monitoring is dependent on the requirements of the standard operating procedures of each operation. LBF's approach in this area is driven by the Company's Code of Business Conduct and Ethics which outlines its obligations, as a Company and individually, to comply with all applicable laws and prevent and report bribery and corruption wherever LBF operates. Code of conduct is compulsory and binding on all employees. Non-observation or breach of code of conduct makes the employee liable for disciplinary action leading to imposition of major or minor penalty or with adverse impact on their career including termination/dismissal. Therefore, there were no significant incidents of risk-related to corruption since LBF's employees are governed by the Company's strict code of conduct.

However, LBF is looking at conducting training programmes on anti-corruption in future.

Social and relationship capital

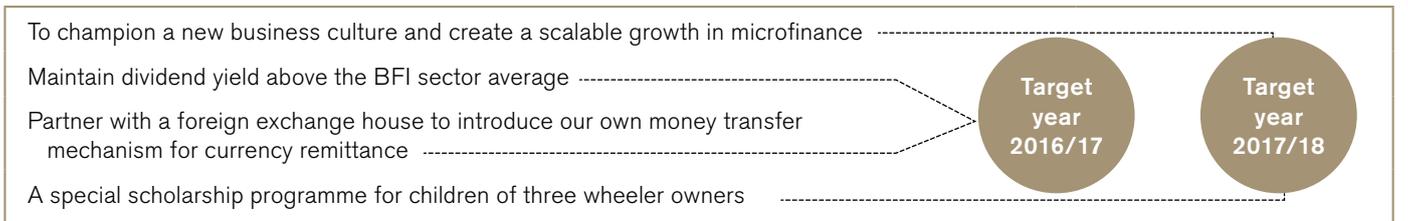


2015/16 Highlights

2015/16 Progress towards objectives			
Objective	Status		Page
Maintain ROE over 25 percent	●	40.40 percent	P 94
Grow the overall loan book by 15 percent	●	27.87 percent	P 102
Re-engineering supplier assessment model focused on sustainability	◐	Supplier assessment process	P 115
Engage in 50 community projects	○	33 Projects	P 117

○ Ongoing ● Achieved ○ Not achieved

Objectives 2016/17 and beyond



Challenges





INVESTOR

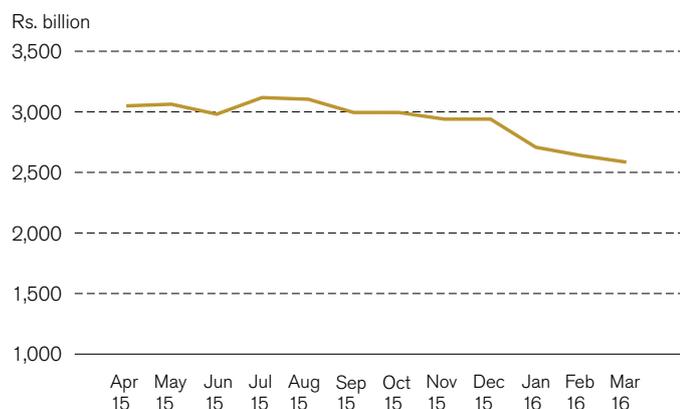
Investors are LBF's lifeblood. LBF therefore is concerned to keep them closely posted on the Company's strategies, plans and performance and thereby gain their trust and confidence in the Company. Some of the channels LBF uses to keep them informed are the Annual General Meeting, investor meetings, annual report, interim financial statements and announcements at the Colombo Stock Exchange (CSE), press conferences and media releases. The Company makes use of electronic media for communication where appropriate.

Through the Company's strategies, LBF takes a long-term view of the business and carefully balances risks and return to generate optimum return to the shareholders in a sustainable manner. While LBF innovates, it is done so with due diligence and professionalism to protect the investors' capital. LBF believes that this will lead the shareholders taking a long-term view of the Company without being swayed by short-term fluctuations and build lasting and trusting relationships.

COLOMBO STOCK EXCHANGE (CSE)

As at 31st March 2016, CSE had 294 listed companies, representing 20 business sectors, with a market capitalisation of Rs. 2,586.15 billion. CSE recorded a sluggish performance under volatile movements in the price indices in 2015. The All Share Price Index (ASPI) closed at 6,071.88 points, performing a negative growth of 5.54 percent compared to the previous year. Standard and Poor's Sri Lanka 20 Index (S&P SL20) also declined by 11.33 percent year on year, closing at 3,204.44 points. Increased investor uncertainty resulting from delayed policy directions along with political changes, increasing interest rates, depreciation in the exchange rate and reversal of capital flows from emerging markets have resulted in significant foreign outflows from the equity market during 2015. The daily average turnover of the CSE increased by 8.88 percent to Rs. 895.46 million in 2015 from Rs. 822.45 million in 2014, reflecting moderate performance during the year.

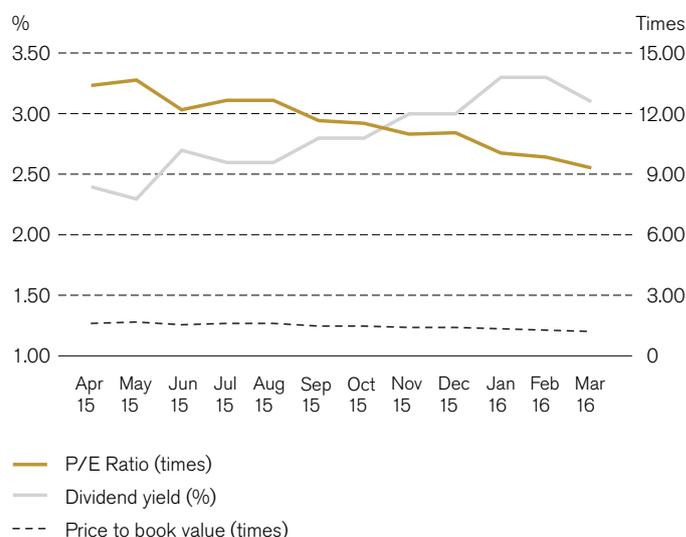
Market capitalisation



BANKS, FINANCE AND INSURANCE SECTOR (BFI)

During the year under review, BFI sector capitalisation reached Rs. 618.25 billion showing 0.15 percent growth, compared with the previous year. As at 31st March 2016, the number of listed companies in the banking, finance and insurance sector was 62. Total turnover was Rs. 76.55 billion during the year, performing a negative growth of 33.86 percent year on year. As at 31st March 2016 dividend yield ratio increased marginally to 3.1 percent from 2.7 percent the previous year. Price Earnings (P/E) ratio and Price to Book Value (PBV) were 9.3 and 1.2 times respectively.

Behaviour of BFI sector ratio



LBF SHARE

GENERAL INFORMATION

Total number of shares in issue as at 31st March 2016	138,514,284
Public shareholding as at 31st March 2016	22.78%
Beta values against ASPI as at 31st March 2016	2.10
Beta values against S&P SL20 as at 31st March 2016	1.86
Stock symbol	LFIN.N0000
News wire codes of LBF share:	
Bloomberg	LFIN : SL
Dow Jones	LFINN
Reuters	LFIN. CM

The shareholders at an Extraordinary General Meeting approved the recommendation of the Board of Directors to increase the number of ordinary shares by subdividing 69,257,142 ordinary shares into 138,514,284 ordinary shares by the division of one existing ordinary share into two ordinary shares.

Due to the share split, the share price showed a reduction from Rs.150.20 to Rs. 106.10. During the year, the share price recorded a high of Rs. 239.00 (19th June 2015) and a low of Rs. 97.50 (9th March 2016).

The beta value of LBF's share as per ASPI was 2.10 and as per S&P SL 20 it was 1.86 (First quarter, 2016). This reflects that LBF share is less volatile than the market.

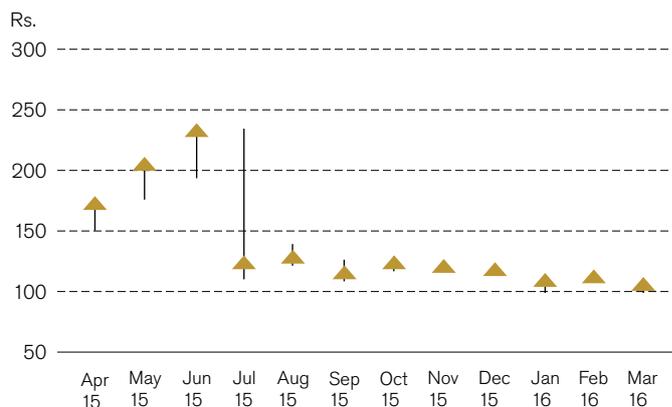
SHARE INFORMATION (ANNUAL PERFORMANCE)

	2015/16	Date	2014/15	Date
Share Price				
Highest (Rs.)	239.00	19.6.2015	183.00	17.11.2014
Lowest (Rs.)	97.50	9.3.2016	100.50	4.4.2014
Closing (Rs.)	106.10	31.3.2016	150.20	31.3.2015
Number of transactions	10,241		3,610	
Number of shares traded	7,494,871		3,817,946	
Value of shares traded (Rs. billion)	1.05		0.59	
Number of days traded	235		232	
Average daily turnover (Rs. million)	4.48		2.55	
Market capitalisation (Rs. billion)	14.69		10.40	

SHARE INFORMATION (QUARTERLY PERFORMANCE)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Share price				
Highest (Rs.)	239.00	234.00	128.00	112.10
Lowest (Rs.)	150.30	110.00	115.00	97.50
Closing (Rs.)	237.70	115.40	119.40	106.10
Number of transactions	2,975	4,112	1,525	1,629
Number of shares traded	1,669,135	3,659,189	1,076,602	1,089,945
Number of days traded	56	60	61	58
Average daily turnover (Rs. million)	5.99	7.84	2.15	2.02

Monthly high and low share prices



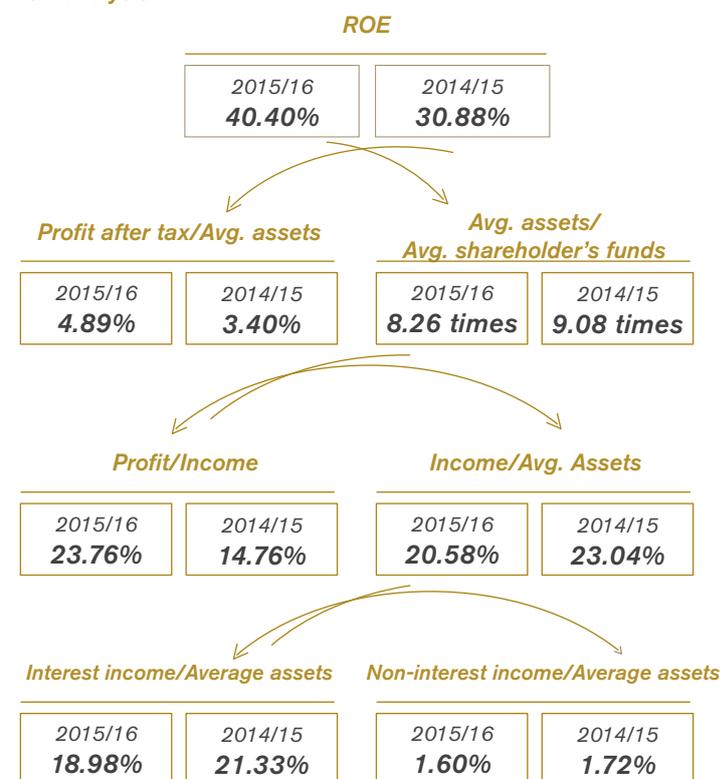
▲ Closing price

STATED CAPITAL

The stated capital of the Company as at 31st March 2016 was Rs. 838.28 million, represented by 138,514,284 fully-paid ordinary shares. The share capital comprised a single class of share in which every share has the same voting power and the same entitlement to dividends. Share subdivision took place without a change to the stated capital of the Company. No new shares were issued during the year under review.

FINANCIAL ANALYSIS

ROE analysis





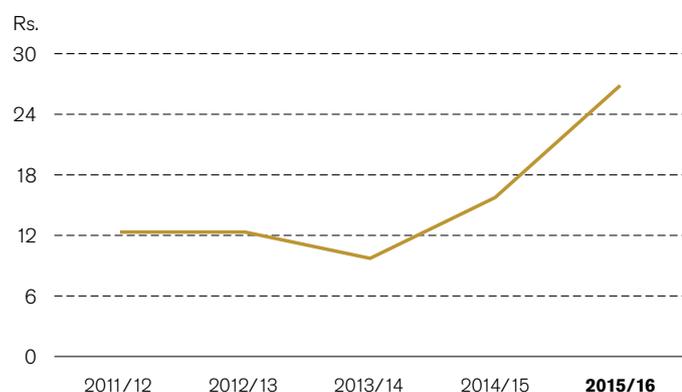
EARNINGS PER SHARE (EPS)

The earnings per share (EPS) for the period increased by 70.41 percent to Rs. 26.84 in 2015/16 and recorded at Rs. 15.75 (restated) in 2014/15 as a result of increasing of the profit attributable to shareholders.

PRICE EARNINGS RATIO (P/E)

The P/E ratio as at 31st March 2016 recorded at 3.95 times compared to 4.77 times (restated) recorded in the previous financial year. The improvement in the P/E ratio is mainly due to increased EPS. The published broad market P/E of the Colombo Stock Exchange was 9.30 times as at the end of the current financial year.

Movement of EPS



NET ASSET VALUE PER SHARE

As at the financial year ended 31st March 2016, the net assets value per share of the Company stood at Rs. 75.66 which reflected an increase of 32.20 percent compared to Rs. 57.23 (restated) the previous year.

PRICE TO BOOK VALUE RATIO

Price to book value ratio as at 31st March 2016, recorded at 1.40 times compared to 1.31 times (restated) in the previous financial year, reflecting a marginal increase of 6.87 percent.

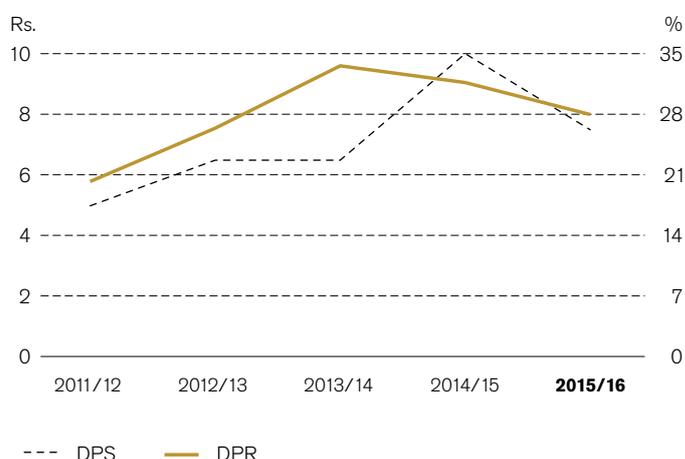
TOTAL SHAREHOLDER RETURN

The total shareholder return (TSR) recorded at 51.26 percent for the year 2015/16.

DIVIDENDS

LBF's investor friendly dividend policy balances the immediate returns to investors, whilst retaining funds for future investments. This ensures growth in the medium and long-term which grows shareholder wealth in these time frames. The Board has proposed a final dividend of Rs. 7.50 per share and the total dividend proposed was Rs. 1.03 billion. The dividend payout ratio was 27.94 percent compared to 31.74 percent the previous year.

Dividend per share and dividend payout ratio



LIQUIDITY

During the year under review, 7,49 million of shares were traded compared the previous year's figure of 3.81 million shares. The average daily turnover was Rs. 4.48 million at the end of the current financial year as against Rs. 2.55 million in the previous financial year.

ANALYSIS OF SHAREHOLDERS

With reference to the distribution of shareholding, approximately, 91.94 percent of the shares amounted to shareholdings of over one million whilst it was 91.36 percent in the previous year. The total number of shareholders increased to 2,096 in the year under review from 1,553 in the previous year. Local investors constituted 99.48 percent of the investor base, whilst the balance 0.52 percent was foreign investors. Out of the total shareholder base, 6.18 percent were individual shareholders and 93.82 percent were institutional shareholders.

PUBLIC HOLDING

The Securities and Exchange Commission of Sri Lanka introduced effective from January 2014 a minimum public holding of 20 percent as a continuous listing requirement. Complying to this, the percentage of shares held by the public as at 31st March 2016 was 22.78 percent comprising 2,089 shareholders.

DISTRIBUTION OF SHAREHOLDINGS

	As at 31st March 2016				As at 31st March 2015			
	Number of shareholders	%	Number of shares held	%	Number of shareholders	%	Number of shares held	%
1 to 1,000	1,262	60.21	376,870	0.27	1,067	68.71	283,275	0.41
1,001 to 10,000	635	30.30	2,195,664	1.59	385	24.79	1,299,708	1.88
10,001 to 100,000	174	8.30	4,754,003	3.43	89	5.73	2,392,310	3.45
100,001 to 1,000,000	18	0.86	3,836,937	2.77	6	0.39	2,008,051	2.90
Over 1,000,000	7	0.33	127,350,810	91.94	6	0.39	63,273,798	91.36
Total	2,096	100.00	138,514,284	100.00	1,553	100.00	69,257,142	100.00

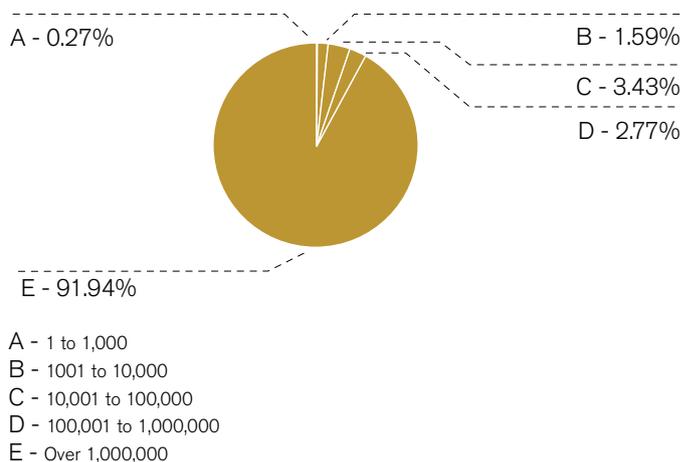
COMPOSITION OF SHAREHOLDERS

Category	As at 31st March 2016			As at 31st March 2015		
	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
Local – Individual	1,942	8,083,876	5.84	1,443	3,397,673	4.91
Local – Institutional	133	129,705,146	93.64	92	65,520,541	94.60
Foreign – Individual	17	471,896	0.34	17	320,428	0.46
Foreign – Institutional	4	253,366	0.18	1	18,500	0.03
Total	2,096	138,514,284	100.00	1,553	69,257,142	100.00

DIRECTORS' SHAREHOLDINGS

Names of Directors	No. of shares as at 31st March 2016	As a % of total shares	No. of shares as at 31st March 2015	As a % of total shares
Mrs. K Fernando	3,200	0.002	1,600	0.002
Mrs. Shirani Jayasekara	-	-	-	-
Mr. K D D Perera	-	-	-	-
Mr. J A S S Adhihetty	106,120	0.077	53,060	0.077
Mr. Thosapala Hewage	-	-	-	-
Mr. L N De Silva Wijeyeratne	-	-	-	-
Mr. Nimal Perera	-	-	-	-
Mr. N Udage	58,719	0.042	11,700	0.017
Mr. B D A Perera	-	-	-	-
Mr. R S Yatawara	-	-	-	-
Mrs. A K Gunawardhana	-	-	-	-
Mrs. Y Bhaskaran	-	-	-	-

Distribution of shareholdings

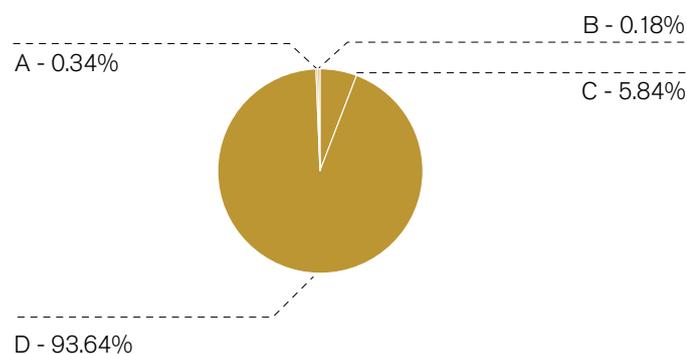




LARGEST SHAREHOLDERS OF THE COMPANY

Shareholders	As at 31st March 2016			As at 31st March 2015	
	Number of shares	Percentage holding (%)	Cumulative Percentage holding (%)	Number of shares	Percentage holding (%)
1 Vallibel One PLC	70,642,400	51.000	51.000	35,321,200	51.000
2 Royal Ceramics Lanka PLC Commercial Bank of Ceylon PLC/ Royal Ceramics Lanka PLC	36,123,232	26.079	77.079	18,061,616	26.079
3 Esna Holdings (Pvt) Limited	14,062,400	10.152	87.231	7,031,200	10.152
4 Sri Lanka Insurance Corporation Ltd.-Life Fund	3,685,800	2.661	89.892	1,842,900	2.661
5 Mercantile Investments and Finance PLC	1,746,148	1.261	91.153	953,600	1.377
6 Commercial Bank of Ceylon PLC/Dunamis Capital PLC	1,090,830	0.788	91.941	1,016,882	1.468
7 Janashakthi Insurance PLC (Policy Holders)	500,000	0.361	92.302	250,000	0.361
8 Mr. H A Van Starrex	354,370	0.256	92.558	46,671	0.067
9 Mr. A A Page	314,800	0.227	92.785	157,400	0.227
10 Mr. E Bianchi	308,800	0.223	93.008	154,400	0.223
11 Mr. N P D E Samaranyake	292,500	0.211	93.219	10,000	0.014
12 Waldock Mackenzie Ltd /Mrs G Soysa	222,504	0.161	93.380	111,252	0.161
13 Global Sea Foods (Pvt) Limited	219,700	0.159	93.539	-	-
14 Mrs. P C Cooray	208,632	0.151	93.690	95,716	0.138
15 Mellon Bank N A-Commonwealth of Massachusetts	207,243	0.150	93.840	-	-
16 Mr. K Sabaratnam	177,690	0.128	93.968	72,732	0.105
17 Mr. P Somadasa	155,444	0.112	94.080	76,672	0.111
18 Mr.T Jeremiah	155,164	0.112	94.192	77,582	0.112
19 Mr. K D A Perera	149,422	0.108	94.300	100,000	0.144
20 Mr. K Karunanayake and Miss. P N Karunanayake	148,324	0.107	94.407	74,162	0.107
Total of largest shareholders	130,765,403	94.407		65,453,985	94.507
Total of other shareholders	7,748,881	5.593		3,803,157	5.493
Total shareholders	138,514,284	100.000		69,257,142	100.000

Composition of shareholders



- A - Foreign - Individual
- B - Foreign - Institutional
- C - Local - Individual
- D - Local - Institutional

Rs. 7.50

Dividend per share

Increased number of
ordinary shares by
sub-division of
1 ordinary share into
2 ordinary shares**22.78%**

Public holding

DEBENTURES

In November 2013, LBF raised Rs. 2 billion subordinated, unsecured debentures to boost Tier II capital position. The debentures were listed on the CSE as category A, B and C. During the financial year category A, B and C were traded on the CSE and their highest, lowest and closing prices are given in the table below. During the year under review, no new debentures were issued.

DEBENTURE MARKET PRICE FOR THE YEAR

Year	2015/16			2014/15		
Type of Debenture	Type A	Type B	Type C	Type A	Type B	Type C
Highest (Rs.)	102.00	112.98	104.00	111.00	Did not trade during the year	Did not trade during the year
Highest date	29-03-16	11-08-15	24-03-16	22-05-14		
Lowest (Rs.)	102.00	112.98	104.00	110.00		
Lowest date	29-03-16	11-08-15	24-03-16	20-05-14		
Close (Rs.)	102.00	112.98	104.00	111.00		
Yield (%)	13.11	9.78	13.07	10.90		

SUBMISSION OF INFORMATION TO THE COLOMBO STOCK EXCHANGE

The Company considers timely submission of all relevant information to the Colombo Stock Exchange, in accordance with the Listing Rules to be of utmost importance. The important disclosures made by LBF to the Colombo Stock Exchange during the year 2015/16 are shown below.

Date of disclosure	Details of disclosure
16th March 2016	Appointment of Directors
19th January 2016	Dealings by Directors
28th December 2015	Rating review
16th December 2015	Dealings by Directors
3rd December 2015	Rating review
18th November 2015	Dealings by Directors
29th September 2015	Dealings by Directors
8th July 2015	Extraordinary General Meeting
15th June 2015	Sub-division of share dates
15th June 2015	Extraordinary General Meeting
22nd May 2015	Dividend announcement
20th May 2015	Sub-division of shares



CUSTOMER

LBF has a wide range of customers including individuals, SMEs and corporates, who need different financial solutions tailored to their needs. Catering to their diverse needs is a prime component of LBF's strategy. In the year under review, the Company undertook many initiatives to enhance customer experience.

- Introducing Power Plus and obtaining MoneyGram agentship for international money transfer
- Investing in training on customer relationship building
- Widening the reach by relocating 1 branch, adding 9 new branches and 2 GL Centres to the service network
- Launching seasonal promotion campaigns with special gift schemes
- Awarding gold loan customers with 'LB Swarnawarama' programme
- Introducing new loyalty programme for MoneyGram product
- Launching LB e-connect online platform to saving customers
- Reduced the carbon emission and reaching the carbon neutral status
- Upgrading the call centre with new technology along with increased employee strength

With the continued growth, the Company feels it would be the preferred financial institution for all the stakeholders. LBF provides accurate and relevant information to enable customers to select the products suitable for them out of the product portfolio. LBF's product portfolio consists of three main business lines; financing, investment and value added services. This is further elaborated on [page 20](#).

ANALYSIS OF CUSTOMERS

Product	2015/16 Number	2014/15 Number	2013/14 Number	2012/13 Number	2011/12 Number
Lease	106,969	86,316	82,114	66,565	56,478
Hire purchase	4,228	8,247	9,257	9,882	10,883
Vehicle loans	3,914	5,365	4,876	2,183	1,227
Mortgage loans	1,195	780	392	214	139
Gold loans	188,184	156,965	130,317	130,811	107,669
Other lending products	6,070	3,857	914	447	154
Fixed deposits	29,893	32,802	41,507	38,862	27,247
Savings	170,055	119,060	76,528	23,460	6,323
	510,508	413,392	345,905	272,424	210,120

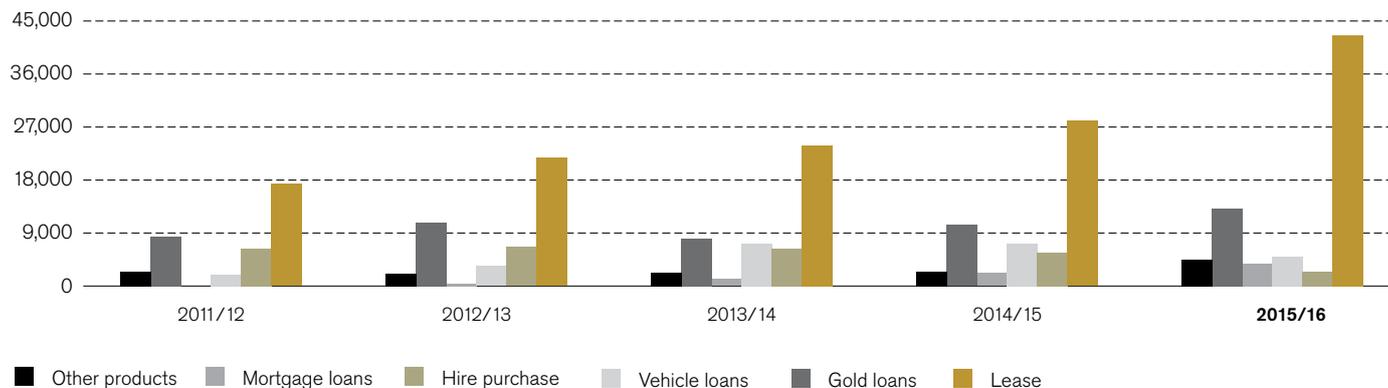
New business executions

Rs. million



Lending portfolio

Rs. million



Product portfolio



Fixed deposits, with a range of tenures are the largest component of the deposit base and form the main source of funds for lending. The Company aims to be the public's first choice for this product. The expansion and growth is greatly dependent on securing a large deposit base; the strength of the reputation has enabled LBF to secure the 2nd largest deposit base among all the LFCs in Sri Lanka.

Approach

The strategy initiated last year of reducing dependence on fixed deposits in favour of low cost borrowings and savings was continued. As always LBF controlled large deposits carefully and encouraged small sized ones. The Company also endeavoured to increase long-term deposits by offering attractive rates to overcome maturity mismatches. The wide spread of branches as well as seasonal offers enabled LBF to grow the fixed deposit base.

Performance

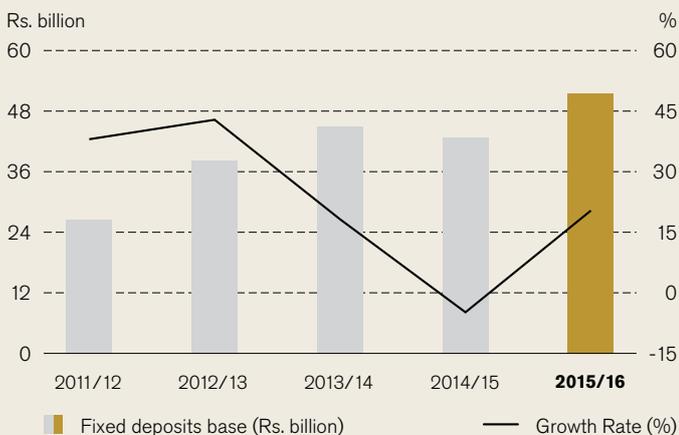
Through focus on customers and service quality the Company was able to achieve a fixed deposit base of Rs. 50.59 billion with an impressive growth of 18.26 percent.

The customer base includes 29,637 individual customers and 256 corporate customers as at 31st March 2016. They comprise both new customers as well as existing customers to whom LBF has been able to cross sell the products. The deposit base was impacted by the Government imposing a 15 percent interest rate for deposits of senior citizens with commercial banks, resulting in a marginal reduction in the renewal ratio to 76.83 percent from 78.10 percent during the previous year.

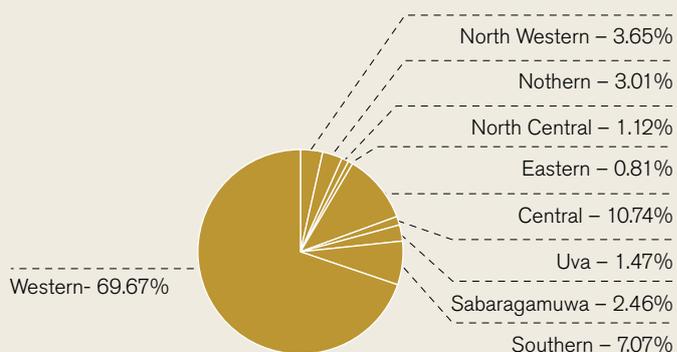
Outlook

LBF hopes to extend services in LB e-connect facilitating balance inquiry of fixed deposits, real time transfers, opening fixed deposit accounts and more customer-friendly features. Further, the Company aims to be the market leader by enhancing customer awareness through continuous promotion campaigns. Furthermore, the Company will focus on reducing concentration on Western Province and to attract more customers from economically important strategic locations.

Growth in the FD base

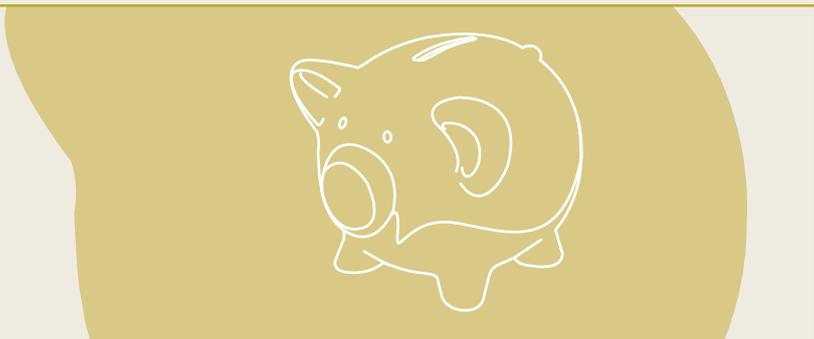


Region-wise fixed deposits customer base – 2015/16





Savings deposits



The Company recorded a successful year in growing its savings deposit base reflecting the degree of trust it has attained among depositors. The savings product types are regular, kids, senior citizen and Mudharabha.

Approach

The Company continued the policy, initiated in the previous year, to shift the balance in the deposit mix from fixed to savings deposits, resulting in a more low cost deposit base. To this end, LBF fostered the savings habit among customers by way of special features and promotions.

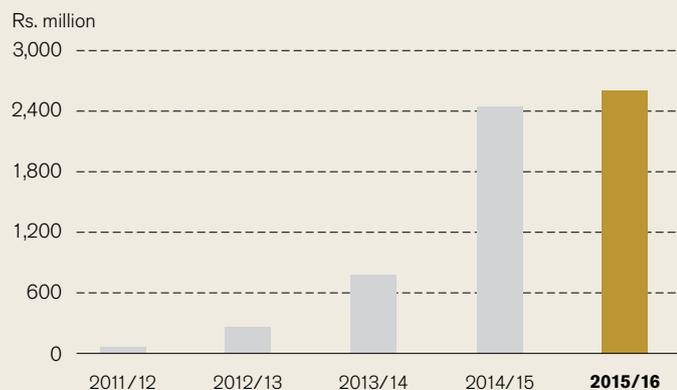
Performance

Strong focus on customers has enabled LBF to achieve the second largest savings base among LFCs in savings deposits. To sustain this position LBF offered additional benefits to the savings account holders. With competitive interest rates, intensive marketing and promotional campaigns the Company was able to grow the savings base by 6.46 percent to Rs. 2.59 billion.

Convinced that technology plays a major role in enabling that level of convenience, the Company introduced LB e-connect service whereby customers could carry out transactions and obtain account information conveniently.

Banks have traditionally held the top spots when it comes to savings deposits. The Company was able to overcome this by introducing a new feature of 'Daily Collections' which enables customers to transact from their homes. This promoted the savings habit among low income owners and helped to grow the market share.

Growth in the savings base



LBF develop diverse products to cater to the diverse needs of customers and changing circumstances. Meant for those with a salaried income, 'LB Salary Saver' offers attractive interest rates, special loan facilities, free standing orders, as well as loan facilities for housing, vehicle purchases and higher education.

Visa shopping debit card was another innovation LBF introduced in 2014 for savings account holders, usable at all Visa ATM networks and in a number of retail outlets for purchases. LBF provides a number of other features such as rewards, seasonal benefits and free SMS notifications on transactions to enhance security and customer confidence. Use of debit cards increased by 86.03 percent during the year compared to the previous year.

Outlook

The Company wishes to introduce Common Electronic Fund Transfer Switch (CEFTS). This will facilitate immediate real time fund transfers/ payments between LankaPay-CEFTS members. LBF anticipates introducing a palmtop application that will enable online updating of savings accounts from daily collections. And also LBF intends to enhance customer convenience by having own ATM machines initially in the Western Province. The Company intends to introduce a new product for younger generation to promote the saving habit which assure them of a secure and attractive return. It combines features of fixed and savings deposits. 'Double Pension Plan', a 10-year retirement plan is also targeted at young investors to enable them to enjoy greater financial security in their retirement by receiving a steady monthly income.

ATM transactions





Lease financing has a strong association with the Company's image. With 45 years of experience in the leasing industry the Company has built up expertise in the field especially for vehicle financing. 2015/16 was a year of many ups and downs for the leasing industry. The industry benefited from the low interest regime and the reduction of duty for vehicles under 1000cc.

On the other hand, challenges have been brought by the regulatory framework. Government directives on vehicle valuation methods, the decision to bring down 'Loan to Value' ratio to 70 percent, increased duty on new vehicle imports and gradual depreciation of Sri Lankan Rupee have had an adverse impact on the industry. So have increased interest rates in the latter part of the year and increased competition. In the circumstances, LBF needs to cautiously approach 2016/17 too with certain reservations.

Approach

The Company sought to grow the business through focus on the customer, enhancing the quality of his experience and easing the access. This approach paid off handsomely in increasing business volumes and managing asset quality. All business units strive aggressively for new customer acquisition through a strong sales culture. The Company also offer attractive interest rates compared to banks. The partnerships with reputed vendors and regular promotions also helped to grow business volumes.

Performance

The lease portfolio recorded a growth of 51.90 percent over the previous year, and accounted for 59.52 percent of our total lending portfolio. Leasing customers grew by 23.93 percent during the year, a reward for customer-centric approach. A robust demand for vehicles, fuelled by the reduction in tariffs, drove the leasing growth. Revamping of internal procedures paid off with a drop in the impairment charge resulting in a quality portfolio.

Outlook

Given the competitive environment, the Company will further strengthen its marketing team and regional presence with aggressive marketing campaigns expecting a continued growth in the coming year. And more emphasis will be given on existing customers to generate business.

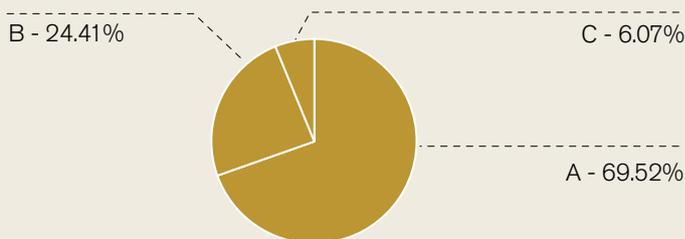
Micro leasing is an excellent example of how LBF generates social and relationship capital while also generating financial capital. LBF is promoting financial inclusiveness, uplifting livelihoods and strengthening the small entrepreneurship culture within the country. The two main products in this scheme are: three-wheeler and motor bike leasing. Although micro leasing carries a risk than other operations, the Company strategically planned to minimise this and develop this customer segment in a win-win manner.

Approach

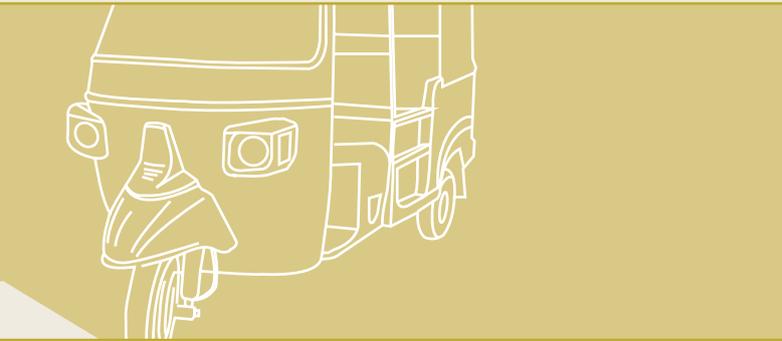
LBF has made the three-wheeler leasing facility available at all branches. This gave further insights into the market. The Company also broke new ground by taking the three-wheeler leasing concept to the rural hinterlands. LBF intends to take this further by creating a widespread dealer network permitting customers to transact at their doorstep. The Company customises the lease structures depending on the customers' desires and payback ability.

The leasing product for motor bikes was analysed and revamped during the year. Due to the high credit risk involved, valuation of creditworthiness and monitoring become very important. However, this was mitigated by the 70 percent loan to value ratio imposed by the Central Bank and which increased market opportunities. LBF provides maximum possible value to the customer by approving leases swiftly, giving competitive interest rates, flexible terms and conditions tailored to the client's financial position, convenience of repayment and free giveaways.

Micro lease portfolio - 2015/16



- A - Three wheelers - unregistered
- B - Three wheelers - registered
- C - Motor bicycles



Performance

The division of the market into new and registered three-wheelers enabled to have a more focused approach to customer needs. Further by moving to a risk-based pricing structure. LBF was able to strengthen win-win relationship with the customer. The regulatory changes to the Loan to Value ratio have impinged to a drop in the demand in three wheeler leasing for brand new three-wheelers and created a market for registered three-wheelers. Three wheelers leasing portfolio grew by 18.07 percent to Rs. 15.89 billion.

Similarly for motor bikes, LBF motivates employees dealing with the product through incentive and promotion schemes. There are also tempting add-ons for the customers as free giveaways. Motor bike leasing portfolio grew by 71.55 percent to Rs. 1.02 billion.

Outlook

The Company is planning to take this line of business further by increasing the number of dedicated employees, training to improve quality of service and enhancing IT systems to make them more user-friendly. With the concern with environmental sustainability, the Company is planning to join with business partners to promote a four-wheel substitute for three-wheels.

The Company aims to reach sales target through a volume driven approach. A dedicated employee will handle motor bike leasing at each of outlets. LBF intends to promote the motor bike as a stepping stone towards owning a better vehicle.



This product caters to customer segment neglected by banks due to the small scale of facility requirements. This facilitates customers to purchase, refinance, effect improvements to properties or consolidate debts by mortgaging their assets. This product is available on fixed and variable rates along with speedy service, flexibility, convenience and tailor-made for the specific financial needs of customers based on their repayment ability.

Approach

LBF's focus is to offer small ticket mortgage facilities tailored according to the customer requirements. Due to the growing demand for this product, LBF established a dedicated unit to provide a specialized service to this segment.

Performance

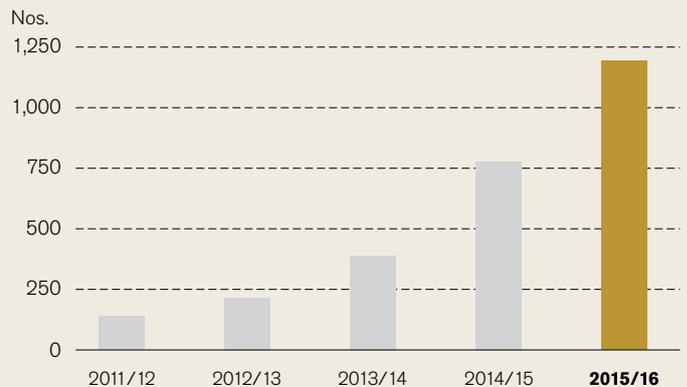
The low interest rates that prevailed in the first half of the year and the aggressive marketing and promotional campaigns gave a boost to this line of business. Meanwhile, a number of operational changes were implemented to offer a speedy service; key changes among them were the setting up of a separate legal unit and deploying a credit officer solely for mortgage loans at each main branch.

The Company reaped the harvest of these steps with a portfolio growth of 65.68 percent to reach Rs. 3.71 billion at the end of the year. It also accounted for 5.19 percent of our total lending portfolio.

Outlook

Going forward, LBF will emphasise on deploying credit offices to all branches and provide necessary technical skills to ensure a swift service to the customers of this segment.

Growth in customer base - mortgage loans





LBF strives to give the customer the best possible experience and be conscious of his changing needs. This product, which is mainly aimed at registered vehicles and has a flexible structure, catered to the customers who request traditional vehicle loans.

Approach

The Company intends to match the offer for registered vehicles on par with what the banking sector offers for unregistered vehicles. LBF closely monitors the market trends to give the best possible loan options and structures to satisfy the customer expectations.

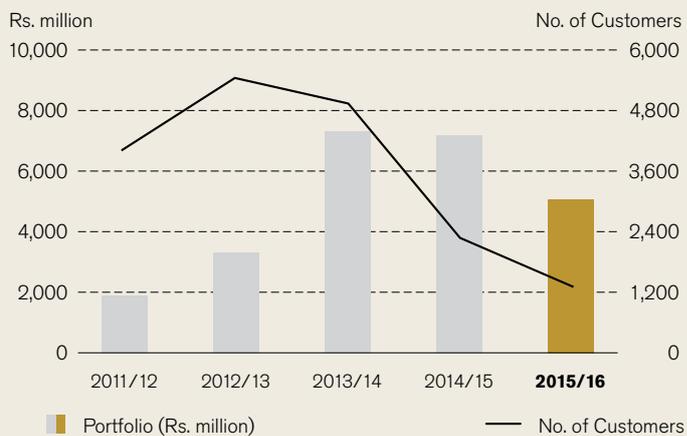
Performance

The vehicle loan portfolio constitutes 7.13 percent of the total loan portfolio. Due to exemption of provision in finance lease on VAT, market demand for this product shifted to finance leases creating a lesser demand. The vehicle loan portfolio contracted by 29.13 percent to reach a value of Rs. 5.09 billion from Rs. 7.19 billion.

Outlook

Due to the exemption of finance lease on VAT, the attraction of customers for this product was adversely impacted. Therefore LBF expects a natural shift from vehicle loans to finance leases. However the Company will always be cognisant of the changing needs of the customers.

Vehicle loan portfolio





Factoring

This product primarily targets the SME sector. The Company caters to a wide spectrum of businesses such as manufacturers, whole sellers and other service providers to finance their working capital requirements.

Approach

The Company provides customers with personalised, innovative, tailor-made working capital solutions to meet their specific business requirements. The Company offers greater funding flexibility, supported by a custom built, state of the art factoring and working capital management systems. During the year, LBF has focused on improving the speed and quality of service.

Performance

Factoring portfolio grew marginally with an increase of 1.53 percent to reach Rs. 454.20 million. Although, this is only a modest growth the Company believes the product has considerable long-term potential, especially in the SME sector and will give greater returns in the future.

Outlook

At present factoring has been mainly confined to the Western Province. However, the Company hopes to change this scenario by tapping in to the potential that exists in the other provinces, focusing on the SME sector, taking advantage of the widespread branch network.



Dirimaga

This product is targeted at low income/daily income earners who have been dependent on lenders from the informal sector paying high interest rates. As little or no security is taken from the borrowers the product carries a high risk. Therefore lending needs to be monitored closely and collection has to be enforced regularly and strictly.

Approach

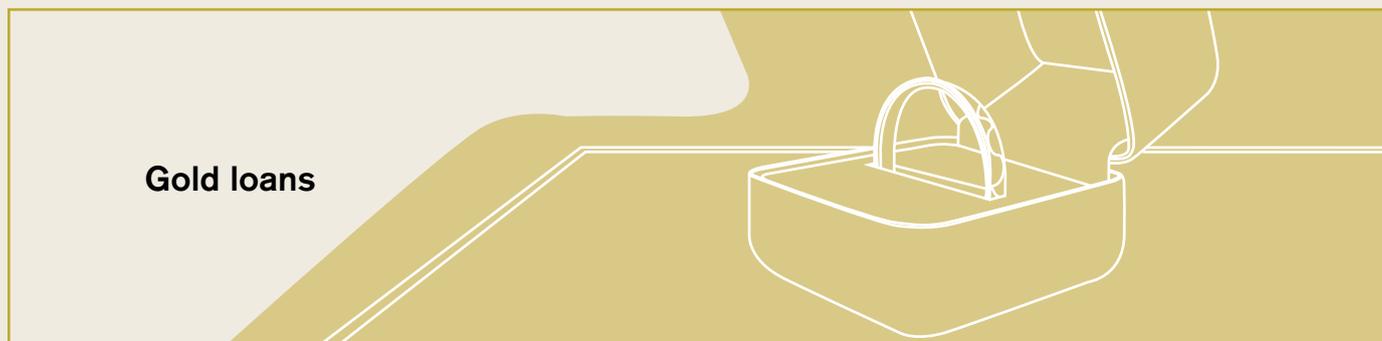
LBF seeks to further the Government's objective of widening economic opportunities through financial inclusion, and so the Company avoids creating barriers by only requiring minimal documentation from customers. The Company provides wider accessibility, superior customer service and rapid delivery with competitive interest rates and flexibility extended to permitting repayment on a daily basis.

Performance

The Company got close to the customers through this product and gained more insights into customer needs, thus making necessary modifications to the product. Unlike other organisations which scaled down operations from this product niche, due to repayment problems, the Company has taken the challenge to grow in this segment with suitable mechanisms to minimising the risks. There were currently 1,373 customers at the end of the financial year. The Company relished a portfolio growth of 243.76 percent to reach Rs. 140.50 million at the end of the year.

Outlook

The outlook is to ensure the underlying focus on inclusiveness of all customers. This product has helped to create a close working relationship with customers and focus on evolving the product through customer focused orientation. However, the Company is focused on approaching this using strengths along with the contingencies to minimise the risks involved and focusing on introducing the facility availability to the entire branch network island wide.



In the society, especially among the middle class and poorer sections of the population, 'gold loan' as it is popularly known is a common recourse in the case of emergency needs for cash, especially due to the ease with which the money could be obtained. LBF remains secure in its position for having the largest market share for gold loans among LFC sector.

The sharp decline in gold prices by 28.3 percent in 2013, which continued less steeply in 2014 and 2015, caused a setback to the industry. The fall in gold prices, and the resulting fall in collateral value, triggered a surge in non-performing loans. However, of late there have been signs of a revival in the market. LBF has made significant inroads into reducing its past non-performing loans and the performance in the past year has been satisfactory.

Approach

There was a change in the strategy this year from offering the highest advance to concentrating more on customer retention and deepening the reach in the market. The skills of employees were upgraded enabling them to execute an aggressive marketing strategy aimed both at attracting new customers as well keeping existing ones loyal.

The thrust of the marketing strategy was twofold. One was a push into new markets by dynamic field promotion. The other was to use diverse marketing techniques to promote awareness. Branch competitions among gold loan employees also helped to generate enthusiasm and boost the volume of business.

Performance

The growth of the gold loans portfolio recorded a growth of 26.55 percent during the year. The corresponding growth in the number of customers was 19.89 percent, while the share of gold loans in the total loans and advances declined slightly from 18.55 percent to 18.36 percent.

The NPL ratio of the product showed an improvement from 0.18 percent at end 2015/16 compared with 0.25 percent at end 2014/15 which showed the effectiveness of strengthened underwriting and recovery.

Outlook

Notwithstanding the recovery in global gold prices in 2016, with a 17.2 percent rise at the end of 1Q2016, there are no grounds for too much optimism in view of the uncertainty of the movement of US interest rates. In this milieu, the Company has focused on alleviating the risk inherent in market price fluctuations by appropriate safety margins.

Looking to the future, the strategy will be to leverage improvements to IT to support product diversity and commit resources to widening its reach. This will create an even more customer friendly service. Despite the adverse economic environment LBF's Gold Loan business is poised to grow further and entrench its position as the market leader in the sector.



Margin trading

Margin trading gives stock market traders the opportunity to multiply their investment and earn higher returns. Unfortunately performance of this product was lackluster in 2015 due to conditions in the stock market, particularly attributable to sluggish performance and the volatile movements in share prices.

Approach

Despite the problems, LBF has not been discouraged from committing resources to grow the margin trading loan base. LBF believes that the experience in other sectors where the Company obtained returns from the quality of service, efficiency and operational excellence can be applied to reach the same in this product and the Company has taken steps in that direction.

Performance

Compared to the Company's overall operation, the value of this product portfolio carries a comparatively small value. The portfolio value as at the year-end reached to Rs. 17.79 million, posting an increase compared to the previous year.

Outlook

With LBF's record of successful innovation in the financial sector the Company believes that it has reaped the rewards of the efforts the Company has expended in margin trading. LBF faces challenges like probability of rise in interest rates which will adversely impact the stock market. However, LBF focused actions to mitigate such challenges which would create positive results to this product.

Margin trading portfolio movement



PayHub

Moving beyond traditional boundaries, the Company initiated this service range with the sole purpose of providing a value addition by handling all utility bill payments which would bring convenience to the customers.

Approach

LBF created alliances with all reputed utility service providers. During the financial year the Company introduced electricity bill payment to Pay Hub service. LBF's utility service partners are; all mobile telecommunication service providers, Sri Lanka Telecom, National Water Supply and Drainage Board, Ceylon Electricity Board and Lanka Electricity Company.

Performance

Overall, the Pay Hub users significantly improved since last few years. The total number of transactions recorded was 200,512. This is a growth of 113.23 percent compared to the previous year. This was a result of the promotional programmes carried out during the year and the flexible service hours.

Year	Number of transactions	Value of transactions (Rs.)
2015/16	200,512	218,416,160
2014/15	94,035	116,164,550
2013/14	27,013	31,588,551

Outlook

The aim is to accommodate and facilitate all types of bill payment enabling customers to enjoy the convenience using expanding branch network. This service will be integrated with LB e-connect online platform in order to pay bills via Internet, enabling the customers to enjoy the real time bill payment facility.



In 2015 October, LBF became an agent for MoneyGram International which is a leading money transfer company which provides money transfer services worldwide.

Approach

Alliance with world reputed money transfer service benefited quick, safe and convenient money transfer ability to customers. The money transfer service exhibited significant growth in transactions since the commencement of operation.

Performance

LBF introduced a special loyalty programme for MoneyGram customers and the Company hopes this will attract more potential customers in future. Within a short time span of four months, the product handled 1,279 remittances.

Outlook

The distribution network and optimum service times will undoubtedly contribute to the growth of this product. This will be bolstered by quick and cordial service. LBF expects to draw more customers to MoneyGram by loyalty programmes and this will also cement the relationship with existing customers. LBF will seek the possibility of partnering with a foreign exchange house to introduce own money transfer mechanism for foreign remittances.



LBF has been engaged in financing of vehicles for many decades, identifying the varying needs of customers. Hence, the Company entered into this business segment in the recent past, to cater to the travelling requirements of customers and to diversify the product portfolio.

Approach

LBF aims to expand the fee-based income sources whilst promoting possible cross selling opportunities. LBF offers the best prices on car rentals for customers, and extends the best service and assistance promptly and efficiently.

Performance

During the year, LBF increased the fleet up to 27 vehicles and achieved revenue of Rs. 11 million.

Outlook

The Company is focusing on upgrading the fleet to diverse range vehicles suitable for any type of customer requirement. The Company is focusing on carrying out further campaigns and promotions to promote the product.



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. This offers three key products namely Ijarah leasing facilities, Murabaha trade financing and Mudharabah investment accounts. The operations of the unit are governed by the Islamic Sharia Law and overlooked by a qualified Sharia Supervisory Board.

LBF offers Sharia compliant services through our island-wide branch network as well as the dedicated standalone windows of the distribution channel, the forth and the latest of which was opened in Kinniya in March 2016. Other three are located at Maradana, Kandy and Trincomalee.

Approach

LBF aims to drive market share through promotional campaigns and customer awareness seminars in addition to introducing new products that are compliant with Sharia Law. The rapid progress of Al Salamah over a short period of time has been remarkable. The unit's ability to cater to specific customer demands in a consistent and efficient manner has enabled us to improve the capacity and provide more dedicated employees to the branches.

Performance

Item	2015/16	2014/15	2013/14	2012/13	2011/12
Ijarah					
Portfolio (Rs. million)	1,692	931	696	831	702
No. of customers	1,544	451	593	648	543
Murabaha					
Portfolio (Rs. million)	323	611	657	436	262
No. of accounts	241	133	472	401	256
Mudharabah F/D					
Base (Rs. million)	469	117	309	357	118
No. of Customers	64	56	97	99	45
No. of Contracts	103	88	188	201	69
Mudharabah Savings					
Base (Rs. million)	30	44	35	11	–
No. of Accounts	3,959	2,706	1,841	791	–

The Company's Ijarah leasing facilities and Murabaha trade financing are funded by a combination of Mudharabah investments from the public as well as the companies own investments on Mudharabah terms. In 2015/16 Ijarah portfolio grew by 81.74 percent to reach Rs. 1,692 million and Murabaha base decreased by 47.13 percent to Rs. 323 million during the year. Mudharabah Fixed Deposits saw a significant increase of 301 percent in 2015/16 resulting in the portfolio increasing to Rs. 469 million. Mudharabah Savings which was introduced in 2012 by the unit saw a decrease of 31.81 percent, with the base reduced to Rs.30 million during the year.

Outlook

LBF hopes to expand the product offering and grow business by making these products available through the branch network. The knowledge will be enhanced and more training at branch level will be provided to improve the sales. The unit intends to enhance its products range further during the upcoming financial year by introducing a range of new products, including Musharakah mortgage loans and Wakala business loans.

MARKETING

To sustain LBF's position as a leader in the finance industry the Company has prioritised on its key strategies, such as creating awareness and enriching the customer experience. During the year, analysis of the operating environment enabled the Company to build brand image through numerous initiatives to increase customer satisfaction and innovation. LBF focused even more on customer centricity by way of widening the network, improving call centre facilities and introducing loyalty programmes.

The marketing function revolves around creating awareness and enhancing relationship resulting in building LBF brand and market position. Details pertaining to branding is contained in the intellectual capital on [page 74](#).

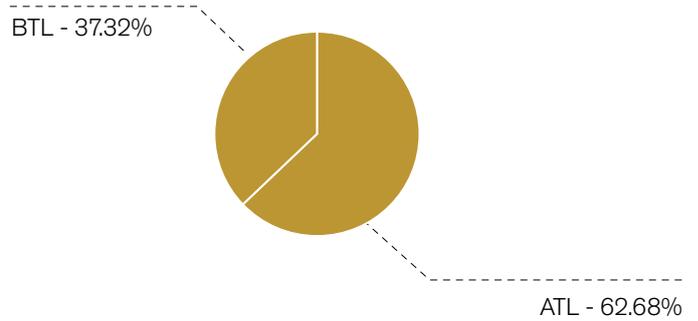


CREATING AWARENESS **G4-PR7**

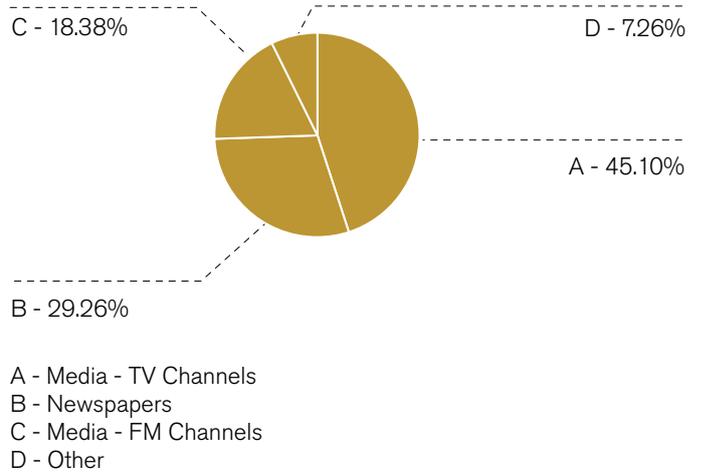
Creating awareness about products and services is vital for reaching out to more potential customers in target markets while serving vital information to LBF's loyal customers. The Company always selects an effective communication mix for reaching to each target group.

LBF uses two communication channels which are recognised as Above the Line (ATL) and Below the Line (BTL). ATL advertising uses mass media as a medium of communication to enhance the brand image and reaching the target customer base. This is much more effective, when the target group is very large and is difficult to define. BTL techniques ensure brand recall and promote the features of the products within a defined customer segment. At the same time internal communication is also done through the intranet to communicate promotions.

Advertising expenses

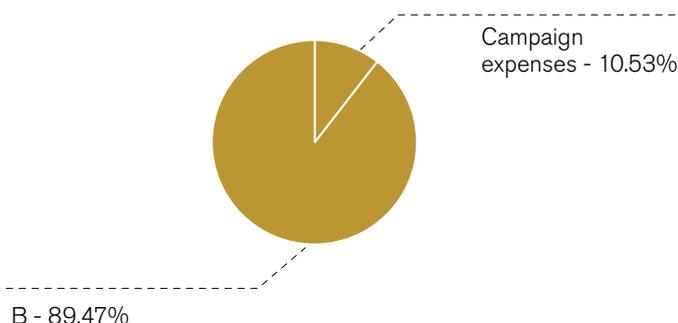


ATL related expenses





BTL related expenses



During the year LBF introduced new products and unique features to the existing product portfolio. The Company emphasised more on ATL method in order to create awareness within market. The advertising campaigns were conducted through electronic media channels and 62.68 percent of the total expenses contained advertisement published through this medium. Balance 37.32 percent of the expenses mainly included the advertising campaigns done through press and web media.

Web communications takes place via LBF official web site and social media networks. E-flyers through email advertisements include special promotions to communicate to employees and customers. The Company uses Facebook as the main social media to build networking among the community. Specially-designed Facebook advertisements are placed on [LBF official Facebook fan page](#) with accurate and up-to-date information.

Media related advertisements are mostly designed by the external agents according to requirements given by the marketing team. LBF has reserved a premium place in local newspapers to advertise special advertisements.

The BTL method consists of business promotions and campaigns targeting specific customers. The Company carried out seasonal promotions across the country. Over the years LBF has realised that seasonal promotions have become a great success allowing to reach new and potential customers and markets.

PRODUCTS RESPONSIBILITY G4-PR3, PR4, PR6, PR7, PR9

All advertising and promotions related to deposit products adhere to the Central Bank mandated requirements and are subject to monitoring by the Senior Management. The given guidelines and ethical considerations govern all LBF's branding and advertising. All necessary and requested information are provided to the

customers while a designated customer relationship officer would be available for clarifications and customer support. In the year under review, no non-compliances have occurred with regulations and voluntary codes concerning marketing communications, including advertising, labeling and promotions. All products and services are branded and labeled to reflect the true meaning to prevent the misleading of the customers. During the year the Company has not taken any initiative to promote or advertise the banned or dispute products or services which did not include under the products portfolio.

ENHANCED RELATIONSHIPS

LBF engages more than 500,000 customers who have trusted the Company as a loyal financial service provider among the competitive rivals. The focus was to make sure all the customers are getting better experience when they reached LBF. The Company enhanced existing customer relations unit by introducing compliant management unit, customer compliant hotline, loyalty programme and marketing monitoring unit which were established in the previous year.

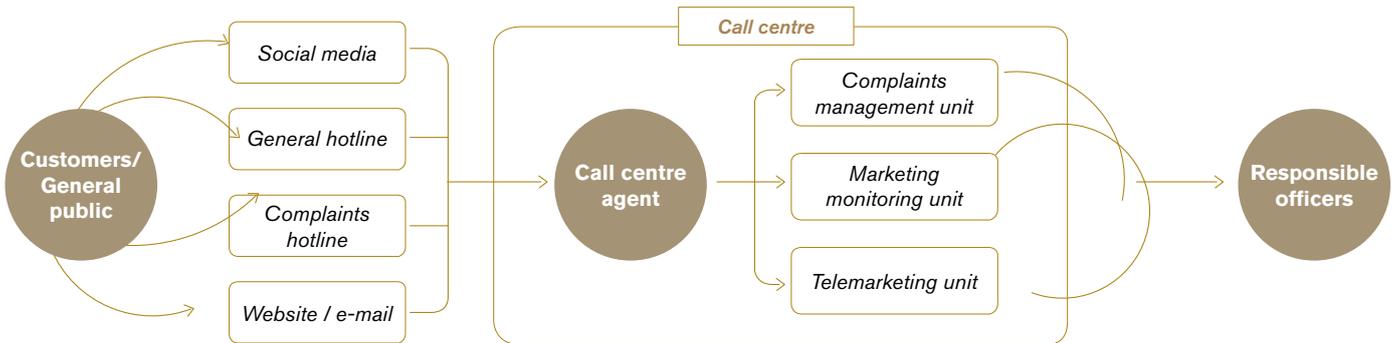
During the year, LBF merged customer relationship management unit and marketing monitoring unit with the new call centre facility located in Kolonnawa. The objective was to speed-up the communication process while managing customer relationships effectively.

CUSTOMER HEALTH AND SAFETY G4-PR1, PR2

When promoting the products and services LBF always gives due consideration to customer health and safety. As a good corporate citizen, the Company ensure our customers get the best products available in the market. When providing leasing facilities, our specialised officers examine the vehicle condition according to the pre-determined standards before handing it over to the customer. In operation, LBF is mindful about the carbon emissions and all vehicles for which leases were granted complied with the green emission requirement of the Government.

LBF generates promotional campaigns seasonally to provide more benefits to the customers. Most promotions included gift items, where the Company partnered reputed suppliers who conform with our supplier assessment criteria to ensure the quality of the products to protect customers from any negative consequences. All the materials used for promotional purposes are reusable and recyclable, to support our environmental-focused objectives.

CUSTOMER RELATIONSHIP ENHANCEMENT MODEL



CALL CENTRE

Customer service was also enhanced by the new call centre which operates 24X7. The centre is manned by experienced employees, also trained in customer relations, who were able to reduce customer waiting time. All call centre employees are trained in order to build better customer relations with customer-oriented trainings discussed in [page 78](#) in the human capital. The increased number of inquiries revealed the centralised call centre operation is a success which addressed more than 10,000 inquiries within the year.

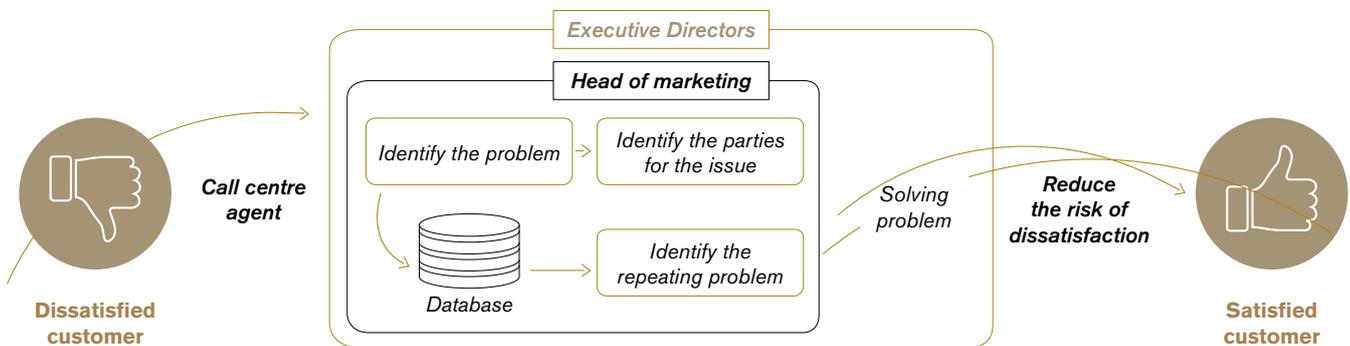
CUSTOMER SATISFACTION SURVEY G4-PR5

LBF also conducted a satisfaction survey in August 2015 with a sample of 2,380 of new customers. 87 percent of the customers expressed their positive feedback on service quality when obtaining the services from LBF outlets.

The survey also evaluated the modes of attracting customers to LBF. Significant amount of the customers were attracted from their related and non-related references which exhibited 65 percent out of total participants. From the survey the Company was able to identify that the customer referral and the network has become a powerful mode to bring out the LBF brand in the market.

COMPLAINT MANAGEMENT UNIT (CMU) G4-27

A CMU was set up to cater to dissatisfied customers from the customers' database and ascertain the degree of impact to the Company. Only the filtered complaints which are related to the products and services reach CMU.





CMU's prime objective is to prevent customer complaints from escalating into customer dissatisfaction by immediate identification of issues and quick responses. During the year the total number of complaints received was 522. All complaints are stored in an organised database to provide data to drive improvements to current operations.

NUMBER OF COMPLAINTS RECEIVED

Category	Number of complaints
Credit	222
Recovery	162
Insurance	41
General	97
Total	522

Post-customer complaints analysis is carried out continuously to minimise customer dissatisfaction. This provides a means for dissatisfied customers to express their concerns and get their concerns addressed with proper follow up by an independent unit.

MARKETING MONITORING UNIT (MMU)

Inquiries received to the call centre is processed by call centre employees and if there is any possibility for future business opportunities, information is forwarded to the marketing officers through the Marketing Monitoring Unit. MMU is responsible for monitoring the marketing officers and customers in order to make sure that business carried out without any barriers.

TELEMARKETING UNIT

The telemarketing unit was established to support our existing customers and offer new products to them. This is done by a separate team in co-ordination with marketing officers via MMU.

SMS leasing facility is an innovative feature offered to customers. This brought more comfort to customers while obtaining relevant information without any additional effort. After filtering of customer requirements telemarketing unit forwarded client information to the product specialist in order to provide the necessary information. The MMU also informs about the inquiries made by the customers and MMU will make sure that the product specialist communicates in an effective way while monitoring customer satisfaction. SMS leasing inquiries work perfectly during the year and facilitated the increase of facilities granted.

MARKET ANALYSIS

Having an accurate picture of the operating environment is a must to market successfully. Products and promotion should keep pace with changes in the market. To this end LBF conducted several market research studies for promotional campaign and loyalty programmes. A research carried out for evaluating the current loyalty programme followed by the rivals and to decide best action plans when attracting the customers to the promotional products. LBF launched 'LB Swarnawarama' Gold Loan loyalty programme to award 100 loyal customers. Getting deep insights into consumer behaviour, competitive position, promotional strategies and effective communication channels were results of the programme.



MYSTERY SHOPPING

LBF used mystery shoppers since 2010 to evaluate overall customer experience inside branches and GL centres. The evaluation process includes the effectiveness of branch promotions, public awareness around the area, competition, customer service, employee behaviour and other soft skills of employees.

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Financial solutions

Obtained
MoneyGram[®]
agentshipMore than half a
million customers

LBF also uses this as a tool to identify market threats and new opportunities that needed attention in order to improve customer satisfaction. After evaluating the customer satisfaction level and current engagement level, mystery shoppers suggest the way in which service quality can be improved and reduced the risk of customer dissatisfaction. In the year under review LBF completed 120 mystery shopping visits and majority of the visits were to identify the effectiveness of the customer relationship of LBF employees. This led to focus more on employee communication and relationship training.

CUSTOMER PRIVACY [G4-14, PR8](#)

The customer data obtained is considered to be very confidential and LBF takes precautions to prevent it from being misused. The Company follows the ISO27001:2013 Information Security Management System and the CBSL security policy to ensure customer privacy. Providing customer information to third parties is regulated. LBF's employee contracts include a clause on customer privacy which employees are expected to strictly adhere to.

Under the 'know your customer' programme LBF collects information on the nature of the customers income and as a policy the Company needs to be satisfied on the customer's source of income before providing any services. In the year under review, there were no incidents of violations of customer privacy or loss of data.

OUTLOOK

LBF is looking forward to enhancing customer loyalty towards the brand via employees, research and development, sales support, business promotions and innovative services. The Company will further focus on incorporating environmental sustainability in promotions and advertising. LBF's journey is a continuous one of finding underserved customer requirements and untapped market opportunities to pave the way to becoming the undisputed leader in the market.

The Company is expecting to launch green financial services which will strengthen the Company's sustainable journey making a positive impact to the environment.



BUSINESS PARTNER G4-12, 13

Business partners play a vital role in our business continuity and LBF is proud of the strong, collaborative relationships built with those business partners, many of whom have been working with the Company for years. LBF relies on a diverse group of business partner which provides the Company with the material, goods and services that are required to deliver a better service to all the stakeholder groups. The Company follows a procurement approach that is based on the procedures; to obtain the high quality products and services at a cost that represents the best possible value, while maintaining high ethical standards and taking social and environmental responsibilities seriously.

TYPES OF BUSINESS PARTNERS

This is categorised as follows:

Assets and material suppliers –

Vehicles, IT equipment, furniture, office equipment and stationery items.

Outsourced services –

Security services, drinking water, food and beverage providers, sanitary services, travelling and transport services, waste management, auditors and courier services.

Financial services providers –

Banks and financial institutions.

Other services –

Utility service providers, media, consultancy services, premises providers and insurance companies.

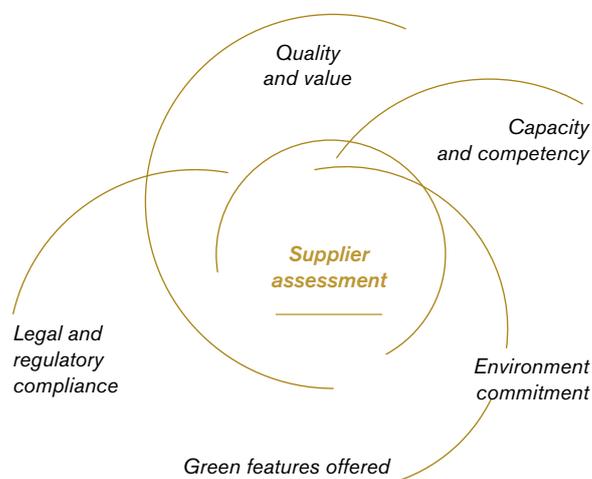
SPENDING ON BUSINESS PARTNERS G4-EC9

The Company engages with local business partners whenever possible to generate direct and indirect employment opportunities within the localities.

Business partner type	2015/16 Rs. million	2014/15 Rs. million
Assets and material suppliers	35,081.26	23,159.62
Outsourced services	1,054.51	1,027.91
Financial services	871.72	205.38
Other services	95.42	98.04
	37,102.91	24,490.95

BUSINESS PARTNER ASSESSMENT G4-EN32, EN33, LA14, LA15, HR10, HR11

LBF follows an unbiased business partner process giving equal opportunities to all suppliers. In the process of assessing the significant business partners a business partners assessment model is followed which comprises five key elements which requires to be completed; quality and value, capacity and competency, green features offered, legal and regulatory compliance and environmental commitment.



LBF's criterion is the quality and price competitiveness of their products and services, while considering the capacity and the competency of the business partners. Further the Company looks into the green features of product or service which demonstrate energy efficiency, made from recycling materials and/or can be recycled or reused at end of life and waste reduction. Further the Company considers the transparency and adherence of business partners with legal and regulatory requirements on child labour, forced labour, human rights and health and safety. LBF aims to encourage environmental commitment by selecting business partners who have proven to operate in environmentally responsible practices. During the year, whilst suppliers were assessed, the Company was unable to evaluate suppliers regarding their acts concerning human rights, internal labour practices and environmental policies. Hence actual and potential negative impacts within the supply chain on such matters remain unidentified.

Further LBF aims to mitigate any adverse environmental impacts of existing business partners by communicating the requirements they need to adhere in accordance with the Company's health and safety environmental policies. For this LBF has introduced guideline for procurement employees. To cite some;

- Food suppliers commit to avoid the use of polythene wrapping.
- Electronic suppliers have to agree to buy back the items at the end of their useful life.

LBF engages with local business partners whenever possible

'LB Riyapola' a vehicle mart bring buyers and sellers together

5 Business partner get-togethers with over 600 suppliers participating

BUSINESS PARTNERS ENGAGEMENT

As the initial step for getting engaged with business partners LBF checks whether the Company goals are aligned with their expectations. A continuous dialogue with the business partners is encouraged at all levels of management and hence LBF has deployed a dedicated person to share information on operational requirements and to improve the effectiveness of business partners engagement.

LBF has realised that ability to maintain long-term relationships while building mutual trust and loyalty with business partners help to achieve mutual growth and sustainable existence. The Company tries to build and retain long-term relationships with loyal business partners. Therefore LBF engages with Business Partner through supplier events such as business partners get together both at branch level and at corporate level to strengthen mutual understanding and express LBF's appreciation of their invaluable services. This year LBF has carried out five business partners get together programmes in Negombo, Kandy, Homagama, Galle and Gampaha areas with the participation of more than 600 suppliers. Moreover, the Company engages with business partners on an individual basis to discuss their issues and requirements to nurture long-term sustainable relationships.

During the year the Company carried out a campaign '*Aliyath Ekka Henduwa Nomile*' which gave free insurance to brand new vehicle buyers from selected business partners to increase their sales while benefiting the customers as well. LBF also conducted 'LB Riyapola' a vehicle mart to bring prospective buyers and sellers together.

LBF also promotes the Company's green policies by way of green leases by assisting customers financially to purchase hybrid and electric vehicles and added a new facility to LB Pay Hub by enabling payment of electricity bills at LBF's outlets island-wide. LBF's sponsorship of the 'Sale' TV programme on TNL which publicises small and medium new vehicle suppliers in different regions every week was continued this year.

OUTLOOK

In 2016/17 LBF intends to continue on its mission of sustainability with economic, social and environmental consciousness.

The Company will continue to practice and develop the supplier relations through the Business partner engagement process. Further, the company will continue focusing on building supplier relationships through creating mutually beneficial relationships similar to that carried out during the year.

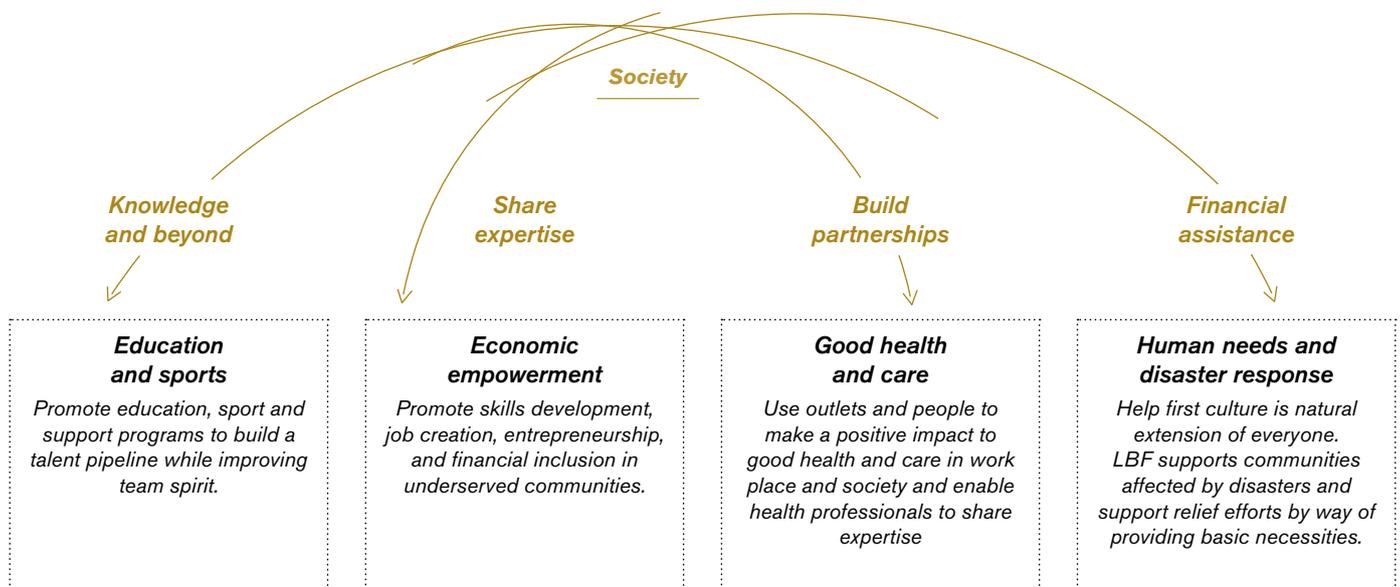
Further promotion of green products through products and services is planned to encourage business partners to adhere with the business partners Assessment Model. LBF further plans to include more sustainability assessment criteria to align with business partners Assessment Model as well.



SOCIETY **G4-SO1, SO2**

The belief that the Company has a duty to make a positive contribution to society is ingrained in LBF culture and guides the Company's strategies, plans and policies. LBF not only seeks to uplift the quality of lives of stakeholders directly, but also widens the reach by working with other groups to benefit society.

LBF is seeking to make a sustainable impact; the Company initiates programmes on four key pillars covering knowledge and beyond, share expertise, building partnerships and financial assistance. Based on these four pillars LBF's projects are carried out in the communities in which the Company operates such as education and sports, economic empowerment, promoting good health and wellness and community needs and disaster response.



The Company builds the same professionalism and commitment to sustainability that follows in business and social activities. Thus LBF builds long-term relationships with communities that will also bring long term value to the Company. LBF also encourages employees to participate in local community programmes by volunteering their time.

LBF builds capacity of the Company's long standing partners by way of providing skills and expertise. While making a contribution to society through the business activities, LBF goes the extra mile by promoting financial literacy especially in backward communities, to extend the benefits of LBF's financial services to them and promote financial inclusion by widening accessibility to enable communities. During the year the Company's business operations did not create any negative impact to the society.

VOLUNTEERING **G4-SO1, SO2**

LBF encourages and facilitates volunteer activities by employees so that not only will society be benefitted but the employees will also have the satisfaction that they are contributing to the society. LBF's volunteering policy has been developed to 'do more, do better and reach further' in uplifting lives and changing mindsets. Through the process of volunteering organisational capacity to develop social capital is built. The volunteers usually share their experiences with others and it improves employee engagement, job satisfaction and commitment. LBF facilitates the volunteer activities with necessary support, training and resources.



SUMMARY OF VOLUNTEERING ACTIVITIES

Year	No. of volunteer activities	No. of employees engaged	Volunteering hours
2015/16	41	359	2,094
2014/15	40	330	1,753
2013/14	37	333	1,327

KNOWLEDGE AND BEYOND

SUPPORTING EDUCATION

LBF fervently believes that to promote economic growth and employment it is necessary that people are equipped with the skills the job market requires. The Company invests resources in providing these skills to the younger generation, especially in underserved communities. Similarly training people in Information Communication Technology is a key focal area. It is critical for digital inclusion and building a talent pool for the community. It also offers great opportunities for entrepreneurs. LBF's mission in these programmes is to help to take young people forward, overcome the barriers that they face and help mould the leaders of the future. The following are some of the educational programmes conducted or supported by LBF.

- Generating intellectuals with value

Most of students in under developed areas are reluctant to pursue higher education which affects the quality of Sri Lanka's labour force. After completion of Ordinary Level Examination most of the students in these areas seek avenues to make a living due to lack of guidance. During an internal study carried out, it was observed that most of the three wheeler customers have not got opportunity for higher studies. To overcome this issue the Company partnered with the Science Society of University of Colombo to carry on a seminar series for Ordinary Level students with the objective of motivating them and to encourage them for higher education. Even though this initiative has a negative impact for prospective three wheeler business, LBF still committed to carry out this project in the years to come.

SUMMARY OF PROJECTS CARRIED OUT TO O/L STUDENTS

Year	District	No. of students	Cost Rs.	Volunteering hours
2015/16	Matale	800	636,915	183
2014/15	Polonnaruwa	800	680,690	144
2013/14	Moneragala	700	598,098	84



With the aim of improving knowledge of primary students, LBF Matara Branch sponsored seminars for students who are sitting for the Grade Five Scholarship Examinations this year. Those seminars were held at Uyanwatta Model School, Matara and Deiyandara National School, Deiyandara and benefited more than 380 students.

LBF thoroughly believes that helping the future generation in their education is everyone's responsibility and with that in mind the Company sponsored another project organised by Beruwala Police Station to distribute stationery equipment for low income earning family students in Beruwala area. Under this project 250 students received stationery equipment from 20 schools.



While contributing to the well being of school students towards a better and prosperous future, LBF assisted to set up a first aid room at Maharagama Bauddha Vidyalaya and provided medicine and the required equipment to them.



LBF joined hands with Welagedara Central College, Kurunegala to donate books and other stationery items to the students of Viyavilan Central College Jaffna. This project was organised by the students of Welagedara Central College while improving the companionship between two ethnic groups, under the theme of 'Senehasaka Thaksalawa' with the guidance of Ministry of Education.

• IT Literacy

With the aim of empowering IT literacy, the Company continued its efforts in providing computer equipment for Yakdessawa J. School, Koswatta in Chillaw, benefiting more than 195 students in different communities.

LBF Trincomalee branch donated computers to the Al-Aqza College in Kinniya for their college computer lab.



• Art and Culture

An amateur musical presentation was sponsored for the children under the care of the Child Protection Society of Ceylon. The performance was staged by the children of the development centre. This created an opportunity for the children to learn and be creative. Further funds were provided to improve their learning environment and help them progress in their education.



Peter Weerasekara Foundation is a Government-approved charity and LBF sponsored a charity show presented by children's home of this foundation with the aim of enhancing their skills on aesthetic activities.

SPORTS

LBF sponsored several sports events with the aim of promoting sports to improve areas such as fitness, health, leadership skills, aspirations, self-esteem and team spirit. In addition to the direct benefits of participating in sports, the Company brought out the social value of engaging in sports in enhancing the lives of children and youth.

Below are some of the sports-related activities LBF carried out:

- Sponsored the basketball team of the Commando Regiment of the Sri Lanka Army for the third consecutive year
- Sponsored the annual cricket tournament held between St. Anne's college and Maliyadeva College, Kurunegala
- Provided sports outfits to Kollupitiya Traffic Police Unit



SHARE EXPERTISE

ECONOMIC EMPOWERMENT G4-EC8

LBF's growth depends on thriving economies where there is widening prosperity. The products and services offered by LBF are not only aimed at the affluent and the large scale enterprises but also the medium, small and micro sectors. Thereby the Company helps to narrow income disparities.

Therefore, LBF invests and helps people in underserved communities to gain skills, obtain meaningful employment, start their own businesses and access knowledge needed to make informed decisions for themselves and their families. The Company's microleasing and microfinance products are tailored for this. These product enable LBF to support Government's efforts in bridging the wide income disparities in Sri Lanka. LBF's most common microleasing product is the financing of three-wheelers and motor bikes.

• Drive wheels towards values

Most of the rural population is characterised by poor education and lack of permanent income. The microleasing division has been extending a helping hand to uplift the lives of poor communities by organising a series of seminars across many districts. For the third consecutive year, LBF organised a seminar to customers with three-wheeler leasing facilities in Madampe. The Company was able to provide them professional job recognition and make them acceptable individuals to the society by changing public perceptions about them. LBF was able to educate them to provide an optimal public transport service which maximises social welfare. Further, the Company expects to motivate them and demonstrate the importance of their jobs to the society.



Year	Area	No. of participants	Volunteering hours
2015/16	Madampe	253	30
2014/15	Embilipitiya	210	43
2013/14	Ratnapura	218	42

• Supporting financial inclusion and entrepreneurship  FS-14

Without access to financial services it is difficult to break the cycle of poverty. LBF's products help to connect people to financial services enabling them to save for the future, provide for their families, start business ventures, and become financially stable. Microfinance provides financial support to individuals who have limited access to credit facilities. Priority is given to the self-employed and low and middle income earners who are eager and have sufficient income levels to repay a loan. Given below is the composition of three-wheelers, two-wheels and *dirimaga* during the year. Through this LBF has been able to uplift the standards of living in these communities.

SIGNIFICANT INDIRECT ECONOMIC IMPACTS

Type	As a % of lending portfolio
Two wheelers leased	1.44
Three wheelers leased	22.22
<i>Dirimaga</i>	0.20

BUILD PARTNERSHIPS

GOOD HEALTH AND CARE

Health is wealth for all; therefore LBF conducts several health programmes to internal and external stakeholders. The Company invests in health in order to create a healthy work-life balance for employees whilst similar focus is given to external stakeholders that in-turn helps to derive value for the Company. LBF uses its network, technology and people to improve on good health and care for people who need it most.

• Eye lenses to National Eye Hospital

In response to a request made by the National Eye Hospital to provide eye lenses, LBF initiated a project in June 2010 for cataract surgeries to needy patients. These lenses which are expensive and not affordable to poor patients greatly improve the vision. The project is conducted annually with the objective of supporting people who need financial assistance to carry-out their eye operations.



Year	No. of beneficiaries	Cost (Rs.)
2015/16	200	2,006,323
2014/15	100	1,000,000
2013/14	200	2,002,698



- No HIV>AIDS

Being part of raising awareness and training on HIV and AIDS in the workplace under the theme 'kNOw HIV>AIDS', this year as well LBF organised an AIDS/HIV awareness seminar in collaboration with the Lanka Business Coalition on HIV and AIDS.

The Company also commemorated World AIDS Day by distributing and wearing 'Red Ribbons' and displaying AIDS awareness posters in LBF outlets. This was to spread the message to valued customers and the general public about AIDS/HIV.



To strengthen these efforts further, LBF added World AIDS Day to the calendar and provided continuous training on HIV and AIDS awareness through professional trainers with the assistance of Lanka Business Coalition. The Company also aims to provide trainer skills and facilities to the volunteers to unite and work together to mitigate AIDS.

- Accepting deposits that save lives

LBF has conducted regular blood donation campaigns under the theme 'Accepting Deposits that Save Lives'. The blood donation campaign is an annual feature of the sustainability agenda since LBF's 40th anniversary.



Investment on community
Rs. 4.99 million

22
Society related sustainability initiatives

LBF invests resources in providing skills to the younger generation, especially in underserved communities

The Company has conducted several blood donation campaigns during the financial year with the support of the regional employees and the community. LBF also partnered with the National Blood Transfusion Service to commemorate World Blood Donor Day.

The sustainability team aims to conduct these efforts on a regional level, through LBF's island-wide outlets in the future to save lives.

FINANCIAL ASSISTANCE

COMMUNITY NEEDS AND DISASTER RESPONSE

LBF believes that helping others should be a natural instinct of every responsible business leader. Hence, considering its importance for the sustainable development of Sri Lanka, the Company invests time and resources in meeting community needs and responding to disasters through 'Help 1st' initiative. LBF supported communities affected by disasters and provided their basic necessities.

DIFFERENTLY ABLED

LBF as a responsible corporate uses the phrase 'differently abled' to refer to disabled people. That is because it humanises disabled people by focusing on their abilities rather than on impairments. Considering them also as a valuable part of the society this year the Company thought to pay more attention on them as well in the Company's Annual Report.

LBF sponsored for the October 1st Children's Day Programme which held at "Meth Care Centre" at Moratumulla. The goal was to foster talents and abilities of children from poor families and differently-abled students.

- **Chairs to Anuradhapura Police Station**

By appreciation the valuable service provided to the society by the Police Department, LBF provided few chairs to the traffic department of Anuradhapura Police Station.



THE CEYLON SCHOOL OF THE DEAF AND BLIND



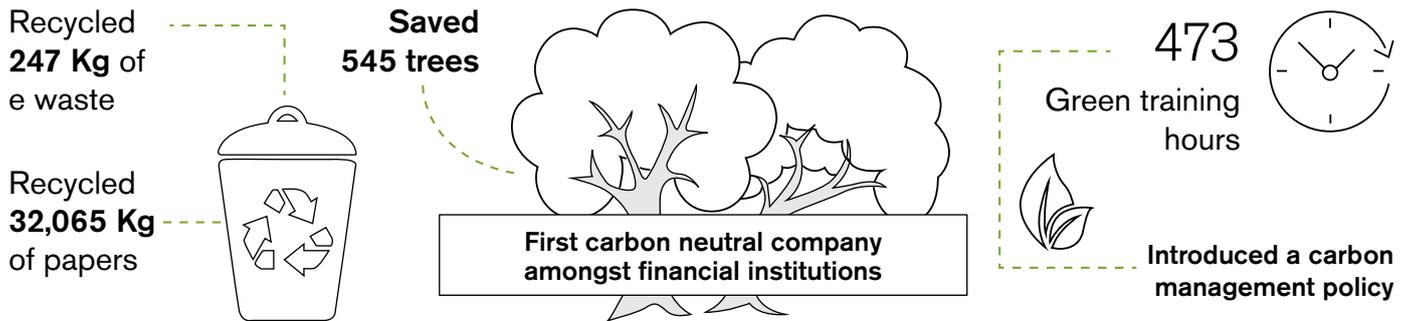
LBF is a true promoter of transparency to all stakeholders and inclusiveness is foremost when presenting information. This section of the report was composed by the students of the Ceylon School of the Deaf and Blind of Ratmalana.

This pioneering initiative contributes to the uplifting of all students as it showcases both their talents and many capabilities.

This marks the beginning of a new journey in creating another dimension of social inclusiveness. The Company will further increase the deep bonds and will continue funding similar causes.



Natural capital



2015/16 Highlights

2015/16 Progress towards objectives

Objective	Status		Page
Launch of sustainability dashboard	🟡	Initiated on 1st Jan 2016	P 06
Obtain carbon neutral status	🟢	Carbon neutral company	P 08
Increase the number of strategic partnerships on sustainability activities	🟡	8 partnerships	P 125
Increase use of renewable energy	🟡	Extended solar water heating system	P 126
Maintain energy intensity ratio below 8GJ per employee	🟠	8.19 GJ per employee	P 126
Continue annual 'plant a tree, plant a hope' project	🟡	Planted 1,667 trees	P 130

🟡 Ongoing 🟢 Achieved 🟠 Not achieved

Objectives 2016/17 and beyond

Focus on self-carbon credit generating projects	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center;"> Target year 2016/17 </div> <div style="border: 1px solid black; border-radius: 50%; padding: 10px; text-align: center;"> Target year 2017/18 </div> </div>
Sustainability thinking week	
Introduce a carbon neutral product	
Promote paperless e-solution amongst customers	
Introduce green branch concept	

Challenges



Restructuring of operations to implement green initiatives

[Page 125](#)



Reduction of carbon footprint against the growth of the Company

[Page 128](#)



Getting customers involved in green initiatives

[Page 131](#)



APPROACH **G4-EC2**

In an era when the world is beset by the crisis of global warming and climate change our business operations have not been directly affected by the climate change. However LBF considers it as a moral obligation to deal with environment in a sustainable manner and strive to conserve them; the Company is therefore committed to the implementation of green initiatives within the Company.

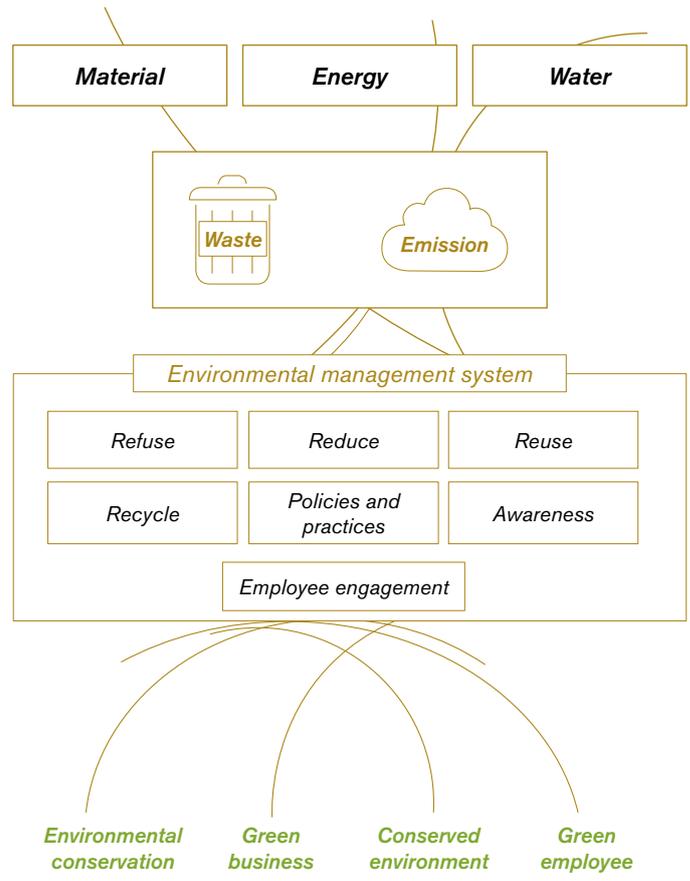
The Company set the goal of becoming a carbon neutral organisation; LBF had to first become carbon conscious and make substantial progress towards carbon neutrality. By environmental practice LBF intend to bestow benefits to all the stakeholders and ultimately the environment as a whole.

There are five facets of our natural capital management strategy; energy, water, material, emission and environmental conservation. Our sustainability initiatives have dealt with each of these aspects separately, which has led to sustainable results.

SUSTAINABILITY PARTNERS

- Biodiversity Sri Lanka
- Department of Wildlife Conservation
- Central Environmental Authority
- Climate Fund of Sri Lanka
- Young Zoologist Association of Sri Lanka
- Think Green (Pvt) Limited
- Neptune Papers (Pvt) Limited
- Asia Recycling (Pvt) Limited
- CSR Sri Lanka (Gurantee) Limited

ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)



The operations are aligned according to the environmental management system. The main resources that LBF uses are material, energy and water, and the Company generates waste and emissions directly or indirectly through operations. If these are directly released to the environment, there would be an impact on the environment.

The environmental management system focuses on aiming the usage of LBF's main resources at the best possible way. This is done by avoiding what is not necessary by refusing, making use in an effective an efficient manner of the resource and reducing, reusing the resources whenever possible and recycling the resources once the utilisation is complete. Similarly LBF put in to action policies and practices to adhere to while ensuring employee engagement and awareness. LBF has strategically identified these as the most effective and efficient approaches in creating a sustainable future while minimising the impact on the environment. These actions are collectively or individually addressed under each of the Company's main focus areas.

ENERGY MANAGEMENT

All operations involve the use of energy, directly or indirectly. Therefore the energy efficiency and the carbon output by operations become key metrics in energy management. To reach optimum LBF's energy consumption the Company needs to keep tabs on the energy usage continuously. It is LBF's philosophy that sustainability is a participative process so the Company involves employees actively in this process.

The material impacts and influence LBF has achieved during the year in energy management are shown below:

ENERGY CONSUMPTION G4-EN5

	2015/16	2014/15
Total energy consumption	22,470 GJ	19,135 GJ
Per employee	8.19 GJ	7.97 GJ
Per working day	91.34 GJ	79.07 GJ
Per outlet	153.91 GJ	141.74 GJ
Cost (Rs. million)	109.27	110.91

ACTIONS ON ENERGY MANAGEMENT DURING THE YEAR G4-EN6, EN7

Main focus	Actions
Reduce	Efficient air conditioning
	Use of high-tech energy consumption reduction methodology
	Data collection and analysis
	Energy audits
	Installation of solar water heating system to save electricity consumption of boilers
	Energy-efficient name and sign boards for outlets
Awareness	Maximum utilisation of natural lighting
	Display of energy saving tips
Employee engagement	Seminars for employees
	Promoting healthy habits to save energy such as no lift days
Policies and practices	Taking green practices home
	Commitment of employees to sustainability pledge

Currently, the Company does not calculate energy requirements of sold products and services. LBF is expecting to establish a mechanism to measure it in future.

ENERGY CONSUMPTION BY TYPE G4-EN3, EN6

Energy type	2015/16 GJ	2014/15 GJ	Change %
Diesel	3,031.08	2,335.00	29.81
Petrol	5,537.82	4,743.52	16.74
Electricity	13,898.34	12,056.15	15.28
LP Gas	3.46	-	-
Total	22,470.69	19,134.67	14.85

WATER MANAGEMENT

It is vital to conserve water to ensure a supply of clean water especially with the threat of a global water scarcity looming. LBF has promoted sustainable practices in water usage, while ensuring a smooth supply of clean water to all the employees.

WATER USAGE G4-EN9, EN10

LBF constantly reminds employees of the need for water conservation by way of tags, notices and labels. LBF supplies mineral water to the employees through a third party supplier. In 2015/16 the Company consumed 28,559m³ of water for drinking purposes.

With varying conditions with the geographical spread of our outlets the water situation also varies in the degree of concern. To ease the situation we have accessed the ground water by wells in 16 outlets. During the year we spent Rs. 7.67 million on water while the expenditure the previous year was Rs. 6.71 million. The Company has ensured that there is no impact to the water sources as a result of the withdrawal or discharge of water. The Company does not currently measure recycled water and reused water.

WATER WITHDRAWAL BY SOURCE G4-EN8

Water source	m ³	% Withdrawn
Municipal water supplies	27,978	97.96
Other water suppliers	581	2.04
Total	28,559	100.00

USE OF WATER

As a part of LBF's EMS, the Company commenced a water management initiatives in 2011. The target of this was to conserve water, whenever and wherever possible. Integrating this concept to the Company's daily operations was one of the initial steps taken. In order to ensure the effective utilisation of water, LBF have taken the following initiatives:

Water consumption m ³	2015/16	2014/15
Per employee	10.41	10.18
Per working day	116.09	100.96
Per outlet	195.61	180.98
Cost (Rs. million)	7.67	6.71



ACTIONS ON WATER MANAGEMENT DURING THE YEAR

Main focus	Our actions
Reduce	Modern high pressure pumps for vehicle washing Usage of pressure reducing valves to maintain constant water pressure Taps with spray attachment to have a control of water flow
Awareness	Display of energy saving tips Seminars for employees
Reuse	Usage of drain water for air conditioning cooling towers
Policies and procedures	Commitment of employees to sustainability pledge

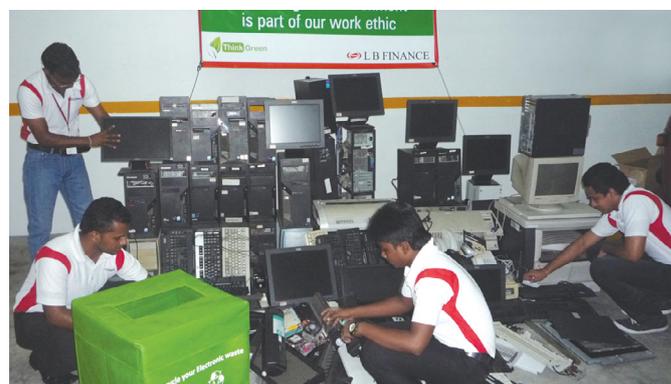
With the growth of the Company, there will be an inevitable increase in the demand for water. LBF has successfully reduced the water consumption per employee from 20.35m³ to 11.53m³ within the current year. LBF's outlook for the upcoming year is to focus on reducing and reusing water on a broader scale. More engagement of employees on water conservation would help the Company to share knowledge that could be applied to the home environment and to begin the process of the sustainable use of water domestically.

MATERIAL USAGE G4- EN1

Considering the nature of the business LBF does not use vast quantities of materials; the main item is paper which does have a direct environmental impact. However, compared to the scale of the business, the materiality of the usage of this resource is not significant but, LBF has taken all possible steps based on the EMS to manage the effective usage of paper. At present the Company does not use any recycled material as an input.

WASTE MANAGEMENT

LBF actively monitors waste management practices as part of the business operations. The success of the waste management strategy depends on awareness created on how and when waste is generated. Awareness was created among employees to promote best practices. LBF's EMS ensures that the Company follows responsible waste disposal practices by continuously monitoring waste by type of materials used and disposal.



TOTAL WEIGHT OF RECYCLED WASTE BY TYPE

Type of waste	2015/16	2014/15	2013/14
Paper (kgs)	32,065	9,336	2,378
E-waste (kgs)	247	318	656

	Unit	2015/16		2014/15		2013/14		2012/13	
		Quantity	Value (Rs.)						
Stationery materials									
Paper	Kgs	137,255	42,284,121	105,698	28,321,673	96,935	24,740,680	75,678	20,579,411
Files	Kgs	4,759	1,325,810	4,073	1,140,845	4,395	1,089,595	4,028	1,085,315
Toners	Pieces	1,320	9,583,010	948	7,110,310	800	5,616,450	636	5,051,700
Ribbon	Pieces	1,379	1,679,895	1,733	1,222,635	2,409.00	3,275,045	2,626	2,303,785
Other	Pieces	274,945	5,324,540	298,920	3,393,655	215,748	3,076,314	185,017	3,133,913
Marketing materials									
Leaflets	Kgs	23,973	7,384,885	11,596	4,160,663	13,253	5,765,260	10,975	5,683,851
Corrugated boards	Kgs	6,325	9,976,695	4,894	4,467,312	4,474	3,548,088	2,048	1,595,925

SAVINGS GENERATED THROUGH RECYCLING  **G4-EN2**

Year	Recycled paper (Kgs)	No. of trees	Litres of oil	Kwh of electricity	Litres of water	Cubic meters of land fill
2015/16	32,065	545	56,274	128,260	1,019,026	96
2014/15	9,336	160	16,385	37,344	296,698	28
2013/14	2,378	40	4,173	9,512	75,573	07

ACTIONS ON WASTE MANAGEMENT DURING THE YEAR

Main focus	Our actions
Refuse	<p>Digitalised document management system stores the documents which would create a paperless environment.</p> <p>The centralised web portal has significantly contributed in creating a paperless work environment which contains organisational policies, procedures, news, photo gallery and other downloadable documents.</p> <p>Avoid the usage of paper through the paperless boardroom for management meetings.</p> <p>Usage of paperless fax machines for operations.</p>
Reduce	To monitor and control the consumption using inventory management system.
Reuse	Reuse of paper and envelopes as much as possible.
Recycle	<p>Paper items are directed for recycling and recycling collection points are located throughout the office.</p> <p>All paper waste is being recycled through Neptune Recyclers.</p> <p>Recycle all e-waste with an authorised e-waste recycle partner.</p>
Awareness	Email and sticker campaigns to promote the effective usage of material.
Policies and Practices	Duplex printing is a Company policy and is set as default.

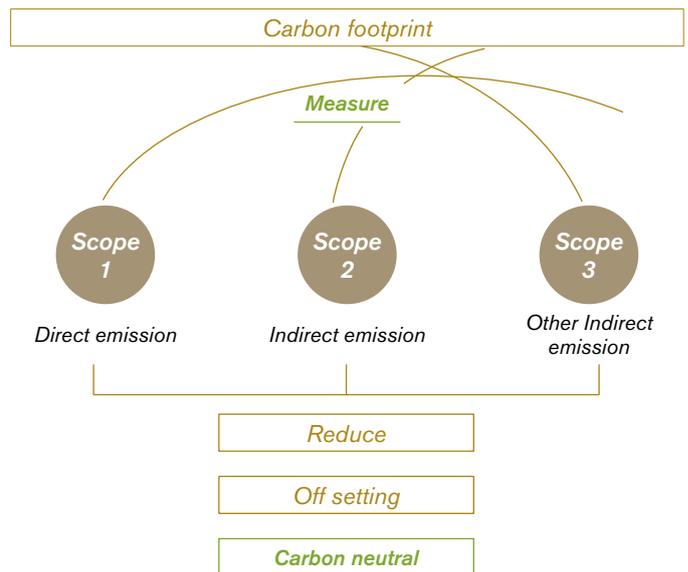
EMISSION MANAGEMENT  **G4-EN20, EN21**

LBF did not merely boast of being an environmentally conscious organisation; LBF has backed up its words with a sound environmental policy which was made a part of the strategy and conscientiously implemented. LBF started its journey in 2013 by measuring the carbon footprint to measure the total emission of Greenhouse Gases in carbon equivalents. LBF efforts became fruitful, when the Company was awarded the certification from Sri Lanka Climate Fund as a carbon neutral company. This milestone was achieved in 2015. As a result, LBF did not compute a measurement on the emissions except those mentioned under the carbon footprint measurement.

CARBON FOOTPRINT

This involves measuring direct and indirect carbon emission by monitoring each part of operations. The Company measured carbon footprint in 2013 under the supervision of Sri Lanka Climate Fund which is a national body that operates under the Ministry of Mahaweli Development and Environment. The Greenhouse Gas Accounting Protocol developed by the World Business Council for Sustainable Development and World Resource Institute and IPCC guidelines were used in measurement process.

CARBON MANAGEMENT MODEL



Under the Carbon Management Policy the Company follows a three-step approach namely measuring carbon footprint, reducing the energy consumption and offsetting unavoidable carbon emissions to achieve carbon neutral status. To measure our carbon footprint all our operational carbon emissions were analysed under three scopes.

G4-EN2, G4-EN20
G4-EN21G4-EN4 G4-EN15,
G4-EN16 G4-EN17,
G4-EN19

Scope 01 – refers to the direct carbon emissions. It includes emissions released directly from our operations which are owned or controlled by us. This mainly includes emissions arising from business travelling and transportation.

Scope 02 – refers to indirect carbon emission arising from purchased energy. This includes emissions from purchased electricity consumed by the Company.

Scope 03 – refers to other indirect carbon emissions and this includes emissions that are consequences of the activities of the Company but occur from the sources not owned or controlled by the Company which mainly includes emissions from purchased water, employee commuting and business travel.

LBF CARBON FOOTPRINT

G4-EN15, EN16, EN17, EN18, EN19

Scope	Tonnes of CO ₂ equivalent 2015/16	Tonnes of CO ₂ equivalent 2014/15	Change %
Scope 1 – Direct GHG emission	838.36	525.13	59.64
Scope 2 – Indirect GHG emission	920.74	819.72	12.32
Scope 3 – Other indirect GHG emission	958.27	998.24	(4.00)
Total carbon footprint	2,717.38	2,343.09	15.97
GHG emission per employee	0.99	0.97	2.06

According to the current year's analysis, the carbon footprint was 2,717.38 tonnes of CO₂ equivalent which increased by 15.97 percent from the previous year's 2,343.09 tonnes of CO₂ equivalent. The main contribution for the emission in the current year has been Scope 3 which was 958.27 tonnes of CO₂ equivalent, which was an decrease of 4 percent compared to the previous year.

The largest contributor to the Greenhouse Gas emission was through the directly-purchased electricity which is categorized under the Scope 2. The net change in the indirect energy utilisation was an increase of 12.32 percent during the year. This accounts for 920.74 tonnes of CO₂ equivalent. LBF is taking concrete steps to reduce this category of Greenhouse Gas emission. Most economic activities inevitably have their environmental footprint. Due to expansion, both geographically and operationally the Scope 3 Category emissions have increased by 15.97 percent. LBF has striven to minimise this by moving towards high energy efficient and low energy consuming lighting and other equipment.

ACTIONS ON CARBON EMISSION MANAGEMENT DURING THE YEAR G4-EN4

Reducing the CO₂ emission is a priority of the Company. With the successful business expansion taking place within the Company, we have been able to manage the carbon emission with the controls in place. For this purpose we give more priority to manage Scope 2 emission which has the highest impact to our carbon footprint. We have focused on investing in more energy efficient initiatives by exploring opportunities to reduce energy consumption as discussed on [page 126](#) as well as number of initiatives within the Company. We have not developed a mechanism to calculate the indirect energy consumption outside the Organisation.

LBF has taken several initiatives to reduce our carbon footprint by raising awareness and preserving our environment. LBF's environmental initiatives are categorised in to two segments, namely the workplace and beyond. Therefore LBF encourages all customers, the corporate entities and the general public to contribute in shifting economy to a low-carbon economy. LBF firmly believes that these actions will increase the awareness and can positively impact them in a consistent manner that is required to change habits and the mindsets. The clear testimony to this is when LBF obtained carbon conscious status in 2014. Therefore the efforts in the industry to set a benchmark has extended to others and LBF believes in multiplying the positive impact of the efforts in the country as a whole.

SEMINAR ON CARBON FOOTPRINT

This year, as in the previous year, the Company conducted a seminar on environmental aspects and impacts to take the message to the employees. The theme of this seminar, conducted by the National Cleaner Production Centre, was global warming, carbon emissions, its impacts and solutions. The seminar covered the existing status and possible future scenarios for the carbon footprint, its quantification and neutralisation.



PLANT DISTRIBUTION

LBF carried out many plant distribution projects during the year. The Company distributed 1,667 plants, and these plants were mainly distributed among employees and the customers as LBF believes it to be the most effective way of achieving environmental preserving targets.

Year	No. of trees planted
2015/16	1,667
2014/15	324
2013/14	580

GANTRY DISPLAY

To reinforce commitment to reducing LBF's carbon footprint, among other initiatives, this year the Company continued its flagship project of sponsoring the gantry located in Colpetty junction. LBF's aim was to take the message to the general public as well.

ENVIRONMENTAL CONSERVATION  G4-EN29, EN31, EN34

As an organisation, LBF is strongly committed to being a responsible corporate citizen. Though the Company's direct impact on natural capital may be negligible LBF cannot ignore the impact it has through suppliers and customers. LBF's mission is to look beyond its immediate impact and benefits, but to try to improve the global environment as a whole. This is the philosophy underlying LBF's gamut of environmental activities. The Company spent on waste disposal, emissions treatments also for environmental management. These costs are included in sustainability initiative table on [page 24](#).

During the year the Company complied with environmental laws and regulations and as a result no monetary value of significant fines for non-compliance on environmental laws and regulations were imposed. Also there were no grievances reported filed on environmental impacts. This bears testament to LBF's commitment in conserving the environment.

FOCUS ON BIODIVERSITY AND WILDLIFE

As a partner of the Sri Lanka Business and Biodiversity Platform, LBF believes the direct and indirect impact of its activities towards the environmental changes. This leads to causing an unbalance in the natural order of the environment by harming the plants and species. Therefore the Company focuses on operational areas and takes action in helping to conserve the biodiversity. LBF follows development and conservation programmes to ensure the continuity and protection of them. Through raising awareness amongst the community and the employees, the Company has created a platform to ensure support towards biodiversity conservation.

LB CONSERVATION

This was initiated to incorporate environmental conservation efforts, the efforts of L B Conservation primarily focused on protecting endemic birds in Sri Lanka. Going forward we will work on a variety of initiatives that include species conservation, ecosystem restoration, protection biodiversity and environmental education. To strengthen the conservation effort a contribution of Rs.100 per hybrid vehicle facility was allocated.



CREATING DISCIPLINED WILDLIFE EXPLORERS

The sustainability team initiated a joint environmental conservation project partnering with Young Zoologists' Association to display boards passing caution messages at the entrance of Udawalawe, Wilpattu, Minneriya, Wasgamuwa, Horton Plains and Bundala National Parks, to create awareness of the visitors.

SPONSORING BIODIVERSITY PROGRAMME

Consciousness of environmental and natural resource conservation starts from childhood and the attitude has to be inculcated at a young age. To this end LBF sponsored an environmental programme organized on Protection of Endangered Species and International Bio-Diversity Day. This programme was organised by The Department of National Zoological Gardens in partnership with the Young Zoologists' Association to take the message to schoolchildren in the Western Province.

EMPLOYEE ENGAGEMENT THROUGH PHOTOGRAPHY

Under the theme of 'Explore Sri Lanka' LBF called for photographs of the beauty of nature from our employees for our annual calendar 2016 and twelve selected photographs were included in the calendar which promotes the beauty of the country.

PLEDGING ON SUSTAINABILITY

On the first day of New Year 2016, employees made their commitment to align their day-to-day behaviour to promote environmental sustainability by leaving their fingerprint on LB sustainability pledge.



CLEAN BEACH

The Company also carried out two beach cleaning projects under the theme 'clean beach' to keep the beaches pristine and conserve the marine and animal lives around the beach. These projects were carried out by our Negombo and Panadura branches together with the Jo Kaminska Foundation and a large number of volunteers from our branches contributed.

DISTRIBUTION OF FOREST RANGER OUTFITS

Wildlife conservation is another of LBF's priority areas. In 2013 and 2014, the Company distributed forest ranger outfits for field officers whose duty is to protect animals in Minneriya and Wilpattu National Parks. In 2015 LBF expanded the project by extending it to a range of national parks situated in different locations over the country. This range of national parks included Wasgamuwa, Horagolla, Angamadilla, Ritigala, Haggala, and Galway's Land National Park.

PROMOTING GREEN

With the mindset to promote Greener Transport LBF launched the green financing facilities. This product promotes the use of hybrid and electrical vehicles which reduce fuel consumption, thus reducing carbon footprint. This product has shown an encouraging growth in the number of leases which can pave the way towards least impact towards the environment.

GREEN FACILITIES GRANTED

Year	No. of green financing facilities	Amount granted (Rs. million)
2015/16	368	1,081.61
2014/15	443	1,260.95
2013/14	146	396.75
2012/13	62	209.89
2011/12	73	219.59

OUTLOOK

LBF's commitment towards sustainability has grown stronger over the years and has reached a few significant milestones which prove dedication and commitment towards this. LBF believes that, through this dedication the Company would be able to make a difference in the society to make a sustainable tomorrow. LBF's main focus for the upcoming year is to promote green products and create a collective action with the society to create environmental sustainability.

One of the key green products which the Company is planning on introducing is the Carbon Neutral Financing Product. This would help to neutralise the carbon footprint made by the customers on the environment. By promoting hybrid vehicles and electric vehicles, LBF will further facilitate the contribution towards making the journey towards creating a carbon neutral culture.

The Company does not wish to have its journey in creating sustainability alone. Therefore LBF is focused on getting all the stakeholders involved in creating this carbon neutral and sustainable culture. LBF is focused on leading the way in the society in creating environmental conservation as a part of the consciousness. Currently the Company's strategy is aligned with the environmental conservation and all strategic decisions are made with significant consideration on our impact to the environment and would further focus on creating this in coming years.

Stewardship



Environment

It has gone from being a practice, to a duty – the protection and preservation of habitat and its biodiversity. The task is as gigantic as the universe itself; yet LBF has set itself to protect coastal areas through beach cleaning projects in Negombo and Panadura. We are joined in these initiatives by our own staff as well as by likeminded members of the public.



Board of Directors



Mrs. Kimarli Fernando
Acting Chairperson

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 26 years of experience in the field of banking.

Appointed to the Board: On 26th August 2008 and appointed as Acting Chairperson on 17th May 2016.

Membership of Board Sub-committees: Chairperson of the Related Party Transactions Review Committee, 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 Richard Pieris Distributors Limited.

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



Mr. Dhammika Perera
Executive Deputy Chairman

Skills and experience:

A quintessential business leader, with interests in a variety of key industries including hydropower generation, manufacturing, hospitality, entertainment, banking and finance. He enriches the Board with over 27 years of experience in building formidable businesses through unmatched strategic foresight.

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

Membership of Board Sub-committees: None

Current appointments: Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Power Erathna PLC, The Fortress Resorts PLC, Royal Ceramics Lanka PLC and Delmege Limited. Co-Chairman of Hayleys PLC and The Kingsbury PLC, Deputy Chairman of Horana Plantations PLC and Lanka Ceramic PLC. Also serves on the Boards of Vallibel Finance PLC, Lanka Tiles PLC, Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC, Dipped Products PLC, Hayleys Global Beverages (Pvt) Limited and Sun Tan Beach Resorts Limited.

Former appointments: Chairman and Director General, Board of Investment of Sri Lanka, Secretary to the Ministry of Transport and member of the Board of Directors of Strategic Enterprise Management Agency (SEMA).



Mrs. Shirani Jayasekara
*Independent Non-Executive Director
Senior Director*

Skills and experience:

She has over 36 years of experience combining Finance and IT, Audit and Risk Management in Sri Lanka, Zambia and Bahrain. She is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants UK.

Appointed to the Board: On 25th August 2010.

Membership of Board Sub-committees: Chairperson of the Integrated Risk Management Committee, Member of the Audit Committee and Related Party Transactions Review Committee.

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

Former appointments: She was the Head of Audit, British American Tobacco Sri Lanka and Bangladesh and Head of Group Internal Audit of Carson Cumberbatch PLC.



Mr. J A S Sumith Adhietty
Managing Director

Skills and experience:

A well-known professional in the marketing field, counts over 34 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 Boards of Vallibel One PLC, Summer Season Residencies Limited, Summer Season Limited, La Forteresse (Private) Limited, Greener Water Limited and Alila Hotels and Resorts (Private) Limited. Also the Managing Director of The Fortress Resorts PLC.

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



Mr. Thosapala Hewage
Independent Non-Executive Director

Skills and experience:

Holds a Bachelor's Degree in Social Science from the University of Ceylon, Peradeniya and a Master of Philosophy (Policy Analysis) from the University of Wales, UK. He holds a Post Graduate Diploma in Development Studies from the University of Cambridge, UK. He served as the Ambassador of Sri Lanka in Nepal for four years. He counts 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, which office he relinquished on 17th May 2016.

Membership of Board Sub-committees:

Served on the Remuneration Committee as the Chairman up to 22nd September 2015 and thereafter was appointed as the Chairman of the Nomination Committee.

Current appointments: None

Former appointments:

Ambassador in Nepal from 2009 to 2012. He was Secretary to the Ministries of Ports & Aviation, Enterprise Development and Investment Promotion, Urban Development and Water Supply, Environment and 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.



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 36 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 (upto 22nd September 2015) and a Member of the Remuneration Committee and Related Party Transactions Review Committee.

Current appointments: He is presently a Director of DFCC Bank PLC, The Fortress Resorts PLC, Talawakelle Tea Estates PLC, The Nuwara-Eliya Hotels Company PLC, Rockland Distilleries (Pvt) Limited, The Kingsbury PLC, Aitken Spence Plantation Managements PLC, and Kelani Valley Plantations PLC. He is also a member of the Quality Assurance Board of The Institute of Chartered Accountants of Sri Lanka.

Former appointments: He was the Group Finance Director of Richard Pieris & Company PLC from January 1997 to June 2008 and also held Senior Management positions at Aitken Spence PLC, Brooke Bonds Ceylon Limited and Zambia Consolidated Copper Mines Limited. Also served on the Board of Property Development PLC and was a Member of the Accounting and Auditing Standards Monitoring Board of Sri Lanka.

**As per the Listing Rules and considered as a Non-independent Director in terms of the Finance Company (Corporate Governance) Direction.*



Mr. Nimal Perera
Executive Director

Skills and experience:

Counts over 32 years of experience in the fields of finance, capital market operations, manufacturing, marketing and management services. And also a member of the Sri Lanka Institute of Marketing.

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

Membership of Board Sub-committees: None.

Current appointments: Serves of the Boards of Pan Asia Banking Corporation PLC, Horana Plantations PLC, Lanka Walltiles PLC, Lanka Tiles PLC, Lanka Ceramic PLC, Swisstek (Ceylon) PLC, Swisstek, Aluminium Limited, Vallibel Plantation Management Limited, Uni Dill Packaging Limited, N P Capital Limited, N Capital (Private) Limited as the Chairman, Vallibel One PLC as the Deputy Chairman, Royal Ceramic Lanka PLC as the Managing Director. Holds Directorships in Hayleys PLC, Haycarb PLC, Talawakelle Tea Estates PLC, The Kingsbury PLC and Amaya Leisure PLC.



Mr. Niroshan Udage
Executive Director

Skills and experience:

Bachelor's Degree in Science from the University of Colombo and possesses 25 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. 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 Programme in 2012 at Harvard Business School in Boston, MA, USA.

Appointed to the Board:
On 1st January 2007

Membership of Board

Sub-committees: Member of the Integrated Risk Management Committee.

Current appointments: Director of Hayleys Fibre PLC



Mr. B D A Perera
Executive Director

Skills and experience:

An Associate Member of the Chartered Institute of Management Accountants ACMA, CGMA [UK] and holds a BSc (Business Administration) Special Degree from the University of Sri Jayewardenepura, successfully completed High Potentials Leadership Programme in 2012 at Harvard Business School in Boston, MA, USA. Counts over 18 years of experience in the leasing industry that includes positions at Commercial Leasing Company Limited, Lanka Orix Leasing Company PLC and a Merchant Bank in Bangladesh.

Appointed to the Board:
On 1st January 2007

Membership of Board

Sub-committees: Member of the Integrated Risk Management Committee and Related Party Transactions Review Committee.

Current appointments: Director of Hayleys Fibre PLC



Mrs. Anandhiy K Gunawardhana
Independent Non-Executive Director

Skills and experience:

An Attorney-at-Law and a partner of Julius and Creasy, Attorneys-at-Law and Notaries Public, she graduated from the University of Colombo's Faculty of Law in 1995 with Second Class (Upper Division) Honours and also secured First Class Honours at the Attorneys-at-Law (Final) Examination in 1996, conducted by the Sri Lanka Law College. She is a Fulbright Scholar and was awarded the Master of Laws (LL.M. with Distinction) by Georgetown University, Washington DC, in May 2000 and, thereafter, served a 7 month internship with the International Monetary Fund's Legal Department in Washington D.C. Her areas of specialisation are Corporate and Commercial Law, Mergers & Acquisitions.

Appointed to the Board: On 1st March 2013

Membership of Board Sub-committees:

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

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



Mr. Ravindra Yatawara
Executive Director

Skills and experience:

Holds a BSc. Degree in Business Administration from the Oklahoma State University, USA. Counts over 20 years' of experience in the finance industry, including both Managerial and senior Managerial positions in the LOLC group, Hatton National Bank PLC and AMW Capital Leasing PLC.

Appointed to the Board:

On 15th March 2016

Membership of Board Sub-committees:

None

Current appointments: Chairman of The Finance House Association of Sri Lanka (FHA), Nominee of the FHA on the Board of the Credit Information Bureau of Sri Lanka (CRIB).

Former appointments: General Manager of L B Finance PLC, Vice Chairman of the FHA from 2012 to 2015.



Mrs. Yogadinusha Bhaskaran
Independent Non-Executive Director

Skills and experience:

A fellow member of the Chartered Institute of Management Accountants UK (FCMA), Fellow of CPA Australia (FCPA) and an Associate Member of the Institute of Bankers, Sri Lanka

Appointed to the Board: On 15th March 2016

Membership of Board Sub-committees:

None

Current appointments: Chief Executive Officer of Vallibel One PLC, Director of Delmege Limited, Dipped Products PLC, Hayleys Fabric PLC, and Haycarb PLC.

Former appointments: Assistant General Manager (Finance and Planning) at Pan Asia Banking Corporation PLC, Financial Controller of several Australian Companies in Melbourne.

Senior management



Mr. Marlon Perera
*Deputy General Manager –
Deposits*

Joined LBF in 1986, counts over 30 years of experience in the finance industry and has held many managerial positions.



Mr. Hasitha Athapattu
Chief Financial Officer
CFA Charterholder, MEon 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 17 years experience in the fields of private banking, wealth management, debt and equity research, accounting and operations both locally and internationally.



Mr. Chethana Kahandugoda
*Assistant General Manager –
Information Technology*
M.Sc Information Technology (University of Colombo)

Joined LBF in 2010, counts over 17 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 Jayewardenepura)

Joined LBF in 2011, counts over 15 years of experience in the fields of accounting, auditing, treasury management and planning.



Mr. Lakshman Wanniarachchi
*Assistant General Manager –
Micro Finance*
MBA (ICFAI University of India), EDBA (University of Colombo), Dip in Credit Management

Joined LBF in 2006, counts over 25 years of experience in the fields of accounting, auditing, administration, operations and credit.



Mr. Bharatha Vithana Pathirana
*Assistant General Manager –
Fixed Deposits and Savings
Accounts*
Chartered Marketer (UK), Practicing Marketer (SL), MBA (PIM-USJ), BSc (Hons) University of Delhi, India., PG.Dip.M (UK), MCIM (UK), CMA (Australia), MSLIM

Joined LBF in 2015, counts over 18 years of experience in the fields of banking, finance, trade finance, operations, general management and marketing.



Mr. Roshan Jayawardena
Assistant General Manager – Marketing

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

Joined LBF in 2007, counts over 26 years of experience in the fields of banking, finance, retail, telecom and food industry.



Mr. Bimal Perera
Chief Risk Officer

CFA Charter holder, Certified FRM

Joined LBF in 2013, counts over 13 years of experience in fields of corporate treasury, investment and strategic finance and risk management both locally and overseas.



Mr. Ainsley Motha
Assistant General Manager - Credit and Operations

MBA (Aus)

Joined LBF in 2013, counts close to 25 years experience in fields of banking and leasing.



Ms. Harshani Mapatuna
Assistant General Manager – Legal

LLB (University of Colombo), Attorney-at-Law

Joined LBF in 2004, counts over 19 years of experience in the finance industry.



Mrs. Nirosha Amanulla
Senior Manager – Kandy Branch

Joined LBF in 1985, counts over 30 years of experience in the finance industry and her career features many managerial positions.



Mrs. Chandrika Manel Alwis
Senior Manager – Gold Loans

Joined LBF in 1984, counts over 32 years of experience in the areas of deposits, credit, recoveries including 18 years of special experience in gold loans and her career features many managerial positions.



Mr. Prasad Amarawradana
Senior Manager- Credit
MBA (Cardiff Met. University – UK)

Joined LBF in 2013, counts over 24 years of experience in leasing, finance, micro loans and fleet management.



Mr. Hirantha Jayasinghe
Senior Manager –
Credit and Branch Operations
MBA (UK)

Joined LBF in 1999, counts over 16 years of experience in the areas of credit, marketing, recovery, and branch operations.



Mr. Chinthaka Chandrasena
Senior Manager –
Credit and Branch Operations
MBA (UK)

Joined LBF in 1996, counts over 19 years of experience in the areas of credit, marketing, recovery, and branch operations



Mr. Gayan Ayurvedane
Senior Manager –
Central Region

Joined LBF in 2015, Counts over 14 years of experience in the leasing, finance and banking industry and career features many managerial positions.



Mr. Kalpa Sanjeewa
Senior Manager –
Credit and Branch Operations

Joined LBF in 2005, counts over 15 years of experience in the areas of credit, marketing, recovery and branch operations.



Mr. Kenneth Daniel
Senior Manager –
Credit and Branch Operations
Dip. in Bank Management (IBSL),
MBA (UK)

Joined LBF in 2011, counts over 21 years of experience in the leasing, finance and banking industry and career his features many managerial positions.



Mr. Dinudaya Abeywardena
Senior Manager –
Corporate Lending
MBA (PIM-USJ), ACMA (UK),
CGMA, AIB (SL)

Joined LBF in 2016, counts over 11 years of experience in the banking and finance industry and his career features many managerial positions.

Corporate governance

ACTING CHAIRPERSON'S STATEMENT

We believe that good corporate governance consists of a system of structuring, operating and controlling the Company in a manner that it contributes to the long-term success of the Company and creates value to all its stakeholders.

We continually strive to satisfy the legitimate claims of all stakeholders and to fulfil the Company's economic, environmental and social responsibilities with accountability and transparency. Towards this end, your Board focused on further improving the effectiveness of governance processes within the organisation during the year under review.

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

We take every effort to improve on our corporate governance practices and strive to align business practices with the best interest of all our stakeholders whilst maintaining the organisation's integrity, transparency and accountability at the highest levels.

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



A handwritten signature in black ink that reads "Kimarli Fernando". The signature is written in a cursive style and is positioned above a horizontal line.

Kimarli Fernando

Acting Chairperson - 30th May 2016

COMPLIANCE STATEMENT

We are happy to confirm that throughout the year ended 31st March 2016 and as at the date of this Annual Report, the Company was compliant with the Listing Rules of the Colombo Stock Exchange and Finance Companies Direction No. 03 of 2008 on Corporate Governance and amendments thereto. In addition, tables set out in pages [161](#) to [173](#) depict the extent of adherence with the Code of Best Practice on Corporate Governance, issued jointly by the ICASL and the SEC. Further, the Company has complied with the provisions of the Companies Act No. 07 of 2007 and other statutes as applicable to the Company.

All statutory payments due to Government, which have fallen due, have been made or where relevant provided for, except for certain assessments against which appeals have been lodged. Retirement gratuities have been provided for in accordance with LKAS 19 – 'Employee Benefits'.

Regulatory Benchmarks on Corporate Governance

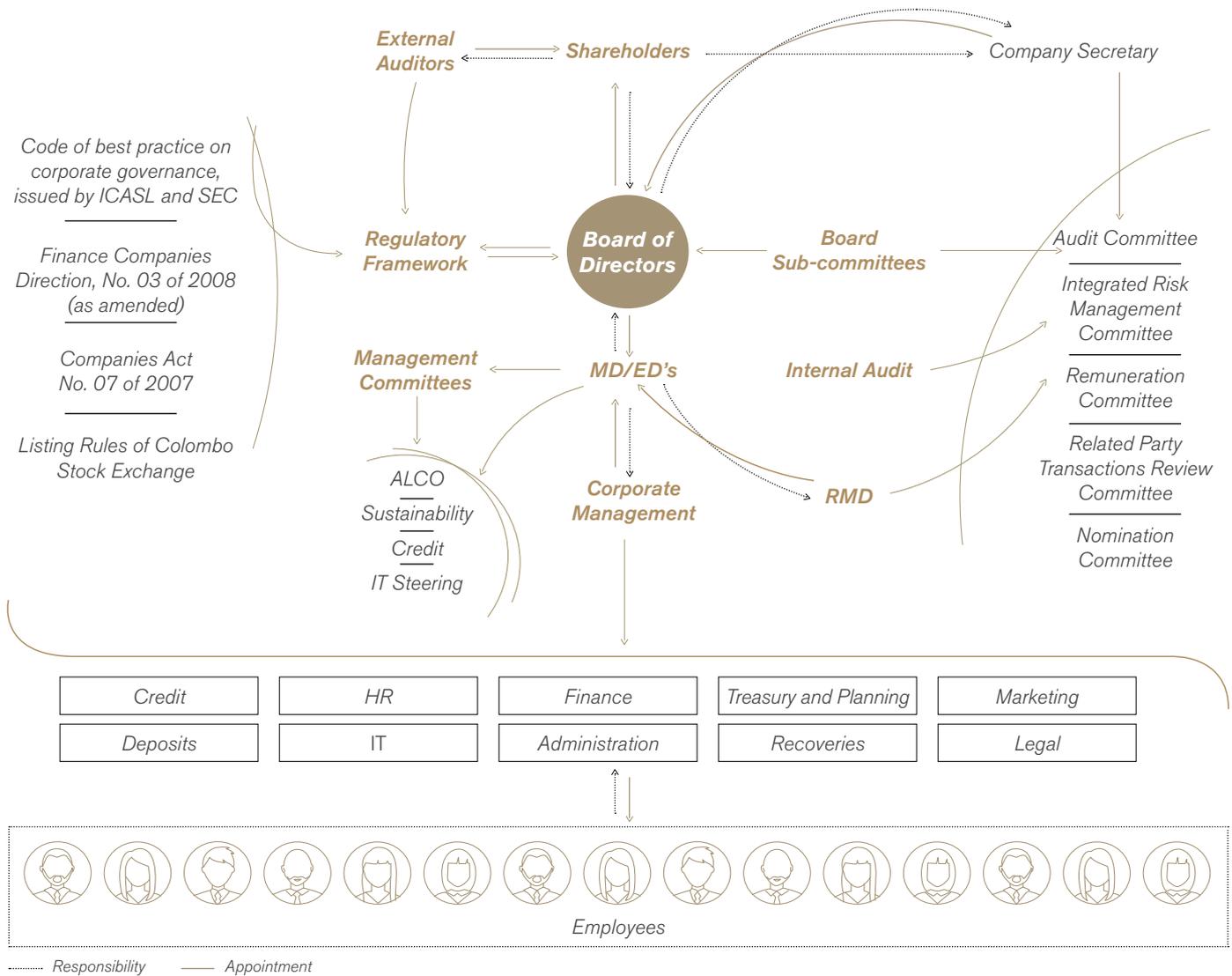
- *Companies Act No. 07 of 2007*
Mandatory Compliance
- *Finance Business Act No. 42 of 2011
and all directions/rules and guidelines
issued thereunder*
Mandatory Compliance
- *Corporate Governance Direction No. 03 of
2008 (as amended) issued by the Central
Bank of Sri Lanka*
Mandatory Compliance
- *Listing Rules of the Colombo Stock Exchange*
Mandatory Compliance
- *The Code of Best Practice on Corporate
Governance, issued jointly by The Institute
of Chartered Accountants of Sri Lanka and
The Securities and Exchange Commission
of Sri Lanka*
Voluntary Compliance
- *Securities and Exchange Commission of
Sri Lanka Act No. 36 of 1987 (as amended)*
Mandatory Compliance

Internal Benchmarks on Corporate Governance

- *Articles of Association*
- *Charters/Terms of Reference of
Board Committees*
- *Information Systems Security Policy*
- *Whistle-Blowing Policy*
- *Communication Policy*
- *Related Party Transactions Policy*
- *Risk Management Policies*
- *Documents Retention and Destruction Policy*
- *Anti-Money Laundering and Suppression of
Terrorist Financing Policy*
- *All Board approved policies on
operational areas*



GOVERNANCE STRUCTURE **G4-34, 35, 36, 37**



As depicted in the above 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.

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.

KEY INITIATIVES

In its continued commitment to foster and maintain the highest standards of governance in all operational aspects, the following key actions were initiated by the Board and the Sub-committees during the year under review:

CORPORATE GOVERNANCE INITIATIVES OF THE COMPANY DURING THE YEAR ENDED 31ST MARCH 2016

- Established a Related Party Transactions Review Committee and adopted the Charter of the Committee in compliance with the Listing Rules
- Revised Charter of the Audit Committee was reviewed and adopted by the Board
- Revised Key Management Succession Plan was reviewed and approved by the Board
- Revised policy and procedure for prevention of money laundering and combatting terrorist finance was adopted by the Board

BOARD OF DIRECTORS

The Board of L B Finance PLC is the highest body that carries out responsibility of directing the Company to achieve its strategic objectives within a framework of controls, enabling risks to be assessed and managed whilst ensuring supervision and good governance.

BOARD COMPOSITION [G4-38, 39, 40](#)

The Board consisted of twelve Directors as at 31st March 2016 with an equal number of Non-Executive and Executive Directors, complying with the required balance between Executive and Non-Executive Directors.

Four out of the twelve Directors (including the present Acting Chairperson and the Senior Directors) are eminent female professionals, which carries sufficient diversity in terms of gender.

The Board consists of Directors who combine knowledge, skills and experience from diverse disciplines such as banking, finance, administration, law and business that enhances the effectiveness of the Board and its Committees, where no individual or a group dominates the decision-making process.

The Board has determined that five out of the six Non-Executive Directors are 'independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange and the Best Practice on Corporate Governance. Of the said five Independent Directors, Mrs. Kirmali Fernando serves as an Independent Director of Vallibel One PLC and Mr. L N De S Wijeyeratne serves as an Independent Director of Royal Ceramics Lanka PLC (from 12th May 2016). Both Vallibel One PLC and Royal Ceramics Lanka PLC have a significant shareholding in the Company. In making its determination on Directors' independence, the Board has decided that notwithstanding the criteria not met as aforesaid, both Mrs. Kirmali Fernando and Mr. L N De S Wijeyeratne, are independent in character and judgement in discharging their functions as Directors of the Company and therefore determined that the said two Directors are 'Independent'.

The Board has further determined that three of those Directors qualify as 'independent' in terms of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, which complies with the requirement of a minimum of one fourth of the Directors being Independent Non-Executive Directors. Two Non-Executive Directors, Mr. L N De S Wijeyeratne and Mrs. Kirmali Fernando, though not qualifying under one of the criteria laid down by the said Direction in paragraph 4 (4) (f) (ii), the Board upon consideration of all attendant circumstances, has determined that the said 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 their duties as Independent Directors.

Every Independent Director, at the first meeting of the Board in which he/she participates as a Director and in every subsequent financial year, provides a signed declaration of independence as per the relevant rules.



The composition of the Board as at 31st March 2016, respective areas of expertise, dates of appointment and the attendance of Directors at Board meetings are set out in the undernoted table:

Name of Director	Area of expertise	Status according to the Listing Rules	Status according to the finance companies direction on corporate governance	Date of appointment	Board meetings attendance in 2015/16	Other Directorships held
Mrs. Kimarli Fernando	Banking and legal	IND/NED	NED	26.08.2008	11/12	Refer page 134
Mr. Dhammika Perera	Business strategy, banking and finance	ED	ED	22.10.2002	10/12	Refer page 134
Mrs. Shirani Jayasekara	Finance, audit and risk management	IND/NED	IND/NED	25.08.2010	12/12	Refer page 134
Mr. Thosapala Hewage	Development administration and natural resource management	IND/NED	IND/NED	23.04.2013	12/12	Refer page 135
Mr. Lalit N De S Wijeyeratne	Finance and general management	IND/NED	NED	01.11.2008	12/12	Refer page 135
Mr. J A S S Adhihetty	Marketing and finance	ED	ED	10.12.2003	11/12	Refer page 135
Mr. W D Nimal H Perera	Marketing and capital market operations	ED	ED	02.09.2003	09/12	Refer page 136
Mr. Niroshan Udage	Leasing and finance	ED	ED	01.01.2007	10/12	Refer page 136
Mr. B D A Perera	Leasing, finance and business administration	ED	ED	01.01.2007	12/12	Refer page 136
Mr. Ravindra Yatawara	Financial services and management	ED	ED	15.03.2016	01/01	Refer page 137
Mrs. Anandhiy Gunawardhana	Corporate and commercial law	IND/NED	IND/NED	01.03.2013	11/12	Refer page 137
Mrs. Yogadinusha Bhaskaran	Banking, finance and planning	NED	NED	15.03.2016	01/01	Refer page 137

ED – Executive Director, NED – Non-Executive Director, IND – Independent Director

BOARD PROCESS G4-47, 49

Board meetings are usually held on a monthly basis, unless the business exigencies demand the convening of additional meetings. During the year, there were 12 meetings of the Board. Board meeting calendar is agreed by and circulated to the Directors during the preceding calendar year providing sufficient notice to the Directors.

There is, formal schedule of matters reserved for the Board's consideration, which is regularly reviewed. Preparation of the Agenda for Board meetings has been delegated to the Company secretary and it is reviewed and approved by the Chairman, where necessary, in consultation with the Managing Director and Board Members.

Board papers and supporting documents are uploaded through a secure connection to the L B BoardPac, which is accessed by all Directors, providing timely and appropriate information to Directors, in compliance with the applicable direction. At Board meetings, the Board evaluates the Company's strategy, performance, risk profile and compliance with governance and other statutory requirements.

Minutes of Board meetings are recorded in sufficient detail, in compliance with paragraph 3 (9) of the Finance Companies (Corporate Governance) Direction. The Company Secretary maintains the minutes of Board Meetings and they are available for inspection at any reasonable time by any Director.

The Directors have access to and advice and services of the Company Secretary so as to ensure that Board procedures and all applicable laws, directions, rules and regulations are followed.

THE CHAIRMAN AND THE MANAGING DIRECTOR G4-39

The two top 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. There is a clear division of responsibilities between the Chairman and the Managing Director, and these are set out in writing and agreed to by the Board.

BOARD SUB-COMMITTEES G4-34

In accordance with the relevant rules, regulations and best practices, an Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and a 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 pages [183](#) to [184](#).

The Reports of the Audit Committee, Board Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and Nomination Committee are on pages [187](#) to [193](#).

The composition of the Board Committees and the attendance of Directors at those Committee meetings are as follows:

Name of Director	Audit Committee		Board Integrated Risk Management Committee		Remuneration Committee		Related Party Transactions Review Committee		Nomination Committee	
	Attendance	Status	Attendance	Status	Attendance	Status	Attendance	Status	Attendance	Status
Mrs. Kimarli Fernando	-	-	3/4	M	3/3	M	2/2	C	3/3	M
Mr. Dhammika Perera	-	-	-	-	-	-	-	-	-	-
Mrs. Shirani Jayasekara	12/13	M	4/4	C	-	-	2/2	M	-	-
Mr. Thosapala Hewage	-	-	-	-	1/1	C	-	-	3/3	C
Mr. Lalit N De S Wijeyeratne	12/13	C	-	-	3/3	M	2/2	M	1/1	-
Mr. J A S S Adhihetty	-	-	4/4	M	-	-	-	-	2/2	M
Mr. W D Nimal H Perera	-	-	-	-	-	-	-	-	-	-
Mr. Niroschan Udage	-	-	4/4	M	-	-	-	-	-	-
Mr. B D A Perera	-	-	3/4	M	-	-	1/1	M	-	-
Mr. Ravindra Yatawara	-	-	-	-	-	-	-	-	-	-
Mrs. Anandhiy Gunawardhana	11/13	M	-	-	2/2	C	-	-	-	-
Mrs. Yogadinusha Bhaskaran	-	-	-	-	-	-	-	-	-	-

C - Chairman/Chairperson, M - Member

MANAGEMENT COMMITTEES G4-34, 42

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

The management committees include Asset and Liability Committee, Credit and Recoveries Committee, sustainability and IT Steering Committee and their functions are described on [page 199](#).

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.

G4-34	G4-56	
G4-39, G4-42	G4-57, G4-58	

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.

FINANCIAL DISCLOSURES AND TRANSPARENCY

Financial statements are prepared in accordance with applicable Accounting Standards comprising 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 and the Annual Report which contain audited financial statements is forwarded to the shareholders and debentureholders in compliance with the Listing Rules of the Colombo Stock Exchange. Half yearly financial statements are published in the newspapers in compliance with Finance Companies Guideline No. 02 of 2006.

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.

During the year ended 31st March 2016, 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. A summary of Directors' responsibilities in respect of financial statements is given on [page 219](#).

ETHICAL STANDARDS G4-56, 57, 58

The Company requires that all its employees 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, values and strategic objectives. Code of ethics is being developed to make the right ethical decision on a day-to-day basis and at L B Finance PLC, 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, opendoor policy, online forums are the channels of communication.

PAY FOR PERFORMANCE

Employee remuneration consists of a fixed pay as well as a variable component which is dependent on the achievement of the key results and performance indicators by the individual employee. The Company is in the process of creating a comprehensive performance management system.

INVESTOR RIGHTS AND RELATIONS

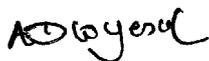
The Company is bound to safeguard the rights of all shareholders and secure equal treatment for all shareholders. The Company provides its annual financial statements within the mandatory period to all shareholders and debenture holders and the interim financial statements are released to the CSE in accordance with the Listing Rules of CSE. All shares carry equal voting rights and the shareholders are informed of the Annual General Meeting before the mandatory period. The Board, senior management and the auditors attend the Annual General Meeting to answer questions of shareholders.

OUTLOOK

Corporate governance plays a vital role in business and future emphasis is to further satisfy the Company's stakeholders whilst sustaining growth of the Company. Therefore we believe in the following; operating structure, internal control, review, benchmark, feedback, effective and transparent communication.

By Order of the Board,

L B Finance PLC



P W Corporate Secretarial (Pvt) Limited
Secretaries

30th May 2015

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	Compliance and implementation	Compliance status
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	The Company's strategic objectives and corporate values are determined by the Board and the views relating to the above are communicated to all levels of staff through structured meetings.	Complied
(b)	Approve the overall business strategy, including the overall risk policy and risk management	The Company's strategic plan was approved by the Board for five years covering the period from 2015-2019. Risk Management Policy was reviewed and recommended by the Integrated Risk Management Committee (IRMC) and approved by the Board.	Complied
(c)	Identifying and managing risk	The Board appointed Integrated Risk Management Committee is tasked with defining risk appetite, identifying and managing the overall risk of the Company. The Risk Management Report on page 191 provide further insight in this regard.	Complied
(d)	Communication policy with all stakeholders	The Board approved communication policy is available and ensure the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.	Complied
(e)	Adequacy and integrity of the internal control system and management information system	The adequacy and integrity of the Company's internal control system are reviewed by the Board through Board Audit Committee by way of internal audit reports and monitors follow-up actions. Board approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control System and Observations was monitored by the Board and confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over financial reporting.	Complied
(f)	Identifying and designating Key Management Personnel	Board identified Key Management Personnel according to the Sri Lanka Accounting Standards and as per the guidelines issued by the Central Bank of Sri Lanka for the purpose of corporate governance and its include Board of Directors, Chief Financial Officer, Chief Risk Officer, Assistant General Manager – Treasury, Assistant General Manager – Legal, and Manager Finance as Key Management Personnel.	Complied
(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 are stated in their job descriptions.	Complied

Section	Rule	Compliance and implementation	Compliance status
	(h) Oversight of affairs of the Company by Key Management Personnel	Oversights of the affairs of the Company by its Key Management Personnel are takes place at the regular Board meetings and Sub-committee meetings and Key Management Personnel makes regular presentation to the Board on matters under their purview.	Complied
	(i) Assess effectiveness of own governance practice	Board has delegated the functions of selection and nomination of Directors and Key Management Personnel to the Board Nomination Committee (BNC).	Complied
		Director's interests are disclosed to the Board at the start of every meeting. If a Director has an interest on a particular matter, he is abstains voting at such meeting and he is not counting in the quorum.	Complied
		The Board appraises its own performance by submission of performance evaluation forms to be filled by each Director. A summary of this has been submitted to the Board Chairman by the Company Secretaries for further recommendations.	Complied
	(j) Succession plan for Key Management Personnel	A policy on succession planning for Key Management Personnel was approved by the Board on 19th January 2016.	Complied
	(k) Regular meetings with the Key Management Personnel	The Key Managerial Personnel regularly make presentations and participate in discussions on their areas of responsibility at the Board and its Sub-committee meetings where progress towards corporate objectives are also reviewed.	Complied
	(l) Regulatory environment	The Board of Directors of the Company monitors closely, regulatory compliances at monthly Board meetings through the compliance board paper submitted by the Compliance Officer including new Directions issued from time to time by the regulator. All Board members attend for the Directors and CEO's forums arranged by the CBSL and the management personnel of the Company maintain dialogues on an ongoing basis.	Complied
	(m) Hiring and oversight of External Auditors	The Board Audit Committee is responsible for hiring and oversight of the External Auditors and on the recommendation of the Board, External Auditors are appointed by the shareholders of the Company, at the AGM. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with external audit.	Complied
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 the Company have been appointed by the Board and there is a clear division of the functions and responsibilities of the Chairman and the Managing Director as required by the Rule 7(1) of this Direction.	Complied
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 a Board approved procedure is in place.	Complied
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.	Complied

**G4-41, 44**

Section	Rule	Compliance and implementation	Compliance status
		The Company Secretaries obtained disclosure of interest from Directors at every Board meeting and conflict of interests (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's decision	The Board has adopted a policy for a formal schedule of matters specifically reserved for the Board. Preset agenda of the meeting ensure that the direction and the control of the Company is under Board's control and authority.	Complied
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.	Complied
2 (7)	Publish corporate governance report in Annual Report	Annual corporate governance report has been published by the Company in the Annual Report 2015/16 on page 141 .	Complied
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 has been presented to the Board.	Complied
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. There were instances where the Board's consent has been obtained through circular resolutions and those have been submitted to the subsequent Board meeting. The Board met on 12 occasions during the year 2015/16 .	Complied
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 procedures are in place for this. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals to the agenda.	Complied
3 (3)	Notice of meetings	Annual calendar of Board meetings for 2015 was issued on 9th December 2014 and for 2016 on 9th December 2015 and the agenda and all board papers are loaded through a secure link to iPads for Directors to access prior to seven days of the Board meetings.	Complied
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 2015/16.	Complied
3 (5)	Appointment of a Company Secretary to handle the secretariat services to the Board	P W Corporate Secretarial (Pvt) Limited, a Company registered with the Registrar General of Companies as a qualified secretary and handles the secretarial services for the Board and shareholder meetings and carryout other functions specified in related laws and regulations.	Complied

G4-38

Section	Rule	Compliance and implementation	Compliance status
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.	Complied
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.	Complied
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.	Complied
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.	Complied

4. COMPOSITION OF THE BOARD

4 (1)	The number of Directors	As at 14th March 2016, Board comprised of ten Directors with five of them being Non-Executive and Independent. Mr. Ravindra Yatawara was appointed as an Executive Director to the Board with effect from 15th March 2016 whilst Ms. Yogadinusha Bhaskaran was appointed as Non-Executive Director on the same day. The Company's Board comprised of 12 Directors at the end of year 2015/16. The objective of the Board is to maintain a healthy balance between Executive, Non-Executive and Independent Directors.	Complied
4 (2)	Period of service of a Director	The total period of service of all Non-Executive Directors does not exceed nine years. Details of their tenure of service are given on page 134 to 137 .	Complied
4 (3)	Board balance	There are six Executive Directors including Chief Executive Officer out of 12 Directors which is well balanced and within the requirement to limit the number of Executive Directors to 50 percent of total Directors.	Complied
4 (4)	Independent Non-Executive Directors	The Board has three Independent Non-Executive Directors as per the definition of this Direction which is 1/4th of the Board. The Board evaluates Independence of the Directors annually based on the Directors self-declaration.	Complied
4 (5)	Appointment of Alternate Directors	There were no Alternate Directors appointed during the year 2015/16.	Complied
4 (6)	Skills and experience of Non-Executive Directors	Appointments are made through the Nomination Committee. The Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and their detailed profiles are on pages 134 to 137 .	Complied


G4-35, 40

Section	Rule	Compliance and implementation	Compliance status
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings	Company Secretaries are strictly monitored that the all Board meetings held during the year were duly constituted with more than one half of the number of Non-Executive Directors present at such meetings.	Complied
4 (8)	Expressly identification of the Independent Non-Executive Directors in corporate communications and disclose in the details of Directors	The Independent Non-Executive Directors are expressly identified in all corporate communications that disclose the names of all Directors of the Company. Composition of the Board of Directors including the category of Directors has been disclosed on page 145 in addition to the disclosures on profiles of Directors on pages 134 and 137 .	Complied
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 appointments to the Board. After complying with this procedure the names are referred to the CBSL for approval, prior to appointment. Following persons were appointed to the Board with effect from 15th March 2016. Mr. Ravindra Yatawara Mrs. Y. Bhaskaran Their profiles are given on page 137 .	Complied
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 appointments and there were no casual vacancies during the year.	Complied
4 (11)	Communication of reasons for removal or resignation of Directors	There were no resignations or removal of Directors during the year.	Complied
5. CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETY 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 2016.	Complied
5 (2)	Directors shall not hold office as a Director of more than 20 companies/entities/institutions including associate and subsidiary companies	The total number of positions held as a Director or any other position in companies/entities/institutions are less than 20. The Directorships held by each Directors are disclosed on pages 134 to 137 .	Complied

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Section	Rule	Compliance and implementation	Compliance status
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.	Complied
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.	Complied
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.	Complied
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director	Even though the Chairman is an Independent Non-Executive Director the Company appointed Mrs. S. Jayasekara as Senior Director with effect from 26th February 2016 for more prudence.	Complied
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 declarations made by the Directors and regular updates provided at monthly Board meetings.	Complied
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. All key and appropriate issues are discussed by the Board on a timely basis.	Complied
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.	Complied
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.	Complied
7 (7)	Encourage all Directors to actively contribute and ensure that they act in the best interest of the Company	All Directors actively participate in Board affairs.	Complied



G4-38

Section	Rule	Compliance and implementation	Compliance status
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	Executive and Non-Executive Directors work together with the best interests of the Company. Non-Executive Directors participate in Board Sub-committees to provide further opportunities for active participation.	Complied
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.	Complied
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.	Complied
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.	Complied

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. Board Integrated Risk Management Committee 3. Nomination Committee 4. Audit Committee 5. Related Party Transaction Review Committee <p>Recommendations of these Committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings.</p> <p>The Company has presented a report on the performance, duties and functions of each committee in the Annual Report.</p>	Complied
8 (2)	Audit Committee		
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	The Chairman of the Audit Committee Mr. L N De S Wijeyeratne 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 135 of this Annual Report.	Complied
	(b) All members of the Committee to be Non-Executive Directors	All members of the Audit Committee are Non-Executive Directors.	Complied

Section	Rule	Compliance and implementation	Compliance status
	(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.	Complied
	ii. The implementation of the Central Bank guidelines	The evaluation is carried out by the Audit Committee in consultation with the Chief Financial Officer on matters related to implementation of the Central Bank guidelines and accounting standards.	Complied
	iii. The application of the relevant accounting standards; and		
	iv. The service period, audit fee and any resignation or dismissal of the Auditor;	The Committee ensures that the requirement of rotation of External Audit Engagement Partner, once in every five years, is met. The Audit Committee has the primary responsibility for making recommendations on the appointment, re-appointment or removal and the approval of audit fee of the External Auditor in line with professional standards and regulatory requirements.	Complied
	(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.	Complied
	(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.	Complied
	(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.	Complied
	(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 judgmental 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 the Committee making its recommendations for Board's approval.	Complied
	(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 twice in January and March 2016.	Complied
	(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 Department Heads to take remedial actions, if necessary.	Complied

Section	Rule	Compliance and implementation	Compliance status
	(j) Review of the internal audit function <ul style="list-style-type: none"> • Review scope, functions and resources • Review of internal audit programme • 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>	Complied
	(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.	Complied
	(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, Compliance Officer, AGM IT and AGM Treasury 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>	Complied
	(m) Explicit authority, adequate resources, access to information; and obtain external professional advice wherever 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>	Complied
	(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 14 times during the year and the attendance at those meetings is set out on page 189 on Audit Committee Report.</p>	Complied
	(o) Disclosures in the Annual Report	The Report of the Audit Committee is on pages 189 to 190 includes the detail activities, meetings held during the year and the Directors attendance to the Audit Committee.	Complied
	(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.	Complied
	(q) Whistle-blowing Policy	The Company has a Board approved Whistle-blowing Policy whereby employees of the Company raise concerns in confidence about the malpractices of the Company.	Complied

Section	Rule	Compliance and implementation	Compliance status
8 (3)	Integrated Risk Management Committee		
	(a) The composition of IRMC	IRMC comprises 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.	Complied
	(b) Periodical risk assessment	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 are submitted to the Board quarterly. The Company does not have any subsidiary or associate companies.	Complied
	(c) Review and measurement of management level committee risk	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.	Complied
	(d) Corrective action to mitigate the risk	The risk indicators introduced have been reviewed against the benchmark and corrective actions are taken to mitigate the effects of such risks that are at a level beyond the prudent levels decided by the Committee.	Complied
	(e) Frequency of meetings	The Committee has met four times during the year to assess the risks of the Company.	Complied
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions	Committee refers such matters, if any, to the HR Department for necessary action. However the specific risk and limits identified by the Integrated Risk Management Committee and such decisions are taken collectively.	Complied
	(g) Risk assessment report to the Board	The Committee had kept the Board informed of their risk assessment of the Company by forwarding a risk report.	Complied
	(h) Establishment of a compliance function	The Company's compliance with laws and regulations were monitored by the Compliance Officer. The Company has a process to assess the compliance with internal controls and approved policies pertaining to all areas of business operations.	Complied

Section	Rule	Compliance and implementation	Compliance status
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. During the year Board appointed a Related Party Transactions Review Committee to ensure that the transactions with related parties are in accordance with best practices.</p> <p>A system for monitoring and reporting of data pertaining to such transactions are established in the Company during the year and through that system the Company is ensure that no favourable transaction has been entered with such parties.</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 6.1 of page 286 in Financial Statements.</p>	Complied
9 (3)	Related Party Transactions	Board approved process is in place to identify the related party transactions and newly appointed Related Party Transaction Review Committee will ensure that all the transactions with related parties are on arm's length basis.	Complied
9 (4)	Monitoring of related party transactions defined as more favourable transactions	Board approved Related Party Transactions Policy contains provisions to ensure compliance and newly appointed Related Party Transactions Review Committee will ensure that all the transactions with related parties are on arm's length basis. The Company developed a separate system to monitor the related party transaction.	Complied
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:		
	(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	Compliance with applicable accounting standards and regulatory requirements has been reported under the "Directors' Responsibility for Financial Reporting" on page 219 .	Complied
	(b) A Report by the Board on the finance company's internal control mechanism	Directors' Statement on Internal Control System over Financial Reporting is given on page 218 .	Complied

Section	Rule	Compliance and implementation	Compliance status						
	(c) The External Auditor's Certification on the effectiveness of the internal control mechanism	The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism.	Complied						
	(d) Details of Directors	Directors profiles are given on pages 134 to 137 and other details have been disclosed under the 'Annual Report of the Board of Directors on the Affairs of the Company' on page 179 of the Annual Report. The transactions with Directors were, aggregate fees and remuneration paid during the year amounting to Rs. 193 million and Savings & Fixed Deposits held as at 31st March 2016 amounting to Rs. 39 million.	Complied						
	(e) Fees/remuneration paid by the Finance Company to the Directors in aggregate	The aggregate fees and remuneration paid to the Directors were Rs. 193 million during the year.	Complied						
	(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds	Total net accommodations granted to each category of related parties are given in Note 6.1.3 to the financial statements and as a percentage of capital is as follows: <table border="1" data-bbox="625 915 1219 1050"> <thead> <tr> <th>Category of Related Party Transaction</th> <th>%</th> <th>Amount Rs. '000</th> </tr> </thead> <tbody> <tr> <td>Entities controlled by KMPs and their close family members</td> <td>0.009</td> <td>953</td> </tr> </tbody> </table>	Category of Related Party Transaction	%	Amount Rs. '000	Entities controlled by KMPs and their close family members	0.009	953	Complied
Category of Related Party Transaction	%	Amount Rs. '000							
Entities controlled by KMPs and their close family members	0.009	953							
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel	Aggregate remuneration paid to the KMPs as defined in LKAS 24 - 'Related Party Disclosures' for financial reporting purpose, disclosed under Note 6.1.1 to financial statement on page 286 . In addition to the above, aggregate value of remuneration paid to the KMPs defined for Corporate Governance Direction purpose is as follows: <table border="1" data-bbox="625 1269 1219 1412"> <thead> <tr> <th>Type of transaction</th> <th>Aggregate amount Rs. '000</th> </tr> </thead> <tbody> <tr> <td>Remuneration paid to KMPs</td> <td>244,202</td> </tr> <tr> <td>Deposits of KMPs</td> <td>43,565</td> </tr> </tbody> </table>	Type of transaction	Aggregate amount Rs. '000	Remuneration paid to KMPs	244,202	Deposits of KMPs	43,565	Complied
Type of transaction	Aggregate amount Rs. '000								
Remuneration paid to KMPs	244,202								
Deposits of KMPs	43,565								
	(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' on page 179 .	Complied						
	(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 the Monetary Board to be disclosed to the public.	Complied						
	(j) The External Auditor's certification of the compliance with the Corporate Governance directions	The Company has obtained a Report from External Auditors over the compliance of Corporate Governance directions.	Complied						

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 EFFECTIVE BOARD

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

The Board comprises of 12 Directors, six of whom function in a Non-Executive capacity, having required professional competence, skills and experience in the fields of Banking, Law, Accounting, Marketing and Economics 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	Compliance status																																							
A.1.1 Regular Board meetings	The Board usually meets on monthly intervals and special Board meetings are convened whenever necessary. The Board met twelve (12) times during the year. The attendance at Board meetings held in 2015/16 is set out here.	Complied																																							
<p>Board meetings attendance of the Directors</p> <table border="1"> <caption>Board meetings attendance of the Directors</caption> <thead> <tr> <th>Director</th> <th>Meetings attended</th> <th>Meetings not-attended</th> </tr> </thead> <tbody> <tr><td>A</td><td>12</td><td>0</td></tr> <tr><td>B</td><td>12</td><td>0</td></tr> <tr><td>C</td><td>12</td><td>0</td></tr> <tr><td>D</td><td>12</td><td>0</td></tr> <tr><td>E</td><td>12</td><td>0</td></tr> <tr><td>F</td><td>12</td><td>0</td></tr> <tr><td>G</td><td>12</td><td>0</td></tr> <tr><td>H</td><td>12</td><td>0</td></tr> <tr><td>I</td><td>12</td><td>0</td></tr> <tr><td>J</td><td>1</td><td>11</td></tr> <tr><td>K</td><td>1</td><td>11</td></tr> <tr><td>L</td><td>0</td><td>12</td></tr> </tbody> </table> <p> A - Mrs. Kimarli Fernando B - Mr. Dhammika Perera C - Mrs. Shirani Jayasekara D - Mr. Thosapala Hewage E - Mr. Lalit N De S Wijeyeratne F - Mr. J A S Sumith Adhihetty G - Mr. W D Nimal H Perera H - Mr. Niroshan Udage I - Mr. B D A Perera J - Mr. Ravindra Yatawara** K - Mrs. Anandhiy Gunawardhana L - Mrs. Yogadinusha Bhaskaran** </p>			Director	Meetings attended	Meetings not-attended	A	12	0	B	12	0	C	12	0	D	12	0	E	12	0	F	12	0	G	12	0	H	12	0	I	12	0	J	1	11	K	1	11	L	0	12
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L	0	12																																							
<p>**Mr. Ravindra Yatawara and Mrs. Yogadinusha Bhaskaran were appointed to the Board with effect from 15th March 2016.</p>																																									
A.1.2 Board's responsibilities																																									
<ul style="list-style-type: none"> Formulation and implementation of a sound business strategy 	The Board engages in providing direction in formulating a sound business strategy and closely monitors the implementation of the strategy effectively. A Strategic Plan has been developed covering next five years from 2015 – 2019 and was approved by the Board on 21st April 2015.	Complied																																							
<ul style="list-style-type: none"> CEO, Executive Directors and senior management team possess the skills, experience and knowledge 	The Nomination Committee ensures that the Company's management team possesses required skills, experience and knowledge to implement the approved strategy. The profiles of the leadership team are given on pages 134 to 140 .	Complied																																							
<ul style="list-style-type: none"> CEO and Key Management Personnel succession planning 	A succession plan was approved on 19th January 2016 by the Board and in place for the corporate management team.	Complied																																							

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Corporate governance principle	Degree of compliance	Compliance status
<ul style="list-style-type: none"> Implementing security and integrity of information, internal controls, business continuity and risk management 	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.	Complied
<ul style="list-style-type: none"> Ensuring compliance with laws, regulations and ethical standards 	<p>The Compliance Officer submits Compliance Board Paper to every Board meeting setting out the laws and regulations complied in each month.</p> <p>A procedure has been put in place for Directors to seek independent professional advice, in furtherance of their duties.</p>	Complied
<ul style="list-style-type: none"> Ensuring all stakeholders interest is considered in corporate decisions. 	Stakeholders interest which identified through different stakeholders engagement methodologies considered in decision-making. Refer G4 24 and 25 sections in page 32 .	Complied
<ul style="list-style-type: none"> Recognising sustainable business development 	<p>Sustainable business development is one of the key areas considered by the Board when taking decisions. Please refer to the Company's Sustainable Report on pages 23 to 27 for more details.</p> <p>Company applied Global Reporting Initiatives under G 3.1 in the Financial Year 2012/13, and we have upgraded our reporting methodology to G4 Comprehensive during the year.</p>	Complied
<ul style="list-style-type: none"> Adopting appropriate accounting policies and financial regulations. 	The Audit Committee assists the Board in ensuring effective systems to secure integrity of information, internal controls and adopting appropriate accounting policies with financial regulation.	Complied
A.1.3 Board collectively and Directors individually must act in accordance with laws and accessibility for independent professional advices	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. In order to preserve the independence of the Board and to strengthen the decision-making, the Board seeks independent professional advice when deemed necessary.	Complied
A.1.4 All Directors should have access to the services and advice of the Company Secretary.	All Directors have access to the Company Secretary, a company registered as a qualified secretary. Their services are available to all Directors and they advise the Board on corporate governance matters, Board procedures and applicable rules and regulations.	Complied
A.1.5 Independent judgment of Directors	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.	Complied
A.1.6 Every Director should dedicate adequate time and effort to the matters of the Board and the Company	Every Director have dedicated adequate time and effort to the meetings of the Board and Sub-committee meetings to ensure that the duties and responsibilities are satisfactorily discharged and all the Board papers are loaded through a secure link to the iPad at least seven days prior to the Board meetings for the Directors to access prior to the Board meeting.	Complied
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. It is mandatory for the Directors to attend Director Forums organised by the CBSL. Further the Corporate Management and external experts make presentation with regard to the economic and social environment to update the knowledge.	Complied



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 the 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	Compliance status
A.2.1 Division of responsibility between Chairman and CEO	The positions of Chairman and CEO have been separated in line with best practices with a view to maintain the balance of power and authority. Chairman is an Independent Non-Executive Director while CEO is an Executive Director.	Complied

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	Compliance status
A.3.1 Chairman's role in preserving good corporate governance	The Chairman provides leadership to the Board, ensures that the Board works effective and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Complied

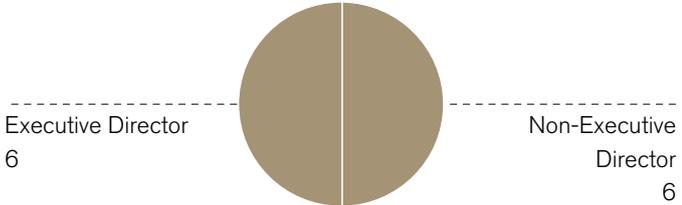
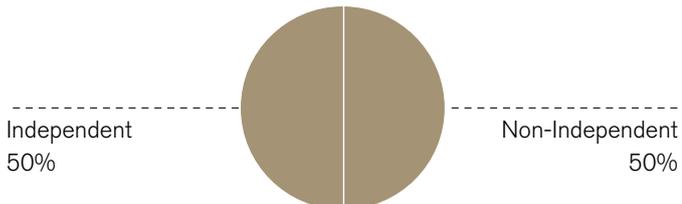
A.4 FINANCIAL ACUMEN

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	Compliance status
A.4.1 Financial Acumen	<p>The Chairman of the BAC is a fellow member of the CA Sri Lanka and the Chairman of the IRMC also a fellow member of CA Sri Lanka and Fellow member of the CIMA-UK and other Directors also have financial acumen, a key attribute of the successful carriers.</p> <p>Additionally the Executive Deputy Chairman, Mr. Dhammika Perera has served on the Boards of number of financial institution.</p> <p>The profile of the Board of Directors are given on pages 134 to 137.</p>	Complied

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	Compliance status
A.5.1 Board should include at least two Non-Executive Directors or one third of total Directors whichever is higher	<p>The Board comprise of six Non-Executive Directors and six Executive Directors facilitating the required balance with in the Board.</p> <p>Directors by category</p>  <p>A pie chart divided into two equal halves. The left half is labeled 'Executive Director 6' and the right half is labeled 'Non-Executive Director 6'.</p>	Complied
A.5.2 Two or one-third of Non-Executive Directors whichever is higher should be independent	<p>Three (3) Non-Executive Directors are Independent as defined by this Code.</p> <p>Independency Status</p>  <p>A pie chart divided into two equal halves. The left half is labeled 'Independent 50%' and the right half is labeled 'Non-Independent 50%'.</p>	Complied
A.5.3 Evaluation of independence of Non-Executive Directors	The Board evaluates the independence yearly using annual declarations submit by the Directors according to the code criteria.	Complied
A.5.4 Signed declaration of independence by the Non-Executive Directors	All Non-Executive Directors provided the signed declaration of independence for 2015/16 as per the schedule H of the Code.	Complied
A.5.5 Determination of the independence and non-independence of each Non-Executive Director annually	<p>The Board has reviewed the declarations submitted by the Non-Executive Directors, and determined their independence. The following Directors are deemed to be Independent Directors:</p> <p>Mr. Thosapala Hewage Mrs. Shirani Jayasekara Mrs. Anandhiy K Gunawardhana</p>	Complied
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 independence	No Alternate Directors were appointed during the year.	Complied

Corporate governance principle	Degree of compliance	Compliance status
A.5.7 Senior Independent Director (SID)	Although the requirement to appoint a Senior Independent Director does not arise according to the Code, the Company appointed Mrs. S Jayasekara as Senior Independent Director with effect from 26th February 2016.	Complied
A.5.8 Confidential discussion with other Directors by the SID		
A.5.9 Meetings held by the Chairman with Non-Executive Directors	The Chairman held meetings with Non-Executive Directors.	Complied
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.	Complied

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	Compliance status
A.6.1 Management should provide timely information to the Board	Timely and accurate information is provided by the management to the Board generally before seven days prior to the Board meetings. The members of corporate management make presentations to the Directors on important issues relating to the financial performance, strategy, risk, system and procedure.	Complied
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 iPads for the Directors to access prior to seven days of the Board meeting.	Complied

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	Compliance status
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 Adhietty The report of the Nomination Committee is given on page 188 of the Annual Report.	Complied
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.	Complied

Corporate governance principle	Degree of compliance	Compliance status
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 and during the year two Directors were appointed to the Board.	Complied

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	Compliance status
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>	Complied

A.9 APPRAISAL OF BOARD PERFORMANCE [G4-44](#)

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

Corporate governance principle	Degree of compliance	Compliance status
A.9.1 Appraisal of Board performance	The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill Board Performance Evaluation Forms in line with this section of the code. The responses are reviewed by the Company Secretary who compiles a report which is submitted to the Board for information.	Complied
A.9.2 Annual self-evaluation by the Board of its sub-committees	The appraisal of the performance of Board Sub-committees have been presented to the Board.	Complied
A.9.3 Disclosure in the Annual Report about the Board's performance evaluation methodology	As indicated in the A.9.1	Complied



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	Compliance status
A.10.1 Annual Report disclosure in respect of Directors	Profiles of the Board of Directors are given on pages 134 to 137 including other Directorships held by the Directors and memberships of other Board Committees. Directors attendance is disclosed in page 146 .	Complied

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	Compliance status
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.	Complied
A.11.2 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.	Complied

B. DIRECTORS' REMUNERATION

B.1 REMUNERATION PROCEDURE [G4-51, 52](#)

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	Compliance status
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 that no Director is involved in setting his/her own remuneration.	Complied
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 Non-Executive Directors.	Complied
B.1.3 Disclosure in the Annual Report about the Remuneration Committee members	Remuneration Committee report is given on page 187 of the Annual Report.	Complied
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 and this will be decided by the Board.	Complied
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.	Complied

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 co-operate and individual performance.

Corporate governance principle	Degree of compliance	Compliance status
B.2 -B.2.1 Remuneration of Executive Directors	Remuneration of Executive Directors consist of performance based payment to attract, retain and motive them by the Remuneration Committee.	Complied
B.2.2 Remuneration packages in line with industry practices	The Nomination Committee reviews the information relating to the Company and the due care is taken to ensure the remunerations are par with industry standards.	Complied
B.2.3 Remuneration packages in line with other Companies in the Group	Size and scale of the Company is not comparable with Group Companies.	Complied
B.2.4 Performance related payments to Executive Directors	There are performance related elements of remuneration for Executive Directors.	Complied
B.2.5 Executive Share Option	There are no Share Option schemes offered by the Company.	Not applicable
B.2.6 Designing schemes of performance-related remuneration	In deciding the remuneration of the CEO and Senior Management the Company takes note of the provisions set out in Schedule E.	Complied
B.2.7-2.8 Early termination of Directors	Termination of service of the Executive Directors will be in accordance with their contract of service.	Not applicable
B.2.9 Remuneration of the Non-Executive Directors	Non-Executive Directors are remunerated by the Remuneration Committee considering the time commitment, responsibilities of the role and the market practices. The Company does not provide any share option plans currently.	Complied

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	Compliance status
B.3.1 Disclosure in the Annual Report about the Remuneration Committee members, statement of remuneration policy and aggregate remuneration paid	Remuneration Committee report is given on page 187 for details on the composition of committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 6.1.1 to the Financial Statements on page 286 .	Complied

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	Compliance status
C.1.1 Use of proxy votes	The Company has recorded all proxy votes for each resolution prior to the general meeting.	Complied
C.1.2 Separate resolutions for separate issues	Separate resolutions are placed before shareholders for business transactions at the Annual General Meetings.	Complied
C.1.3 Arrangement made by the Chairman of the Board that all Chairmen of Sub-committees make themselves available at the AGM	The Board, includes the Chairmen of the Audit, Remuneration, Board Integrated Risk Management and Nomination Committees, was present at the 2015 AGM to answer any questions.	Complied
C.1.4 Adequate notice for the AGM to the shareholders	The Annual Report including Financial Statements and the Notice of Meeting are sent to shareholders before 15 working days prior to the date of the AGM.	Complied
C.1.5 Procedures of voting at general meetings	Voting procedures at general meetings are circulated to shareholders.	Complied

C.2 COMMUNICATION WITH SHAREHOLDERS

Corporate governance principle	Degree of compliance	Compliance status
C.2.1 Channel to reach all shareholders to disseminate timely information	Board-approved communication policy is available and the primary mode of communication with shareholders is at the AGM.	Complied
C.2.2 Policy and methodology of communicating	The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided. Refer stakeholders on page 32 in the Annual Report.	Complied
C.2.3 Implementation of the communication policy and methodology	Shareholders are receive the Annual Report from the Company either by means of a CD or in hard copy form. Shareholders may at any time elect to receive the Annual Report from the Company in printed form without any charge.	Complied
C.2.4 Contact person	Shareholders may, at any time, direct questions and request for publicly available information at the Directors or management of the Company.	Complied
C.2.5 Awareness of Directors on major issues and concerns of shareholders	The Company Secretary shall maintain a record of all correspondence received and will deliver as soon as practicable such correspondence to the Board or individual Director/s as applicable.	Complied
C.2.6 Contact person for shareholders	Company Secretary can be contacted for any queries of shareholders.	Complied
C.2.7 Process for responding to shareholders	Company has a Board approved communication policy addressing to this.	Complied

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	Compliance status
C.3.1 Major Transactions	During the year 2015/16, the Company did not engage in or commit any 'Major Transactions' which materially affected the Company's net asset base.	Complied

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	Compliance status																		
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 2016 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.	Complied																		
D.1.2 Directors' Report in the Annual Report	Annual Report of the Board of Directors on the Affairs of the Company is given on page 179 covering all areas of this section.	Complied																		
D.1.3 Annual Report disclosure stating Boards' and Auditors' responsibility	Statement of Directors' Responsibilities is given on page 219 and Auditors' responsibility given on the Auditors Report to the Financial Statement on page 220 and the Directors' Statement on Internal Control is given on page 218 respectively.	Complied																		
D.1.4 Management discussion and analysis	Management discussion and analysis is given on page 50 .	Complied																		
	<table border="1"> <thead> <tr> <th>Information required</th> <th>Page</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>100</td> </tr> <tr> <td>Opportunities and threats</td> <td>44</td> </tr> <tr> <td>Risks and concerns</td> <td>194</td> </tr> <tr> <td>Internal controls systems and their adequacy</td> <td>74</td> </tr> <tr> <td>Social and environmental protection activities carried out by the Company</td> <td>124</td> </tr> <tr> <td>Financial performance</td> <td>53</td> </tr> <tr> <td>Material developments in human resource/ industrial relations and</td> <td>78</td> </tr> <tr> <td>Prospects for the future</td> <td>68</td> </tr> </tbody> </table>	Information required	Page	Industry structure and developments	100	Opportunities and threats	44	Risks and concerns	194	Internal controls systems and their adequacy	74	Social and environmental protection activities carried out by the Company	124	Financial performance	53	Material developments in human resource/ industrial relations and	78	Prospects for the future	68	
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Prospects for the future	68																			
D.1.5 Directors' assumption on the going concern of the business	This is given in the 'Annual Report of the Board of Directors on the Affairs of the Company' on page 179 .	Complied																		
D.1.6 Serious loss of capital	No such circumstances occurred, and its likelihood of occurrence is also remote.	Not applicable																		

Corporate governance principle	Degree of compliance	Compliance status
D.1.7 Disclosure of related party transactions	<p>A detailed Board approved documented process is available in the Company and the system for monitoring and reporting of related party transaction is in place.</p> <p>The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly. All related party transactions as defined in Sri Lanka Accounting Standard – 24 (LKAS 24) on 'Related Party Transactions' is disclosed in Note 6.1 to the Financial Statements on page 286.</p>	Complied

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	Compliance status
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.	Complied
D.2.2 Internal audit function	The Company's internal audit functions are 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.	Complied
D.2.3 Evaluation of the process and effectiveness of risk management and internal controls	The Audit Committee reviewed the internal controls and procedures of the Company and the minutes of the meetings are tabled to the Board meetings. The IRMC reviews processes relating to the risk management framework of the Company and minutes of the meetings are tabled to the Board meeting subsequently.	Complied
D.2.4 Responsibilities of Directors in maintaining a sound system of internal control and statement of internal control	The Directors' responsibility for maintaining a sound system of internal control is given in the Directors' responsibility Statement on Internal Control over Financial Reporting on page 218 .	Complied

D.3 AUDIT COMMITTEE

The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.

Corporate governance principle	Degree of compliance	Compliance status
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	Complied
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 audits and its effectiveness. Further, independence and the objectivity of the Auditors' are also reviewed periodically. The Committee considers independence when providing non-audit engagements to the External Auditor.	Complied
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. The Committee mainly deals with matters pertaining to the statutory and regulatory compliance in financial reporting and matters with regard to the External Auditors and internal audit.	Complied
D.3.4 Disclosures made in the Annual Report about Audit Committee	Audit Committee Report is given on page 189 to the Annual Report	Complied

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	Compliance status
D.4.1 & 4.2 Code of Business Conduct and Ethics and its violation disclosure	Code of Business Conduct and Ethics are in place, and no violations have been reported during the year.	Complied

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	Compliance status
D.5.1 Disclosure of Corporate Governance compliance	The requirement is met with the presentation of this Corporate Governance Report from pages 141 to 178 of the Annual Report.	Complied

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	Compliance status
E.1.1 Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders views to the Board	Annual General Meeting is the forum to have an effective dialogue with shareholders on matters which are relevant and concern to the general membership. The CEO/MD has structured meetings with institutional shareholders. Board members are briefed about the matters discussed at such meetings.	Complied

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	Compliance status
F.1 Individual shareholders investment decisions	Individual shareholders investing directly in the Company are encouraged seeking independent advice in investing or divesting decisions. The Annual Report contains sufficient information for a potential investor to carry out their own analysis and quarterly financial statements contains information on the progress of the Company to take decisions.	Complied

F.2 SHAREHOLDER VOTING

F.2 Individual shareholder voting	Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights.	Complied
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G. SUSTAINABILITY REPORTING

Corporate governance principle	Degree of compliance	Compliance status
G.1.1 Economic sustainability	Adopted sustainability practices and reporting based on G4 Comprehensive Guidelines issued by Global Reporting Initiatives. Please refer pages 65,66 .	Complied
G.1.2 The environment	Refer page 124 for details	Complied
G.1.3 Labour practice	Refer page 78 for details	Complied
G.1.4 Society	Refer page 92 for details	Complied
G.1.5 Product responsibility	Refer page 100 for details	Complied
G.1.6 Stakeholder identification, engagement and effective communication	Refer page 32 for details	Complied
G.1.7 Sustainable reporting and disclosure should be formalised	Reported based on G4 Comprehensive Guidelines of Global Reporting initiatives. Refer page 23 for details	Complied

Report on compliance with the Rules on the Content of the Annual Report in Section 7.6 and Rules on Corporate Governance in Section 7.10 of the Listing Rules of the Colombo Stock Exchange (Listing Rules)

Compliance with Rules on the content of the Annual Report in Section 7.6 of the Listing Rules

Section	Rule	Compliance and Implementation	Compliance status
7.6 (i)	Names of the Directors during the financial year	Please refer 'Annual Report of the Board of Directors on the Affairs of the Company' on page 179 .	Complied
7.6 (ii)	Principal activities of the Company	Please refer 'Annual Report of the Board of Directors on the Affairs of the Company' on page 179 . Please refer Section 02 Corporate Information to the Financial Reports on page 316 .	Complied
7.6 (iii)	Top 20 shareholders with the number of share held and the percentage of such shares held	Please refer 'Share Information' for the 20 largest shareholders of voting shares on page 94 The Company has not issued any non-voting shares.	Complied
7.6 (iv)	The public holding percentage	Please refer 'Share Information' on page 94 .	Complied
7.6 (v)	Statement of each Director's and Chief Executive Officer's shareholding of the Company at the beginning and end of the year	Please refer 'Share Information' on page 94 .	Complied
7.6 (vi)	Information relating to foreseeable risk factors of the Company	Please refer the 'Risk Management' segment on page 194 .	Complied
7.6 (vii)	Details of material issues relating to employees and industrial relations of the Company	There were no material issues occur during the year relating to employees and industrial relations.	Not applicable
7.6 (viii)	Extent, locations, valuations and number of buildings of the Company and the land holdings and investment properties	Please refer Note 4.21.9 – Information on the freehold land and buildings of the Company to the Financial Reports on page 263 .	Complied
7.6 (ix)	Number of shares representing the Company's stated capital	Please refer Note 4.31 – Stated Capital to the Financial Reports on page 274 .	Complied
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Please refer 'Share Information' on page 94 .	Complied
7.6 (xi)	Ratios and market price information on: Equity 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year)	Please refer 'Share Information' on page 94 .	Complied

Section	Rule	Compliance and Implementation	Compliance status
	Debt	Please refer 'Share Information' on page 94 .	
	1. Interest rate of comparable government security		
	2. Debt/equity ratio		
	3. Interest Cover		
	4. Quick asset ratio		
	5. The market prices and yield during the year		
	6. Changes in credit rating		
7.6 (xii)	Significant changes in the Company's fixed assets and the market value of land, if the value differs substantially from the book value	Please refer Note 4.21 – Property, Plant & Equipment to the Financial Reports on page 259 .	Complied
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement	There were no any share issues, right issue or private placement during the year.	Complied
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	The Company does not have any Employee Share Ownership or Stock Option Schemes at present.	Not applicable
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Please refer 'Report on compliance with the Rules on the Content of the Annual Report in Section 7.6 and Rules on Corporate Governance in Section 7.10 of the Listing Rules of the Colombo Stock Exchange (Listing Rules)' on page 174 .	Complied
7.6 (xvi)	Related party transactions exceeding 10 percent of the equity or 5 percent of the total assets of the entity as per audited financial statements, whichever is lower	The Company did not have any related party transaction exceeding this threshold during the year.	Complied

Compliance with Rules on Corporate Governance requirements in Section 7.10 of the Listing Rules

Section	Rule	Compliance and Implementation	Compliance status
Non-Executive Directors			
7.10.1 (a)	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	The Board comprises six Non-Executive Directors out of total 12 numbers of Directors which is 50 percent as a percentage. During the year two Directors were appointed to the Board.	Complied
7.10.1(b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting	All of the Directors who were in office as at the conclusion of the immediately preceding Annual General Meeting are still remain unchanged.	Complied
7.10.1(c)	Changes to that ratio shall be rectified within ninety days from the changing date	No change in the ratio took place during the year.	Complied

Section	Rule	Compliance and Implementation	Compliance status
Independent Directors			
7.10.2 (a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	Three Directors out of Six Non-Executive Directors are Independent as per the Corporate Governance Direction.	Complied
7.10.2 (b)	The Board shall require each Non-Executive Director to submit signed declaration of independence/ non-independence annually.	All Directors have been submitted annual declarations during the year.	Complied
Disclosure Relating to Directors			
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report	Please refer page 145 to the Annual Report.	Complied
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report	No such determination was required to be made by the Board, as the Independent Directors of the Company met the specified criteria.	Complied
7.10.3 (c)	A brief résumé of each Director should be published in the Annual Report including the areas of expertise	Please refer pages 134 to 137 in the Annual Report	Complied
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	Two Directors were appointed during the year and the résumés of those Directors have been duly sent by the Company Secretary to the Exchange.	Complied
Criteria for Defining Independence			
7.10.4 (a-h)	Requirements for meeting criteria to be independence of a Non-Executive Director	Required number of Independent Directors of the Company met the criteria for independency specified in this rule.	Complied
Remuneration Committee			
7.10.5	A listed company shall have a Remuneration Committee	The Company having a Remuneration Committee. Please refer page 187 to the Annual Report.	Complied
7.10.5 (a)	The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher.	All the Directors are in the Remuneration Committee comprise Independent Non-Executive Directors.	Complied
	One Non-Executive Director shall be appointed as Chairman of the Committee by the Board.	Mr. T Hewage is the Chairman of the Committee who is an Independent Non-Executive Director.	Complied

Section	Rule	Compliance and Implementation	Compliance status
7.10.5 (b)	Functions of the Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Please refer the Report of the Remuneration Committee on page 187 to the Annual Report.	Complied
7.10.5 (c)	The Annual Report shall set out: The names of the Directors that comprise the Remuneration Committee.	Please refer the page 187 of Remuneration Committee Report	Complied
	A statement of remuneration policy.	Please refer the 'Report of the Remuneration Committee' on page 187 to the Annual Report.	Complied
	Aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer Note 6.1.1 on page 286 of Financial Statement of Annual Report.	Complied
Audit Committee			
7.10.6	A listed Company shall have an Audit Committee.	Please refer the 'Audit Committee Report' on page 189 to the Annual Report.	Complied
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher.	All the members of the Audit Committee are Non-Executive Directors.	Complied
	One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.	Mr. L N De S Wijeyeratne is the Chairman of the Committee who is a Non-Executive Director.	Complied
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Both the Chief Executive Officer and the Chief Financial Officer attends the meetings by invitation.	Complied
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	The Chairman of the Audit Committee is a fellow member of CA Sri Lanka. Please refer page 135 of Directors profiles and Mrs. S Jayasekara is also a Fellow Member of CA Sri Lanka and CIMA – UK.	Complied

Section	Rule	Compliance and Implementation	Compliance status
7.10.6 (b)	<p>Functions shall include</p> <ol style="list-style-type: none"> 1. Overseeing whether the Financial Statements of the Company in accordance with Sri Lanka Accounting Standards 2. Overseeing the Company's compliance with financial reporting in accordance with the regulations 3. Overseeing to ensure the adequacy of Company's internal control and risk management process 4. Assessment of the independence and the performance of External Auditors 5. To make recommendation to the Board pertaining to the appointment, reappointment and removal of External Auditors and approve their remuneration and Terms of Engagement 	Please refer 'Audit Committee Report' on page 189 of the Annual Report.	Complied
7.10.6 (c)	The Annual Report shall set out the names of the Directors who comprise the Audit Committee.	Please refer the 'Audit Committee Report' on page 189 for the required disclosure	Complied
	The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	Please refer the 'Audit Committee Report' on page 189 for the required disclosure	Complied
	A report by the Audit Committee setting out the manner of compliance of the functions set out in above, during the period to which the Annual Report relates.	Please refer the 'Audit Committee Report' on page 189 .	Complied

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

GENERAL

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 2016 and the Auditors' Report on those financial statements, conforming to the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

This Report includes the information as required by the Companies Act, finance companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange. It is also guided by the recommended best practices on Corporate Governance.

L B Finance PLC (the Company) 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. The Company was re-registered as per the Companies Act No. 07 of 2007 on 6th June 2008 under Company registration No. PQ 125.

The Company is a Licensed Finance Company registered in terms of the Finance Business Act No. 42 of 2011 and a registered finance leasing establishment in terms of the Finance Leasing Act No. 56 of 2000.

The ordinary shares of the Company and 20,000,000 rated unsecured subordinated redeemable debentures issued by the Company are listed on the Main Board of the Colombo Stock Exchange.

The Company has been assigned a national long-term rating at "A-(Ika)" with a stable outlook by Fitch Ratings Lanka Limited.

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

As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report for the year under review.

Information required to be disclosed according to the Companies Act No. 07 of 2007	Reference to the Companies Act	Level of compliance by the Company page
The nature of the business of the Company	Section 168 (1) (a)	227
Signed financial statements of the Company for the accounting period under review	Section 168 (1) (b)	222 to 292
Auditors' Report on financial statements of the Company	Section 168 (1) (c)	220
Changes in accounting policies made during the accounting period	Section 168 (1) (d)	227-292
Particulars of entries in the interests register made during the accounting period	Section 168 (1) (e)	183
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	183
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	185
Information on the Directorate of the Company at the end of the accounting period and the names of any persons who ceased to hold office as directors during the accounting period	Section 168 (1) (h)	181
Amounts payable to the Auditor as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Section 168 (1) (i)	185
Auditors' relationship or any interest with the Company and its subsidiaries	Section 168 (1) (j)	185
Annual Report of the Board of Directors on the affairs of the Company to be signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	186

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission and values are given on page [48](#) and [49](#) of this Report.

PRINCIPAL ACTIVITIES

The Company's principal activities during the year were acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, margin trading facilities, factoring and trade finance facilities, microfinance, other credit facilities and value added services to the finance sector.

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

There were no significant changes in the nature of the principle activities of the Company during the year under review.

REVIEW OF OPERATIONS

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 Review on pages [12](#) and [13](#), which form an integral part of this Report.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Letter from the Acting Chairperson given on [page 10](#), Managing Director's Review given on [page 12](#) and the Management Discussion and Analysis on pages [50](#) to [131](#).

FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions issued under the said Finance Business Act.

Consequent to the Audit Committee's recommendations, the financial statements were reviewed and approved by the Board of Directors on 17th May 2016.

The financial statements of the Company duly signed by the Chief Financial Officer and two Directors on behalf of the Board are given on pages [216](#) to [292](#), which form an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Statement of Directors' Responsibility for Financial Reporting is given on [page 219](#) and forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board has issued a report on the internal control mechanism of the Company as per Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 03 of 2008 on Corporate Governance. The said Report which forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company is given on [page 218](#).

The Board has obtained an Assurance Report from the External Auditors on the Directors' Statement on Internal Control over Financial Reporting.

AUDITORS' REPORT

The Report of the Auditors on the financial statements of the Company is given on [page 220](#).

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The accounting policies adopted in the preparation of the financial statements are given on pages [227](#) to [229](#). There were no significant changes to the accounting policies used by the Company during the year under review vis-à-vis those used in the previous year.

INCOME

The income of the Company for the year ended 31st March 2016 was Rs. 15,646,467,206/- (in 2014 it was Rs. 14,787,757,341/-) An analysis of the Income is given in [Note 4.1.1](#) to the financial statements.

FINANCIAL RESULTS AND APPROPRIATIONS

The Company has recorded a growth in profit before tax of 59.81 percent and a growth in profit after tax of 70.37 percent in the year ended 31st March 2016, in comparison to those of the preceding year.

The growth in total comprehensive income was 71.80 percent.

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

	2015/16 Rs.	2014/15 Rs.
Profit for the year after payment of all the expenses of management, provision for depreciation and amortisation, impairment of loans and other losses, Gold Loan auction losses tax on financial services	5,324,615,526	3,331,853,747
Income tax expense	(1,606,822,662)	(1,149,727,591)
Profit after tax	3,717,792,864	2,182,126,156
Profit brought forward from previous year	5,164,136,989	3,251,011,239
Actuarial gains and losses on defined benefit plans	8,929,958	(2,085,950)
Transfers from reserves	-	645,727,307
Super gain tax paid	(484,230,585)	-
Profit available for appropriation	8,406,629,227	6,076,778,752
Appropriations		
Dividend paid for previous year	(692,571,420)	(450,171,423)
Transfer to Statutory Reserve	(743,558,573)	(436,425,231)
Transfer to Investment Fund Account	-	(26,045,108)
Total Appropriation	(1,436,129,993)	(912,641,762)
Un-appropriated profit carried forward	6,970,499,234	5,164,136,989

RESERVES

The reserves of the Company with the movements during the year are given in note to the financial statements on [page 275](#).

TAXATION

The Income Tax rate applicable to the Company's operations is 28 percent (28 percent in 2014/15).

It is the Company's policy to provide for deferred taxation on all known temporary differences under the liability method.

The Company was also liable for Value Added Tax (VAT) on Financial Services at 11 percent (2014/15: 12 percent and 11 percent) and Nation Building Tax (NBT) on Financial Services VAT at 2 percent (2014/15: 2 percent).

THE BOARD OF DIRECTORS

The Board of Directors of the Company as at 31st March 2016 consisted of twelve Directors (the Directors as at 31st March 2015 being ten) with a balance of skills, knowledge and experience which is appropriate for the business carried out by the Company

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages [134](#) to [137](#).

EXECUTIVE DIRECTORS

Mr. Dhammika Perera – *Executive Deputy Chairman*
 Mr. J A S S Adhihetty – *Managing Director*
 Mr. Nimal Perera
 Mr. Nirosan Udage
 Mr. B D A Perera
 Mr. R S Yatawara

NON-EXECUTIVE DIRECTORS

Mrs. Kirmali Fernando – *Acting Chairperson**
 Mrs. Shirani Jayasekara – *Senior Director***
 Mr. Thosapala Hewage*+
 Mr. L N De S Wijeyeratne*
 Mrs. Anadhiy K Gunawardhana*+
 Mrs. Yogadinusha Bhaskaran

* Status as per the Listing Rules

+ Status as per the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended)

New appointments during the year

Mr. Ravindra Shanaka Yatawara and Mrs. Yogadinusha Bhaskaran were appointed to the Board on 15th March 2016 as an Executive Director and a Non-Executive Director respectively. These appointments were made after obtaining the relevant regulatory approval in terms of Finance Companies Direction No. 03 of 2011.

Other structural changes in the directorate

Mr. Thosapla Hewage relinquished the Office of Chairman with effect from 17th May 2016 and continues as an Independent Non-Executive Director.

Mrs. Kimarli Fernando was appointed as the Acting Chairperson on 17th May 2016 after obtaining the relevant regulatory approval in terms of paragraph 3.7 of Finance Companies (Structural Changes) Direction No. 01 of 2013.

In compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended), Mrs. Shirani Jayasekara, an Independent Non-Executive Director was appointed as the Senior Director.

Resignations during the year

There were no resignations during the year.

RETIREMENT BY ROTATION AND RE-ELECTION/ REAPPOINTMENT OF DIRECTORS

Directors who are subject to (i) retirement by rotation in terms of Articles 85 and 86 of the Articles of Association and (ii) and election in terms of Article 92 of the Articles of Association are as follows:

Name of Director	Applicable Article of the Articles of Association	Other information
Mr. L N De S Wijeyeratne	Articles 85 and 86	<p>As per Articles 85 and 86, the Directors to retire by rotation at the Annual General meeting are those who (being subject to retirement by rotation) have been longest in office since their last election or appointment. If one-third of the Directors are eligible for retirement by rotation is not a multiple of three, the number nearest to (but not greater than) one-third shall retire from office.</p> <p>As per the Articles, in calculating the said number, Executive Directors and Directors who were appointed to fill casual vacancies and as additional Directors are excluded.</p> <p>The number of Directors eligible for retirement by rotation is five and therefore, only one Director is due to retire at this Meeting.</p> <p>Mr. Wijeyeratne was last re-elected as a Director at the Annual General Meeting held in 2013.</p>
Mr. Ravindra Shanaka Yatawara	Article 92	Appointed by the Board on 15th March 2016 and shall hold office only until the forthcoming Annual General Meeting and be eligible for election by the shareholders.
Mrs. Yogadinusha Bhaskaran	-do-	-do-

Consequent to the recommendation made by the Nomination Committee, the Board recommends the re-election/election of the above Directors.

DIRECTORS' INTERESTS REGISTER AND DIRECTORS' INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS

The Company maintains the Directors' Interests Register in terms of the Companies Act No. 07 of 2007.

Directors of the Company have made necessary declarations of their interests in contracts and proposed contracts in terms of Sections 192 (1) and 192 (2) of the Companies Act. These interests are entered in the Interests Register which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

The particulars of the Directors Interests in Contracts with the Company are given in [Note 6.1](#) to the Financial Statements on [page 286](#) and form an integral part of this Annual Report.

The remuneration paid to the Directors during the year under review is entered in the Interests Register and the aggregate of such remuneration is disclosed in this Annual Report under "Directors' Remuneration" on [page 236](#).

The relevant interests of Directors in the shares of the Company as at 31st March 2016 as recorded in the interests register are given in this Report under Directors' shareholding.

RELATED PARTIES' TRANSACTIONS WITH THE COMPANY

The Directors have also disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24.

With effect from 1st January 2016, all proposed related party transactions have been placed before the Related Party Transactions Review Committee formed under the Listing Rules of the Colombo Stock Exchange, for its review and recommendations.

Transactions of related parties (as defined in LKAS 24 - 'Related Parties Disclosures') with the Company are set out in [Note 6.1](#) to the financial statements.

The Board confirms that the Company has not been engaged in transactions with any related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Company.

The Board further confirms that Section 9 of the Listing Rules of the Colombo Stock Exchange has been complied with in respect of Related Party Transactions with effect from the 1st January 2016.

DIRECTORS' REMUNERATION

The Directors' remuneration is disclosed under key management personnel compensation in [Note 6.1.1](#) to the Financial Statements on [page 286](#).

RELEVANT INTERESTS OF DIRECTORS' IN SHARES

The Directors' shareholding and the relevant interests of Directors in the shares of the Company as at 31st March 2016 and 31st March 2015 are as follows:

	Shareholding as at 31st March 2016	Shareholding as at 31st March 2015
Mrs. Kimarli Fernando	3,200	1,600
Mrs. Shirani Jayasekara	-	-
Mr. Dhammika Perera	-	-
Mr. J A S S Adihetty	106,120	53,060
Mr. Thosapala Hewage	-	-
Mr. L N De S Wijeyeratne	-	-
Mr. Nimal Perera	-	-
Mr. Niroshan Udage	58,719	11,700
Mr. B D A Perera	-	-
Mr. R S Yatawara	-	-
Mrs. Anandhiy K Gunawardhana	-	-
Mrs. Yogadinusha Bhaskaran	-	-

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

Mrs. Kimarli Fernando, Mr. Dhammika Perera, Mr. J A S S Adihetty and Mr. Nimal Perera are Directors of Vallibel One PLC, where they serve as Independent Non-Executive Director, Chairman/Managing Director, Non-Executive Director and Deputy Chairman respectively.

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

Mr. Dhammika Perera, Mr. Nimal Perera and Mr. L N De S Wijeyeratne serve as Directors of Royal Ceramics Lanka PLC in the capacities of Chairman, Managing Director and Independent Non-Executive Director respectively.

DIRECTORS' INTERESTS IN DEBENTURES

There were no debentures registered in the name of any Director, during the period under review.

BOARD SUB-COMMITTEES

The Board of Directors of the Company has formed five Board Sub-committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and according to the recommended best practices on Corporate Governance. They are the Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and the Nomination Committee.

The Remuneration Committee and the Nomination Committee were reconstituted at the Board meeting held on 22nd September 2015 and the Related Party Transactions Review Committee was also formed at the said meeting.

The composition of the said Committees is as follows:

AUDIT COMMITTEE

Mr. L N De S Wijeyeratne – Chairman
Mrs. Shirani Jayasekara
Mrs. Anandhiy Gunawardhana

INTEGRATED RISK MANAGEMENT COMMITTEE

Mrs. Shirani Jayasekara – Chairperson
Mrs. Kimarli Fernando
Mr. J A S S Adhihetty – Managing Director
Mr. Niroshan Udage – Executive Director – Asset Finance
Mr. B D A Perera – Executive Director – Asset Management
Mr. Hasitha Saman Athapattu – Chief Financial Officer
Mr. Palitha Abeysekera – Head of Treasury
Mr. Bimal Perera – Chief Risk Officer

REMUNERATION COMMITTEE

Composition with effect from 22.09.2015
Mrs. Anandhiy Gunawardhana – Chairperson
Mr. L N De S Wijeyeratne
Mrs. Kimarli Fernando

Composition upto 22.09.2015

Mr. Thosapala Hewage – Chairman
Mr. L N De S Wijeyeratne
Mrs. Kimarli Fernando

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mrs. Kimarli Fernando – Chairperson
Mr. L N De S Wijeyeratne
Mrs. Shirani Jayasekara
Mr. B D A Perera

NOMINATION COMMITTEE

Composition with effect from 22.09.2015

Mr. Thosapala Hewage – Chairman
Mrs. Kimarli Fernando
Mr. J A S S Adhihetty

Composition upto 22.09.2015

Mr. L N De S Wijeyeratne – Chairman
Mrs. Kimarli Fernando
Mr. J A S S Adhihetty

STATED CAPITAL AND DEBENTURES

The stated capital of the Company as at 31st March 2016 was Rs. 838,282,159/-, represented by 138,514,282 ordinary shares. (As at 31st March 2015 the Stated Capital was Rs. 838,282,159/- and number of shares constituting the Stated Capital was 69,257,142 ordinary shares which increased to 138,514,282 shares consequent to the to the subdivision of shares in July 2015).

The details of the debentures in issue as at 31st March 2016 are set out in [Note 4.25.2](#) to the financial statements on [page 268](#).

SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS

SHAREHOLDERS

There were 2,096 shareholders registered as at 31st March 2016 (1,553 shareholders as at 31st March 2015). The details of distribution are given on [page 96](#) of this Report.

DISTRIBUTION SCHEDULE OF SHAREHOLDERS, MAJOR SHAREHOLDERS, PUBLIC HOLDING AND RATIOS AND MARKET PRICE INFORMATION.

Information as required by the Listing Rules on distribution of shareholdings with the respective percentages, twenty largest shareholders, public holding, ratios and market price information are set out on pages [93](#) to [98](#) under Investor Information.

RATIOS AND MARKET PRICES OF DEBENTURES

Ratios and market prices of the 20,000,000 listed rated unsecured subordinated redeemable debentures issued by the Company, as required by the Listing Rules are set out on pages [93](#) to [98](#) under Investor Information.

DIVIDENDS

The Directors recommend that a first and final dividend of Rs. 7.50 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 12th July 2016.

PROPERTY PLANT & EQUIPMENT

The details of property, plant & equipment are given on Notes 4.21 to 4.22 to the Financial Statements.

The Company's land holdings are recorded based on valuations conducted by an independent valuer and details of those properties and their market values as at 31st March 2016 are set out in [Note 4.21](#) to the Financial Statements on [page 259](#).

HUMAN RESOURCES

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

As at 31st March 2016, 2,744 persons were in employment (2,401 persons as at 31st March 2015)

MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS PERTAINING TO THE COMPANY

No material issues pertaining to employees and industrial relations pertaining to the Company occurred during the year under review, which require disclosure under Rule 7.6 (vii) of the Listing Rules.

EMPLOYEE SHARE OPTION SCHEMES/EMPLOYEE SHARE PURCHASE SCHEMES

The Company has not implemented any Share Option/Share Purchase Schemes for its employees.

DONATIONS AND SUSTAINABILITY INITIATIVES

The Company made donations amounting Rs. 100,000/- during the year under review, in terms of the approval granted by the shareholders at the previous Annual General Meeting. The cost of sustainability projects undertaken during the year was Rs. 17,276,376/-. The details of these projects are set out on [page 24](#) of this report.

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, the Auditors do not have any other relationship or interest in the Company.

The Auditors too have provided a declaration, confirming that they are not aware of any relationship with or interest in the Company or, in their professional judgment, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka applicable as at the date of their declaration.

A total amount of Rs.4,612,830/- is payable by the Company to the Auditors for the year under review comprising Rs. 2,600,000/- as Audit Fees, Rs.1,539,850/- as Audit Related Fees and Expenses and Rs. 472,980/- for non-audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee, at a meeting held on 11th May 2016 recommended that they be reappointed as Auditors. A resolution to reappoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

RISK MANAGEMENT AND INTERNAL CONTROL

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

Specific steps taken by the Company to manage the risks are detailed in the section on Risk Management on pages [194](#) to [215](#).

MATERIAL FORESEEABLE RISK FACTORS

There is no information pertaining to the material foreseeable risk factors, that require disclosure as per Rule 7.6 (vi) of the Listing Rules.

APPRAISAL OF BOARD PERFORMANCE

A scheme of self-assessment is undertaken annually by each Director in conformity with the paragraph 2(8) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 by answering a self-assessment questionnaire.

CORPORATE GOVERNANCE

The Board of Directors is responsible for the governance of the Company. The Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all Company's dealings and on making the best effort in achieving performance and quality profits. The Board has continuously refined the structure and systems to ensure governance on the lines as defined, aware all the time that it is accountable to stakeholders and general public.

The Report on Corporate Governance on pages [141](#) to [178](#) describes the application of the Corporate Governance practices within the Company during the year under review.

COMPLIANCE WITH LAWS AND REGULATIONS

A compliance officer independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Integrated Risk Management Committee.

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

STATUTORY PAYMENTS

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

ENVIRONMENTAL PROTECTION

The Company has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Company on environmental protection are given on the report on natural capital on pages [124](#) to [131](#).

OUTSTANDING LITIGATION

In the opinion of the Directors and Company's lawyers, pending litigation against the Company disclosed in [Note 6.5.3](#) to the financial statements will not have a material impact on the financial position of the Company or its future operations.

CONTINGENT LIABILITIES'

Except as disclosed in [Note 6.6](#) to the Financial Statements, there were no material contingent liabilities as at the reporting date.

EVENTS AFTER THE REPORTING DATE

Except for the matters disclosed in [Note 6.8](#) to the Financial Statements on [page 292](#) there are no material events as at the date of the Auditors' Report which require adjustment to or disclosure in the financial statements.

GOING CONCERN

The Board of Directors has reviewed the Company's corporate/business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements of the Company are prepared based on the going concern concept.

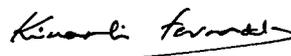
ANNUAL GENERAL MEETING

The Notice of the forty third (43rd) Annual General Meeting is set out on [page 317](#).

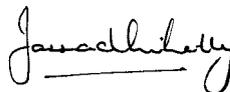
ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

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 2016 having acknowledged the contents of this Annual Report.

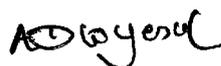
Signed on behalf of the Board by



Kimarli Fernando
Acting Chairperson



Sumith Adhietty
Managing Director



P W Corporate Secretarial (Pvt) Limited
Secretaries

30th May 2016
Colombo

Remuneration committee report

COMPOSITION

The Board approved Remuneration Committee comprises three (3) Independent Non-Executive Directors. The Committee was reconstituted on 22nd September 2015 and the composition of the Committee during the year was as follows:

COMPOSITION WITH EFFECT FROM 22ND SEPTEMBER 2015

Mrs. Anandhiy Gunawardhana	– Independent Non-Executive Director - Chairperson
Mr. L N De S Wijeyaratne	– Independent Non-Executive Director
Mrs. Kimarli Fernando	– Independent Non-Executive Director

COMPOSITION UP TO 22ND SEPTEMBER 2015

Mr. Thosapala Hewage	– Independent Non-Executive Director - Chairman
Mr. L N De S Wijeyaratne	– Independent Non-Executive Director
Mrs. Kimarli Fernando	– Independent Non-Executive Director

The Remuneration Committee was formed in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange.

The composition and the scope of the Remuneration Committee was approved by the Board of Directors and in conformity with the provisions of the Listing Rules.

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 employees 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 4.7](#) to the financial statements.



Anandhiy Gunawardhana
Chairperson – Remuneration Committee

30th May 2016
Colombo

Nomination committee report

COMPOSITION

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

COMPOSITION WITH EFFECT FROM 22ND SEPTEMBER 2015

Mr. Thosapala Hewage – Independent Non-Executive Director
– Chairman
Mrs. Kimarli Fernando – Independent Non-Executive Director
Mr. J A S S Adhihetty – Managing Director

COMPOSITION UPTO 22ND SEPTEMBER 2015

Mr L N de S Wijeyeratne – Independent Non-Executive Director
– Chairman
Mrs. Kimarli Fernando – Independent Non-Executive Director
Mr. J A S S Adhihetty – Managing Director

Brief profiles of the members of the Committee are given on pages [134](#) to [137](#).

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.



Thosapala Hewage
Chairman
Nomination Committee

30th May 2016
Colombo

Audit committee report

COMPOSITION

The Board appointed Audit Committee comprises three Non-Executive Directors and is in line with the composition requirements specified in the Direction. The following members served on the Audit Committee during the year.

Name of the Board sub-committee member	Directorship status	Membership status
Mr. L N De S Wijeyeratne	Independent/Non-Executive Director	Chairman
Mrs. Shirani Jayasekara	Independent/Non-Executive Director	Member
Mrs. Anandhiy K Gunawardhana	Independent/Non-Executive Director	Member

The Chairman, Mr. L N De S Wijeyeratne, is a Fellow of The Institute of Chartered Accountants of Sri Lanka, with more than 37 years of post-qualification experience in finance and general management.

Mrs. Shirani Jayasekara counts over 36 years of experience in finance, 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 [pages 134 to 137](#).

CHARTER OF THE AUDIT COMMITTEE

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised to ensure new developments to the Committee's functions and concerns, are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in 2015.

The Audit Committee is setup primarily for the purpose of assisting the Board in carrying out its oversight functions in relation to the accuracy and integrity of the financial statements and compliance with company policies, legal and regulatory requirements with a view to safeguarding interests of shareholders, depositors and other stakeholders. The Committee oversees the effectiveness of the system of internal controls and risk management, independence and performance of the External Auditors.

MEETINGS

The Committee met on thirteen (13) occasions during the year under review and the attendance of the members at such meetings was:

Name of director	Attendance
Mr. L N De S Wijeyeratne	12/13
Mrs. Shirani Jayasekara	12/13
Mrs. Anandhiy K Gunawardhana	12/13

The Managing Director, the Executive Directors and the Chief Financial Officer, Chief Risk Officer, Audit Manager, Head of Treasury and Head of IT attended the meetings by invitation. The members of the management team and Company's External Auditors, Messrs Ernst & Young were invited to participate at the meetings as and when required.

P W Corporate Secretarial (Pvt) 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.

SUMMARY OF ACTIVITIES

FINANCIAL REPORTING SYSTEM

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

- The preparation, presentation and adequacy of the disclosures in the Company's annual and interim financial statements in accordance with Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards.
- The rationale and basis for the significant estimates and judgments underlying the financial statements.
- The systems and procedures in place to ensure that all transactions are accurately recorded in the books of accounts.
- The effectiveness in the financial reporting systems including the management accounts to ensure the reliability of information provided to the Board and other stakeholders of the Company.

RISK MANAGEMENT

The Committee reviews the risk management framework developed by the IRMC for its adequacy and completeness in identifying, assessing and quantifying the risks affecting the Company.

During the year under review the Committee actively engaged with the IRMC in reviewing the sensitivity of Company's assets and liabilities to market changes and stress tested on the current and future liquidity positions. The Committee played an oversight role by challenging the reported risk exposures and highlighted some weakness in the internal control systems that could expose the Company to operational risk and possible fraud risk.

Further, the Committee was also actively engaged with the IRMC for implementing identified mitigation actions on the information technology and information security related risks.

REGULATORY COMPLIANCE

The Internal Auditors checks compliance to applicable regulatory requirements during their process audits to ensure systems, policies and procedures are in place to ensure compliance with such requirements.

INTERNAL AUDIT

The internal audit function is outsourced to Chartered Accountants, Messrs KPMG Ford Rhodes Thornton & Company and BDO Partners and they report to the Audit Manager. The Internal Auditors are responsible to review and report on the efficacy of the internal control system and compliance with statutory and other regulations and the Company's accounting and operational policies. Prior to the commencement of audits, the audit scope is reviewed by the Committee and the Committee recommends amendments where necessary, prior to approving the scope. Control weaknesses highlighted in the internal audit reports are critically examined by the Committee and follow-up action taken by the Management on the audit recommendations are also reviewed. The Committee had recommended re-audits of certain processes, to ensure effectiveness of controls. Internal audit representatives are present at Audit Committee meetings during the discussion of their respective reports.

EXTERNAL AUDIT

The Audit Committee evaluated the independence and objectivity of the External Auditors Messrs Ernst & Young, Chartered Accountants. The Committee reviewed the non-audit services provided by the Auditors to ensure that the provision of these services does not impair their independence.

The Committee met external auditors to discuss the management letter pertaining to the previous year's audit and the management's response thereto. Follow-up action were taken to ensure that the recommendations contained in the management letter were implemented by the management. Private meetings were held with the external auditors, in the absence of management, for the auditors to discuss and express their opinions on any matter.

The audit scope, approach and audit plan was presented to the Committee by Messrs Ernst & Young, and discussed prior to the commencement of the 2015/16 audit.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed as their external auditors for the financial year ending 31st March 2017, subject to the approval of the shareholders at the next Annual General Meeting.



L N De S Wijeyeratne
Chairman

Audit Committee

30th May 2016
Colombo

Board integrated risk management committee report

The Board Integrated Risk Management Committee (BIRMC) has been established as a Sub-committee of the Board of Directors in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

COMPOSITION OF THE COMMITTEE

The Board appointed Integrated Risk Management Committee (BIRMC) comprised the following members:

Mrs. Shirani Jayasekara	Chairperson – Independent Non-Executive Director
Mrs. Kimarli Fernando	Independent Non-Executive Director
Mr. J A S S Adhietty	Managing Director
Mr. Nirosan Udage	Executive Director – Asset Finance
Mr. B D A Perera	Executive Director – Asset Management
Mr. Hasitha Athapattu	Chief Financial Officer
Mr. Palitha Abeysekera	AGM – Treasury
Mr. Bimal Perera	Chief Risk Officer

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

COMMITTEE MEETINGS

The Committee held four meetings, during the year under review to discuss the normal scope of work. Attendance of Committee meetings is given on [page 146](#). Key members of the staff participate at the meetings as appropriate.

TERMS OF REFERENCE

The responsibilities of the Board Integrated Risk Management Committee as mandated by the Board of Directors are as follows:

1. Assess all risks i.e. credit, market, liquidity, operational and strategic risk including business continuity plans of the Company on a quarterly basis through appropriate risk indicators and management information.
2. Review the adequacy and effectiveness of all management level committees such as Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee. The Committee shall:
 - a. receive reports from the management concerning capital adequacy, asset quality, credit, market, liquidity, operational, new and emerging risks etc. in order to oversee these risks and assess their effect on capital levels.
 - b. Receive reports from the management concerning resolution of significant risk exposures and risk events, in order to monitor them and, if thought fit, approve them.
3. Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and supervisors requirements.
4. Take appropriate actions against the officers for failure to identify specific risks and take prompt corrective actions as recommended by the Committee.
5. Report and recommend to the Board of Directors on risk management and compliance related matters seeking the Board's view, concurrence and/or specific directions.

ACTIVITIES IN FY 2015/16

CREDIT RISK

- Reviewed the asset quality covering the gross and net amount of non-performing advances, NPA ratios, equipment/product wise credit quality, provision coverage and comparison against industry and peers.
- Reviewed the information on past due but not individually impaired contracts and the adequacy of provision coverage.
- Reviewed the performance of new loans after three months/ six months from disbursement.
- Reviewed the collection ratio for different business lines and asset classes.

LIQUIDITY AND MARKET RISK

- Reviewed asset and liability limits, including but not limited to single borrower exposure/single group exposure, single depositor exposure/bulk depositor exposure, tenure of deposits, interest rate structure (fixed to floating), liquidity buffer requirement and optimal funding mix.
- Reviewed the assets-liability maturity ladders and monitored the effectiveness of the strategies in place to minimise the maturity mismatches.
- Reviewed the analysis on interest rate sensitivity with the current and proposed funding mix and its impact on the net interest income of the Company.
- Reviewed the liquidity position and liquidity management strategies of the Company.
- Reviewed the impact on net interest income triggered by economic (budget proposals) and regulatory (CBSL) changes.

OPERATIONAL RISK

- Reviewed the control environment of operational risks with special focus on external frauds and work place safety including;
 - Adequacy of cash in transit/cash in safe insurance cover
 - Adequacy of firefighting equipment and fire training
 - Adequacy and effectiveness of CCTV network coverage and surveillance
 - Effectiveness of security documentation handling and Disaster Recovery (DR) Plan in the event of destruction of security documents

COMPLIANCE

- Assessed the Company's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations.

GENERAL

- Reviewed the actual results computed against each risk indicator and took corrective action to mitigate the risk, in cases where risk events exceeded the risk appetite thresholds.
- Reviewed risk management policy at the last meeting of the year and improved the effectiveness by proposing a Risk Appetite Statement with KRIs and thresholds for Board approval.



Mrs. Shirani Jayasekara
Chairperson

Board Integrated Risk Management Committee

30th May 2016
Colombo

Report of the related party transactions review committee

The Related Party Transactions Review Committee of the Company was established by the Board on 22nd September 2015 in accordance with Section 9 of the Listing Rules of the Colombo Stock Exchange to ensure compliance with those rules thereby enhancing the Company's internal control mechanisms.

COMPOSITION OF THE COMMITTEE

The Related Party Transactions Review Committee was appointed by the Board of Directors of the Company. As at 31st March 2016 it comprised the following Directors:

- Mrs. Kimarli Fernando – Independent Non-Executive Director - Chairperson
Mr. L N De S Wijeyeratne – Independent Non-Executive Director
Mrs. Shirani Jayasekara – Independent Non-Executive Director
Mr. B D A Perera – Executive Director

Mr. B D A Perera was appointed to the Committee consequent to the Committee's recommendations thereon, to ensure a communication link between the Committee and the Management.

PURPOSE OF THE COMMITTEE

The purpose of the Committee as set out in its Charter is to provide independent review, approval and oversight of all proposed Related Party Transactions.

SCOPE OF THE COMMITTEE INCLUDES:

- To manage relationships with related parties to uphold good governance and the best interests of the Company
- To provide an independent review, approval and oversight of Related Party Transactions (except those expressly exempted by the Charter) on terms set forth in greater detail in the Policy
- To review the Charter and Policy at least annually and recommend amendments to the Charter and the Policy to the Board as and when determined to be appropriate by the Committee
- Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company
- Establishing guidelines in respect of recurrent Related Party Transactions, for senior management to follow in its ongoing dealings with the relevant related party.
- Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee

- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner.

POLICIES AND PROCEDURES

The Company has in place a Related Party Transaction (RPT) Policy whereby the categories of persons/entities who shall be considered as 'related parties' has been identified. In accordance with the RPT Policy, self-declarations are obtained from each Director for the purpose of identifying parties related to them. Based on the information furnished in these declarations, the Company has developed a system that enables the Company to retrieve data on related party transactions throughout the Company's network.

RELATED PARTY TRANSACTIONS DURING THE PERIOD FROM 1ST JANUARY 2016

During the first and second quarters of the calendar year 2016, the Committee reviewed possible related party transactions and communicated its comments/observations to the Board of Directors. There were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds set out in the Listing Rules of the Colombo Stock Exchange.

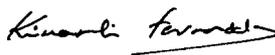
Details of other related party transactions entered into by the Company during the above period is disclosed in [Note 4.8](#) to the financial statements.

MEETINGS

Since its formation, the Committee had two meetings.

DECLARATION

A declaration by the Board of Directors as an affirmative statement of the compliance with the Listing Rules pertaining to Related Party Transactions is given on [Note 6.1](#) of this Annual Report.

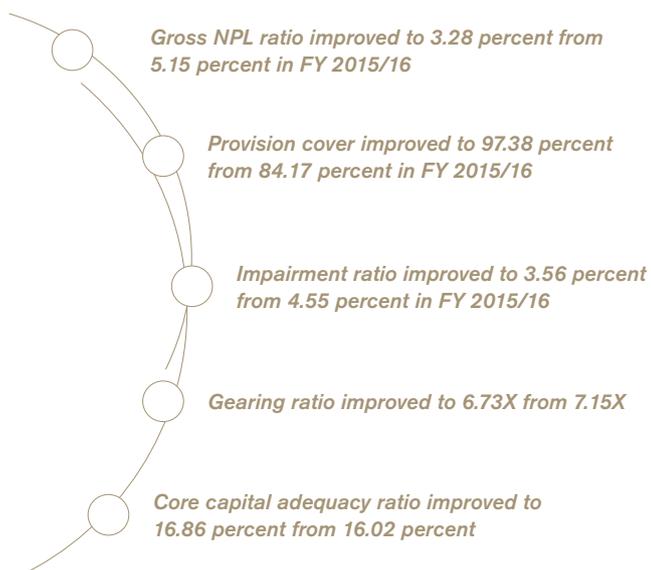


Kimarli Fernando
Acting Chairperson
Related Party Transaction Review Committee

30th May 2016
Colombo

Risk management

KEY ACHIEVEMENTS



RISK ENVIRONMENT

The year 2015 has been a turbulent year for the global economy and 2016 will continue to carry some of these uncertainties. As China struggles through an economic slowdown and the Western economies continue to show signs of an uneven recovery with lower than expected growth rates, these events coupled with the instability in the Middle East, the oil price dilemma and the raising of interest rates in the US for the first time in ten years have led analysts worldwide to predict a challenging year ahead.

As a result of the macro-economic environment in which the Company operates, there are different potential risks that could negatively affect Company's business and impact its strategic objectives. The Company uses stress tests to analyse the possible changes in risk indicators and their impact on LBF's capital and liquidity. These scenarios are incorporated to risk management when planning capital, risk appetite and management of the different types of risk.

GLOBAL AND LOCAL LANDSCAPE

Event	Potential consequences	Impact on the Company	Risk mitigation strategies
Further decline in gold prices	Losses from gold loans	Low Risk Company maintains a healthy safety margin against the market value which acts as a cushion to reduce the impact arising from possible auctioning of gold articles when not redeemed.	Loan to value ratio is revised promptly in response to changes in market price. Stress tests are carried out regularly to assess the impact of a further decline in gold prices. Recommendations are made to increase provisioning if deemed necessary.
Steep rise in oil prices	Increase in local fuel prices could have a dampener effect on new vehicle demand. Additionally this will also bring stress on repayment capacity of borrowers	Moderate Risk Certain customer segments whose income is dependent on vehicle hiring business could experience repayment difficulties owing to lower demand.	Increase in fuel prices creates demand for more fuel-efficient small cars and hybrid vehicles. Company has a dominant presence in these market segments
Increase in interest rates	Decline in market value of Government Securities	Low Risk Company has very low exposure to Government Securities which are sensitive to interest rates	Company has adopted a strategy of investing required amount of liquid assets in non-rate sensitive instruments like repos and FDs.

RISK MANAGEMENT AT LBF

As a financial institution engaged in a varied offering of financial services, assuming and active management of financial risks are integral parts of our business strategy. This implies that the core mission for risk management is adequate risk steering, as opposed to mere risk prevention 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.

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, Management Committees and the Board of Directors

KEY INITIATIVES IN FY 2015/16

Key initiatives	Description
<ul style="list-style-type: none"> • Concerted efforts to inculcate the risk culture into all levels of management 	Training sessions were conducted on basic risk management principles to junior and middle management levels.
<ul style="list-style-type: none"> • Adoption of credit risk rating module and risk-based pricing 	Credit rating system was successfully integrated with the core system. Rating methodology is applied to all mortgage loan products.
<ul style="list-style-type: none"> • Comprehensive review of asset/liability limits for their adequacy and effectiveness 	A series of prudential limits were introduced to widen the scope and increase the effectiveness of the existing of asset /liability limits framework.
<ul style="list-style-type: none"> • Further improvements to risk scoring methodology for top risks 	Top risks impact and probability assessment process was enhanced by further refining quantifiable parameters.
<ul style="list-style-type: none"> • Comprehensive review of KRIs for appropriateness 	All KRIs were reviewed for their appropriateness in light of changing business, economic, industry and Company dynamics.
<ul style="list-style-type: none"> • Further strengthening of operational risk management function with focus on minimising of physical hazards at workplace 	More resources were allocated for the identification of physical security and information security issues in all outlets.
<ul style="list-style-type: none"> • Conducting of a complete Disaster Recovery (DR) exercise 	Successfully conducted a DR exercise to assess the effectiveness of the Company's BCP with the participation of both business and IT users.

PRIORITIES FOR 2016/17

- Develop a risk management information system to facilitate risk monitoring and reporting.
- Deploy more resources for the early detection of internal fraud events through data analytics.
- Set up a structured IS audit function to independently assure data security and integrity.
- Introduce Risk-Adjusted Return Scorecards for key product lines.

RISK MANAGEMENT PROCESS G4-45

Management of risks within the Company takes place in several steps. These apply in principle to all risk categories. The risk management process at its broadest level can be broken-down into the following generic steps:



RISK IDENTIFICATION

In the context of risk identification, all existing risk categories, their sub-risks as well as their risk sources within the Company's business are determined and clearly distinguished from each other on an ongoing basis.

New risks can occur, given that the business environment is constantly changing and new products are being developed and brought into the market. Early and comprehensive identification of risk is an essential element for the early warning system.

Before commencing business with new products, types of business and in new markets, the risks inherent in them and the resultant effects on risk management must be identified.

RISK 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 prevention, reduction, mitigation, transfer or diversification of all identified and analysed risks in accordance with defined objectives.

RISK MONITORING AND REPORTING

The quantifiable risks are restricted by risk limits. The development of risk limits for controlling and monitoring risk positions, risk exposure in particular to avoid risk concentrations for sectors, customers and security types form an essential part of the Company's risk approach.

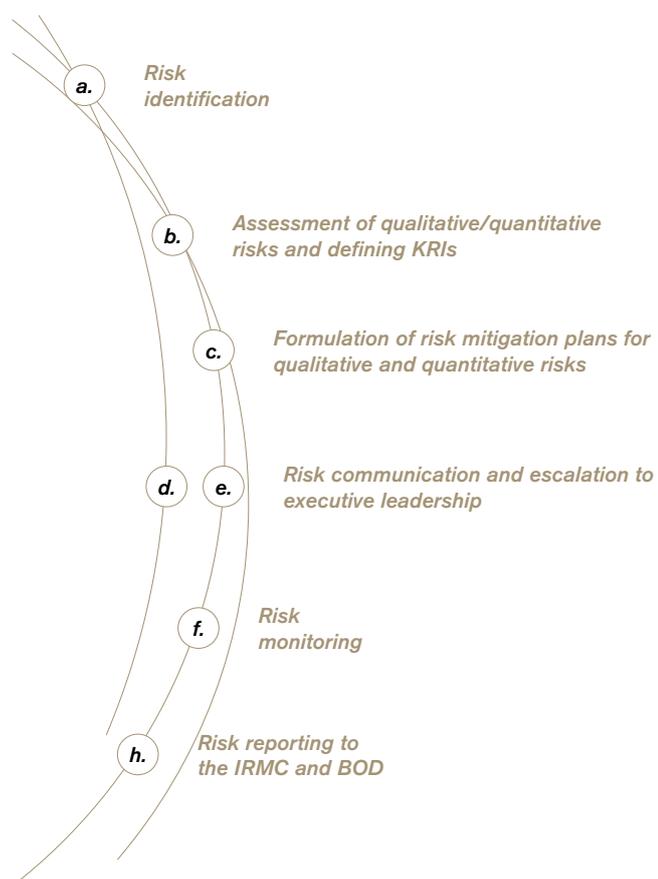
All non-quantifiable risks are managed via appropriate methods or approaches that involve process improvement, modifications or re-engineering.

Monitoring ensures that the risk management decision is implemented appropriately and in a timely manner. It includes both monitoring of deviations from the prescribed risk limits and monitoring of methods, procedures and processes used for quantifiable and non-quantifiable risks.

MONTHLY RISK MANAGEMENT AND REPORTING PROCEDURE (MRMR)

MRMR procedure is the practical manifestation of the Company's risk management process set in motion from the year 2013. In line with the risk management process, this monthly mechanism is designed for managing and reporting risks within the entire Organisation.

MRMR procedure allows the Risk Management Department (RMD) and the Chief Risk Officer (CRO) to identify and assess risks affecting the entire business on a continuous basis.



- (a) 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 Heads of Departments (Risk Owners) where RMD's role primarily is to facilitate the process.
- (b) For quantifiable risks, Key Risk Indicators (KRIs) are defined and tolerance levels are set for monitoring purposes. KRIs should be evaluated on a regular basis for appropriateness and relevance. Any new identified KRIs should be added to enhance effective risk monitoring.
- (c) Formulation of risk mitigation plans for qualitative and quantitative 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). The communication should include a status of compliance with the KRI tolerance levels and progress of the agreed mitigation plans for overcoming key vulnerabilities.
- (e) CRO is also responsible for escalating any proposed mitigation strategy beyond the scope/authority of the business units/HODs or the RMD to the executive leadership and seek necessary approvals for the implementation.
- (f) RMD should regularly communicate with the risk owners for the purpose of monitoring KRIs and ensuring the implementation of agreed mitigation strategies. Risk owners are responsible for providing all necessary information to the RMD and the CRO to facilitate independent supervision.
- (g) CRO is responsible for submitting summarised version of the Corporate Risk Profile based on the MRMR procedure to the Board IRMC and to the Board of Directors (BOD) at least on a quarterly basis.

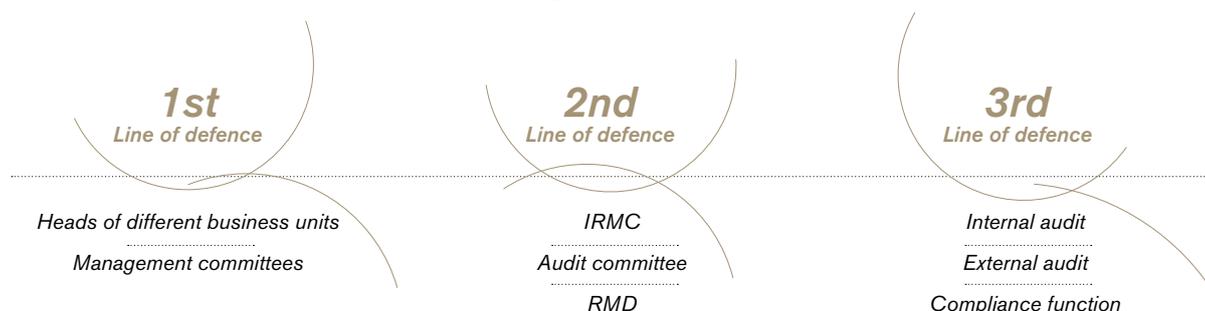
RISK APPETITE

Risk appetite criteria	Appetite	Regulatory limit
Credit risk		
Non-performing loans ratio – Gross	< 4.0%	
Non-performing loans ratio – Net	< 1.0%	
Min safety margin for gold loans	15.0%	
Max exposure to single borrower-secured – Individual	5.0%	15% of capital funds
Max exposure to single borrower-secured – Group	10.0%	20% of capital funds
Max exposure to aggregate unsecured financing	4.0%	5% of capital funds
Max exposure to single borrower-unsecured – Individual	0.5%	1% of Core capital
Liquidity risk		
Liquid asset ratio	12.0%	10.2%
Deposit renewal ratio	75.0%	
Max single depositor/group exposure	5.0% of Total Deposits	
Max exposure to bulk deposits (Over Rs. 50 million)	20.0% of Total Deposits	
Capital adequacy		
Core capital ratio	8.0%	5.0%
Total risk-weighted capital ratio	12.0%	10.0%
Capital funds to deposits ratio	12.0%	10.0%
Market risk		
% Impact on net interest income from 100 bps shock	<5.0%	
% Impact on net interest income from 200 bps shock	<10.0%	
% Impact on net interest income from 300 bps shock	<15.0%	
% Impact on net interest income from 400 bps shock	<20.0%	
Operational risk*		
Internal fraud	10 million	
External fraud	10 million	
Employment practices and workplace safety	5 million	
Damage to physical assets	2 million	
Business disruption and system failures	10 million	
Clients, products and business practices	} 5 million	
Execution, delivery and process management		

*Overall cumulative operational risk appetite limit is Rs. 30 million a year.

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 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 Executive Directors, Head of Treasury, Head of Deposits, the Chief Financial Officer and the Chief Risk Officer. The Committee meets regularly to monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements.

SUSTAINABILITY COMMITTEE G4-46

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 into our business strategy.

INFORMATION TECHNOLOGY STEERING COMMITTEE

Information Technology (IT) Steering Committee is headed by Executive Director – Asset Management and comprises 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 topmost mandate is to find and align business solutions that may leverage technology. IT Steering Committee also looks into information security-related matters on a regular basis.

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 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 three Board members who are Non-Executive Directors. The primary function of the Committee is to assist the Board to fulfil its stewardship responsibilities with regard to financial reporting and information requirements of the Companies Act and other relevant financial reporting regulations. 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.

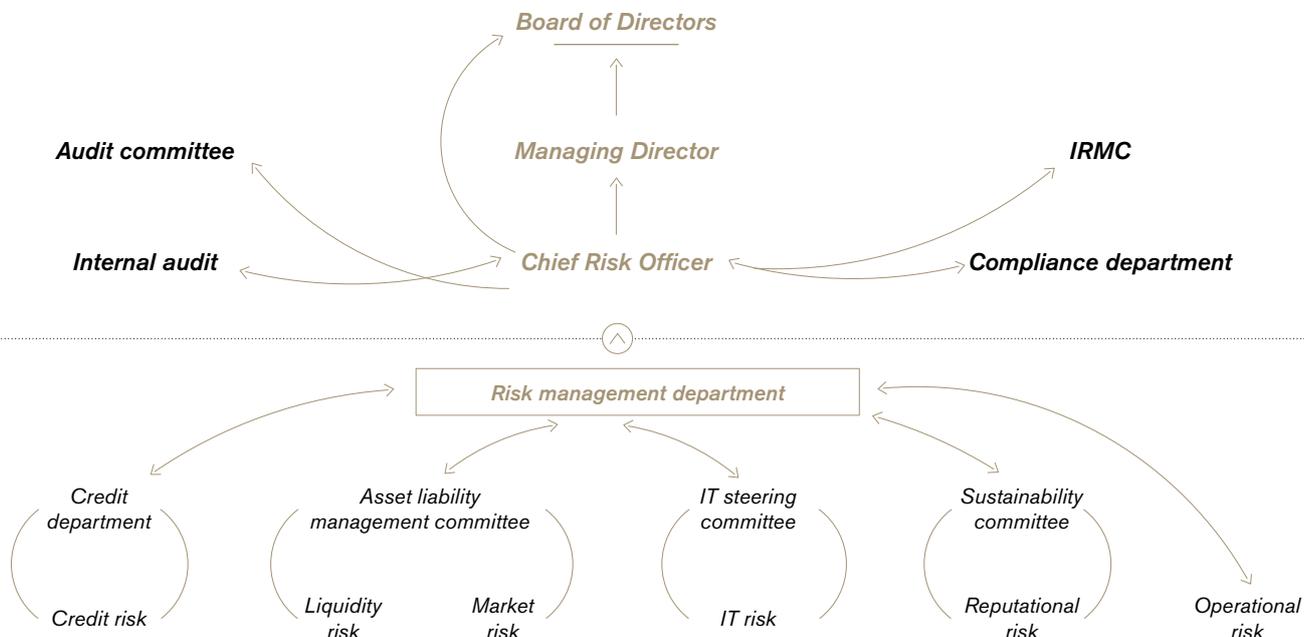
COMPLIANCE FUNCTION

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 the adequacy of internal controls, corporate governance and compliance.

RISK GOVERNANCE STRUCTURE



THE RISKS FACED BY THE COMPANY

CREDIT RISK – LOW

Risk category		Low risk	Moderate risk	High risk
Credit risk	Concentration risk	◆		
	Default risk		●	
	Settlement risk	●		

● FY 2014/15 ◆ FY 2015/16

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.

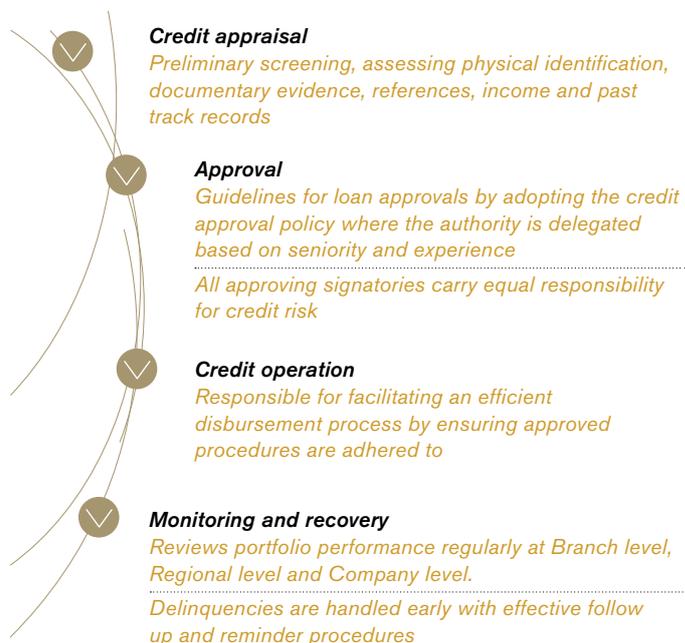
Settlement risk is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis.

The Company has a well-structured credit process that spells out the guidelines and parameters within which the Company's credit decision process takes place.

Company's credit approval process plays the most vital role in credit risk management on a day-to-day basis. The process defines the principles about delegation of lending authority, client selection, due diligence in line with the Company's risk appetite.

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 preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. An investigation procedure takes place to assess physical verification of moveable and immovable assets, documentary evidence, references, income sources and 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 that 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

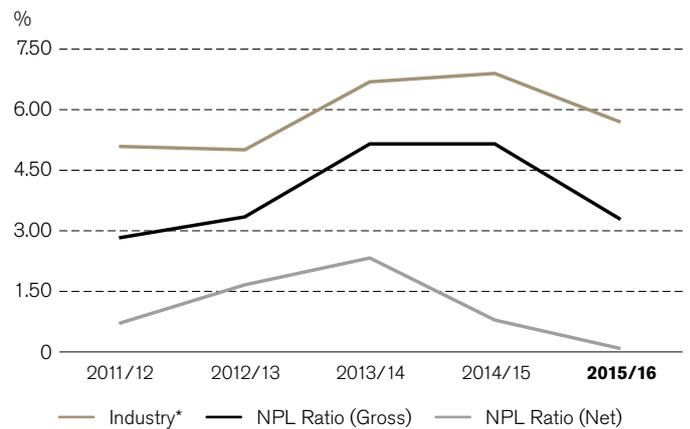
DEFAULT RISK – LOW

Risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations arises principally from the Company's loans and advances to customers.

ASSESSMENT

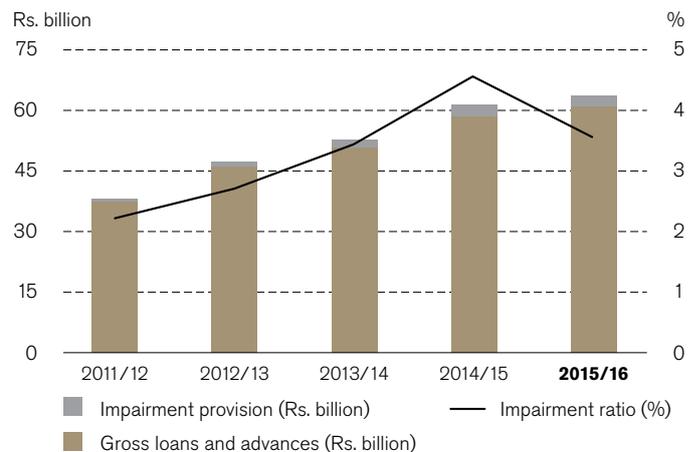
Non-performing loans ratio is monitored on a regular basis at Branch level, Regional level and Company-wide level under different product categories. Company's NPL ratio is also compared with similar sized peers and the industry for benchmarking.

NPL ratio



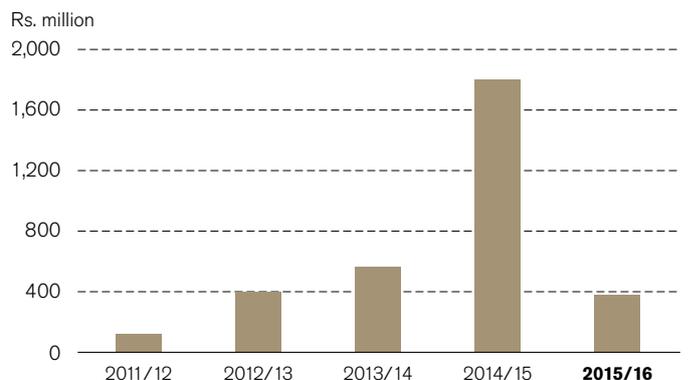
*Industry is comprised LFCs and SLCs – Source CBSL

Gross loans and impairment provision

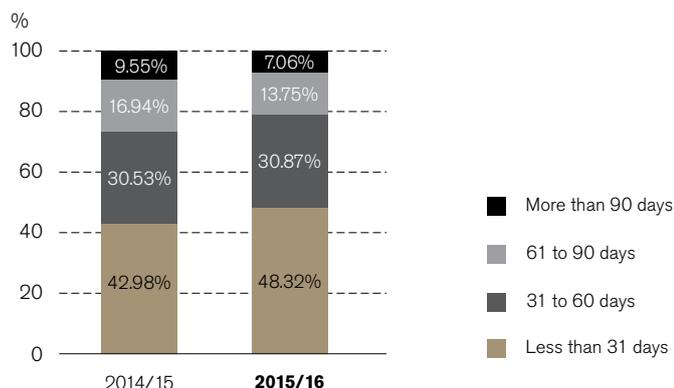


The provision for impairment as a percentage of gross loans and receivables has declined due to effective credit risk management, which is further evidenced from the lower NPL ratio of the Company.

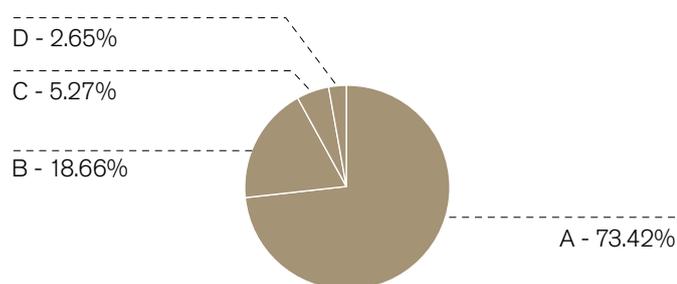
Impairment charge



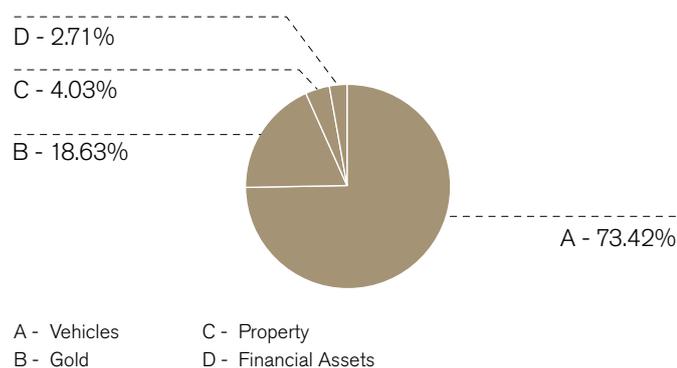
Age analysis of past due loans



Main types of collaterals – 2015/16



Main types of collaterals – 2014/15



From total loans and advances 98.36 percent are secured by either physical or financial collaterals as at 31st March 2016.

IMPAIRMENT STRESS TEST

Stressed scenario – Impairment charge increasing by stressed amounts impacting Company's capital adequacy ratio.

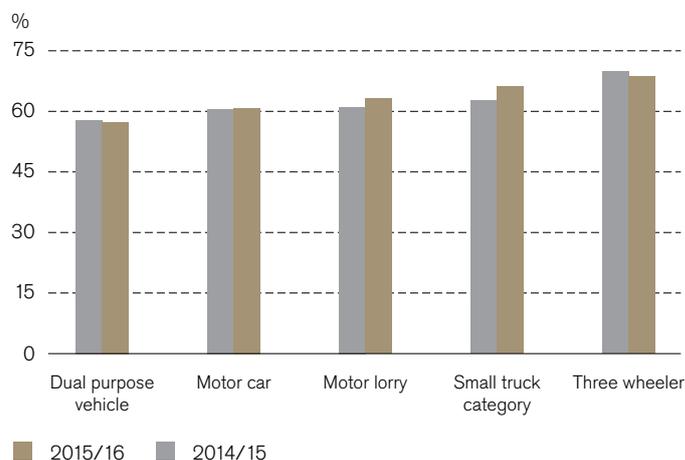
Current capital adequacy ratio – 16.84%			
	Scenario		
	1	2	3
Magnitude of Shock			
	10.00%	25.00%	50.00%
Capital Adequacy Ratio			
	16.49%	15.95%	15.03%

TOP 20 CUSTOMERS STRESS TEST

Stressed scenario – Top 20 customers falling to NPL category impacting capital adequacy ratio.

Current capital adequacy ratio – 16.84%			
	Scenario		
	1	2	3
Magnitude of Shock			
	Top 5	Top 10	Top 20
Capital Adequacy Ratio			
	16.06%	15.57%	14.90%

LTV ratio by class of equipment



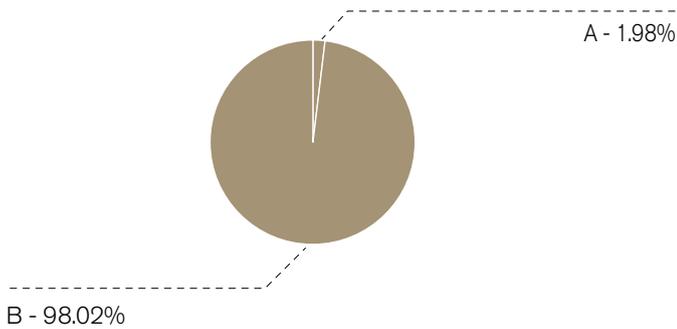
The above classes of equipment represent 90.7 percent of vehicle backed portfolio.

Risk management strategy	Risk management objective
• Adherence to clearly-defined credit procedures and guidelines	Prevention
• Thorough investigation of the customers' background to assess creditworthiness	Prevention
• Effective and timely recovery actions against delinquent borrowers	Reduction

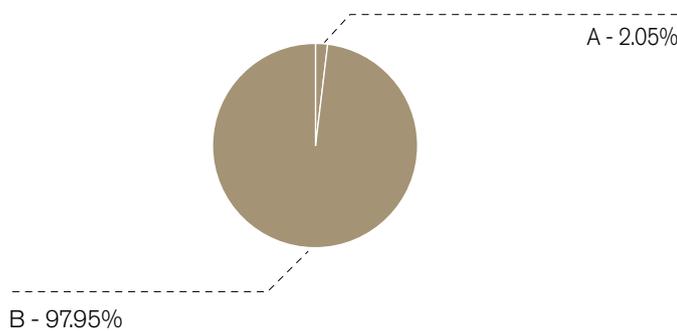
CONCENTRATION RISK – LOW

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

Credit exposure to top 20 customers – 2015/16



Credit exposure to top 20 customers – 2014/15

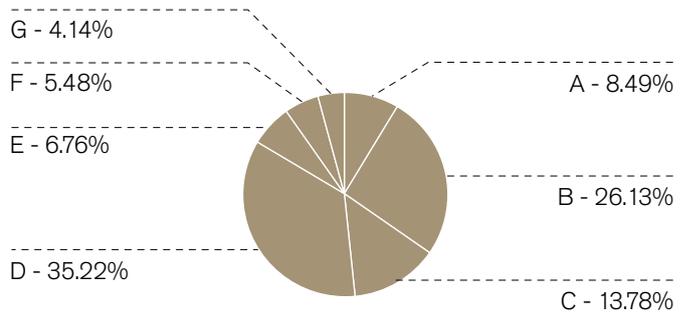


A - Top 20 customers B - Other customers

SIZE-WISE EXPOSURE

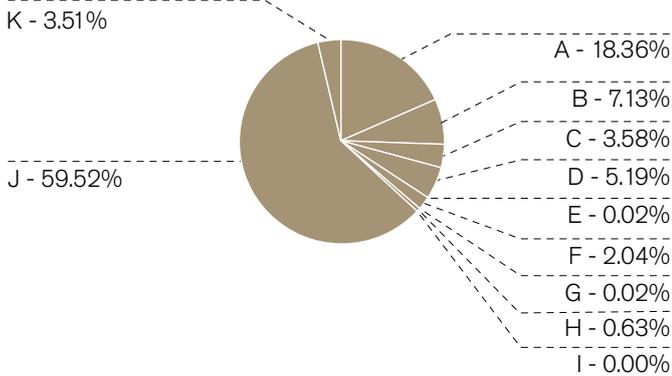
The graph below depicts an analysis of exposure by customer size (consolidated exposure) based on IFRS net outstanding. This excludes gold loans represents 81.6 percent of the total portfolio.

Exposure by customer size

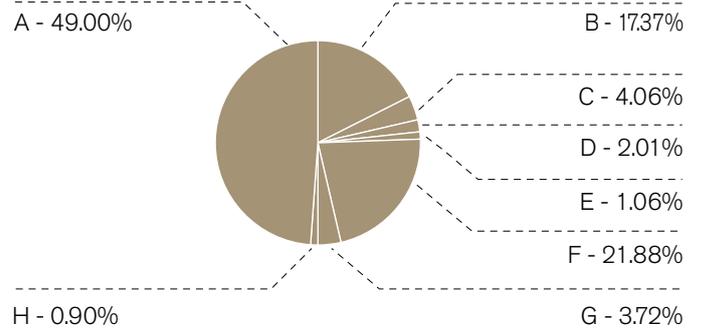


- A - Rs. 0 – Rs. 250,000
- B - Rs. 250,000 – Rs. 500,000
- C - Rs. 500,000 – Rs. 1,000,000
- D - Rs. 1,000,000 – Rs. 5,000,000
- E - Rs. 5,000,000 – Rs. 10,000,000
- F - Rs. 10,000,000 – Rs. 25,000,000
- G - Above Rs. 25,000,000

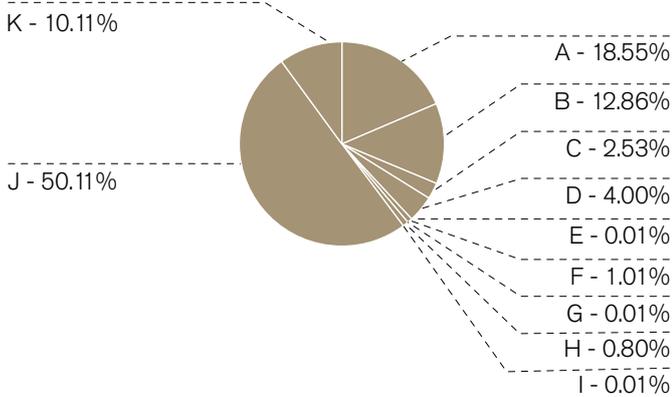
Product concentration – 2015/16



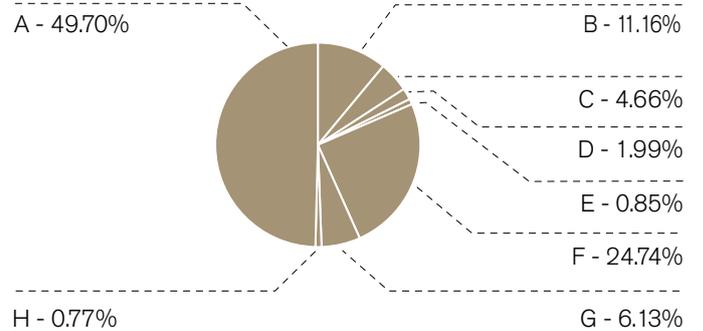
Industry concentration – 2015/16



Product concentration – 2014/15



Industry concentration – 2014/15



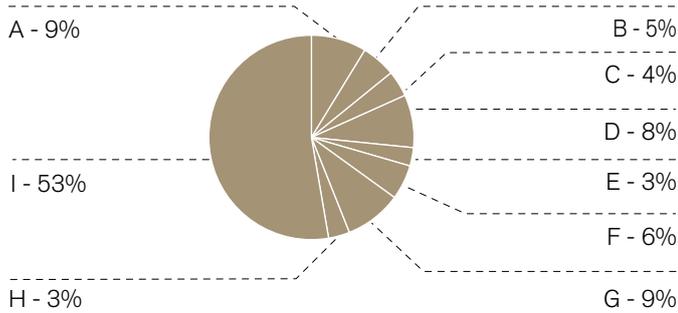
- A - Gold loans
- B - Vehicle loans
- C - Term loans
- D - Mortgage loans
- E - Quick loans
- F - Power drafts

- G - Margin trading
- H - Factoring receivable
- I - Real Estate loans
- J - Lease
- K - HP

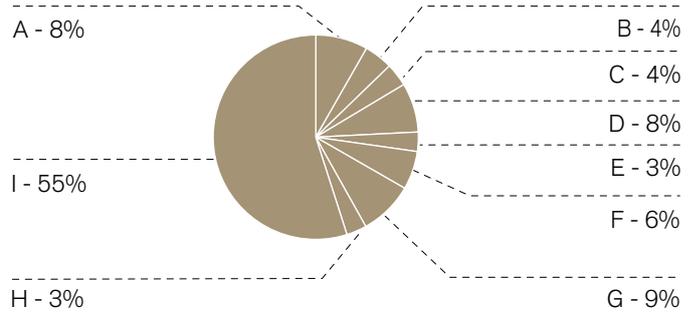
- A - Services
- B - Agriculture
- C - Manufacturing
- D - Construction

- E - Financial services
- F - Trading
- G - Retail
- H - Hotels

Geographical concentration – 2015/16



Geographical concentration – 2014/15



A - Central C - North central E - Northern G - Southern I - Western
 B - Eastern D - North western F - Sabaragamuwa H - Uva

ASSESSMENT

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

LIQUIDITY RISK - LOW

Risk category		Low risk	Moderate risk	High risk
Liquidity risk	Funding risk	◆		
	Transaction risk			

● FY 2014/15 ◆ FY 2015/16

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 adverse price movements of an assets at the point of buying or selling. Company's transaction liquidity risk is low if assets can be liquidated without moving the price too much.

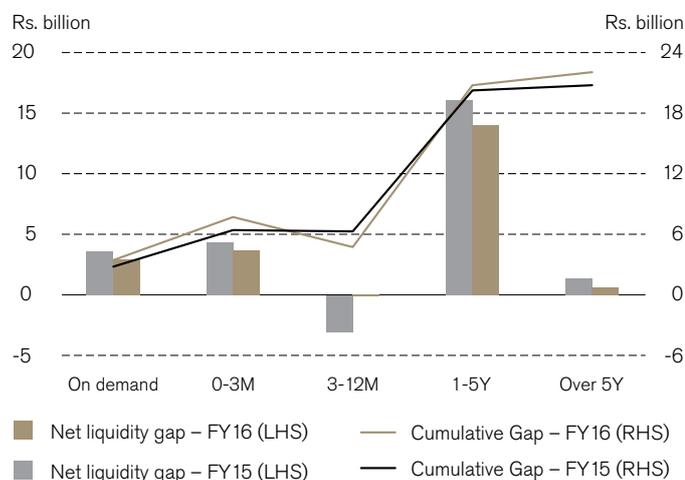
Funding liquidity risk means the Company's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality is, or at least perceived to be, deteriorating, but also due to financial conditions as a whole are deteriorating.

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

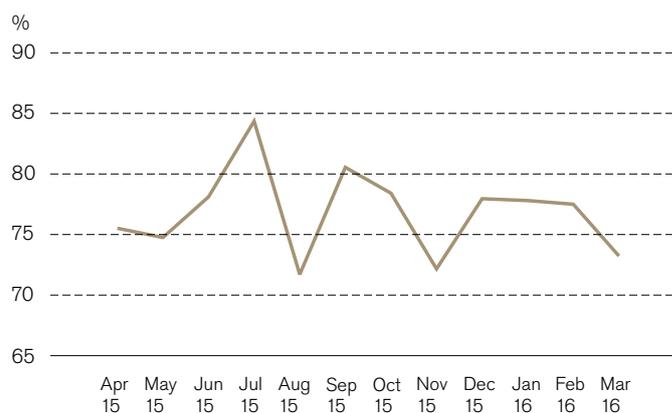
ASSESSMENT

As at 31st March 2016, based on the remaining contractual maturity of assets and liabilities, the Company maintains asset surpluses in all time brackets except '3 -12 months' time bracket. As at 31st March 2015, Company maintained a similar asset liability position, asset surpluses were maintained for all time brackets except '3 -12 months' time bracket.

Net liquidity gap based on contractual maturities

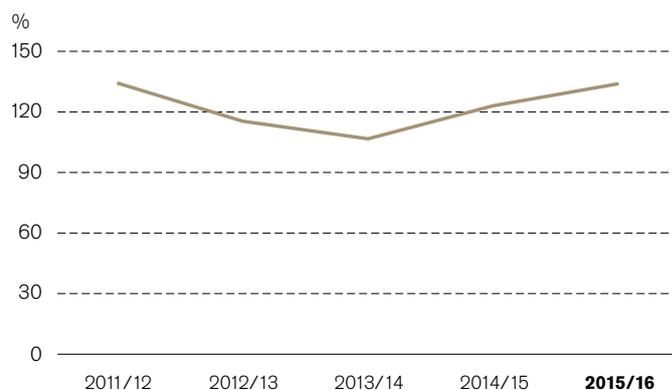


Deposit renewal ratio



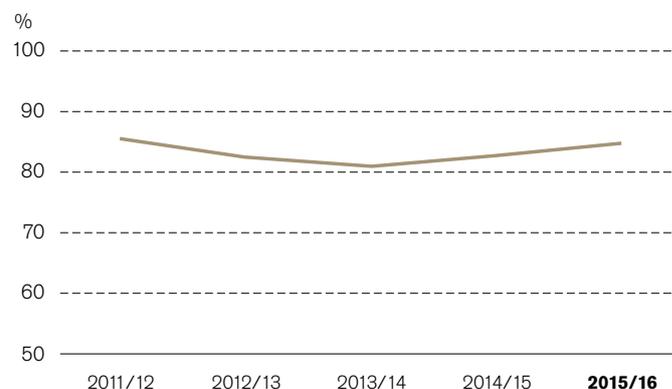
Company's loan book is predominantly financed by deposits from customers.

Loans to deposit ratio



Loans to deposit ratio over 100 percent indicates that the Company is making the optimum use of deposit financing by transforming them into interest-earning assets.

Net loans to total assets ratio

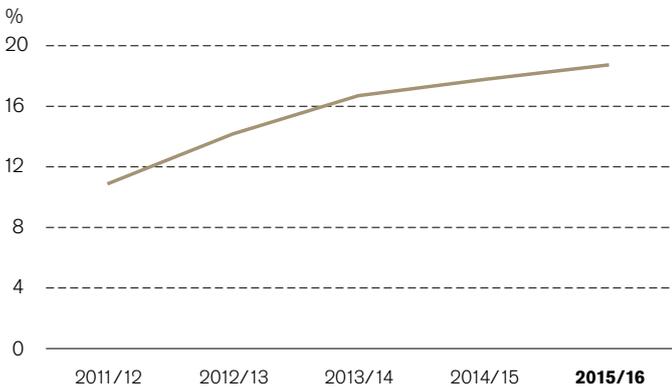


The consistency in the net loans to total assets ratio of the Company reflects that the Company has maintained the share of loans and advances in total asset base focusing mainly on loans and advances.

LIQUID ASSETS TO DEPOSITS RATIO

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

Liquid assets to deposits



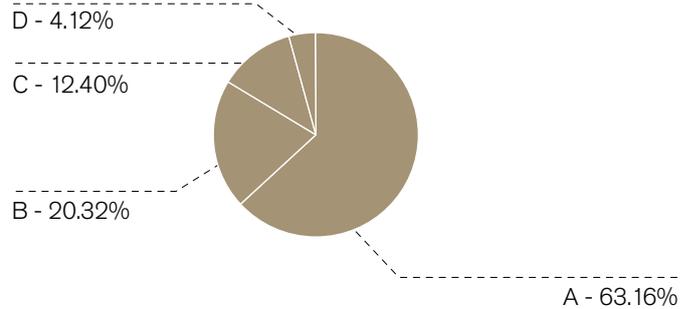
The statutory liquid assets ratio has been maintained above the regulatory requirement at all times.

LIQUID ASSETS STRESS TEST

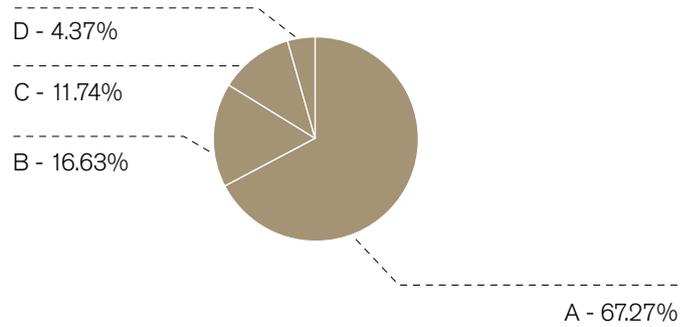
Stressed Scenario – Sudden fall in deposit base impacting liquid asset ratio.

Liquid assets to deposits ratio – 18.73%			
Scenario			
1	2	3	
Magnitude of shock			
2.50%	5.00%	10.00%	
New liquid asset ratio			
16.64%	14.45%	9.70%	

Total funding mix – 2015/16



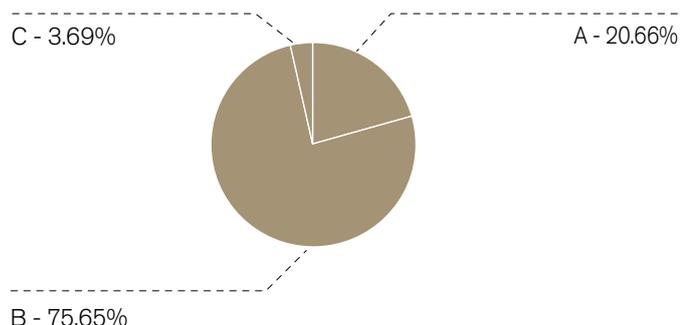
Total funding mix – 2014/15



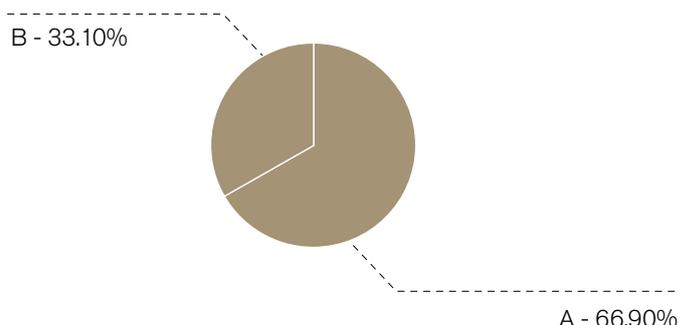
A - Deposits C - Equity
B - Borrowings D - Other

The above graph depicts as at 31st March 2016, 83.48 percent of Company's total assets are funded by either borrowings or public deposits as opposed to 83.90 percent as at 31st March 2015.

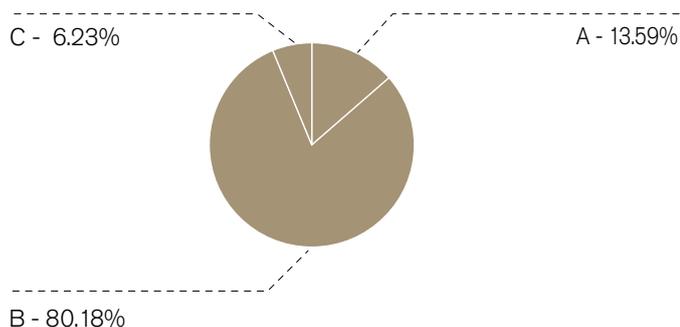
Interest bearing liability mix – 2015/16



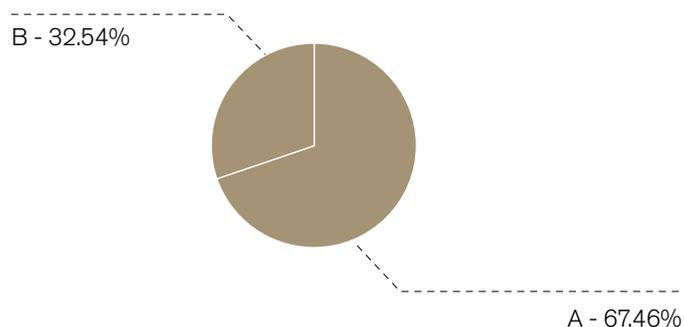
Interest bearing liability tenure mix – 2015/16



Interest bearing liability mix – 2014/15



Interest bearing liability tenure mix – 2014/15



A - Due to banks
B - Deposits
C - Other borrowed funds

A - Short Term (< 12 months)
B - Long Term (> 12 months)

The above graph depicts the mix of interest-bearing borrowings deployed in the Company's balance sheet. During the year, Company has successfully managed to diversify the funding sources and further reduce the dependency on public deposits.

During the year under review, Company has increased the share of long-term funds. The mix has been calculated based on the remaining contractual maturity of borrowings on undiscounted cash flow basis.

MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
• Proper co-ordination of funding activities between the Treasury and the deposit mobilisation units for optimum liquidity management	Diversification
• Strengthening the contingency funding arrangements using stand-by facilities	Mitigation
• Increasing the exposure to shorter duration assets to minimise maturity mismatches Eg. Gold backed loans, Factoring, Daily Loans, Power Drafts	Mitigation
• Maintaining deposit renewal ratio above the internal threshold of 75 percent	Prevention
• Promoting long-term deposits to improve asset liability matching	Diversification
• Continuous analysis and monitoring of liquidity positions and maintaining an adequate buffer of liquid assets	Prevention

MARKET RISK

Risk category		Low risk	Moderate risk	High risk
Market risk	Commodity risk	●		
	Interest rate risk		● ◆	
	Currency risk	●		

● FY 2014/15 ◆ FY 2015/16

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 arising from adverse and unanticipated movements in future interest rates that could impact core business activities; granting of credit facilities, accepting deposits and issuing debt instruments, leading to fluctuations in earnings.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the net interest income of the Company.

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 borrowing portfolio where re-pricing frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

Interest rate risk is managed principally through minimising interest rate sensitive asset and liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

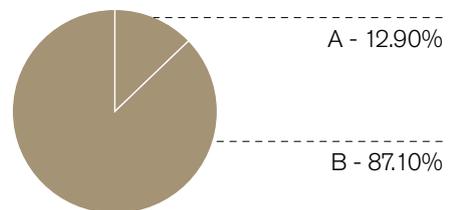
ASSESSMENT

Impact on Company's net interest income due to fluctuations in market interest rates is closely monitored on an on-going basis. The Company uses the interest rate sensitivity of its assets and liabilities for modelling the financial impact. The table below illustrates the impact on net interest income from different interest rate scenarios:

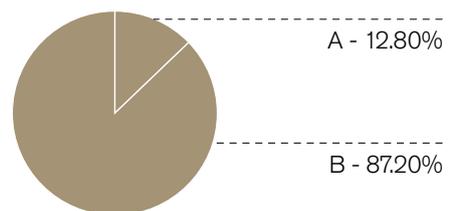
Annual impact on NII	2016		2015	
	Parallel increase	Parallel decrease	Parallel increase	Parallel decrease
1%	6,342,007	(6,342,007)	6,241,409	(6,241,409)
2%	12,684,014	(12,684,014)	12,482,818	(12,482,818)
3%	19,026,022	(19,026,022)	18,724,227	(18,724,227)

During the year under review, Company has to a greater extent maintained the rate sensitivity of the borrowings by introducing more fixed rate borrowings.

Borrowings – fixed to floating mix 2015/16



Borrowings – fixed to floating mix 2014/15



A - Floating B - Fixed

During the year under review Company has been successful in raising fixed rate long-term borrowings (Bank borrowings, debentures, securitisation) to further improve fixed to floating borrowings mix.

MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
<ul style="list-style-type: none"> ALCO closely monitors the interest rate movements, and issues directions to lending and borrowing units on interest rate strategies 	Prevention
<ul style="list-style-type: none"> Increasing the proportion of fixed rate borrowings in the funding mix 	Diversification
<ul style="list-style-type: none"> Promoting lending products with shorter re-pricing cycle to reduce interest rate sensitive gaps 	Mitigation
<ul style="list-style-type: none"> Exploring opportunities to hedge the interest rate risk synthetically using interest rate swaps 	Transfer
<ul style="list-style-type: none"> Negotiating interest rate caps on new borrowings 	Mitigation

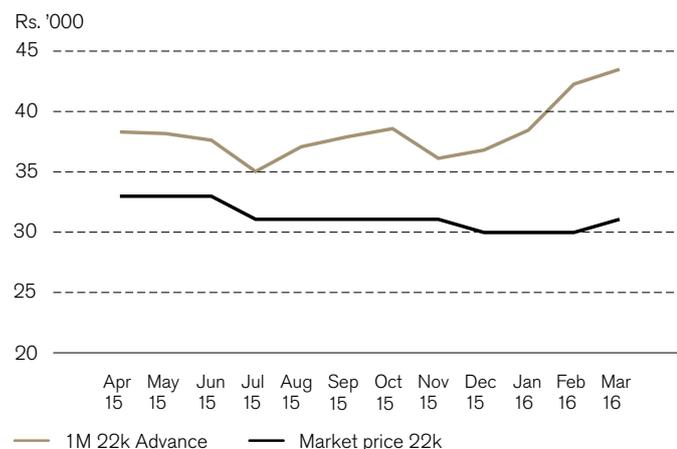
COMMODITY PRICE RISK – LOW

Commodity price risk refers to the uncertainties of future market values or future income, caused by the fluctuations in the prices of commodities. Given the significance of gold backed loans business to the Company's overall lending operation, fluctuations in the gold prices could have an adverse impact on earnings. Gold price risk could arise from either of adverse movements in the world prices, exchange rates, basis risk between local and world prices.

ASSESSMENT

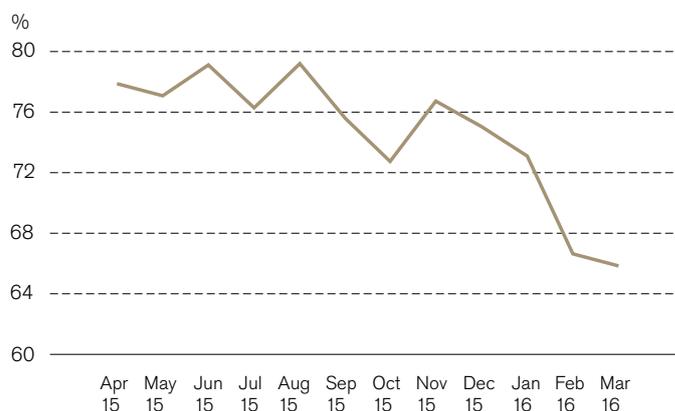
Company has adopted a dynamic lending strategy to determine the loan to value ratio based on the global gold prices. Advance offered per gold sovereign is constantly adjusted in line with the gold market prices.

Gold market price vs. maximum advance per sovereign



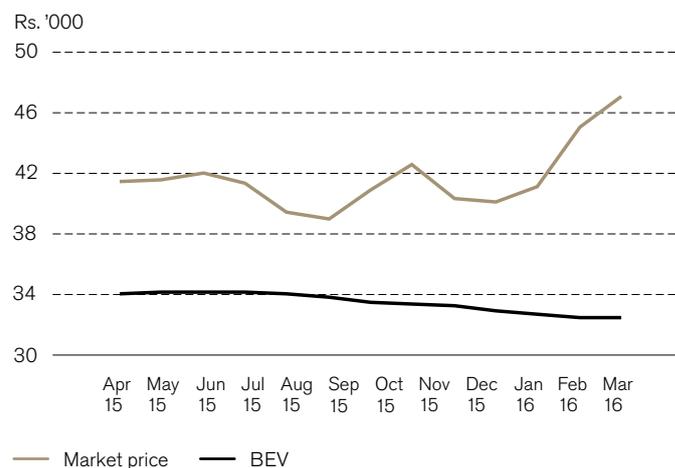
During the year under review, Company managed to maintain a prudent loan to value ratio on new disbursements by dynamically adjusting the advance offered per sovereign.

Loan to value ratio of gold backed loans-new disbursements



The result 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 (BEV) represents the average value of total receivables (capital + interest) per 24k sovereign equivalent.

Market price vs. gold backed loans portfolio break even value



MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
• Quicker re-pricing cycle: Company promotes shorter duration products which improve the recoverability of non-performing gold-backed advances	Mitigation
• 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	Mitigation
• Company is in the process of exploring opportunities available for hedging the commodity price risk	Transfer

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 exchange rate even as the global gold prices remain steady.

MITIGATION STRATEGIES

Mitigation Strategies	Risk management objective
• Managing the risk arising from the USD/LKR exchange rate volatility through maintaining an adequate safety margin on gold advances	Mitigation

OPERATIONAL RISK – LOW

Risk category		Low risk	Moderate risk	High risk
Operational risk	Internal fraud	◆		
	External fraud	◆		
	Work place safety	◆		
	Business disruptions	◆		
	Process risk	◆		
	Damage to physical assets	◆ ●		

● FY 2014/15 ◆ FY 2015/16

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (Basel II definition). Operational risk may result in a financial loss and a reputation risk to the Company. Company broadly identifies, assesses and aims to mitigate the following operational risk categories:

1. Internal fraud
2. External fraud
3. Work place safety
4. Business disruptions
5. Process risk
6. Damage to physical assets

Insurance continues to be the key risk mitigation tool for operational risk. The adequacy and effectiveness of insurance coverage is independently reviewed by the RMD periodically.

ASSESSMENT

- Operational process reviews are conducted regularly to identify loopholes in the operation.
- Collating internal and external fraud events report.
- Independent IT system audits on all core applications and system security.
- Analysing the number of system breakdowns, telecommunication failures, malfunctions and hacking events.

MITIGATION STRATEGIES

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

OTHER RISKS

Risk category		Low risk	Moderate risk	High risk
Other risk	Strategic risk			
	Reputational risk			
	Capital adequacy risk			
	IT risk			
	Legal risk			
	HR risk			

FY 2014/15 FY 2015/16

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

Conducting reviews of pre and post-implementation financial performance for every product, project and investment.

MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
• Quarterly budget reviews	Mitigation
• Monthly variance analysis on key income and expense items	Mitigation

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.
- 62 sustainability events carried out during the year incurring a cost of Rs. 17.27 million.
- Evaluation of the number of complaints and types of complaints.

MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
• CSR Committee to play a key role in conceptualising and monitoring CSR initiatives	Mitigation
• 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	Mitigation
• Training employees on workplace professionalism, behaviour and educate them on business ethics	Prevention

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
- Ensure that the Company maintains capital in order to achieve debt rating objectives and to withstand the impact of potential stress events

As of 31st March 2016, the Company reported a Tier 1 ratio of 16.84 percent and a total of Tier I and II of 18.81 percent which remain comfortably above the CBSL's minimum capital requirements.

MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
• Periodic review of the impact from different lending products on the Risk-Weighted Assets and in turn on the capital adequacy ratio for necessary remedial actions using projected Balance Sheet	Mitigation

CAPITAL ADEQUACY – BASEL II

Company has performed a self-assessment of capital adequacy under the present Basel II CBSL guidelines on Licensed Commercial Banks. Although LFCs are not yet governed by Basel II standards, this exercise was carried out to assess the readiness of the Company to comply with more stringent capital requirements that may be imposed in the future by the CBSL.

	As at 31st March 2016 LKR '000
Credit Risk*	
RWA of On-balance sheet assets	61,982,684
RWA of Off-balance sheet assets	59,309
Total RWA for Credit Risk (a)	62,041,993
Market Risk**	
Capital Charge for Interest Rate Risk	-
Capital Charge for Equities	-
Capital Charge for Foreign Exchange and Gold	1,313,635
Total Capital Charge for Market Risk	1,313,635
Total RWA for Market Risk (Total Capital Charge for Market Risk x 10) (b)	13,136,351
Operational Risk**	
Gross Income	
Year 1	6,490,599
Year 2	8,838,260
Year 3	9,848,481
Average Gross Income	8,392,447
Total Capital Charge for Operational Risk – (Average Gross Income x 15%)	1,258,867
Total RWA for Operational Risk – (Total Capital Charge for Operational Risk x 10) (c)	12,588,670
Total Risk-Weighted Assets (a + b + c)	87,767,014
Total Eligible Core Capital (Tier I Capital)	10,449,822
Total Risk-Weighted Assets	87,767,014
Total Eligible Core Capital (Tier I Capital) (Minimum Requirement 5%)	11.91%
Total Capital Base	11,672,660
Total Risk Weighted Assets	87,767,014
Total Capital Ratio (Minimum Requirement 10%)	13.30%

*Computed as per CBSL Direction for Non-Bank Financial Institutions.

** Computed as per CBSL guidelines based on Basel II for Licensed Commercial Banks.

Market Risk – Standardised Measurement Method.

Operational Risk – Basic Indicator Approach.

INFORMATION TECHNOLOGY RISK

The risk associated with the ownership, use, processing, operation, involvement and adoption of information systems, information technology and technical infrastructure have been identified as IT risk by the Company. This includes but not limited to events such as breakdowns, failures or interruptions which result in a system downtime, frauds through errors and system manipulations, technological obsolescence and insufficient infrastructure to support business volumes, falling behind competitors in terms of the information technology.

Company has identified information as a vital business resource and a key asset to the organisation. Hence, the potential of a threat exploiting the vulnerabilities of this valuable and important asset can cause adverse impact to the business operation ranging from simple inconvenience to catastrophic in scale.

ASSESSMENT

- Conducting information security review meeting with key IT functional heads.
- Monitoring of system audit trails to identify patterns and anomalies.
- Thorough post implementation review following a change to IT systems or technical infrastructure to ensure no unintended repercussions have occurred.
- Analysis of information security related incidents to identify loopholes in the information systems and infrastructure.

MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
• Strict adherence to documented IT change management process	Prevention
• Strengthening of NDAs with vendors by inclusion of information security clause	Prevention
• Implementation of disciplinary action procedure for information security violations	Prevention
• Promoting clear desk and clear screen policy	Prevention

LEGAL/REGULATORY RISK – LOW

Legal/Regulatory risk is the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations. Furthermore, legal risk includes losses due to ambiguity of laws or unfavourable contract clauses and loose contracts.

The Company conducts its business in accordance with the Company's Code of Conduct, laws and regulations imposed by the regulatory authorities with zero tolerance for failure or breach of such obligations.

ASSESSMENT

- Internal audit reviews are carried out to assess the extent of compliance at branch and departmental level.
- Regular monitoring of adherence to regulatory reporting.

MITIGATION STRATEGY

Mitigation strategies	Risk management objective
• Compliance function regularly reviews the Company's compliance with regulatory bodies	Prevention

HUMAN RESOURCE RISK – LOW

Human Resource risks are events that prevent employees from fulfilling their responsibilities and thus keep the business from operating at full efficiency. Human resource risks include but are not limited to:

- employee turnover
- poor employee management practices
- management error/incompetence
- disability (temporary or permanent) and death

ASSESSMENT

- Conducting employee engagement surveys to assess the level of motivation, engagement and loyalty.
- Analysis of employee turnover ratios across different employee job categories.
- Analysis of skill gaps among operational and front office staff.
- Review of causes for resignations through exit interview data.

MITIGATION STRATEGIES

Mitigation strategies	Risk management objective
• Training and development to help employees to improve their skills to be better at their current job and prepare for future challenges	Mitigation
• Strengthen the process for grievance handling and offer workplace counselling	Prevention

Financial reports



Forest and wildlife conservation is a cause close to our heart. This year too, we continued our project to provide forest ranger outfits to field officers engaged in duties within Sri Lanka's National Parks. We cover officers working in – Wasgamuwa, Horagolla, Angamadilla, Ritigala, Haggala and Galway's National Parks.

2012/13



Minneriya
National
Park

2013/14



Wilpattu
National
Park

2014/15



Yala
National
Park

2015/16



Wasgamuwa,
Horagolla,
Angamadilla,
Ritigala, Haggala
and Galway's
National Parks



Financial calendar

2015/16

Authorisation for issue of audited financial statements for 2014/15	19th May 2015
Publication of interim financial statements for the quarter ended 31st March 2015	11th May 2015
Publication of annual report for the financial year ended 31st March 2015	8th June 2015
Held 42nd Annual General Meeting of the Company	30th June 2015
Payment of final dividend of Rs. 10 per share for the financial year ended 31st March 2015	10th July 2015
Publication of interim financial statements for the quarter ended 30th June 2015	30th July 2015
Publication of interim financial statements for the quarter ended 30th September 2015	26th October 2015
Obtained a term loan of Rs. 1 billion from Commercial Bank	3rd June 2015
Obtained a syndicated loan of Rs. 2.25 billion	3rd July 2015
Obtained a term loan of Rs. 500 million from Union Bank	31st August 2015
Obtained a short term Loan of Rs. 450 million from National Development Bank	23rd November 2015
Obtained a short term Loan of Rs. 150 million from National Development Bank	2nd December 2015
Obtained a short term Loan of Rs. 300 million from Habib Bank	22nd December 2015
Publication of interim financial statements for the quarter ended 31st December 2015	25th January 2016
Obtained a short term Loan of Rs. 325 million from NDB Bank	8th February 2016
Obtained a Syndicated Loan of Rs. 3.3 billion	16th February 2016

2016/17

Publication of interim financial statements for the quarter ended 31st March 2016	6th May 2016
Publication of Annual Report for the financial year ended 31st March 2016	8th June 2016
43rd Annual General Meeting of the Company	30th June 2016
Payment of final dividend of Rs. 7.50 per share for the financial year ended 31st March 2016	12th July 2016

Submission of the interim financial statements in terms of the Rule 7.4 of the CSE and as per requirements of the Central Bank of Sri Lanka	2015/16 Submitted on	2016/17 to be Submitted on or before
For the 3 months ended 30th June – (unaudited)	30th July 2015	15th August 2016
For the 3 and 6 months ended 30th September – (unaudited)	26th October 2015	15th November 2016
For the 3 and 9 months ended 31st December – (unaudited)	25th January 2016	15th February 2017
For the 3 months and year ended 31st March – (unaudited)	6th May 2016	30th May 2017

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Directors' responsibility statement on internal control over financial reporting

RESPONSIBILITY

In line with the section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on internal control over financial reporting.

The Board of Directors ('Board') has overall responsibility for L B Finance PLC's ('Company') internal control over financial reporting and for reviewing its adequacy and effectiveness.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting as and when there are changes to business environment or regulatory guidelines. This process is regularly reviewed by the Board.

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

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

Internal controls over financial reporting are checked by the Internal Auditors of the Company for suitability of design and effectiveness on an ongoing basis. The scope, quality and reports of internal audits are reviewed by the Board Audit Committee at its monthly meetings and improvements recommended wherever necessary.

CONFIRMATION

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

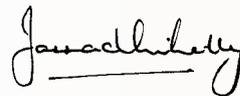
REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

By order of the Board,



L N de S Wijeyeratne
Independent Non-Executive Director



Sumith Adhietty
Managing Director

30th May 2016

Directors' responsibility for financial reporting

The following statement sets out responsibility of the Directors in relation to the financial statements of the Company prepared in accordance with the provisions of the Companies Act No. 07 of 2007.

The responsibility of the External Auditor in relation to the financial statements is set out in the Report of the Auditors given on [page 220](#) of the Annual Report.

As per the provisions of Sections 150 (1) and 151 of the Companies Act No. 07 of 2007, the Directors are required to prepare financial statements for each financial year, which should give a true and fair view of the state of affairs of the Company as at each financial year end and its profit or loss for the financial year then ended, and place them before a General Meeting.

In preparing the financial statements, the Directors are responsible to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and all applicable accounting standards have been complied with.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with accuracy, the financial position of the Company.

Financial statements prepared and presented in this Report have been prepared based on Sri Lanka Accounting Standards (SLFRS/LKAS) which came to effect from 1st January 2012 and are consistent with the underlying books of account and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Directions issued under the Finance Business Act No. 42 of 2011, Sri Lanka Accounting and Auditing Standards Act No. 16 of 1995 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording evaluating and managing the significant risks faced by the Company throughout the year.

The financial statements of the Company have been certified by the Chief Financial Officer of the Company, as the officer responsible for their preparation as required by the Section 150 (1) (b) and they have also been signed by two Directors of the Company as required by Section 150 (1) (c) of the Companies Act.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the reporting date have been paid or where relevant, provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,
L B Finance PLC



P W Corporate Secretarial (Pvt) Limited
Company Secretaries

30th May 2016

Independent auditors' report



Building a better
working world

Ernst & Young
Chartered Accountants
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SPF/DLH/JJ

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF L B FINANCE PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of L B Finance PLC, ("the Company"), which comprise the statement of financial position as at 31st March 2016, 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 information (set out on pages [227](#) to [292](#)).

BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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 comply with ethical

requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st March 2016, and of 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

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
 - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
 - the financial statements of the Company comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

17th May 2016
Colombo

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SECTION 01

Statement of comprehensive income

Year ended 31st March	Notes	2016 Rs.	2015 Rs.
Income	4.1.1	15,646,467,206	14,787,757,341
Interest income	4.1.2	14,428,729,736	13,687,070,727
Interest expenses	4.1.6	(5,773,255,097)	(5,949,496,347)
Net interest income	4.1.8	8,655,474,639	7,737,574,380
Fee and commission income	4.2	1,168,681,544	959,839,249
Net trading income	4.3	967,980	2,752,071
Other operating income	4.4	48,087,946	138,095,294
Total operating income		9,873,212,109	8,838,260,994
Impairment (charge)/reversal for loans and other losses	4.5	(382,435,356)	(1,804,838,204)
Gold loan auction losses		(29,358,088)	(214,928,977)
Net operating income		9,461,418,665	6,818,493,813
Operating expenses			
Personnel expenses	4.6	(1,837,553,839)	(1,516,016,264)
Depreciation of property, plant & equipment	4.21.2	(318,295,609)	(338,949,852)
Amortisation of intangible assets	4.22	(14,129,351)	(12,473,194)
Other operating expenses	4.7	(1,373,372,786)	(1,303,968,659)
Operating profit before value added tax on financial services		5,918,067,080	3,647,085,844
Tax on financial services		(593,451,554)	(315,232,097)
Profit before taxation		5,324,615,526	3,331,853,747
Income tax expense	4.8.1 (a)	(1,606,822,662)	(1,149,727,591)
Profit for the year		3,717,792,864	2,182,126,156
Other comprehensive income/(expenses)			
Other comprehensive income to be reclassified to profit or loss			
Gains and losses arising on re-measuring available for sale financial assets			
Sri Lanka Government Securities		-	(38,658,714)
Equity securities		(2,320,580)	18,368,562
Reclassification adjustments for loss		4,626,984	-
		2,306,404	(20,290,152)
Other comprehensive income not to be reclassified to profit or loss			
Actuarial gains and losses on defined benefit plans	4.30.3	12,402,720	(2,897,153)
Other comprehensive income/(expenses) before taxation		14,709,124	(23,187,305)
Income tax (charge)/reversal relating to components of other comprehensive income	4.8.1 (b)	(3,472,762)	11,635,643
Other comprehensive income for the year, net of tax		11,236,362	(11,551,662)
Total comprehensive income for the year, net of tax		3,729,029,226	2,170,574,494
Basic earnings per share*	4.9	26.84	15.75
Dividend per share			
Dividend per share: Gross	4.10	7.50**	10.00
Dividend per share: Net		6.75	9.00

* Calculated based on the profit for the year.

** Calculated based on proposed dividend, which is to be approved at the Annual General Meeting.

Figures in brackets indicate deductions.

Accounting policies and notes from pages [227](#) to [292](#) form an integral part of these financial statements.

Statement of financial position

As at 31st March	Notes	2016 Rs.	2015 Rs.
Assets			
Cash and cash equivalents	4.13	6,051,898,714	6,067,670,379
Financial investments – held for trading	4.14	10,645,973	10,063,760
Loans and receivables	4.15	26,449,169,365	22,262,761,408
Lease rentals receivable and stock out on hire	4.16	45,104,836,096	33,695,516,938
Financial investments – available for sale	4.18	138,411,349	140,587,435
Other financial assets	4.19	4,142,716,322	2,140,178,009
Other non-financial assets	4.20	538,898,003	1,206,275,039
Property, plant & equipment	4.21	2,045,295,135	1,984,160,303
Intangible assets	4.22	34,765,774	35,305,734
Total assets		84,516,636,731	67,542,519,005
Liabilities			
Due to banks	4.23	14,577,233,720	7,703,265,210
Due to customers	4.24	53,379,801,496	45,430,551,655
Debt instruments issued and other borrowed funds	4.25	2,601,282,504	3,529,575,268
Other financial liabilities	4.26	1,869,940,600	1,776,066,139
Other non-financial liabilities	4.27	597,806,711	516,719,318
Current tax liabilities	4.28	741,251,904	534,744,704
Deferred tax liabilities	4.29	143,142,031	11,930,160
Post-employment benefit liability	4.30	126,858,575	112,574,582
Total liabilities		74,037,317,541	59,615,427,036
Shareholders' funds			
Stated capital	4.31	838,282,159	838,282,159
Retained earnings	4.32	6,970,499,234	5,180,485,515
Reserves	4.33	2,670,537,797	1,908,324,295
Total shareholders' funds		10,479,319,190	7,927,091,969
Total liabilities and shareholders' funds		84,516,636,731	67,542,519,005
Net asset value per share		75.66	57.23
Commitments and contingencies	6.5	1,275,614,306	1,105,984,832

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



L N de S Wijeyeratne
Director

Accounting policies and notes from pages [227](#) to [292](#) form an integral part of these financial statements.

17th May 2016
Colombo

Statement of changes in equity

	Stated capital Rs. (Note 4.31)	Retained earnings Rs. (Note 4.32)	Statutory reserve Rs. (Note 4.33)	Investment fund account Rs. (Note 4.33)	Available for sale reserve Rs. (Note 4.33)	Total Rs.
Balance as at 1st April 2014	838,282,159	3,267,359,765	1,461,057,296	619,682,199	20,307,479	6,206,688,898
Net profit for the year	-	2,182,126,156	-	-	-	2,182,126,156
Other comprehensive income net of tax	-	(2,085,950)	-	-	(9,465,712)	(11,551,662)
Transfer to statutory reserve	-	(436,425,231)	436,425,231	-	-	-
Transfer to investment fund reserve	-	(26,045,108)	-	26,045,108	-	-
Transfer to retained earnings	-	645,727,307	-	(645,727,307)	-	-
Final dividend for 2013/14	-	(450,171,423)	-	-	-	(450,171,423)
Balance as at 31st March 2015	838,282,159	5,180,485,515	1,897,482,527	-	10,841,767	7,927,091,969
Balance as at 1st April 2015	838,282,159	5,180,485,515	1,897,482,527	-	10,841,767	7,927,091,969
Super gain tax paid (Refer Note 4.8.4)	-	(484,230,585)	-	-	-	(484,230,585)
Balance after super gain tax	838,282,159	4,696,254,930	1,897,482,527	-	10,841,767	7,442,861,384
Net profit for the year	-	3,717,792,864	-	-	-	3,717,792,864
Other comprehensive income net of tax	-	8,929,958	-	-	2,306,404	11,236,362
Transfers during the year	-	(759,907,099)	743,558,573	-	16,348,526	-
Final dividend for 2014/15	-	(692,571,420)	-	-	-	(692,571,420)
Balance as at 31st March 2016	838,282,159	6,970,499,234	2,641,041,100	-	29,496,697	10,479,319,190

Figures in brackets indicate deductions.

Accounting policies and notes from pages [227](#) to [292](#) form an integral part of these financial statements.

Cash flow statement

ACCOUNTING POLICY

The cash flow statement has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard – ('LKAS 7') – 'Statement of cash flows', whereby operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents consist cash in hand, balances with banks, placements with banks, money at call and short notice.

Year ended 31st March	Notes	2016 Rs.	2015 Rs.
Cash flows from/(used in) operating activities:			
Profit and other comprehensive income/(expenses) before taxation		5,339,324,650	3,308,666,442
Adjustments for –			
Depreciation of property, plant & equipment	4.21.2	318,295,609	338,949,852
Amortisation of intangible assets	4.22	14,129,351	12,473,194
Loss on fixed assets write-offs		–	1,799,175
Impairment charges/(reversal) for loans and other losses	4.5	382,435,357	1,804,838,204
Gold loan auction losses		29,358,088	214,928,977
Interest cost on finance lease		133,952	1,469,829
Diminution/(appreciation) in value of investments		1,738,368	17,821,576
Loss/(profit) on disposal of property, plant & equipment	4.4	35,142,560	3,382,892
Provision/(reversal) for defined benefit plans	4.30	20,636,836	29,799,053
Dividend received		(8,075,184)	(806,300)
Interest income on investing activities		(457,705,613)	(655,233,610)
Notional tax credit on interest on Treasury Bills and Bonds	4.1.9	(39,556,119)	(45,029,266)
Withholding tax attributed to fixed deposits		(10,098,870)	(12,524,793)
Operating profit before working capital changes		5,625,758,985	5,020,535,225
(Increase)/decrease in loans and receivables		(4,265,227,999)	(3,770,831,697)
(Increase)/decrease in lease rentals receivable and stock out on hire		(11,678,795,677)	(5,014,461,334)
(Increase)/decrease in other financial assets		(1,969,172,867)	3,009,949,556
(Increase)/decrease in other non-financial assets		584,203,476	(359,599,885)
Increase/(decrease) in amounts due to customers		7,949,249,841	(664,653,595)
Increase/(decrease) in other financial liabilities		91,352,770	610,539,466
Increase/(decrease) in other non-financial liabilities		67,924,002	266,222,569
Cash generated from operations		(3,594,707,469)	(902,299,695)
Retirement benefit liabilities paid	4.30	(6,352,843)	(10,423,158)
Income tax and super gain tax paid		(1,736,695,959)	(494,827,960)
Net cash from/(used in) operating activities		(5,337,756,271)	(1,407,550,813)

Figures in brackets indicate deductions.

Accounting policies and notes from pages [227](#) to [292](#) form an integral part of these financial statements.

<i>Year ended 31st March</i>	Notes	2016 Rs.	2015 Rs.
Cash flows from/(used in) investing activities			
Acquisition of property, plant & equipment	4.21.1	(434,550,458)	(260,481,444)
Acquisition of intangible assets	4.22	(13,589,391)	(11,353,396)
Proceeds from sale of property, plant & equipment		84,883,225	118,009
Sale/(purchase) of financial investments – available for sale		(144,496)	1,288,246,113
Interest received		424,340,168	711,133,168
Dividend received		8,075,184	806,300
Net cash flows from/(used in) investing activities		69,014,232	1,728,468,750
Cash flows from/(used in) financing activities			
Payment under finance lease liabilities		(1,122,131)	(9,831,292)
Net cash flow from syndicated loans and other bank facilities		7,157,601,790	5,927,272,753
Net cash flow from debt issued and other borrowings		(928,292,762)	(1,946,328,630)
Dividends paid	4.10.1	(692,571,420)	(450,171,423)
Net cash flows from/(used in) financing activities		5,535,615,477	3,520,941,408
Net increase in cash and cash equivalents		266,873,438	3,841,859,345
Cash and cash equivalents at the beginning of the year		5,085,753,753	1,243,894,408
Cash and cash equivalents at the end of the year	4.13.3	5,352,627,191	5,085,753,753
Operational cash flows from interest			
Interest received		14,395,364,291	13,759,377,902
Interest paid		5,478,253,859	6,254,261,502

Figures in brackets indicate deductions.

Accounting policies and notes from pages [227](#) to [292](#) form an integral part of these financial statements.

SECTION 02

Corporate information

2.1 REPORTING ENTITY

L B Finance PLC, is a domiciled, public limited liability company incorporated in Sri Lanka on 30th May 1971 under the Companies Act No. 51 of 1938. The Company was re-registered under the Companies Act No. 07 of 2007. It is a Licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and amendments thereto. The registered office of the Company is located at No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 7. The shares of the Company have a primary listing on the Colombo Stock Exchange. The staff strength of the Company as at 31st March 2016 was 2,744 (2015: 2,401).

The Company's parent undertaking is Vallibel One PLC. The Company's Ultimate parent undertaking is Vallibel One PLC, which is incorporated in Sri Lanka. The Company's ultimate controlling party is Mr. Dhammika Perera.

For purposes of this report, 'L B Finance', the 'Company', 'we', 'our', 'us' or similar references mean L B Finance PLC.

2.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Maintenance of Savings Accounts, Providing Finance Lease, Hire Purchase, Mortgage Loans, Gold Loans, Margin Trading Facilities, Personnel Loans, Factoring and Trade Finance Loans, Micro Finance, Other Credit Facilities and Value Added Services.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

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

2.3 APPROVAL OF FINANCIAL STATEMENTS BY DIRECTORS

The financial statements of the Company for the year ended 31st March 2016 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 17th May 2016.

SECTION 03

Basis of preparation

This section provides a summary of significant accounting policies, accounting judgments, estimates and assumptions used, other general accounting policies, Sri Lanka Accounting Standards (SLFRS/LKAS) adopted during the financial year and Sri Lanka Accounting Standards (SLFRS/LKAS) not yet adopted.

Accounting policy relating to each accounting topic is given along with the relevant note to the financial statements. The other significant accounting policies are described below:

3.1 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 these financial statements is also in compliance with the requirements of Finance Business Act No. 42 of 2011, Listing Rules of the Colombo Stock Exchange and the CBSL Guidelines.

3.2 RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board of Directors acknowledges the responsibility in relation to the financial statements, as set out in the 'Statement of Directors' Responsibilities', 'Annual Report of the Board of Directors' and in the statement appearing with the Statement of Financial Position of the Annual Report.

3.3 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 profit or loss (FVTPL) and available for sale (AFS).
- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation.

3.4 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements of the Company are presented in Sri Lankan Rupees, which is the currency of the primary economic environment in which L B Finance PLC operates.

3.5 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 6.3](#).

3.6 USE OF MATERIALITY, AGGREGATION, OFFSETTING AND ROUNDING

MATERIALITY AND AGGREGATION

In compliance with Sri Lanka Accounting Standard (LKAS 1) – 'Presentation of Financial Statements', each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial.

OFFSETTING

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an accounting standard.

ROUNDING

The amounts in the financial statements have been rounded off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard (LKAS 1) – 'Presentation of Financial Statements'.

3.7 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 6.7](#).

3.8 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31ST MARCH 2016

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future financial statements. None of those have been early adopted by the Company.

SRI LANKA ACCOUNTING STANDARD (SLFRS 9) – 'FINANCIAL INSTRUMENTS'

Sri Lanka Accounting Standard (SLFRS 9) – 'Financial Instruments' replaces the existing guidance in Sri Lanka Accounting Standard (LKAS 39) 'Financial Instruments Recognition and Measurement'. Sri Lanka Accounting Standard (SLFRS 9) – 'Financial Instruments' includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from Sri Lanka Accounting Standard (LKAS 39) 'Financial Instruments Recognition and Measurement'. Sri Lanka Accounting Standard (SLFRS 9) – 'Financial Instruments' is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

SRI LANKA ACCOUNTING STANDARD (SLFRS 14) – 'REGULATORY DEFERRAL ACCOUNTS'

"Sri Lanka Accounting Standard (SLFRS 14) – 'Regulatory Deferral Accounts' is an interim standard which provides relief for first time -adopters of SLFRS in relation to the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). The standard permits these entities to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts.

Sri Lanka Accounting Standard (SLFRS 14) – 'Regulatory Deferral Accounts' is effective for annual periods beginning on or after 1st January 2016.

SRI LANKA ACCOUNTING STANDARD (SLFRS 15) – 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

Sri Lanka Accounting Standard (SLFRS 15) – 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard (LKAS 18) 'Revenue', Sri Lanka Accounting Standard (LKAS 11) 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. Sri Lanka Accounting Standard (SLFRS 15) – 'Revenue from Contracts with Customers' is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.

Implementation of the Sri Lanka Accounting Standard (SLFRS 14) – 'Regulatory Deferral Accounts' is not expected to have an impact on the financial statements. Pending the completion of detailed review, the financial impact from Sri Lanka Accounting Standard (SLFRS 9) – 'Financial Instruments' and Sri Lanka Accounting Standard (SLFRS 15) – 'Revenue from Contracts with Customers' is not reasonably estimable as of the reporting date.

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements:

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to SLFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to LKAS 16 and LKAS 38).
- Equity Method in Separate Financial Statements (Amendments to LKAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28).
- Annual Improvements to SLFRSs 2012–2014 Cycle – various standards.
- Investment Entities: Applying the Consolidation Exception (Amendments to SLFRS 10, SLFRS 12 and LKAS 28).
- Disclosure Initiative (Amendments to LKAS 1).

3.9 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Company are consistent with those used in the previous financial year.

3.10 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. Due to the inherent uncertainty involved with estimates, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation 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:

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.

The following notes provide more information on specific accounting judgments, estimates and assumptions used.

- [4.8](#) Taxation
- [4.17](#) Allowance for impairment losses
- [4.21](#) Useful life time of the property, plant & equipment
- [4.29](#) Deferred taxation
- [4.30](#) Post-employment benefit liability
- [6.5](#) Commitments and contingencies

3.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU's) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

SECTION 04

Specific accounting policies and notes

4.1 NET INTEREST INCOME

ACCOUNTING POLICY

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR method). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation of EIR takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the 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 Group 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. Interest from overdue rentals has been accounted for on a cash received basis.

	2016 Rs.	2015 Rs.
4.1.1 INCOME		
Interest income	14,428,729,736	13,687,070,727
Fee and commission income	1,168,681,544	959,839,249
Net trading income	967,980	2,752,071
Other operating income	48,087,946	138,095,294
	15,646,467,206	14,787,757,341
4.1.2 INTEREST INCOME		
Loans and receivables (Note 4.1.3)	5,179,323,241	4,834,686,648
Lease rentals receivable and stock out on hire (Note 4.1.4)	8,742,045,896	8,197,150,469
Financial investments – available for sale	–	164,837,692
Other financial assets	507,360,599	490,395,918
	14,428,729,736	13,687,070,727

	2016 Rs.	2015 Rs.
4.1.3 INTEREST INCOME – LOANS AND RECEIVABLES		
Gold loans	2,708,229,814	2,190,812,387
Vehicle loans	1,344,798,007	1,809,770,835
Medium and short-term loans	268,247,285	184,662,748
Mortgage loans	585,629,829	398,544,723
Quick loans	3,131,024	3,548,502
Power drafts	178,499,732	105,990,259
Margin trading	1,769,794	913,261
Factoring receivable	88,304,796	139,996,891
Real estate loans	712,960	447,042
	5,179,323,241	4,834,686,648
4.1.4 INTEREST INCOME – LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE		
Lease rentals receivable	7,653,220,152	6,539,456,732
Stock out on hire	1,088,825,744	1,657,693,737
	8,742,045,896	8,197,150,469
4.1.5 INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES	395,561,191	523,208,243
4.1.6 INTEREST EXPENSES		
Due to banks	871,721,305	205,378,064
Due to customers	4,450,131,665	5,093,487,873
Debt issued and other borrowed funds	451,402,127	650,630,410
	5,773,255,097	5,949,496,347
4.1.7 INTEREST EXPENSES (PRODUCT-WISE BREAKDOWN)		
Bank overdrafts	1,314,413	1,359,042
Syndicated loans and other bank facilities	870,272,940	202,549,193
Finance lease	133,952	1,469,829
Fixed deposits	4,281,488,052	4,957,841,338
Certificates of deposit	14,858,145	24,000,640
Savings deposits	153,785,468	111,645,895
Commercial papers	–	3,665,637
Securitised borrowings	87,768,830	285,197,666
Unsecured debentures	363,633,297	361,250,070
Other borrowings – Ceylon Income Fund	–	517,037
	5,773,255,097	5,949,496,347
4.1.8 NET INTEREST INCOME	8,655,474,639	7,737,574,380

4.1.9 NOTIONAL TAX CREDIT FOR WITHHOLDING TAX ON GOVERNMENT SECURITIES ON SECONDARY MARKET TRANSACTIONS

The Inland Revenue Act No. 10 of 2006 and the amendments thereto, provided that a company which derives interest income from the secondary market transactions in Government Securities (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. 39,556,119/- (2015 – Rs. 45,029,266/-).

4.2 FEE AND COMMISSION INCOME**ACCOUNTING POLICY**

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. All fees and commissions are recognised to the statement of comprehensive income on an accrual basis.

	2016 Rs.	2015 Rs.
Credit-related fees and commissions	817,954,829	652,306,965
Service charge	350,726,715	307,532,284
	1,168,681,544	959,839,249

4.3 NET TRADING INCOME**ACCOUNTING POLICY**

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities 'held for trading' other than interest income.

Dividend income received from financial investments – Held for trading is recognised when the Company's right to receive the payment is established.

	2016 Rs.	2015 Rs.
Dividend income from financial investments – held for trading	385,768	283,494
Appreciation/(depreciation) in market value of financial investments – held for trading	582,212	2,468,577
	967,980	2,752,071

4.4 OTHER OPERATING INCOME

ACCOUNTING POLICY

Income earned on other sources, which are not directly related to the normal operations of the Company is recognised as other operating income on an accrual basis.

Dividend income received from financial investments – Available for sale is recognised when the Company's right to receive the payment is established.

Income on operating leases are accounted for on a straight-line basis over the periods of the leases.

	2016 Rs.	2015 Rs.
Dividend income from financial investments – available for sale	7,689,418	522,806
Reclassification adjustments for gain/(loss) – available for sale financial assets	(4,626,984)	–
Profit/(loss) on disposal of property, plant & equipment	(35,142,560)	(3,382,892)
Real estate income (net of cost)	11,506,880	536,306
Income on operating lease	55,311,291	134,047,030
Sundry income	13,349,901	6,372,044
	48,087,946	138,095,294

4.5 IMPAIRMENT (CHARGE)/REVERSAL FOR LOANS AND OTHER LOSSES

ACCOUNTING POLICY

The Company recognises the changes to the impairment provision for loans and other losses which are assessed as per the Sri Lanka Accounting Standard – (LKAS 39) 'Financial Instruments: Recognition and Measurement'. The methodology adopted by the Company is explained in the [Note 4.17](#) to these financial statements. Recovery of amounts written-off as bad and doubtful debts is recognised on a cash basis.

	2016 Rs.	2015 Rs.
Loans and receivables (Note 4.1.3)	61,449,496	185,850,697
Lease rentals receivable and stock out on hire (Note 4.1.4)	345,823,896	1,621,737,091
Other losses	63,496,880	58,639
Recovery of written-off debts	(88,334,916)	(2,808,223)
	382,435,356	1,804,838,204

4.5.1. IMPAIRMENT (CHARGE)/REVERSAL FOR LOANS AND OTHER LOSSES (DETAILED BREAKDOWN)

	2016			Net amount Rs.
	Amounts written-off Rs.	Charge for the year Rs.	Reversal for the year Rs.	
Loans and receivables	14,425,777	196,964,119	(149,940,400)	61,449,496
Lease rentals receivable and stock out on hire (Note 4.1.4)	418,722,415	604,305,116	(677,203,635)	345,823,896
Other losses	–	70,810,971	(7,314,092)	63,496,880
	433,148,192	872,080,206	(834,458,127)	470,770,272
Recovery of written-off debts				(88,334,916)
				382,435,356

	2015			Net-amount Rs.
	Amounts written-off Rs.	Charge for the year Rs.	Reversal for the year Rs.	
Loans and receivables	27,067,804	291,061,577	(132,278,683)	185,850,697
Lease rentals receivable and stock out on hire (Note 4.17)	870,693,597	1,381,856,214	(630,812,720)	1,621,737,091
Other losses	–	1,323,947	(1,265,308)	58,639
	897,761,401	1,674,241,738	(764,356,711)	1,807,646,427
Recovery of written-off debts				(2,808,223)
				1,804,838,204

4.6 PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefits and other staff-related expenses. The provision for bonus is recognised when it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

DEFINED CONTRIBUTION PLANS – EMPLOYEES' PROVIDENT FUND AND EMPLOYEES' TRUST FUND

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard – (LKAS 19) – 'Employee Benefits'.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The Company and the employees contribute 15 percent and 10 percent respectively on the salary of each employee to the Employees' Provident Fund.

The Company contributes 3 percent of the salary of each employee to the Employees' Trust Fund.

	2016 Rs.	2015 Rs.
Salaries and other related expenses	1,573,919,042	1,305,410,346
Employer's contribution to Employees' Provident Fund	129,988,281	106,647,601
Employer's contribution to Employees' Trust Fund	25,997,657	21,331,807
Gratuity charge/(reversal) for the year	33,039,556	26,901,900
Staff training	11,180,678	3,231,997
Staff welfare expenses	61,722,802	49,820,301
Amortisation of staff loan day 01 difference	1,705,823	2,672,312
	1,837,553,839	1,516,016,264

4.7 OTHER OPERATING EXPENSES

ACCOUNTING POLICY

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

	2016 Rs.	2015 Rs.
Directors' emoluments	13,964,286	13,047,619
Auditors' remuneration	2,600,000	2,593,500
Audit-related expenses	1,539,850	1,456,000
Non-audit fees to auditors	472,980	473,200
Professional and legal expenses	56,386,495	51,705,303
Deposit insurance premium	66,181,779	63,881,446
General insurance expenses	78,188,600	84,555,803
Office administration and establishment expenses	750,222,875	748,450,258
Advertising and business promotional expenses	367,292,003	315,882,555
Crop insurance levy expenses	36,523,918	21,922,975
	1,373,372,786	1,303,968,659

Directors' Emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under Salaries and Other Related Expenses in [Note 4.6](#).

4.8 TAXATION

ACCOUNTING POLICY

As per Sri Lanka Accounting Standard – (LKAS 12) – 'Income Taxes', tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the income statement except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income (OCI)', in which case it is recognised in equity or in OCI.

CURRENT TAXATION

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified in [Note 4.8.2](#) to the financial statements.

ACCOUNTING ESTIMATES

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. 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 other tax amounts in the period in which the determination is made.

DEFERRED TAXATION

Detailed disclosure of accounting policies and estimate of deferred tax is available in [Note 4.29](#) to the financial statements.

VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

NATIONS BUILDING TAX (NBT) 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 percent 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.

ECONOMIC SERVICE CHARGE (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto, ESC was payable at 0.25 percent 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.

CROP INSURANCE LEVY

As per provisions of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy was introduced with effect from 1st April 2013 and is payable to the National Insurance Trust Fund. Currently, the crop insurance levy is payable at 1 percent of profit after tax.

WITHHOLDING TAX ON DIVIDENDS

Withholding tax arises from the distribution of dividends by the Company and is recognised at the time the liability to pay the related dividend is recognised. The withholding tax on dividends is payable as a 10 percent deduction at source.

4.8.1 THE MAJOR COMPONENTS OF INCOME TAX EXPENSE FOR THE YEARS ENDED 31ST MARCH ARE AS FOLLOWS:

	2016 Rs.	2015 Rs.
4.8.1 (A) STATEMENT OF COMPREHENSIVE INCOME		
Current income tax		
Income tax for the Year	1,420,070,979	958,561,158
Under/(over) provision of current taxes in respect of previous years	59,012,573	(4,256,672)
Deferred tax		
Deferred taxation charge/(reversal) (Refer Note 4.29)	127,739,110	195,423,105
	1,606,822,662	1,149,727,591
4.8.1 (B) OTHER COMPREHENSIVE INCOME		
Deferred tax		
Deferred taxation charge/(reversal) (Refer Note 4.29)	3,472,762	(11,635,643)
	3,472,762	(11,635,643)
4.8.1 (C) TOTAL TAX EXPENSE FOR THE FINANCIAL YEAR	1,610,295,424	1,138,091,948

4.8.2 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 is as follows:

	2016 Rs.	2015 Rs.
Accounting profit before income taxation	5,324,615,526	3,331,853,747
Income tax expense at the statutory income tax rate of 28%	1,490,892,347	932,919,049
Tax effect of non-deductible expenses	307,761,370	213,826,243
Tax effect of lease capital generation	5,822,603,681	4,198,952,535
Tax effect of capital allowances and other allowable credits	(6,203,447,471)	(4,386,980,181)
Tax effect of exempt income	2,261,052	(156,488)
Adjustments of taxes in respect of prior years	59,012,573	(4,256,672)
Charge/(reversal) for deferred tax	127,739,110	195,423,105
	1,606,822,662	1,149,727,591
Effective tax rate (%)	30.18	34.51
Effective tax rate (excluding deferred tax) (%)	27.78	28.64
Accounting profit before tax on financial services	5,918,067,080	3,647,085,844
Effective tax rate (%)	27.15	31.52

4.8.3 SUMMARY OF THE TAXES PAID DURING THE YEAR

We have paid following direct and indirect taxes to the Government of Sri Lanka during the financial year.

	2016 Rs.	2015 Rs.
Direct Taxes		
Income tax	1,252,465,374	494,827,960
Value added tax on financial services	465,058,379	260,835,725
Nation building tax on financial services	84,074,058	45,436,045
Crop insurance levy	30,556,575	18,807,411
Super Gain Tax (Refer Note 4.8.4)	484,230,585	-
	2,316,384,971	819,907,141
Indirect taxes (collected and paid)		
Value added tax	489,370,013	323,535,377
Nation building tax	24,183,474	18,214,213
Stamp duty	237,946,504	88,737,703
Withholding tax on dividend and interest	176,059,191	183,873,864
PAYE tax	48,529,166	41,018,550
	976,088,348	655,379,707
Total taxes paid during the financial year	3,292,473,319	1,475,286,848

4.8.4 SUPER GAIN TAX

As per the provisions of the Part III of the Finance Act No. 10 of 2015 which was certified on 30th October 2015, the Company is liable for super gain tax of Rs. 484.2 million. According to the Act, the super gain tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 01st April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of super gain tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on accounting for super gain tax issued by The Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

4.9 BASIC EARNINGS PER ORDINARY SHARE**ACCOUNTING POLICY**

The Company presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33 – 'Earnings Per Share'.

Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees. The Company does not have any potentially dilutive shares.

4.9.1 INCOME AND SHARES DETAILS USED IN THE BASIC EARNING PER SHARE COMPUTATION

	2016 Rs.	2015 Rs.
Amounts used as the numerators:		
Profit attributable to ordinary shareholders for basic earnings per share	3,717,792,864	2,182,126,156
Number of ordinary shares used as denominators for basic earnings per share		Restated *
Weighted average number of ordinary shares in issue	138,514,284	138,514,284
Basic earnings per ordinary share	26.84	15.75

4.9.2 The Company's 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.

4.10 DIVIDEND PAID AND PROPOSED**ACCOUNTING POLICY**

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. 07 of 2007.

Dividends for the year that are declared after the reporting date are disclosed in [Note 6.8](#) 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).

	2016 Rs.	2015 Rs.
4.10.1 DECLARED AND PAID DURING THE YEAR		
Dividends on ordinary shares:		
First and final dividend for 2015 – Rs. 10.00 per share (2014 – Rs. 6.50 per share)	692,571,420	450,171,423
4.10.2 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 2016 – Rs. 7.50 per share (2015 – Rs. 10.00 per share)	1,038,857,130	692,571,420

* Number of shares for the previous period was 69,257,142 which were subdivided into 138,514,284 as described in [Note 4.31.3](#).

4.11 FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

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.

CLASSIFICATION AND INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

The classification of financial instruments at the initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities at fair value through profit and loss as per the Sri Lanka Accounting Standard – (LKAS 39) 'Financial Instruments: Recognition and Measurement'. Transaction costs in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through income statement.

DAY 1' PROFIT OR LOSS

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'net trading income'.

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

Financial assets held for trading and available for sale financial investments are subsequently measured at fair value. Changes in fair value of financial assets held for trading are recognised in 'net trading income'. Unrealised gains and losses from available for sale financial investments are recognised directly in equity through 'other comprehensive income/expense' in the

'available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'other operating income'. Where the 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).

Financial assets classified under loans and advances are or subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest income' in the statement of comprehensive income.

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.

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 customers', 'debt issued and other borrowed funds' and other financial liabilities 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.

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.

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.

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 SLFRSs/LKASs, 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.

Offsetting of financial instruments based on the rights of set off relating to the financial instruments and cash collateral is as follows.

<i>As at 31st March 2016</i>	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 Rs.	Net amount Rs.
Financial assets						
Lease rentals receivable and stock out on hire	45,104,836,096	–	45,104,836,096	–	17,761,939,036	27,342,897,060
Financial liabilities						
Due to customers	53,379,801,496	–	53,379,801,496	–	1,389,833,224	51,989,968,272

<i>As at 31st March 2015</i>	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 Rs.	Net amount Rs.
Financial assets						
Lease rentals receivable and stock out on hire	33,695,516,938	–	33,695,516,938	–	9,624,616,863	24,070,900,074
Financial liabilities						
Due to customers	45,430,551,655	–	45,430,551,655	–	1,060,988,373	44,369,563,282

The financial instruments and cash collateral amounts have been recorded at amortised cost. The rights of set off relating to the financial instruments and cash collateral are conditional upon the default of the counterparty.

4.12 FAIR VALUE MEASUREMENT

ACCOUNTING POLICY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

1. In the principal market for the asset or liability; or
2. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses various valuation methodologies that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

Level 1: Inputs include quoted prices for identical instruments and are the most observable.

Level 2: Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.

Level 3: Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments.

We review the inputs to the fair value measurements to ensure they are appropriately categorised within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognised as if they had taken place at the end of the reporting period.

4.12.1 FAIR VALUE MEASUREMENT HIERARCHY – FINANCIAL ASSETS MEASURED AT FAIR VALUE

As at 31st March	2016				2015			
	Fair value measurement using				Fair value measurement using			
	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total fair value Rs.	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total fair value Rs.
Notes								
Financial investments held for trading	4.14							
Quoted equities	10,645,973	–	–	10,645,973	10,063,760	–	–	10,063,760
Financial investments available for sale	4.18							
Government securities								
Quoted equities	138,106,649	–	–	138,106,649	140,282,735	–	–	140,282,735
Unquoted equities	–	–	304,700	304,700	–	–	304,700	304,700
	138,106,649	–	304,700	138,411,349	140,282,735	–	304,700	140,587,435

There were no transfers into and transfers out of the hierarchy levels during 2015 and 2016.

Details of valuation methodologies and assumptions are disclosed in the relevant note to the financial statements.

4.12.2 FAIR VALUE MEASUREMENT HIERARCHY – FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

4.12.2 (A) FINANCIAL ASSETS MEASURED AT AMORTISED COST

As at 31st March	Notes	2016				
		Fair value measurement using			Total fair value Rs.	Carrying value at amortised cost Rs.
		Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.		
Cash and bank balances	4.13					
Notes and coins held		458,449,134	-	-	458,449,134	458,449,134
Balances with banks		627,979,938	-	-	627,979,938	627,979,938
Treasury Bills repurchase agreements		-	4,965,469,642	-	4,965,469,642	4,965,469,642
		1,086,429,072	4,965,469,642	-	6,051,898,714	6,051,898,714
Loans and receivables (Net of allowance for impairment losses)	4.15					
Gold loans		-	-	13,136,351,207	13,136,351,207	13,136,351,207
Vehicle loans		-	-	4,843,847,181	4,843,847,181	5,099,563,427
Medium and short-term loans		-	-	2,382,852,321	2,382,852,321	2,561,778,760
Mortgage loans		-	-	3,735,094,977	3,735,094,977	3,711,836,919
Quick loans		-	-	12,050,384	12,050,384	12,340,563
Power drafts		-	-	1,356,946,884	1,356,946,884	1,455,257,785
Margin trading		-	-	17,799,919	17,799,919	17,799,919
Real estate loans		-	-	37,406	37,406	37,406
Factoring receivable		-	-	453,321,618	453,321,618	454,203,378
		-	-	25,938,301,897	25,938,301,897	26,449,169,364
Lease rentals receivable and stock out on hire (Net of allowance for impairment losses)	4.16					
Lease rentals receivable		-	-	41,402,369,706	41,402,369,706	42,592,253,128
Stock out on hire		-	-	2,477,885,821	2,477,885,821	2,512,582,968
		-	-	43,880,255,527	43,880,255,527	45,104,836,096
Other financial assets	4.19					
Treasury Bills repurchase agreements		-	819,319,827	-	819,319,827	819,319,827
Investment in FDs		-	3,125,971,014	-	3,125,971,014	3,125,971,014
Insurance premium receivable		-	168,628,400	-	168,628,400	168,628,400
Sundry debtors		-	28,797,081	-	28,797,081	28,797,081
		-	4,142,716,322	-	4,142,716,322	4,142,716,322

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS MEASURED AT AMORTISED COST UNDER LEVEL 3 CATEGORY.

	2016 Rs.	2015 Rs.
Increase/(decrease) in interest rate		
1bp Up	(5,917,091)	(15,511,619)
1bp Down	5,918,115	15,633,376

There were no transfers into and transfers out of the hierarchy levels during 2015 and 2016.

VALUATION METHODOLOGIES AND ASSUMPTIONS

CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as cash and cash equivalents. Time deposits, certificates of deposit and money market accounts that meet the above criteria are reported at par value on our balance sheet.

FINANCE RECEIVABLES (LOANS, LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE)

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, pre-payment speed, and applicable spreads to approximate current rates. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. We use the fair value of collateral to determine the fair value of non-performing finance receivables. The collateral for finance receivable is the vehicle financed, real estate, gold or other property. The fair value of finance receivables is categorised within Level 3 of the fair value measurement hierarchy. Loans and advances granted to customers with a variable rate are considered to be carried at fair value in the books net of credit losses.

OTHER FINANCIAL ASSETS

Since all the balances which are under other financial assets have short-term maturities, it is assumed that the carrying amounts of those balances approximate their fair values.

2015					
Fair value measurement using			Total fair Value Rs.	Carrying value at amortised Cost Rs.	
Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.			
391,917,381	-	-	391,917,381	391,917,381	
506,956,928	-	-	506,956,928	506,956,928	
-	5,168,796,070	-	5,168,796,070	5,168,796,070	
898,874,309	5,168,796,070	-	6,067,670,379	6,067,670,379	
-	-	10,380,630,886	10,380,630,886	10,380,704,037	
-	-	7,172,212,682	7,172,212,682	7,195,496,143	
-	-	1,460,623,286	1,460,623,286	1,423,733,559	
-	-	2,341,494,144	2,341,494,144	2,240,427,522	
-	-	4,877,647	4,877,647	4,957,042	
-	-	564,832,731	564,832,731	563,909,749	
-	-	2,872,855	2,872,855	2,872,855	
-	-	3,284,968	3,284,968	3,284,965	
-	-	446,919,077	446,919,077	447,375,536	
-	-	22,377,748,276	22,377,748,276	22,262,761,408	
-	-	28,544,249,250	28,544,249,250	28,038,878,368	
-	-	5,781,798,314	5,781,798,314	5,656,638,570	
-	-	34,326,047,564	34,326,047,564	33,695,516,938	
-	875,190,762	-	875,190,762	875,190,762	
-	1,133,326,032	-	1,133,326,032	1,133,326,032	
-	129,742,674	-	129,742,674	129,742,674	
-	1,918,541	-	1,918,541	1,918,541	
-	2,140,178,009	-	2,140,178,009	2,140,178,009	

4.12.2 (B) FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

As at 31st March	Notes	2016				
		Fair value measurement using			Total fair value Rs.	Carrying value at amortised cost Rs.
		Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.		
Due to banks	4.23					
Bank overdrafts		-	699,271,523	-	699,271,523	699,271,523
Syndicated loans and other bank facilities		-	13,693,043,989	-	13,693,043,989	13,877,962,197
Finance lease		-	-	-	-	-
		-	14,392,315,512	-	14,392,315,512	14,577,233,720
Due to customers	4.24					
Fixed deposits		-	-	50,698,732,686	50,698,732,686	50,595,760,412
Certificates of deposit		-	-	185,247,552	185,247,552	185,247,552
Savings deposits		-	-	2,598,793,532	2,598,793,532	2,598,793,532
		-	-	53,482,773,770	53,482,773,770	53,379,801,496
Debt instruments issued and other borrowed funds	4.25					
Securitised borrowings		-	-	-	-	-
Unsecured debentures		-	2,742,249,383	-	2,742,249,383	2,601,282,504
		-	2,742,249,383	-	2,742,249,383	2,601,282,504
Other financial liabilities	4.26					
Trade payables		-	893,576,210	-	893,576,210	893,576,210
Insurance premium payable		-	414,291,918	-	414,291,918	414,291,918
Unclaimed balances		-	421,660,842	-	421,660,842	421,660,842
Advances collected from customers		-	91,827,824	-	91,827,824	91,827,824
Sundry creditors		-	48,583,806	-	48,583,806	48,583,806
		-	1,869,940,600	-	1,869,940,600	1,869,940,600

SENSITIVITY ANALYSIS OF FINANCIAL LIABILITIES MEASURED AT AMORTISED COST UNDER LEVEL 3 CATEGORY

	2016 Rs.	2015 Rs.
Increase/(decrease) in interest rate		
1bp Up	(3,336,471)	(2,608,766)
1bp Down	3,336,942	2,609,117

There were no financial liabilities recorded at fair value as at 31st March 2015 and 2016.

There were no transfers into and transfers out of the hierarchy levels during 2015 and 2016.

2015						
Fair value measurement using					Total fair value Rs.	Carrying value at amortised Cost Rs.
Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.				
-	981,916,626	-		981,916,626	981,916,626	
-	6,635,569,885	-		6,635,569,885	6,720,360,404	
-	988,180	-		988,180	988,180	
-	7,618,474,691	-		7,618,474,691	7,703,265,210	
-	-	43,510,554,584		43,510,554,584	42,782,095,946	
-	-	207,246,189		207,246,189	207,246,189	
-	-	2,441,209,520		2,441,209,520	2,441,209,520	
-	-	46,159,010,293		46,159,010,293	45,430,551,655	
-	932,525,851	-		932,525,851	932,525,851	
-	2,856,023,833	-		2,856,023,833	2,597,049,417	
-	3,788,549,684	-		3,788,549,684	3,529,575,268	
-	877,169,398	-		877,169,398	877,169,398	
-	296,545,411	-		296,545,411	296,545,411	
-	432,391,247	-		432,391,247	432,391,247	
-	88,310,562	-		88,310,562	88,310,562	
-	81,649,521	-		81,649,521	81,649,521	
-	1,776,066,139	-		1,776,066,139	1,776,066,139	

VALUATION METHODOLOGIES AND ASSUMPTIONS

DUE TO CUSTOMERS

We measure the fair value using internal valuation models. These models project future cash flows of fixed deposits based on scheduled maturities (including principal and interest) and pre-maturities of deposits. The projected cash flows are discounted to present value based on applicable spreads to approximate current deposit rates for each tenor. Our assumptions regarding pre-maturity speed and spreads are based on historical performance. Certificates of deposit that have a maturity less than one year and savings deposits without a specific maturity are assumed that the carrying amounts approximate their fair values. The fair value of Due to Customers is categorised within Level 3 of the hierarchy.

LISTED AND UNLISTED DEBENTURES, BANK BORROWINGS, SECURITISED NOTES AND DEBT INSTRUMENTS

We measure fair value for listed debentures using quoted prices for our own debentures with approximately the same remaining maturities, where possible. If the particular debenture is off the run, we estimate the fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debenture. Comparable on the run debenture yield to maturity (YTM) assumed to be a good approximation for the fair value estimation of off the run debentures. We estimate the fair value of bank borrowings and debt instruments using discounted cash flows and use the most recent transacted rate and/or unexpired offered rate of a similar instrument or borrowing. Debt instrument and bank borrowing do not carry prepayment or embedded options. The fair value of debt is categorised within Level 2 of the hierarchy.

OTHER FINANCIAL LIABILITIES

Since all the liabilities which are under other financial liabilities have short-term maturities, it is assumed that the carrying amounts of those liabilities approximate their fair values.

4.13 CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents includes cash and bank balances and money at call and short notice. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

	2016 Rs.	2015 Rs.
Notes and coins held	458,449,134	391,917,381
Balances with banks	627,979,938	506,956,928
Treasury Bills repurchase agreements (less than 03 months)	4,965,469,642	5,168,796,070
	6,051,898,714	6,067,670,379
Fair value	6,051,898,714	6,067,670,379

4.13.1 The gross value of repurchase agreements reflected on our statement of financial position under cash and cash equivalents as at 31st March 2016 and 31st March 2015 was Rs. 5,607,024,315/- and Rs. 5,989,592,460/- respectively.

4.13.2 CASH AND CASH EQUIVALENTS ALLOCATED FOR THE LIQUIDITY REQUIREMENT

ACCOUNTING POLICY

Our cash and cash equivalents allocated for the liquidity requirement primarily include cash held to meet certain local governmental and regulatory reserve requirement and cash held under the terms of certain contractual agreements. This does not include required minimum balances or cash securing debt issued through securitisation transactions. Cash and cash equivalents allocated for the liquidity requirement were as follows. (in Rupees):

	2016 Rs.	2015 Rs.
Cash and cash equivalents allocated for the liquidity requirement	1,524,566,160	2,657,904,859

4.13.3 NET CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF THE CASH FLOW STATEMENT

ACCOUNTING POLICY

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

	2016 Rs.	2015 Rs.
Cash and cash equivalents	6,051,898,714	6,067,670,379
Bank overdrafts (Note 4.23)	(699,271,523)	(981,916,626)
Net cash and cash equivalents	5,352,627,191	5,085,753,753

4.14 FINANCIAL INVESTMENTS – HELD FOR TRADING**ACCOUNTING POLICY**

Financial investments are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Financial investments held for trading are recorded in the statement of financial position at fair value. Changes in fair value are 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 equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term. We generally measure fair value using prices obtained from pricing services, stock exchanges, Central Banks and other authenticated public sources. We use the last traded price to value our quoted equities.

	2016 Rs.	2015 Rs.
Equity securities – quoted (Note 4.14.1)	10,645,973	10,063,760

4.14.1 EQUITY SECURITIES – QUOTED

	Number of shares		Cost as at		Market Value as at		Number of shares		Cost as at		Market value as at	
	2016	31st March 2016	Rs.	31st March 2016	Rs.	2015	31st March 2015	Rs.	31st March 2015	Rs.	31st March 2015	Rs.
Bank finance and insurance												
Seylan Bank PLC (Non-Voting)	93,032		1,685,000		5,861,016	93,032		1,685,000		5,898,228		
			1,685,000		5,861,016			1,685,000		5,898,228		
Beverages, food and tobacco												
Bairaha Farms PLC	17,600		424,979		2,534,400	17,600		424,979		1,907,840		
			424,979		2,534,400			424,979		1,907,840		
Manufacturing												
Lanka Walltiles PLC*	19,740		789,882		1,950,312	19,740		789,882		1,891,092		
			789,882		1,950,312			789,882		1,891,092		
Trading												
Hayleys PLC*	1,222		207,240		300,245	1,222		207,240		366,600		
			207,240		300,245			207,240		366,600		
Total			3,107,101		10,645,973			3,107,101		10,063,760		

* Investments made in related parties.

4.15 LOANS AND RECEIVABLES**ACCOUNTING POLICY**

Loans and receivables include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the 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 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.

	2016 Rs.	2015 Rs.
Gold loans	13,164,981,736	10,436,665,984
Vehicle loans	5,348,694,709	7,449,736,527
Medium and short-term loans	2,578,815,728	1,428,913,146
Mortgage loans	3,928,142,949	2,410,156,338
Quick loans	12,558,183	5,367,759
Power drafts	1,509,408,857	605,831,788
Margin trading	69,864,158	54,808,517
Factoring receivable	558,513,684	544,935,747
Real estate loans	2,152,442	3,284,964
Gross loans and receivables	27,173,132,446	22,939,700,770
Allowance for impairment losses (Note 4.17)	(723,963,081)	(676,939,362)
Net loans and receivables subject to fair value (Note 4.15.2)	26,449,169,365	22,262,761,408
Fair value	25,938,301,897	22,377,748,276

4.15.1 LOANS AND RECEIVABLES INCLUDE LOANS GRANTED TO COMPANY OFFICERS, THE MOVEMENT OF WHICH IS AS FOLLOWS:

	2016 Rs.	2015 Rs.
As at the beginning of the year	81,281,511	6,402,791
Loans granted during the year	227,502,752	79,603,957
Repayments during the year	(30,756,372)	(4,725,237)
As at the end of the year	278,027,891	81,281,511

4.15.2 CONTRACTUAL MATURITY ANALYSIS OF LOANS AND RECEIVABLES

As at 31st March 2016	Within one year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gold loans	13,164,981,736	–	–	13,164,981,736
Vehicle loans	2,379,617,315	2,927,877,379	41,200,015	5,348,694,709
Medium and short-term loans	1,999,942,908	578,872,820	–	2,578,815,728
Mortgage loans	894,719,994	2,112,151,349	921,271,606	3,928,142,949
Quick loans	12,299,037	259,146	–	12,558,183
Power drafts	1,084,601,338	424,807,519	–	1,509,408,857
Margin trading	69,864,158	–	–	69,864,158
Factoring receivable	554,449,223	4,064,461	–	558,513,684
Real estate loans	2,152,442	–	–	2,152,442
Gross loans and receivables	20,162,628,151	6,048,032,674	962,471,621	27,173,132,446
Allowance for impairment losses (Note 4.17)				(723,963,081)
Net loans and receivables				26,449,169,365

As at 31st March 2015	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gold loans	10,436,665,984	–	–	10,436,665,984
Vehicle loans	3,002,445,324	4,415,959,583	31,331,620	7,449,736,527
Medium and short-term loans	1,052,954,528	375,489,745	468,873	1,428,913,146
Mortgage loans	680,960,323	1,338,562,749	390,633,266	2,410,156,338
Quick loans	4,907,320	460,439	–	5,367,759
Power drafts	134,208,105	471,623,683	–	605,831,788
Margin trading	54,808,517	–	–	54,808,517
Factoring receivable	535,539,156	9,396,591	–	544,935,747
Real estate loans	3,054,208	230,756	–	3,284,964
Gross loans and receivables	15,905,543,465	6,611,723,546	422,433,759	22,939,700,770
Allowance for impairment losses (Note 4.17)				(676,939,362)
Net loans and receivables				22,262,761,408

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

4.16 LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

ACCOUNTING POLICY

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the statement of financial position. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Lease and stock out on hire include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the 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 its initial investment, other than because of credit deterioration.

After initial measurement, lease receivable and stock out on hire are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the 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.

	2016 Lease Rs.	2016 Hire purchase Rs.	2016 Total Rs.	2015 Lease Rs.	2015 Hire purchase Rs.	2015 Total Rs.
Gross rentals receivables	56,668,150,466	3,417,862,105	60,086,012,571	38,037,184,649	7,738,386,648	45,775,571,297
Unearned income	(12,514,890,422)	(540,033,717)	(13,054,924,139)	(8,442,031,702)	(1,640,044,406)	(10,082,076,108)
Net rentals receivables	44,153,260,044	2,877,828,388	47,031,088,432	29,595,152,947	6,098,342,242	35,693,495,189
Rentals received in advance	(8,457,131)	–	(8,457,131)	(7,284,527)	–	(7,284,527)
Allowance for impairment losses (Note 4.17)	(1,552,549,785)	(365,245,420)	(1,917,795,205)	(1,548,990,052)	(441,703,672)	(1,990,693,724)
Total net rentals receivable subject to fair value (Note 4.16.2)	42,592,253,128	2,512,582,968	45,104,836,096	28,038,878,368	5,656,638,570	33,695,516,938
Fair value			43,880,255,527			34,326,047,564

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 & equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

When the Company is the lessee, leased assets are not recognised on the statement of financial position. Rentals receivable under operating leases are accounted for on a straight-line basis over the periods of the leases to reduce the asset to its estimated residual value and are included in 'other operating income'. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

4.16.1 LEASE AND HIRE PURCHASE FACILITIES GRANTED TO COMPANY OFFICERS, THE MOVEMENT OF WHICH IS AS FOLLOWS:

	2016 Rs.	2015 Rs.
As at the beginning of the year	141,511,198	134,211,105
Lease and hire purchase facilities granted during the year	42,883,684	44,788,076
Repayments during the year	(89,470,010)	(37,487,983)
As at the end of the year	94,924,872	141,511,198

4.16.2 CONTRACTUAL MATURITY ANALYSIS OF LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

As at 31st March 2016	Lease				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.
Gross rentals receivables	22,975,143,108	33,684,661,922	8,345,435	56,668,150,466	1,914,035,067	1,499,513,958	4,313,079	3,417,862,104
Unearned income	(6,190,912,232)	(6,323,327,964)	(650,225)	(12,514,890,422)	(338,765,753)	(201,098,189)	(169,774)	(540,033,716)
Net rentals receivables	16,784,230,876	27,361,333,958	7,695,210	44,153,260,044	1,575,269,314	1,298,415,769	4,143,305	2,877,828,388
Rentals received in advance				(8,457,131)				–
Allowance for impairment losses				(1,552,549,785)				(365,245,420)
Total net rentals receivable				42,592,253,128				2,512,582,968

As at 31st March 2015	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.
Gross rentals receivables	17,607,670,652	20,424,295,501	5,218,496	38,037,184,649	3,460,234,730	4,257,564,812	20,587,106	7,738,386,648
Unearned income	(4,555,963,791)	(3,885,697,822)	(370,089)	(8,442,031,702)	(857,135,384)	(781,416,076)	(1,492,946)	(1,640,044,406)
Net rentals receivables	13,051,706,861	16,538,597,679	4,848,407	29,595,152,947	2,603,099,346	3,476,148,736	19,094,160	6,098,342,242
Rentals received in advance				(7,284,527)				-
Allowance for impairment losses				(1,548,990,052)				(441,703,672)
Total net rentals receivable				28,038,878,368				5,656,638,570

Our lease rentals receivable and stock out on hire are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

4.17 ALLOWANCE FOR IMPAIRMENT LOSSES

ACCOUNTING ESTIMATES

The allowance for credit losses represents our estimate of the probable loss on the collection of finance receivables from customers as of the balance sheet date. The adequacy of the allowance for credit losses is assessed monthly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses may vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. The credit losses are attributable to lease, hire purchase, loans and receivables portfolio.

The uncollectible portion of finance receivables are charged to the provision for impairment when an account is deemed to be uncollectible taking into consideration the financial condition of the customer, borrower or lessee, the value of the collateral, recourse to guarantors and other factors. Recoveries on finance receivables previously taken as impaired are debited to the allowance for credit losses.

INDIVIDUALLY IMPAIRED RECEIVABLES

Finance receivables that are more than five months in arrears, related to repossessed collaterals, subjected to legal action/ongoing legal action, untraceable or unattainable collaterals, or are determined to be uncollectible, are identified as individually impaired. Impairment is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell. Loss severity/Loss Given Default (LGD) of each category of impaired receivable is assumed to be a vital factor for the allowance for impairment.

The LGD assumptions are based on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, we may adjust the estimate to reflect management judgment regarding observable changes in recent economic trends and conditions, portfolio composition and other relevant factors.

COLLECTIVELY IMPAIRED RECEIVABLES

The collective impairment is evaluated primarily using rating migration matrixes and loss severity models that based on historical experience, indicates credit losses have been incurred in the portfolio even though the particular accounts that are uncollectible cannot be specifically identified. In addition to the Loss Given Default (LGD), we make projections for Probability of Default (PD) to estimate the collective impairment for receivables. We have used the rating migration matrixes to compute the PD.

The rating migrating matrix models are based on the most recent years of history. Each PD is calculated by dividing default contracts of each age category by beginning-of-period total contacts of each age category (Cohort method). The loss emergence period is a key assumption within our models and represents the average amount of time between when a loss event first occurs and when it is incurred. This time period starts when the consumer begins to experience financial difficulty. It is evidenced, typically through observable data for above average company NPL, historically low collection ratio, historically high rental arrears, and unacceptable low level of business volumes which may result in a portfolio level impairment.

ACCOUNTING POLICY

REVERSALS OF IMPAIRMENT

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the statement of comprehensive income.

WRITE-OFF OF LOANS AND RECEIVABLES

Financial assets and the related impairment allowance accounts are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

COLLATERAL VALUATION

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

COLLATERAL REPOSSESSED

Reposessed collateral will not be taken into books of accounts unless the Company has taken those collaterals into its business operations. However such additions from the reposessed collaterals to the business operations are not significant.

	Loans and receivables		Lease rentals receivable and stock out on hire		Total	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
4.17.1 As at 1st April	676,939,362	518,156,469	1,990,693,724	1,239,650,231	2,667,633,086	1,757,806,700
Charge/(Reversal) for the year	61,449,496	185,850,697	345,823,896	1,621,737,090	407,273,392	1,807,587,787
Amounts written off	(14,425,777)	(27,067,804)	(418,722,415)	(870,693,597)	(433,148,192)	(897,761,400)
As at 31st March	723,963,081	676,939,362	1,917,795,205	1,990,693,724	2,641,758,286	2,667,633,086
4.17.2 Individual impairment	634,805,654	567,784,305	1,577,761,902	1,804,560,595	2,212,567,556	2,372,344,900
Collective impairment	89,157,427	109,155,057	340,033,303	186,133,129	429,190,730	295,288,186
Total	723,963,081	676,939,362	1,917,795,205	1,990,693,724	2,641,758,286	2,667,633,086
4.17.3 Gross amount of loans Individually determined to be Impaired, before deducting the Individually assessed impairment allowance	977,153,840	845,078,289	2,063,714,137	2,697,097,024	3,040,867,977	3,542,175,313
Gross amount of loans collectively assessed for the impairment	26,195,978,606	22,094,622,481	44,967,374,295	32,996,398,165	71,163,352,901	55,091,020,646
Gross receivables	27,173,132,446	22,939,700,770	47,031,088,432	35,693,495,189	74,204,220,878	58,633,195,959

The recorded loans and receivables that were impaired at 31st March 2016 and 2015 were 3.60 percent of receivables and 3.68 percent of receivables, respectively. Lease rentals receivable and stock out on hire that were impaired at 31st March 2016 and 2015 were 4.39 percent of receivables and 7.56 percent of receivables, respectively.

4.17.4 PRODUCT-WISE ANALYSIS OF THE ALLOWANCE FOR IMPAIRMENT LOSSES

	2016 Rs.	2015 Rs.
Gold loans	28,630,528	55,961,947
Vehicle loans	249,131,282	254,240,384
Medium and short-term loans	19,152,005	5,179,587
Mortgage loans	216,306,032	169,728,816
Quick loans	217,619	410,717
Power drafts	54,151,072	41,922,039
Margin trading	52,064,238	51,935,662
Factoring receivable	104,310,305	97,560,210
Loans and receivables	723,963,081	676,939,362
Leases	1,552,549,785	1,548,990,052
Hire purchase	365,245,420	441,703,672
Lease rentals receivable and stock out on hire	1,917,795,205	1,990,693,724
Total allowance for impairment losses	2,641,758,286	2,667,633,086

4.17.5 NON-ACCRUAL RECEIVABLES

The accrual of revenue is discontinued at the earlier of the time a receivable is determined to be fully impaired. Fully impairment point is trigger out when the receivables are more than eleven months in arrears, receivables are subject to legal action/ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. Company has adopted this policy from April, month of the current financial year and prior periods the revenue is accrued for the fully impaired contracts and then fully impaired for the same. For receivables in non-accrual status, subsequent financing revenue is recognised only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

4.18 FINANCIAL INVESTMENTS – AVAILABLE FOR SALE**ACCOUNTING POLICY**

Financial investments available for sale are recorded in the statement of financial position at fair value. These include equity and debt securities. Debt and equity securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Company has not designated any loans or receivables as available for sale. We generally measure fair value using prices obtained from pricing services, stock exchanges, central banks and other authenticated public sources. We use the last traded price to value our quoted equities. Government Debt Securities are valued using discounted cash flows using same series yield to maturity (YTM) or interpolated (on the run and off the run) YTM adjusted for market based expectations for interest rates.

ACCOUNTING ESTIMATES

The Company reviews their Debt Securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied on the individual assessment of loans and advances.

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Company generally treats 'significant' as 20 percent 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.

	2016 Rs.	2015 Rs.
Equity Securities – Quoted (Note 4.18.1)	138,106,649	140,282,735
Equity Securities – Unquoted (Note 4.18.2)	304,700	304,700
	138,411,349	140,587,435

4.18.1 EQUITY SECURITIES – QUOTED

	Number of shares 2016	Cost as at 31st March 2016 Rs.	Market value as at 31st March 2016 Rs.	Number of shares 2015	Cost as at 31st March 2015 Rs.	Market value as at 31st March 2015 Rs.
Manufacturing						
Blue Diamond Jewellery Worldwide PLC	74	848	74	74	848	103
Central Industries PLC	4,092	149,805	351,093	4,092	149,805	347,411
Ceylon Grain Elevators PLC	44	5,214	3,032	44	5,214	1,672
Dankotuwa Porcelain PLC	32,512	1,012,435	221,082	14,450	867,939	161,840
Royal Ceramics PLC*	31,320	843,225	3,135,132	31,320	843,225	3,476,520
Samson International PLC	5,899	929,800	619,395	5,363	929,800	557,752
		2,941,327	4,329,808		2,796,831	4,545,298
Hotels and travels						
Fortress Resorts PLC*	4,051,100	81,989,955	52,664,300	4,051,100	81,989,955	61,576,720
Aitken Spence Hotel Holdings PLC	308	5,672	16,324	308	5,672	20,636
Hotel Sigiriya PLC	700	30,333	67,200	700	30,333	61,530
Palm Garden Hotels PLC	36	3,467	1,076	36	3,467	1,652
		82,029,427	52,748,900		82,029,427	61,660,538
Trading						
Hunters & Company PLC	10	2,767	4,005	10	2,767	3,900
		2,767	4,005		2,767	3,900
Bank, finance and insurance						
Commercial Bank of Ceylon PLC	272	14,901	34,136	270	14,901	44,658
Merchant Bank of Sri Lanka & Finance PLC	61	6,027	622	61	6,027	964
Seylan Bank PLC	2,538	155,395	218,268	2,538	155,395	253,800
Sampath Bank PLC*	5	-	1,130	5	-	1,260
Softlogic Finance PLC	2,090,000	79,655,870	80,047,000	2,090,000	79,655,870	72,941,000
		79,832,193	80,301,156		79,832,193	73,241,682
Beverages, food and tobacco						
Keells Food Products PLC	500	21,420	85,000	500	21,420	54,150
Lanka Milk Foods PLC	5,500	249,732	629,750	5,500	249,732	770,000
Soy Foods (F&W) PLC	22	880	8,030	22	880	7,167
		272,032	722,780		272,032	831,317
Total		165,077,746	138,106,649		164,933,250	140,282,735

4.18.2 EQUITY SECURITIES – UNQUOTED

	2016			2015		
	Number of shares	Cost as at 31st March	Market value as at 31st March	Number of shares	Cost as at 31st March	Market value as at 31st March
	2016	2016 Rs.	2016 Rs.	2015	2015 Rs.	2015 Rs.
Credit Information Bureau of Sri Lanka	1,047	104,700	104,700	1,047	104,700	104,700
Finance Houses Association of Sri Lanka	20,000	200,000	200,000	20,000	200,000	200,000
Total		304,700	304,700		304,700	304,700

* Investments made in Related Parties

Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

RECONCILIATION OF FAIR VALUE MEASUREMENT FOR UNQUOTED EQUITY SECURITIES UNDER LEVEL 3 HIERARCHY

	2016 Rs.	2015 Rs.
As at 1st April	304,700	304,700
Remeasurement recognised in OCI	-	-
Purchases	-	-
Sales	-	-
Transfers into or out of level 3 hierarchy	-	-
Remeasurement recognised in profit or loss	-	-
As at 31st March	304,700	304,700

4.19 OTHER FINANCIAL ASSETS**ACCOUNTING POLICY**

These include Treasury Bills repurchase agreements, where we are the transferee and investments in fixed deposits with banks and other financial institutions. Treasury Bills repurchase agreements allow us to offset our entire gross exposure in the event of default or breach of contract. Other financial assets are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (Net of transaction cost) and the receivable amount (including interest income) is recognised in the statement of comprehensive income over the period of the assets using effective interest method.

	2016 Rs.	2015 Rs.
Treasury Bills Repurchase Agreements (Note 4.19.1)	819,319,827	875,190,762
Investment in FDs (Note 4.19.2)	3,125,971,014	1,133,326,032
Insurance premium receivable	168,628,400	129,742,674
Sundry debtors	28,797,081	1,918,541
	4,142,716,322	2,140,178,009
Fair Value	4,142,716,322	2,140,178,009

4.19.1 The gross value of repurchase agreements reflected on our statement of financial position under Other Financial Assets as at 31st March 2016 and 31st March 2015 were Rs. 995,500,000/- and Rs. 1,095,000,000/-, respectively.

4.19.2 INVESTMENT IN FIXED DEPOSITS

Counterparty External Credit Rating*	2016 Rs.	2015 Rs.
AA-	2,328,599,658	407,566,904
A-	-	265,499,128
BBB	644,426,322	460,260,000
BB+	152,945,034	-
	3,125,971,014	1,133,326,032

*Fitch Ratings Lanka Ltd.

4.20 OTHER NON-FINANCIAL ASSETS**ACCOUNTING POLICY**

Company classifies all other non-financial assets other than Intangible Assets, property, plant & equipment and Deferred Tax Assets under other non-financial assets. Other non-financial assets, include real estate stock, vehicle stock, gold stock and receivable amounts from the Department of Inland Revenue, etc. These assets are non-interest earning and recorded at the amounts that are expected to be received.

	2016 Rs.	2015 Rs.
Real estate stock	161,181,726	317,176,363
Vehicle stock	118,631,840	527,494,240
Deposits, advances and pre-payments	223,881,544	305,465,204
Gold stock	5,563,739	6,203,219
Stationery stock	10,243,935	7,568,046
Withholding tax receivable	11,896,945	35,441,828
Sundry debtors	4,000,890	841,837
Pre-paid staff cost (Note 4.20.1)	3,497,384	6,084,302
	538,898,003	1,206,275,039

GOLD STOCK

The gold inventory is valued at lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.20.1 THE MOVEMENT IN THE PRE-PAID STAFF COST

	2016 Rs.	2015 Rs.
As at the beginning of the year	6,084,302	57,977,443
Adjustment for new grants and settlements	(881,095)	(2,534,534)
Impact of the reassessment of day 1 difference	-	(46,686,295)
Charge to personnel expenses	(1,705,823)	(2,672,312)
As at the end of the year	3,497,384	6,084,302

4.21 PROPERTY, PLANT & EQUIPMENT

Property, plant & 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 & Equipment' in accounting for these assets.

ACCOUNTING POLICY

BASIS OF RECOGNITION

Property, plant & 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.

MEASUREMENT

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

COST MODEL

The Company applies cost model to property, plant & equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

SUBSEQUENT COST

The subsequent cost of replacing a component of an item of property, plant & 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 & 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.

DERECOGNITION

The carrying amount of an item of property, plant & 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 & equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

DEPRECIATION

The 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	5-6.67 Years
Air conditioning equipment	5 Years
Telephone System	5 Years
Fire protection equipment	5 Years
Fixtures and fittings	3 Years

ACCOUNTING ESTIMATES

USEFUL LIFE-TIME OF THE PROPERTY, PLANT & EQUIPMENT

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

4.21.1 GROSS CARRYING AMOUNTS

	Balance as at 01.04.2015 Rs.	Additions Rs.	Transfers Rs.	Disposals/ write offs Rs.	Balance as at 31.03.2016 Rs.
Cost					
Freehold assets					
Land	416,276,695	14,044,000	64,905,768	-	495,226,463
Building	630,626,925	-	-	-	630,626,925
Furniture and fittings	187,854,420	41,278,515	-	(564,449)	228,568,486
Equipment	307,392,924	38,936,040	4,300,000	(935,103)	349,693,859
Motor vehicles and accessories	636,683,363	63,782,793	5,478,571	(396,929,725)	309,015,002
Computer hardware	279,704,987	56,233,446	-	(920,000)	335,018,433
Air conditioning equipment	127,548,082	43,597,948	-	(1,587,052)	169,558,978
Telephone system	72,989,862	3,009,400	-	(358,753)	75,640,509
Fire protection equipment	13,384,589	2,593,379	-	-	15,977,968
Leasehold improvements	563,741,657	165,162,499	-	(1,363,845)	727,540,312
Fixtures and fittings	27,356,659	5,912,438	-	-	33,269,097
	3,263,560,163	434,550,459	74,684,339	(402,658,928)	3,370,136,032
Assets on finance lease					
Motor vehicles	9,778,571	-	(9,778,571)	-	-
	3,273,338,734	434,550,459	64,905,768	(402,658,928)	3,370,136,032

During the financial year, the Company has transferred a land amounting to Rs. 64,905,768/- to Property, Plant & Equipment from real estate stock which is classified under other Non-Financial assets.

4.21.2 DEPRECIATION

	Balance As at 01.04.2015 Rs.	Change for the year Rs.	Transfers Rs.	Disposals/ write offs Rs.	Balance As at 31.03.2016 Rs.
Depreciation freehold assets					
Building	41,110,662	12,612,538	-	-	53,723,200
Furniture and fittings	94,011,629	27,154,139	-	(432,725)	120,733,042
Equipment	191,503,230	49,353,048	3,629,596	(908,084)	243,577,790
Motor vehicles and accessories	338,372,688	59,274,585	1,770,384	(277,838,824)	121,578,833
Computer hardware	187,750,891	43,474,886	-	(822,054)	230,403,723
Air conditioning equipment	76,121,968	26,016,931	-	(1,345,486)	100,793,413
Telephone system	54,978,044	10,087,678	-	(358,753)	64,706,969
Fire protection equipment	8,635,472	2,952,275	-	-	11,587,748
Leasehold improvements	269,509,608	82,892,637	-	(927,217)	351,475,028
Fixtures and fittings	22,701,001	3,560,151	-	-	26,261,152
	1,284,695,192	317,378,868	5,399,980	(282,633,143)	1,324,840,897
Assets on finance lease					
Motor vehicles	4,483,239	916,741	(5,399,980)	-	-
	1,289,178,431	318,295,609	-	(282,633,143)	1,324,840,897

4.21.3 NET BOOK VALUES

	2016 Rs.	2015 Rs.
At cost		
Land	495,226,463	416,276,695
Building	576,903,725	589,516,263
Furniture and fittings	107,835,444	93,842,792
Equipment	106,116,069	115,889,693
Motor vehicles and accessories	187,436,169	298,310,675
Computer hardware	104,614,710	91,954,096
Air conditioning equipment	68,765,565	51,426,115
Telephone system	10,933,540	18,011,818
Fire protection equipment	4,390,221	4,749,118
Leasehold improvements	376,065,284	294,232,049
Fixtures and fittings	7,007,945	4,655,658
	2,045,295,135	1,978,864,972
Assets on finance leases		
Motor vehicles	-	5,295,331
Total carrying amount of property, plant & equipment	2,045,295,135	1,984,160,303

4.21.4 PROPERTY, PLANT & EQUIPMENT ACQUIRED DURING THE FINANCIAL YEAR

During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs. 434,550,459/- (2015 – Rs. 260,481,444/-). Cash payments amounting to Rs. 434,550,459/- (2015 – Rs. 260,481,444/-) was paid during the year for purchases of property, plant & equipment.

4.21.5 PROPERTY, PLANT & EQUIPMENT SUBJECTED TO OPERATING LEASE

Included in property, plant & equipment are assets subject to operating lease where the Company is a lessor. At 31st March 2016, the net carrying value amount of those assets was Rs. 4,289,507/- (2015 – Rs. 138,127,013/-), on which the accumulated depreciation as at 31st March 2016 was Rs. 10,641,293/- (2015 – Rs. 250,708,901/-).

Summary of future operating lease receivable was as follows.

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<i>As at 31st March 2016</i>				
Future operating lease receivable	5,164,701	5,317,000	–	10,481,701
<i>As at 31st March 2015</i>				
Future operating lease receivable	88,837,717	32,319,917	–	121,157,634

4.21.6 BORROWING COSTS

There were no capitalised borrowing costs relating to the acquisition of property, plant & equipment during the year.

4.21.7 FULLY-DEPRECIATED PROPERTY, PLANT & EQUIPMENT

The initial cost of fully-depreciated property, plant & equipment, which are still in use as at reporting date is Rs. 432,766,414/- (2015 - Rs. 330,341,903/-).

4.21.8 LEASE COMMITMENTS

We lease land, buildings and equipment under agreements that expire over various contractual periods. Minimum operating lease commitments at 31st March were as follows:

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<i>As at 31st March 2016</i>				
Minimum operating lease commitments	136,020,117	472,975,822	185,916,590	794,912,529
<i>As at 31st March 2015</i>				
Minimum operating lease commitments	133,008,364	437,259,239	195,349,017	765,616,620

Operating lease expense for the years ended 31st March was as follows.

	2016 Rs.	2015 Rs.
Operating lease expense	149,218,957	130,408,806

4.21.9 INFORMATION ON THE FREEHOLD LAND AND BUILDINGS OF THE COMPANY

Location	Extent (Perches)	Buildings (Square Feet)	Revalued amount (As at 31st March 2016) Rs.	Revalued amount as a % of net book value (As at 31st March 2016) Rs.	Revalued amount as a % of net book value (As at 31st March 2016)	Net book value (As at 31st March 2015) Rs.
Kollupitiya No. 20, Dharmapala Mawatha, Colombo 03.	52.82	65,000	1,010,000,000	932,049,264	108	944,601,025
Kandy City No. 226, D S Senanayaka Street, Kandy.	7.05	3,674	56,000,000	10,587,430	529	10,648,207
Maradana No. 104/1, Vipulasena Mawatha, Colombo 10.	50.6	–	265,650,000	43,043,725	617	43,043,725
Kandy Moragaspitiyawatta Road, Balagolla, Kengalla.	110	–	27,800,000	21,544,000	129	7,500,000
Nuwara-Eliya No. 35/4, Upper Lake Road, Nuwara-Eliya.	359	–	188,000,000	64,905,768	290	–

Valuation of freehold land and buildings of the Company was carried out as at 31st March 2016 by H B Manjula Basnayaka, AIV (Sri Lanka) and Shiral I de Silva, JP, FIV, incorporated valuers. Investment method and contractor's test method have been used for the valuation.

Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy.

4.22 INTANGIBLE ASSETS

An intangible asset is an identifiable monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

ACCOUNTING POLICY**BASIS OF RECOGNITION**

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

COMPUTER SOFTWARE

Cost of all computer software licensed for use by the 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 of intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

SUBSEQUENT EXPENDITURE

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

DERECOGNITION OF INTANGIBLE ASSETS

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the income statement when the item is derecognised.

AMORTISATION OF INTANGIBLE ASSETS

Intangible assets, except for goodwill, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. Indefinite-lived intangible assets are not amortised, but are tested for impairment annually or more frequently if events or circumstances indicate the asset may be impaired. Only finite-lived intangible asset is computer software of the Company. There is no indefinite-lived intangibles assets which are subject to annual impairment test. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The Company assumes that there is no residual value for its intangible assets.

Intangible assets mainly represent the cost of computer software and the useful life time is as follows:

Intangible asset category	Period
Computer Software	5 Years

	Computer Software	
	2016 Rs.	2015 Rs.
Cost		
Cost as at the beginning of the year	101,544,275	90,190,879
Additions and Improvements	13,589,391	11,353,396
Cost as at the end of the year	115,133,666	101,544,275
Amortisation and impairment		
Amortisation as at the beginning of the year	66,238,541	53,765,347
Charge for the year	14,129,351	12,473,194
Accumulated Amortisation as at the end of the year	80,367,892	66,238,541
Net book value as at 31st March	34,765,774	35,305,734

Amortisation for intangible assets is forecasted to be Rs. 15.1 million in 2017 and each year thereafter.

4.22.1 There were no restrictions on the title of the intangible assets as at the reporting date. Further there were no items pledged as securities for liabilities.

4.23 DUE TO BANKS

ACCOUNTING POLICY

These include bank overdrafts, finance leases, syndicated loans and other bank facilities. Due to bank balances are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (Net of transaction cost) and the repayable amount (including interest) is recognised in the statement of comprehensive income over the period of the loan using effective interest rate method.

Under finance leases, the leased assets are capitalised and included in 'property, plant & equipment' and the corresponding liability to the lessor is included in 'Due to banks'. A finance lease and its corresponding liability are recognised initially at the fair value of the

asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Interest expense' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining period of the liability.

	2016 Rs.	2015 Rs.
Bank overdrafts	699,271,523	981,916,626
Syndicated loans and other bank facilities [Note 4.23.1 (A)]	13,877,962,197	6,720,360,404
Finance lease [Note 4.23.2 (A)]	-	988,180
	14,577,233,720	7,703,265,210
Fair value	14,392,315,512	7,618,474,691

4.23.1 (A) SYNDICATED LOANS AND OTHER BANK FACILITIES

	As at 01.04.2015 Rs.	Loans Obtained* Rs.	Interest Recognised Rs.	Repayments Capital Rs.	Interest Rs.	As at 31.03.2016 Rs.	Period	Security
Syndicated loans								
Syndication 1	341,839,797	-	25,776,179	(70,312,500)	(26,019,682)	271,283,794	96 months	Mortgage over land and building
Syndication 2	-	2,238,187,500	147,380,815	-	(129,615,616)	2,255,952,699	48 months	Mortgage over lease, hire purchase receivables
Syndication 3	-	3,281,036,939	41,694,293	-	-	3,322,731,232	48 months	Mortgage over lease, hire purchase receivables
	341,839,797	5,519,224,439	214,851,287	(70,312,500)	(155,635,298)	5,849,967,725		
Term loans								
Bank of Ceylon 1	29,801,253	-	1,550,940	(29,767,000)	(1,585,193)	-	48 months	Mortgage over lease receivables
Bank of Ceylon 2	83,006,300	-	4,284,077	(82,500,000)	(4,790,376)	-	48 months	Mortgage over hire purchase receivables
Bank of Ceylon 3	1,880,676,368	-	139,337,899	(500,000,004)	(140,531,392)	1,379,482,871	48 months	Mortgage over hire purchase receivables
Commercial Bank 1	2,002,876,712	-	175,479,452	-	(175,479,452)	2,002,876,712	60 months	Mortgage over hire purchase receivables
Commercial Bank 2	-	989,205,567	91,334,834	-	(85,150,685)	995,389,716	60 months	Mortgage over lease, hire purchase receivables
Nations Trust Bank	402,208,217	-	31,064,047	-	(31,070,080)	402,202,184	36 months	Mortgage over hire purchase receivables
Hatton National Bank	1,979,951,757	-	149,261,999	(399,960,000)	(151,992,002)	1,577,261,754	60 months	Mortgage over hire purchase receivables
NDB Bank 1	-	446,810,700	16,934,413	-	-	463,745,113	12 months	Mortgage over lease, hire purchase receivables
NDB Bank 2	-	148,936,900	5,284,188	-	-	154,221,088	12 months	Mortgage over lease, hire purchase receivables
NDB Bank 3	-	322,696,617	5,846,608	-	-	328,543,225	12 months	Mortgage over lease, hire purchase receivables
Union Bank	-	495,956,333	24,265,816	(72,916,669)	(22,545,875)	424,759,605	48 months	Mortgage over lease, hire purchase receivables
Habib Bank	-	297,873,800	8,090,354	-	(6,451,950)	299,512,204	12 months	Mortgage over lease, hire purchase receivables
	6,378,520,607	2,701,479,917	652,734,627	(1,085,143,673)	(619,597,005)	8,027,994,472		
	6,720,360,404	8,220,704,356	867,585,914	(1,155,456,173)	(775,232,303)	13,877,962,197		

The Company has unutilised borrowing facilities of Rs. 1,382,608,615/- as at 31st March 2016 (2015 – Rs. 1,658,414,802/-).

* Net of transaction cost.

4.23.1 (B) CONTRACTUAL MATURITY ANALYSIS OF SYNDICATED LOANS AND OTHER BANK FACILITIES

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
<i>As at 31st March 2016</i>				
Syndicated loans	784,660,858	5,065,306,866	–	5,849,967,724
Term loans	2,699,816,991	5,328,177,482	–	8,027,994,473
	3,484,477,849	10,393,484,348	–	13,877,962,197
<i>As at 31st March 2015</i>				
Syndicated loans	72,308,547	269,531,250	–	341,839,797
Term loans	1,036,810,607	5,341,710,000	–	6,378,520,607
	1,109,119,154	5,611,241,250	–	6,720,360,404

We do not have pre-termination options for syndicated loans and other bank facilities.

4.23.2 (A) FINANCE LEASE

	As at 01.04.2015 Rs.	New leases Obtained Rs.	Repayments Rs.	As at 31.03.2016 Rs.
Finance leases	988,180	–	(988,180)	–
	988,180	–	(988,180)	–
Gross liability	1,010,929			–
Finance charges allocated for future periods	(22,749)			–
Down payment	–			–
Net finance lease liability	988,180			–

4.23.2 (B) CONTRACTUAL MATURITY ANALYSIS OF FINANCE LEASE LIABILITY

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
<i>As at 31st March 2016</i>				
Net finance lease liability	–	–	–	–
<i>As at 31st March 2015</i>				
Gross liability	1,010,929	–	–	1,010,929
Finance charges allocated for future periods	(22,749)	–	–	(22,749)
Down payment	–	–	–	–
Net finance lease liability	988,180	–	–	988,180

4.24 DUE TO CUSTOMERS**ACCOUNTING POLICY**

Due to customers comprise interest-bearing savings deposits and term deposits. Customer deposits are initially recognised at fair value net of transactions cost. Subsequent to the initial recognition they are measured at their amortised cost using the effective interest rate method. Interest Expense on these deposits is recognised to the Statement of Comprehensive Income.

	2016 Rs.	2015 Rs.
Fixed deposits	50,595,760,412	42,782,095,946
Certificates of deposit	185,247,552	207,246,189
Savings deposits	2,598,793,532	2,441,209,520
	53,379,801,496	45,430,551,655
Fair value	53,482,773,770	46,159,010,293

4.24.1 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. 300,000/- for each depositor. The Company has paid Rs. 66,181,779/- as the premium of the said Insurance scheme during the current financial year (2015 - Rs. 63,881,446/-).

4.24.2 CONTRACTUAL MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
<i>As at 31st March 2016</i>				
Fixed deposits	39,553,740,971	11,042,019,441	-	50,595,760,412
Certificates of deposit	182,085,113	3,162,439	-	185,247,552
Savings deposits	2,598,793,532	-	-	2,598,793,532
	42,334,619,616	11,045,181,880	-	53,379,801,496
<i>As at 31st March 2015</i>				
Fixed deposits	33,802,412,643	8,979,683,303	-	42,782,095,946
Certificates of deposit	202,643,152	4,603,037	-	207,246,189
Savings deposits	2,441,209,520	-	-	2,441,209,520
	36,446,265,315	8,984,286,340	-	45,430,551,655

We have raised fixed deposits with a pre-termination option to the customers, so fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

4.25 DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

ACCOUNTING POLICY

Debt instruments and other borrowings are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (Net of transaction cost) and the repayable amount (including interest) is recognised in the Statement of Comprehensive Income over the period of the loan using effective interest rate method.

	2016 Rs.	2015 Rs.
Securitised borrowings (Note 4.25.1)	–	932,525,851
Unsecured debentures (Note 4.25.2)	2,601,282,504	2,597,049,417
	2,601,282,504	3,529,575,268
Fair value	2,742,249,383	3,788,549,684

4.25.1 SECURITISED BORROWINGS

	As at 01.04.2015 Rs.	Loans obtained Rs.	Interest recognised Rs.	Repayments		As at 31.03.2016 Rs.	Period
				Capital Rs.	Interest Rs.		
Trust 16	52,416,069	–	2,445,716	(35,500,000)	(19,361,785)	–	48 months
Trust 19	150,187,133	–	4,958,388	(149,600,000)	(5,545,521)	–	48 months
Trust 21	729,922,649	–	80,364,727	(535,700,000)	(274,587,376)	–	36 months
	932,525,850	–	87,768,831	(720,800,000)	(299,494,682)	–	

Security – Mortgage over Lease, Hire Purchase receivables

4.25.2 UNSECURED DEBENTURES

The terms and features of Unsecured Subordinated Redeemable debentures are as follows.

Category	Interest payable	Features	Amortised cost Rs.	Face value Rs.	Interest rate	Issued date	Redemption date
RUSRD II	Annually	Unlisted	223,628,261	215,000,000	12.68% p.a	05-Dec-11	04-Dec-16
RUSRD I	Biannually	Unlisted	103,890,646	100,000,000	12.30% p.a	05-Dec-11	04-Dec-16
RUSRD I	Biannually	Unlisted	232,223,106	230,000,000	12.30% p.a	01-Mar-12	01-Mar-17
Type A	Monthly	Listed	637,568,384	640,140,000	14.00% p.a	29-Nov-13	29-Nov-18
Type B	Biannually	Listed	781,150,903	757,010,000	14.50% p.a	29-Nov-13	29-Nov-18
Type C	Annually	Listed	622,821,204	602,850,000	15.00% p.a	29-Nov-13	29-Nov-18
			2,601,282,504	2,545,000,000			

4.25.3 CONTRACTUAL MATURITY ANALYSIS OF DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
<i>As at 31st March 2016</i>				
Securitised borrowings	-	-	-	-
Unsecured debentures	606,429,073	1,994,853,432	-	2,601,282,504
	606,429,073	1,994,853,432	-	2,601,282,504
<i>As at 31st March 2015</i>				
Securitised borrowings	932,525,851	-	-	932,525,851
Unsecured debentures	64,447,122	2,532,602,295	-	2,597,049,417
	996,972,973	2,532,602,295	-	3,529,575,268

We do not have pre-termination options for debt instruments issued and other borrowed funds.

4.26 OTHER FINANCIAL LIABILITIES**ACCOUNTING POLICY**

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade payables are obligations to pay for vehicle suppliers in the ordinary course of business.

	2016 Rs.	2015 Rs.
Trade payables	893,576,210	877,169,398
Insurance premium payable	414,291,918	296,545,411
Unclaimed balances	421,660,842	432,391,247
Advances collected from customers	91,827,824	88,310,562
Sundry creditors	48,583,806	81,649,521
	1,869,940,600	1,776,066,139
Fair value	1,869,940,600	1,776,066,139

4.27 OTHER NON-FINANCIAL LIABILITIES**ACCOUNTING POLICY**

Company classifies all non-financial liabilities other than post employment benefit liability and current tax liabilities under other non-financial liabilities. Other non-financial liabilities include accruals, advances and provisions. These liabilities are non-interest bearing and recorded at the amounts that are expected to be paid.

PROVISIONS

Provisions are recognised when the 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.

	2016 Rs.	2015 Rs.
Accrued expenses	473,737,563	420,909,872
Stamp duty payable	57,837,215	48,259,738
EPF/ETF payable	23,441,189	19,831,734
Withholding tax payable	7,256,227	10,615,726
Crop insurance levy payable	11,735,575	5,768,233
Sundry creditors	23,798,942	11,334,015
	597,806,711	516,719,318

4.28 CURRENT TAX LIABILITIES

	2015 Rs.	2014 Rs.
Income tax	656,907,745	479,787,007
Value added tax (VAT)	73,465,303	51,168,170
Nation building tax (NBT)	10,878,856	3,789,527
	741,251,904	534,744,704

4.29 DEFERRED TAXATION

ACCOUNTING POLICY

Deferred tax is provided on temporary differences at the Reporting Date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax credits and unused tax losses carried forward can be utilised.

The carrying amount of deferred tax assets is reviewed at each Reporting Date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each Reporting Date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Reporting Date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

ACCOUNTING ESTIMATES

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax planning strategies.

DEFERRED TAX ASSETS, LIABILITIES AND INCOME TAX RELATE TO THE FOLLOWING

	Reflected in		Reflected in		Reflected in	
	Statement of financial position		Statement of comprehensive income		Statement of other comprehensive income	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Deferred tax liability						
Depreciation of leased assets	13,729,464	(100,195,672)	113,925,136	179,637,631		
Depreciation of property, plant & equipment	164,932,968	143,646,715	21,286,253	20,399,522		
Fair value change of available for sale financial assets – Sri Lanka Government Securities	-	-	-	-	-	(10,824,440)
	178,662,432	43,451,043	135,211,389	200,037,153	-	(10,824,440)
Deferred tax assets						
Defined benefit obligation – comprehensive income	(32,635,403)	(25,163,123)	(7,472,279)	(4,614,048)		
Defined benefit obligation – Other comprehensive income (OCI)	(2,884,998)	(6,357,760)			3,472,762	(811,203)
	(35,520,401)	(31,520,883)	(7,472,279)	(4,614,048)	3,472,762	(811,203)
Deferred income tax charge/ (reversal)			127,739,110	195,423,105	3,472,762	(11,635,643)
Net deferred tax liability/(asset)	143,142,031	11,930,160				

4.29.1 Deferred tax has been determined based on the enacted tax rate of 28 percent.

4.30 POST-EMPLOYMENT BENEFIT LIABILITY

ACCOUNTING ESTIMATES

Our end of service benefit obligations are measured based on the present value of projected future benefit payments for all participants for services rendered to date. The measurement of projected future benefits is dependent on the stipulated formula, salary assumptions, demographics of the group covered by the plan, and other key measurement assumptions. The net periodic benefit costs associated with the Company's defined benefit plans are determined using assumptions regarding the benefit obligations. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Company.

RECOGNITION OF ACTUARIAL GAINS AND LOSSES

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

EXPECTED RETURN ON ASSETS

Expected return on assets is zero as the plan is not pre-funded

FUNDING ARRANGEMENTS

The gratuity liability is not externally funded.

4.30.1 POST-EMPLOYMENT BENEFIT LIABILITY

	2016 Rs.	2015 Rs.
Balance at the beginning of the year	112,574,582	93,198,687
Amount charged/(reversed) for the year	20,636,836	29,799,053
Payments made during the year	(6,352,843)	(10,423,158)
Balance at the end of the year	126,858,575	112,574,582

4.30.2 AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2016 Rs.	2015 Rs.
Current service cost for the year	20,656,352	16,650,045
Interest cost on the net defined benefit liability for the year	12,383,204	10,251,855
	33,039,556	26,901,900

4.30.3 AMOUNTS RECOGNISED IN THE OTHER COMPREHENSIVE INCOME (OCI)

	2016 Rs.	2015 Rs.
Liability (gains)/losses due to changes in assumptions	(14,773,339)	-
Liability experience (gains)/losses arising during the year	2,370,619	2,897,153
	(12,402,720)	2,897,153

4.30.4 DEFINED BENEFIT OBLIGATION RECONCILIATION

	2016 Rs.	2015 Rs.
Benefit obligation at end of prior year	112,574,582	93,198,687
Current service cost for the year	20,656,352	16,650,045
Interest cost on the net defined benefit liability for the year	12,383,204	10,251,855
Liability (gains) losses due to changes in assumptions	(14,773,339)	-
Liability experience (gains) losses arising during the year	2,370,619	2,897,153
Transitional liability/(asset) recognised during the year	-	-
Payments made during the year	(6,352,843)	(10,423,158)
	126,858,575	112,574,582

4.30.5 Average future working life time as per the assumptions made is 14.6 years as of 31st March 2016 (14.6 years as of 31st March 2015).

4.30.6 ASSUMPTIONS

	2016 %	2015 %
Discount rate	12.00	11.00
Salary increment	10.00	10.00
Staff turnover		
20 to 40 years	25.00	25.00
45 years	1.00	1.00
50 years	1.00	1.00
Mortality – GA 1983 Mortality table		
Disability – Long-term disability 1987 Soc. Sec. Table		
Retirement age – Normal retirement age (55 Years) or age on valuation date , if greater		

An actuarial valuation of the gratuity was carried out as at 31st March 2016 by Piyal S. Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', recommended by LKAS 19 'Employee Benefits'.

4.30.7 SENSITIVITY OF ASSUMPTIONS EMPLOYED IN ACTUARIAL VALUATION

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the retirement benefit liability measurement:

The sensitivity of the statement of comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment on the profit or loss and retirement benefit obligation for the year.

Increase/(decrease) in discount rate	Increase/(decrease) in salary increment	2016		2015	
		Sensitivity effect on statement of comprehensive Income – Increase/(Reduction) in results for the year Rs. million	Sensitivity effect on retirement benefit obligation – increase/ (Reduction) in the liability Rs. million	Sensitivity effect on statement of comprehensive Income – Increase/(Reduction) in results for the year Rs. million	Sensitivity effect on retirement benefit obligation – increase/ (reduction) in the liability Rs. million
1%		12.38	(12.38)	11.60	(11.60)
-1%		(14.77)	14.77	(13.92)	13.92
	1%	(14.53)	14.53	(13.56)	13.56
	-1%	12.39	(12.39)	11.52	(11.52)

4.30.8 THE EXPECTED BENEFIT PAYOUT IN THE FUTURE YEARS FOR RETIREMENT GRATUITY

	2016 Rs.	2015 Rs.
Within the next 12 months	5,413,681	8,197,056
Between 2 and 5 Years	56,780,256	46,899,309
Beyond 5 Years	191,344,232	139,703,228
	253,538,169	194,799,593

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the Company at the end of the financial year and include benefits attributable to estimated future employee service.

4.31 STATED CAPITAL

4.31.1 ISSUED AND FULLY PAID – ORDINARY SHARES

	2016		2015	
	No. of shares	Rs.	No. of shares	Rs.
At the beginning of the year	69,257,142	838,282,159	69,257,142	838,282,159
Issued during the year	-	-	-	-
Sub-division of shares (Note 4.31.3)	69,257,142	-	-	-
At the end of the year	138,514,284	838,282,159	69,257,142	838,282,159

4.31.2 RIGHTS OF SHAREHOLDERS

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

4.31.3 SUB-DIVISION OF SHARES

On 8th July 2015, every ordinary share in issue was subdivided into two ordinary shares. Accordingly, the number of ordinary shares in issue increased to 138,514,284 without any change to the stated capital of the Company as of the date of sub division of shares.

Consequent to the sub-division of shares, comparative figures of the basic earnings per ordinary share (EPS) disclosed in the statement of comprehensive income and the net asset value (NAV) per share disclosed in the statement of financial position has been adjusted accordingly.

4.32 RETAINED EARNINGS

	2016 Rs.	2015 Rs.
Balance as at 1st April	5,180,485,515	3,267,359,765
Super gain tax paid	(484,230,585)	–
Balance after super gain tax	4,696,254,930	3,267,359,765
Dividend paid	(692,571,420)	(450,171,423)
Profit for the year	3,717,792,864	2,182,126,156
Other comprehensive income not to be reclassified to profit or loss	8,929,958	(2,085,950)
Transfers during the year (Note 4.33)	(759,907,099)	183,256,968
Balance as at 31st March	6,970,499,234	5,180,485,515

Retained earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future losses or dividends payable.

4.33 RESERVES

	Statutory reserve Rs.	Investment fund account Rs.	Available for sale reserve Rs.	Total Rs.
As at 1st April 2015	1,897,482,527	–	10,841,767	1,908,324,295
Transfers during the year	743,558,573	–	16,348,526	759,907,099
Net fair value gain/(loss) on available for sale assets	–	–	2,306,404	2,306,404
As at 31st March 2016	2,641,041,100	–	29,496,697	2,670,537,797

4.33.1 Statutory reserve is a capital reserve which contains profits transferred as required by Section 3 (b) (ii) of Central Bank Direction No. 1 of 2003.

4.33.2 The maintenance of the investment fund was a mandatory requirement and comprised retentions of 8 percent of profit calculated for payment of financial services VAT and 5 percent of profit before tax computed for payment of income tax as per the relevant Direction issued by the Central Bank of Sri Lanka (CBSL). Investment fund account was abolished by CBSL with effect from 1st October 2014. Consequently, the Company transferred the investment fund account balance that prevailed as at 30th September 2014 amounting to Rs. 645,727,307/- back to retained earnings.

SECTION 05

Risk management disclosures

5.1 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 risk management framework of the Company has been optimised through the application and the embedment of the risk management process including risk identification, risk analysis, risk measurement, risk management decision and execution, risk monitoring and reporting.

By using appropriate systems, tools and procedures, all the components of the risk framework are subject to continuous monitoring and review to ensure integrity of the overall risk management function.

The Company identifies the following key financial risks in its business operations:

- Credit risk
- Liquidity risk
- Market risk
- Capital adequacy risk

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.

5.2 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 as the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Company's loans and advances to customers.

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

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

5.2.1 ANALYSIS OF CREDIT RISK EXPOSURE

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the net exposure to credit risk:

As at 31st March	2016		2015	
	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Cash and cash equivalents	6,051,898,714	–	6,067,670,379	–
Financial investments – held for trading	10,645,973	10,645,973	10,063,760	10,063,760
Loans and receivables (gross) *	27,173,132,446	3,707,364,748	22,939,700,770	2,146,888,954
Lease rentals receivable and stock out on hire (gross)	47,031,088,432	2,454,316,528	35,693,495,189	3,819,571,457
Financial investments – available for sale	138,411,349	138,411,349	140,587,435	140,587,435
Other financial assets **	4,142,716,322	3,323,396,495	2,140,178,009	1,264,987,247
Total financial assets	84,547,893,236	9,634,135,093	66,991,695,542	7,382,098,853

The fair value of collateral for finance receivables is calculated based on the number of contracts multiplied by the loss severity and the probability of default ('POD') percentage or the outstanding receivable balances multiplied by the average recovery value ('ARV') percentage to determine the fair value adjustment.

* At 31st March 2016, the net credit risk exposure of Gold Loans was Rs. 49,181,355/- (2015 – Rs. 188,608,364/-).

** Net exposure of the other financial assets mainly includes investment in fixed deposits in banks and other financial institutions. At 31st March 2016, the net carrying value amount of those investments was Rs. 3,125,971,014/- (2015 – Rs. 1,133,326,032/-).

5.2.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31st March 2016	Neither past due nor impaired* Rs.	Past due but not impaired* Rs.	Individually impaired Rs.	Total Rs.
Assets				
Cash and bank balances	6,051,898,714	–	–	6,051,898,714
Financial investments – held for trading	10,645,973	–	–	10,645,973
Loans and receivables (gross)	18,371,627,049	7,824,351,557	977,153,840	27,173,132,446
Lease rentals receivable and stock out on hire (gross)	23,293,163,682	21,674,210,613	2,063,714,137	47,031,088,432
Financial investments – available for sale	5,700,049	–	132,711,300	138,411,349
Other financial assets	4,142,716,322	–	–	4,142,716,322
Total financial assets	51,875,751,789	29,498,562,170	3,173,579,277	84,547,893,236

*Collectively assessed for the impairment.

5.2.2.1 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 Rs.
	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	
Loans and receivables	4,200,231,641	2,058,794,116	963,442,050	601,883,750	7,824,351,557
Lease rentals receivable and stock out on hire	10,052,746,332	7,048,791,666	3,092,260,758	1,480,411,856	21,674,210,613
	14,252,977,973	9,107,585,782	4,055,702,808	2,082,295,606	29,498,562,170
	48.32%	30.87%	13.75%	7.06%	100.00%

PAST DUE BUT NOT IMPAIRED LOANS

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Company.

5.2.2.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31st March 2015	Neither past due not impaired* Rs.	Past due but not impaired* Rs.	Individually impaired Rs.	Total Rs.
Assets				
Cash and bank balances	6,067,670,379	–	–	6,067,670,379
Financial investments – held for trading	10,063,760	–	–	10,063,760
Loans and receivables (gross)	14,093,147,093	8,001,475,388	845,078,289	22,939,700,770
Lease rentals receivable and stock out on hire (gross)	16,004,905,633	16,991,492,532	2,697,097,024	35,693,495,189
Financial investments – available for sale	6,069,715	–	134,517,720	140,587,435
Other financial assets	2,140,178,009	–	–	2,140,178,009
Total financial assets	38,322,034,589	24,992,967,920	3,676,693,033	66,991,695,542

*Collectively assessed for the impairment.

5.2.2.3 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 Rs.
	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	
Loans and receivables	3,898,792,070	1,899,857,921	1,454,623,082	748,202,315	8,001,475,388
Lease rentals receivable and stock out on hire	6,844,089,940	5,729,299,785	2,779,443,720	1,638,659,087	16,991,492,532
	10,742,882,010	7,629,157,706	4,234,066,802	2,386,861,402	24,992,967,920
	42.98%	30.53%	16.94%	9.55%	100.00%

PAST DUE BUT NOT IMPAIRED LOANS

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Company.

5.2.3 ANALYSIS OF RISK CONCENTRATION

5.2.3.1 INDUSTRY ANALYSIS

The following table shows the risk concentration by industry for the components of the Statement of Financial Position:

As at 31st March 2016

Sector-wise breakdown	Cash and bank balances Rs.	Financial investments – held for trading Rs.	Loans and receivables** Rs.	Lease rentals receivable and stock out on hire** Rs.	Financial investments – available for sale Rs.	Other financial assets Rs.	Total financial assets Rs.
Agriculture	-	-	6,386,728,639	6,039,676,832	-	-	12,426,405,471
Manufacturing	-	-	1,601,323,295	1,304,020,048	-	-	2,905,343,343
Construction	-	-	584,522,340	849,224,086	-	-	1,433,746,426
Financial services	6,051,898,714	-	441,230,204	325,489,783	-	4,142,716,322	10,961,335,023
Trading	-	10,645,973	4,845,620,928	10,810,201,398	138,411,349	-	15,804,879,648
Retail	-	-	2,661,849,488	-	-	-	2,661,849,488
Government	-	-	-	-	-	-	-
Hotels	-	-	191,298,403	452,457,693	-	-	643,756,096
Services	-	-	9,736,596,068	25,323,766,256	-	-	35,060,362,324
Total	6,051,898,714	10,645,973	26,449,169,365	45,104,836,096	138,411,349	4,142,716,322	81,897,677,819

PROVINCE-WISE ANALYSIS

**Provincial breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows:

As at 31st March 2016

Province	Loans and receivables Rs.	Lease rentals receivable and stock out on hire Rs.	Total Rs.
Central	2,160,806,674	4,216,797,543	6,377,604,217
Eastern	1,546,466,620	2,207,179,129	3,753,645,749
North Central	502,735,043	2,419,052,475	2,921,787,518
North Western	1,726,229,639	4,204,318,238	5,930,547,877
Northern	1,707,569,666	361,307,627	2,068,877,293
Sabaragamuwa	652,267,852	3,407,946,955	4,060,214,807
Southern	1,201,823,224	5,087,286,289	6,289,109,513
Uva	367,635,766	1,929,515,245	2,297,151,011
Western	16,583,634,881	21,271,432,595	37,855,067,476
Total	26,449,169,365	45,104,836,096	71,554,005,461

5.2.3.2 INDUSTRY ANALYSIS

The following table shows the risk concentration by industry for the components of the Statement of Financial Position:

As at 31st March 2015

Sector-wise breakdown	Cash and bank balances	Financial investments – held for trading	Loans and receivables**	Lease rentals receivable and stock out on hire**	Financial investments – available for sale	Other financial assets	Total financial assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	–	–	3,055,410,208	3,192,211,939	–	–	6,247,622,147
Manufacturing	–	–	1,634,948,605	973,697,056	–	–	2,608,645,661
Construction	–	–	435,368,727	675,852,126	–	–	1,111,220,852
Financial services	6,067,670,379	–	302,380,300	175,580,935	–	2,140,178,009	8,685,809,623
Trading	–	10,063,760	4,375,755,279	9,465,557,587	140,587,435	–	13,991,964,062
Retail	–	–	3,431,393,629	–	–	–	3,431,393,629
Government	–	–	–	–	–	–	–
Hotels	–	–	120,913,472	309,095,661	–	–	430,009,133
Services	–	–	8,906,591,188	18,903,521,634	–	–	27,810,112,822
Total	6,067,670,379	10,063,760	22,262,761,408	33,695,516,938	140,587,435	2,140,178,009	64,316,777,929

PROVINCE-WISE ANALYSIS

**Provincial breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows:

As at 31st March 2015

Province	Loans and receivables	Lease rentals receivable and stock out on hire	Total
	Rs.	Rs.	Rs.
Central	1,801,688,132	2,844,846,411	4,646,534,543
Eastern	1,024,897,840	1,459,874,023	2,484,771,863
North Central	400,634,012	1,637,077,619	2,037,711,631
North Western	1,406,261,150	3,022,486,334	4,428,747,484
Northern	1,249,182,791	440,088,074	1,689,270,865
Sabaragamuwa	535,892,955	2,845,128,404	3,381,021,359
Southern	1,013,811,180	3,831,708,433	4,845,519,613
Uva	290,109,996	1,362,619,847	1,652,729,843
Western	14,540,283,352	16,251,687,793	30,791,971,145
Total	22,262,761,408	33,695,516,938	55,958,278,346

5.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

In the context of a financial institution liquidity risk arises primarily due to mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; 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, maintain an adequate margin of safety in liquid assets.

ASSETS AND LIABILITY MANAGEMENT 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 matters, duration of assets and liabilities, investments and overall liquidity to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements.

5.3.1 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

5.3.1 (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 2016:

<i>As at 31st March 2016</i>	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	1,086,429,072	4,989,109,288	-	-	-	6,075,538,360
Financial investments – held for trading	10,645,973	-	-	-	-	10,645,973
Loans and receivables	4,578,657,700	10,224,120,713	7,077,008,773	7,945,439,102	1,354,542,979	31,179,769,267
Lease rentals receivable and stock out on hire	2,640,832,834	6,020,750,629	16,296,902,196	35,179,068,618	12,676,586	60,150,230,863
Financial investments – available for sale	138,411,349	-	-	-	-	138,411,349
Other financial assets	197,425,481	1,920,905,925	2,152,431,694	-	-	4,270,763,100
Total financial assets	8,652,402,409	23,154,886,555	25,526,342,663	43,124,507,720	1,367,219,565	101,825,358,912
Financial liabilities						
Due to banks	699,271,523	575,308,097	4,019,824,217	11,925,243,402	-	17,219,647,239
Due to customers	2,598,793,532	18,260,503,495	23,701,589,478	12,636,035,449	-	57,196,921,954
Debt instruments issued and other borrowed funds	-	83,438,125	819,227,425	2,549,753,900	-	3,452,419,450
Other financial liabilities	1,869,940,600	-	-	-	-	1,869,940,600
Total financial liabilities	5,168,005,655	18,919,249,717	28,540,641,120	27,111,032,751	-	79,738,929,243
Total net financial assets/(liabilities)	3,484,396,754	4,235,636,838	(3,014,298,457)	16,013,474,969	1,367,219,565	22,086,429,669

INTERPRETATION

As at 31st March 2016, based on the remaining contractual maturity of assets and liabilities, the Company maintains asset surpluses in all time brackets except '3-12 months' time bracket. As at 31st March 2015, Company maintained a similar asset liability position, asset surpluses were maintained for all time brackets except '3-12 months' time bracket.

5.3.1 (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 2015.

As at 31st March 2015	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	898,874,309	5,204,582,741	–	–	–	6,103,457,050
Financial investments – held for trading	10,063,760	–	–	–	–	10,063,760
Loans and receivables	3,993,776,357	8,166,526,499	6,018,935,037	7,946,393,588	583,098,141	26,708,729,622
Lease rentals receivable and stock out on hire	2,462,718,428	5,092,649,638	13,502,445,034	24,714,180,230	25,805,602	45,797,798,932
Financial investments – available for sale	140,587,435	–	–	–	–	140,587,435
Other financial assets	131,661,215	434,891,226	1,629,836,416	–	–	2,196,388,857
Total financial assets	7,637,681,504	18,898,650,104	21,151,216,487	32,660,573,818	608,903,743	80,957,025,656
Financial liabilities						
Due to banks	981,916,626	415,318,241	1,200,899,986	6,527,520,937	–	9,125,655,790
Due to customers	2,441,209,520	14,961,588,429	20,860,164,878	10,396,900,080	–	48,659,862,907
Debt instruments issued and other borrowed funds	–	438,102,008	939,299,061	3,452,419,450	–	4,829,820,519
Other financial liabilities	1,776,066,139	–	–	–	–	1,776,066,139
Total financial liabilities	5,199,192,285	15,815,008,678	23,000,363,925	20,376,840,467	–	64,391,405,355
Total net financial assets/(liabilities)	2,438,489,219	3,083,641,426	(1,849,147,438)	12,283,733,351	608,903,743	16,565,620,301

5.3.2 CONTRACTUAL MATURITIES OF COMMITMENTS AND 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 2016	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	–	2,460,000	20,200,000	–	–	22,660,000
Import LC and ordinary guarantees	182,361,157	–	–	–	–	182,361,157
Total contingent liabilities	182,361,157	2,460,000	20,200,000	–	–	205,021,157
Commitments						
Commitment for unutilised facilities	1,070,593,149	–	–	–	–	1,070,593,149
Total commitments	1,070,593,149	–	–	–	–	1,070,593,149
Total commitments and contingencies	1,252,954,306	2,460,000	20,200,000	–	–	1,275,614,306

As at 31st March 2015

Contingent liabilities

Guarantees issued to banks and other institutions	–	3,700,000	14,450,000	–	–	18,150,000
Import LC and ordinary guarantees	254,449,909	–	–	–	–	254,449,909
Total contingent liabilities	254,449,909	3,700,000	14,450,000	–	–	272,599,909
Commitments						
Commitment for unutilised facilities	833,384,923	–	–	–	–	833,384,923
Total commitments	833,384,923	–	–	–	–	833,384,923
Total commitments and Contingencies	1,087,834,832	3,700,000	14,450,000	–	–	1,105,984,832

5.4 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.

5.4.1 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 rate which arises from core business activities; disbursing of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios.

Excessive movements in market interest rate could 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 repricing 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 reprices its assets accordingly.

5.4.2 COMMODITY PRICE RISK

Commodity risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. Given the significance of the Gold Loans to Company's overall loan book, sharp 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.

Company currently manages the credit risk arising from Gold backed loans by adopting following strategies:

- Quicker repricing cycle: Company as a credit risk management strategy lends for shorter periods allowing it to reprice its cost promptly.
- Frequent revisions to Loan-to-Value (LTV) ratio: Company practices a process of revising advance offered per sovereign to reflect market value fluctuations to maintain the desired loan to value ratio.

5.4.3 INTEREST RATE SENSITIVITY

The following table demonstrates the impact on net interest income to a reasonably possible change in interest rates based on the assumption that a rate sensitive asset surplus would be subjected to reinvestment risk whereas a rate sensitive asset deficit would be subjected to funding risk.

Net interest income (NII) sensitivity by interest rate change

Parallel increase/Decrease of Basis Points (bps)*	2016		2015	
	+ / - 100 bps	+ / - 200 bps	+ / - 100 bps	+ / - 200 bps
Impact on NII (Rs.)				
Quarterly impact	(+ / -) 6,342,007	(+ / -) 12,684,014	(+ / -) 6,241,409	(+ / -) 12,482,818
Annual impact	(+ / -) 21,494,156	(+ / -) 42,988,312	(+ / -) 22,894,800	(+ / -) 45,789,600

*Parallel increase in rates would have a positive impact on the NII while parallel decrease would negatively impact NII.

Consequent to the reduction in rate sensitive asset and liability gap as at 31st March 2016, the impact on NII from market rate increase has further reduced.

5.4.4 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

5.4.4.(A) The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates:

As at 31st March 2016	Up to 03 months Rs.	03-12 months Rs.	01-03 years Rs.	03-05 years Rs.	Over 05 years Rs.	Non-Interest bearing Rs.	Total as at 31.03.2016 Rs.
Financial assets							
Cash and bank balances	5,593,449,580	-	-	-	-	458,449,134	6,051,898,714
Financial investments – held for trading	-	-	-	-	-	10,645,973	10,645,973
Loans and receivables	16,032,093,786	5,545,640,079	3,941,155,036	886,663,742	43,616,722	-	26,449,169,365
Lease rentals receivable and stock out on hire	6,629,066,939	11,020,233,372	21,003,757,970	6,440,836,352	10,941,464	-	45,104,836,096
Financial investments – available for sale	-	-	-	-	-	138,411,349	138,411,349
Other financial assets	1,897,398,356	2,047,892,484	-	-	-	197,425,481	4,142,716,322
	30,152,008,661	18,613,765,935	24,944,913,006	7,327,500,094	54,558,186	804,931,937	81,897,677,819
Financial liabilities							
Due to banks	4,652,199,889	2,301,578,829	5,619,253,952	2,004,201,050	-	-	14,577,233,720
Due to customers	20,395,854,296	21,938,765,321	10,274,972,261	770,209,619	-	-	53,379,801,496
Debt instruments issued and other borrowed funds	30,348,702	576,080,371	1,994,853,432	-	-	-	2,601,282,504
Other financial liabilities	-	-	-	-	-	1,869,940,600	1,869,940,600
	25,078,402,887	24,816,424,521	17,889,079,645	2,774,410,669	-	1,869,940,600	72,428,258,320
Interest sensitivity gap	5,073,605,774	(6,202,658,586)	7,055,833,361	4,553,089,425	54,558,186	(1,065,008,663)	9,469,419,499

INTERPRETATION

As at 31st March 2016 Company's rate sensitive asset and liability gap has increased to Rs. 1,129 million compared to Rs. 653 million in 31st March 2015, for the less than one year period.

5.4.4.(B) INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates:

As at 31st March 2015	Up to 03 months Rs.	03-12 months Rs.	01-03 years Rs.	03-05 years Rs.	Over 05 years Rs.	Non-interest bearing Rs.	Total as at 31.03.2015 Rs.
Financial assets							
Cash and bank balances	5,675,752,999	-	-	-	-	391,917,380	6,067,670,379
Financial investments – held for trading	-	-	-	-	-	10,063,760	10,063,760
Loans and receivables	11,694,420,687	4,630,113,175	4,775,951,607	1,130,176,640	32,099,299	-	22,262,761,408
Lease rentals receivable and stock out on hire	5,851,354,307	9,016,990,184	15,103,243,866	3,701,775,252	22,153,329	-	33,695,516,938
Financial investments – available for sale	-	-	-	-	-	140,587,435	140,587,435
Other financial assets	431,445,429	1,577,071,365	-	-	-	131,661,215	2,140,178,009
	23,652,973,422	15,224,174,724	19,879,195,473	4,831,951,892	54,252,628	674,229,790	64,316,777,929
Financial liabilities							
Due to banks	1,280,554,154	811,469,814	3,357,451,250	2,253,789,992	-	-	7,703,265,210
Due to customers	17,007,693,612	19,437,601,604	8,208,448,549	776,807,890	-	-	45,430,551,655
Debt instruments issued and other borrowed funds	371,598,413	621,730,489	538,407,026	1,997,839,340	-	-	3,529,575,268
Other financial liabilities	-	-	-	-	-	1,776,066,139	1,776,066,139
	18,659,846,179	20,870,801,907	12,104,306,825	5,028,437,222	-	1,776,066,139	58,439,458,272
Interest sensitivity gap	4,993,127,243	(5,646,627,183)	7,774,888,648	(196,485,330)	54,252,628	(1,101,836,349)	5,877,319,657

5.5 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 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 percent and a Core Capital Ratio (Tier 1) of at least 5 percent.

As of 31st March 2016, the Company has maintained Risk Weighted Capital Adequacy Ratio above the CBSL's capital requirements.

SECTION 06

Other disclosures

6.1 RELATED PARTY DISCLOSURES

The Company carried out transactions with key management and their related concerns and other related entities in the ordinary course of its business on an arm's length basis at commercial rates except that the key management have availed facilities under the loan schemes uniformly applicable to all the staff.

Details of related party transactions during the year are as follows:

6.1.1 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities for the Company. Such KMPs include the Board of Directors of the Company (inclusive of Executive and Non-Executive Directors) and KMPs of the Parent Company.

	2016 Rs.	2015 Rs.
Short-term employment benefits	179,592,515	135,450,712
Directors' fees and expenses	13,964,286	13,047,619
Post-employment benefits	–	–
	193,556,801	148,498,331

In addition to the above, the Company has also paid non-cash benefits such as vehicles and fuel to Key Management Personnel in line with the approved employment benefits of the Company.

6.1.2 Transactions, arrangements and agreements involving KMPs and their close members of the family (CMFs)

CMFs of KMPs are those family members who may be expected to influence, or be influenced by, those KMPs in their dealing with the entity.

Statement of financial position	Reported Under	2016 Rs.	2015 Rs.
Liabilities			
Fixed deposits	Due to customers	152,170,392	302,456,973
Savings deposits	Due to customers	9,745,908	3,341,856
		161,916,300	305,798,829
Statement of comprehensive income			
Interest expense on customer deposits	Interest expenses	14,851,222	18,795,590
Vehicle hiring charges	Other operating expenses	15,000	–
		14,866,222	18,795,590
Other transactions			
Deposits accepted during the year		20,022,498	37,483,545
Dividend paid on shareholdings		823,600	3,259,718
		20,846,098	40,743,263

6.1.3 Transactions, arrangements and agreements involving entities which are controlled, and/or jointly controlled by the KMPs and their CMFs.

Statement of financial position	Reported under	2016 Rs.	2015 Rs.
Assets			
Investment in equity securities	Financial investments – held-for-trading	300,245	366,600
Lease rentals receivable	Lease rentals receivable and stock out on hire	952,672	1,333,635
		1,252,917	1,700,235
Liabilities			
Fixed deposits	Due to customers	159,230,218	252,390,673
Statement of comprehensive income			
Interest income on lease and vehicle loans	Interest income	–	49,766
Income on operating lease	Other operating income	10,073,036	18,337,028
Interest expense on customer deposits	Interest expenses	11,101,673	31,010,537
Dividend Income	Other operating income	7,332	–
		21,182,041	49,397,331
Other transactions			
Deposits accepted during the year		100,000,000	202,547,120
		100,000,000	202,547,120

6.1.4 TRANSACTIONS WITH GROUP ENTITIES

The Group entities include the parent, fellow subsidiaries and associate companies of the parent.

TRANSACTIONS WITH PARENT COMPANY

Statement of financial position	Reported under	2016 Rs.	2015 Rs.
Liabilities			
Fixed deposits	Due to customers	658,068,875	784,292,048
Statement of comprehensive income			
Interest expense on customer deposits	Interest expense	46,597,913	54,667,242
Other transactions			
Deposits accepted during the year		113,000,000	250,000,000
Dividend paid on shareholdings		353,212,000	229,587,800
		466,212,000	479,587,800

TRANSACTIONS WITH FELLOW SUBSIDIARIES AND ASSOCIATE COMPANIES OF THE PARENT

Statement of financial position	Reported under	2016 Rs.	2015 Rs.
Assets			
Balances with banks	Cash and cash equivalents	61,475,115	52,762,784
Leasehold improvements	Property, plant & equipment	2,631,849	2,697,917
Investment in equity securities	Financial investments – held for trading	1,950,312	1,891,092
Investment in equity securities	Financial investments – available for sale	55,800,562	65,054,501
		121,857,838	122,406,294
Liabilities			
Fixed deposits	Due to Customers	86,896,074	222,364,868
Bank overdrafts	Due to Banks	1,384,015	1,038,815
		88,280,089	223,403,683
Statement of comprehensive income			
Interest income on lease and saving deposits	Interest income	2,261,425	2,049,590
Dividend income	Other operating income	4,329,085	216,097
Interest expense on customer deposits	Interest expenses	14,607,646	11,218,918
Advertising and business promotional expenses	Other operating expenses	-	50,000
Bank charges	Other operating expenses	309,804	1,713,774
		21,507,960	15,248,379
Other transactions			
Deposits accepted during the year		10,000,000	85,000,000
Dividend paid on shareholdings		180,616,160	117,400,504
		190,616,160	202,400,504

6.2 CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Details of the regulatory capital requirements and compliance level are disclosed in [Note 5.5](#) to the financial statements.

6.2.1 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 maximise shareholders' value.

6.3 CURRENT AND NON-CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2016			2015		
	Within 12 months Rs.	After 12 months Rs.	Total as at 31.03.2016 Rs.	Within 12 months Rs.	After 12 months Rs.	Total as at 31.03.2015 Rs.
Assets						
Cash and bank balances	6,051,898,714	–	6,051,898,714	6,067,670,379	–	6,067,670,379
Financial investments – held for trading	10,645,973	–	10,645,973	10,063,760	–	10,063,760
Loans and receivables	19,779,517,188	6,669,652,177	26,449,169,365	15,558,330,588	6,704,430,820	22,262,761,408
Lease rentals receivable and stock out on hire	17,649,278,909	27,455,557,187	45,104,836,096	14,868,344,491	18,827,172,447	33,695,516,937
Financial investments – available for sale	138,411,349	–	138,411,349	140,587,435	–	140,587,435
Other financial assets	4,142,716,322	–	4,142,716,322	2,140,178,009	–	2,140,178,009
Other non-financial assets	481,270,308	57,627,695	538,898,003	1,206,275,039	–	1,206,275,039
Property, plant & equipment	–	2,045,295,135	2,045,295,135	–	1,984,160,303	1,984,160,303
Intangible assets	–	34,765,774	34,765,774	–	35,305,734	35,305,734
Total assets	48,253,738,763	36,262,897,968	84,516,636,731	39,991,449,701	27,551,069,304	67,542,519,005
Liabilities						
Due to banks	4,183,749,372	10,393,484,348	14,577,233,720	2,092,023,965	5,611,241,245	7,703,265,210
Due to customers	42,334,619,616	11,045,181,880	53,379,801,496	36,445,295,216	8,985,256,438	45,430,551,654
Debt instruments issued and other borrowed funds	606,429,073	1,994,853,432	2,601,282,504	993,328,902	2,536,246,366	3,529,575,268
Other financial liabilities	1,869,940,600	–	1,869,940,600	1,776,066,139	–	1,776,066,139
Other non-financial liabilities	597,806,711	–	597,806,711	516,719,318	–	516,719,318
Current tax liabilities	741,251,904	–	741,251,904	534,744,704	–	534,744,704
Deferred tax liabilities	–	143,142,031	143,142,031	–	11,930,160	11,930,160
Retirement benefit liability	–	126,858,575	126,858,575	–	112,574,582	112,574,582
Total liabilities	50,333,797,276	23,703,520,265	74,037,317,541	42,358,178,245	17,257,248,791	59,615,427,036
Net	(2,080,058,513)	12,559,377,703	10,479,319,190	(2,366,728,544)	10,293,820,513	7,927,091,969

6.4 SEGMENTAL INFORMATION**ACCOUNTING POLICY**

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 operating segments based on products and services. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed on a Company basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10 percent or more of the Company's total revenue in 2015 or 2016.

	Leasing and stock out on hire		Loans and receivables		Others		Total	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Interest income	8,742,045,896	8,197,150,469	5,179,323,242	4,834,686,647	507,360,598	655,233,611	14,428,729,736	13,687,070,727
Interest expenses	(3,126,391,083)	(3,221,743,663)	(1,949,972,628)	(2,098,979,169)	(696,891,386)	(628,773,515)	(5,773,255,097)	(5,949,496,347)
Net interest income/(expenses)	5,615,654,813	4,975,406,806	3,229,350,614	2,735,707,478	(189,530,788)	26,460,096	8,655,474,639	7,737,574,380
Fee and commission income	485,644,940	390,035,817	401,238,465	361,928,912	281,798,139	207,874,520	1,168,681,544	959,839,249
Net trading income and other operating income	2,460,366	134,027,156	470,838	2,178,596	46,124,722	4,641,613	49,055,926	140,847,365
Impairment charge/reversal on loans and other losses	(304,286,398)	(1,618,400,181)	(70,084,102)	(186,379,384)	(8,064,856)	(58,639)	(382,435,356)	(1,804,838,204)
Gold loan auction losses	–	–	(29,358,088)	(214,928,977)	–	–	(29,358,088)	(214,928,977)
Net operating income	5,799,473,721	3,881,069,598	3,531,617,727	2,698,506,625	130,327,216	238,917,590	9,461,418,665	6,818,493,813
Other costs	(1,781,673,507)	(1,515,331,099)	(1,385,022,621)	(1,269,106,284)	(44,230,497)	(35,547,540)	(3,210,926,625)	(2,819,984,923)
Depreciation	(185,527,097)	(220,800,053)	(140,314,547)	(126,929,117)	(6,583,316)	(3,693,876)	(332,424,960)	(351,423,046)
Operating profits before taxes	3,832,273,117	2,144,938,446	2,006,280,559	1,302,471,224	79,513,403	199,676,174	5,918,067,080	3,647,085,844
Taxes							(2,200,274,216)	(1,464,959,688)
Profits for the year							3,717,792,864	2,182,126,156
Segmental assets	46,547,217,804	35,385,480,530	27,294,972,197	23,379,327,043	10,674,446,730	8,777,711,432	84,516,636,731	67,542,519,005
Segmental liabilities	40,775,772,423	31,232,482,349	23,910,635,846	20,635,424,707	9,350,909,272	7,747,519,980	74,037,317,541	59,615,427,036

6.5 COMMITMENTS AND CONTINGENCIES**ACCOUNTING POLICY**

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

6.5.1 CONTINGENT LIABILITIES

	2016 Rs.	2015 Rs.
Guarantees issued to banks and other institutions	22,660,000	18,150,000
Import LC and ordinary guarantees	182,361,157	254,449,909
Total contingent liabilities	205,021,157	272,599,909

6.5.2 COMMITMENTS

	2016 Rs.	2015 Rs.
Commitment for unutilised facilities	1,070,593,149	833,384,923
Total commitments	1,070,593,149	833,384,923
Total commitments and contingencies	1,275,614,306	1,105,984,832

6.5.3 LITIGATION AGAINST THE COMPANY

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. Based on the information currently available, the Board of Directors is of the opinion that the ultimate resolution of the litigation would not likely have a material impact on the Company.

	2016 Rs.	2015 Rs.
Cases pending against the Company	6,224,800	3,706,500

6.6 ASSETS PLEDGED

The following assets have been pledged as security for liabilities:

Nature of assets	Nature of liability	Carrying amount pledged		Included under
		2016 Rs.	2015 Rs.	
Lease rentals receivable and stock out on hire*	Bank loans, overdrafts and syndicated loans	17,761,939,036	9,624,616,863	Lease rentals receivable and stock out on hire
Real estate stock	Overdraft	65,000,000	65,000,000	Other non-financial assets
Freehold land and building	Syndicated loans	271,283,794	341,839,797	Property, plant & equipment
		18,098,222,830	10,031,456,660	

* The receivables and cash flows that have been included in securitisation transactions are only available for payment of the debt and other obligations issued or arising in the securitisation transactions. However, the Company hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of the securitisation transactions. Gross amount of lease rentals receivable and stock out on hire which have been pledged as at reporting date is Rs. 21,961,125,947/- (2015 – Rs. 11,970,699,865/-).

6.7 COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to conform to the current year's classification in order to provide better presentation.

6.8 EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to the reporting date, the Board of Directors of the Company recommended a first and final dividend of Rs. 7.50 per share for the year ended 31st March 2016. Details of the above dividend are disclosed in [Note 4.10](#) to the financial statements.

No other circumstances have arisen subsequent to the reporting date which would require adjustment to or disclosure in the financial statements.

Annexes

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Milestones

1971

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

1982

Changed its status as a public company.

1994

Vanik Incorporation Limited's shareholding increased to 83.26 percent.

1998

Listed on the Colombo Stock Exchange.

2003

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

2005

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

2008

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

2010

Profit doubled and reached over 1 billion for the first time in the history. Introduced factoring product to the Company.

2011

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

North and east market presence for the first time.

Established Islamic finance unit for the Company.

Became a part of vallibel one umbrella which is a diversified company.

2012

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

Islamic finance unit awarded as the emerging Islamic finance unit of the year.

Introduced the LB Savings to the customers.

Largest expansion drive within the industry with new 20 outlets.

Recorded the largest deposit base among NBFIs sector.

2013

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

Opened 1st premier branch in Mount Lavinia.

Staff strength surpassed 2000.

2014

The Company was certified as a carbon conscious company by the Sri Lanka Carbon Fund.

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

CSR re-branded as LB Sustainability.

2015

Opened the 100th Branch in Jaffna.

Introduced the visa shopping card.

2016

Successfully completing 45 years in the finance industry with a profit growth of 70 percent reaching the highest ever profit of Rs. 3.7 billion (PAT)

Ten year summary

KEY RATIOS

		2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Operating											
Net interest margin	%	10.8	9.38	10.31	11.60	12.87	11.43	10.22	10.38	12.67	12.17
Cost to income	%	51.42	55.56	51.72	42.87	41.27	41.75	42.30	41.29	35.88	35.89
Interest spread	%	10.11	8.12	7.92	9.32	11.77	10.84	9.49	9.45	11.55	11.09
Financial position											
Total assets to shareholders' funds	No. of times	11.90	11.02	10.38	9.79	10.81	10.75	10.18	9.80	8.52	8.07
Debt to equity	No. of times	10.32	9.30	8.54	7.97	9.64	9.48	8.89	8.54	7.15	6.73
Equity to deposits	%	12.88	13.34	14.12	14.06	13.32	14.60	13.75	13.46	17.45	19.63
Investor											
Return on equity (ROE)	%	37.95	26.35	30.93	32.20	47.45	52.64	36.62	23.23	30.88	40.40
Return on average assets (ROA)	%	3.07	2.32	2.91	3.21	4.51	4.85	3.51	2.33	3.40	4.89
Equity to assets	%	8.40	9.07	9.64	10.21	9.08	9.31	9.83	10.21	11.74	12.40
Net assets per share	Rs.	29.08	32.18	38.99	25.36	36.74	57.30	76.94	89.62	57.23*	75.66
Earnings per share (EPS)	Rs.	8.85	6.79	10.38	7.22	14.73	24.75	24.58	19.35	15.75*	26.84
Dividend per share (DPS)	Rs.	–	2.25	3.00	5.00	3.50	5.00	6.50	6.50	10.00	7.50**
Dividend cover	No. of times	–	3.02	3.46	1.44	4.21	4.95	3.78	2.98	3.15	3.58
Dividend yield	%	–	10.00	15.79	8.06	2.00	3.71	4.90	6.49	6.66	7.07
Dividend payout	%	–	33.12	28.89	34.62	23.76	20.20	26.45	33.59	31.74	27.94
Price earning ratio (PE)	No. of times	3.98	3.31	1.83	8.59	11.89	5.45	5.40	5.17	9.53*	3.95
Price to book value (PBV)	No. of times	1.21	0.70	0.49	2.44	4.77	2.35	1.72	1.12	1.31*	1.40
Market price per share	Rs.	35.25	22.50	19.00	62.00	175.10	134.90	132.70	100.10	150.20	106.10
Market capitalisation	Rs. million	–	–	624	2,147	12,127	9,343	9,190	6,933	10,402	14,696
Interest cover	No. of times	1.43	1.27	1.25	1.39	1.69	1.66	1.42	1.26	1.56	1.92
Growth											
Gross income	%	43.34	112.00	28.84	15.39	33.19	44.26	43.23	19.88	8.51	5.81
Interest income	%	44.64	69.38	64.81	15.18	29.99	42.01	44.25	20.78	7.65	5.42
Interest expense	%	51.46	101.04	69.86	0.49	7.5	46.87	67.39	20.05	(16.65)	(2.96)
Net interest income	%	37.56	33.21	56.09	42.76	59.71	37.69	22.31	21.72	38.76	11.86
Profit before tax	%	63.14	25.78	56.33	58.16	89.89	46.19	3.63	(26.05)	78.33	59.81
Profit after tax	%	132.01	15.13	74.71	39.09	104.01	67.98	(0.69)	(21.27)	62.84	70.37
Total assets	%	49.86	53.70	30.39	22.77	62.93	52.15	27.17	12.16	11.06	25.13
Lending portfolio	%	50.8	57.83	30.67	23.58	61.46	55.03	22.09	9.99	13.75	27.87
Deposit base	%	36.38	60.24	30.77	30.67	62.23	34.10	42.58	18.98	(1.44)	17.50
Shareholders' funds	%	65.63	65.98	38.47	30.1	44.85	55.97	34.29	16.48	27.72	32.20
Employee											
Profit before tax per employee	Rs. '000	722	683	802	986	1,319	1,541	1,229	875	1,387	1,940
Profit after tax per employee	Rs. '000	457	395	519	561	807	1,020	828	627	908	1,354
Total assets per employee	Rs. '000	17,878	20,661	20,244	19,325	22,359	25,395	26,385	28,497	28,131	30,800
No. of branches		9	15	21	27	34	65	89	97	100	110
No of gold loan centres		23	25	36	48	58	47	37	37	35	36
Total No. of outlets		32	40	57	75	92	112	126	134	135	146
No. of employees		391	520	692	890	1,264	1,679	2,055	2,134	2,401	2,744
Employees per outlet		12	13	12	12	14	15	16	16	18	19

*Ratios revised according to the share split in 2015/16

**Proposed dividend

FINANCIAL STATEMENTS PREPARED UNDER SLAS

	2006/07 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2010/11 Rs. '000
Income statement					
Gross income	1,310,792	2,778,862	3,580,173	4,130,993	5,501,885
Interest income	1,229,406	2,082,418	3,431,950	3,953,032	5,138,718
Interest expenditure	655,624	1,318,058	2,238,847	2,249,805	2,418,480
Net interest income	573,782	764,361	1,193,103	1,703,227	2,720,239
Other operating income	65,247	165,682	122,326	174,285	353,647
Operating expenditure	309,632	509,225	647,561	839,479	1,171,025
Profits before taxation	282,401	355,214	555,315	878,290	1,667,820
Provision for taxation	103,625	149,381	195,707	378,129	647,452
Net profits	178,776	205,833	359,608	500,161	1,020,368
Balance sheet					
Assets					
Cash and amounts due from banks	90,555	152,581	217,642	277,083	347,446
Placements with other banks	247,918	415,918	550,496	364,918	302,584
Treasury bills and other bills eligible for re-discounting with Central Bank	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	238,641	218,198	211,241	246,928	237,520
Loans and advances	1,100,386	1,805,471	2,834,414	4,193,815	7,543,231
Lease rentals receivable and stock out on hire	4,641,290	7,256,655	9,006,955	10,440,329	16,332,007
Investment securities	9,032	9,032	6,226	5,994	28,594
Trading portfolio	-	-	-	-	211,818
Other debtors, deposits and prepayments	129,921	142,570	141,619	104,271	675,235
Deferred taxation	-	-	-	-	-
Vehicle stock	58,242	118,686	41,939	156,502	519,706
Intangible assets	11,289	9,959	9,311	7,333	9,682
Property, plant and equipment	87,773	129,775	189,920	237,613	432,359
Total assets	6,990,515	10,744,099	14,009,461	17,199,943	28,262,340
Liabilities					
Deposits from customers	4,561,445	7,309,101	9,558,370	12,489,789	19,619,681
Borrowings	1,401,839	1,658,593	1,527,997	1,065,377	3,526,374
Debentures	100,000	100,000	450,000	450,000	450,000
Trade payables and accrued charges	303,445	559,993	846,978	916,729	1,529,035
Tax payable	-	-	67,751	352,626	396,413
Deferred taxation	16,993	114,615	186,703	141,728	93,249
Dividends payable	-	-	-	-	-
Provision and other liabilities	19,367	26,778	21,565	27,262	33,870
Total liabilities	6,403,089	9,769,080	12,659,364	15,443,511	25,648,622
Shareholders' fund					
Share capital	202,000	418,411	491,996	491,996	838,282
Reserves	385,426	556,608	858,101	1,264,436	1,775,436
Total shareholders' funds	587,426	975,019	1,350,097	1,756,433	2,613,718
Total liabilities and funds employed	6,990,515	10,744,099	14,009,461	17,199,943	28,262,340

FINANCIAL STATEMENTS PREPARED UNDER SLFRS

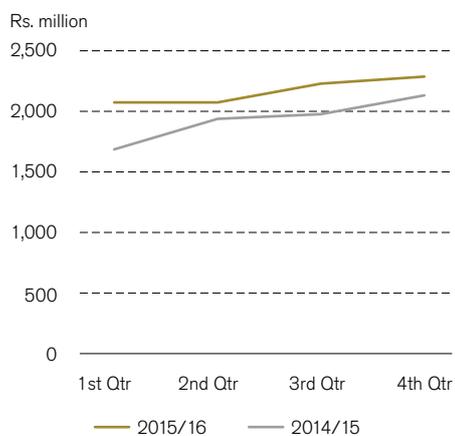
	2011/12 Rs. '000	2012/13 Rs. '000	2013/14 Rs. '000	2014/15 Rs. '000	2015/16 Rs. '000
Statement of comprehensive income					
Gross income	7,937,072	11,368,252	13,628,497	14,787,757	15,646,467
Interest income	7,297,591	10,526,829	12,714,089	13,687,070	14,428,729
Interest expenses	3,551,986	5,945,707	7,137,897	5,949,496	5,773,255
Net interest income	3,745,605	4,581,122	5,576,191	7,737,574	8,655,474
Other operating income	639,481	841,422	914,408	1,100,686	1,217,737
Total operating income	4,385,086	5,422,544	6,490,600	8,838,260	9,873,212
Impairment (Charges) / Reversal for loans and other losses	116,023	400,307	570,332	1,804,838	382,435
Gold loan auction losses	–	201,802	1,371,959	214,928	29,358
Operating expenses	1,680,998	2,293,876	2,679,918	3,486,640	4,136,803
Profit before tax	2,588,065	2,526,559	1,868,390	3,331,853	5,324,615
Income tax	874,071	824,443	528,361	1,149,727	1,606,822
Profit for the year	1,713,994	1,702,116	1,340,029	2,182,126	3,717,792
Statement of financial position					
Assets					
Cash and cash equivalents	1,954,237	4,019,673	1,865,100	6,067,670	6,051,898
Financial investments - held for trading	6,740	7,323	7,595	10,063	10,645
Loans and receivables	12,771,108	16,452,987	18,893,238	22,262,761	26,449,169
Lease rentals receivable and stock out on hire	23,686,392	28,271,347	30,299,455	33,695,516	45,104,836
Financial Investments - Available for Sale	128,068	473,739	1,468,602	140,587	138,411
Other financial assets	1,019,834	1,487,399	5,186,548	2,140,178	4,142,716
Other non-financial assets	1,066,622	1,205,230	817,629	1,206,275	538,898
Intangible assets	19,340	23,669	36,425	35,305	34,765
Property, plant and equipment	1,868,286	2,100,939	2,067,928	1,984,160	2,045,295
Deferred tax assets	117,779	180,551	171,857	–	–
Total assets	42,638,405	54,222,859	60,814,380	67,542,519	84,516,636
Liabilities					
Due to banks	8,910,255	6,366,217	1,423,642	7,703,265	14,577,233
Due to customers	27,172,161	38,742,700	46,095,205	45,430,551	53,379,801
Debt instruments issued and other borrowed funds	1,541,555	2,244,210	5,475,903	3,529,575	2,601,282
Other financial liabilities	–	638,011	1,165,526	1,776,066	1,869,940
Other non-financial liabilities	757,275	694,933	250,496	516,719	597,806
Retirement benefit liability	44,231	60,230	93,198	112,574	126,858
Current tax liabilities	244,831	147,956	103,717	534,744	741,251
Deferred Tax Liabilities	–	–	–	11,930	143,142
Total liabilities	38,670,307	48,894,257	54,607,691	59,615,427	74,037,317
Shareholders' funds					
Stated capital	838,282	838,282	838,282	838,282	838,282
Retained earnings	2,075,561	2,852,402	3,265,273	5,180,485	6,970,499
Reserves	1,054,254	1,637,917	2,103,132	1,908,324	2,670,537
Total shareholders' funds	3,968,097	5,328,601	6,206,688	7,927,091	10,479,319
Total liabilities and shareholders' funds	42,638,405	54,222,859	60,814,380	67,542,519	84,516,636

Quarterly financial statements 2015/16

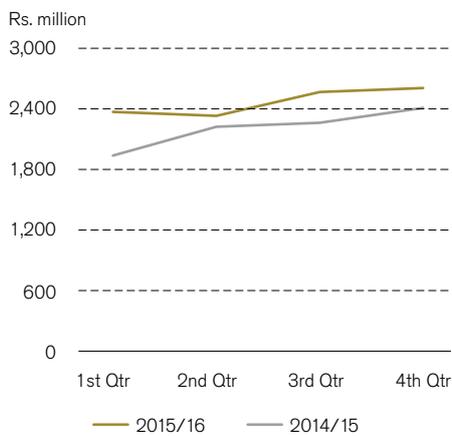
STATEMENT OF COMPREHENSIVE INCOME

For the 3 months ended	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2015 Rs. '000	30.06.2014 Rs. '000	30.09.2015 Rs. '000	30.09.2014 Rs. '000	31.12.2015 Rs. '000	31.12.2014 Rs. '000	31.03.2016 Rs. '000	31.03.2015 Rs. '000
Income	3,670,666	3,538,597	3,726,265	3,696,960	4,022,914	3,736,130	4,226,586	3,816,070
Interest income	3,374,244	3,282,520	3,459,444	3,417,307	3,681,228	3,455,038	3,913,814	3,532,206
Interest expenses	(1,304,646)	(1,597,519)	(1,390,237)	(1,478,251)	(1,459,054)	(1,469,490)	(1,619,318)	(1,404,238)
Net interest income	2,069,598	1,685,001	2,069,207	1,939,056	2,222,174	1,985,548	2,294,495	2,127,969
Fee and commission income	270,177	222,995	276,664	238,300	322,543	246,331	299,297	252,213
Net trading income	1,861	288	1,432	2,185	(166)	101	(2,159)	178
Other operating income	24,384	32,794	(11,276)	39,168	19,309	34,660	15,635	31,473
	296,423	256,077	266,821	279,653	341,686	281,092	312,772	283,864
Total operating income	2,366,021	1,941,079	2,336,028	2,218,710	2,563,860	2,266,640	2,607,268	2,411,832
Impairment charges/reversal for loans and other losses	(233,081)	(367,039)	(113,817)	(458,358)	(42,673)	(502,841)	7,136	(476,600)
Gold loan auction losses	(9,127)	(131,774)	(9,213)	(53,227)	(7,256)	(19,555)	(3,762)	(10,372)
Net operating income	2,123,813	1,442,266	2,212,998	1,707,124	2,513,931	1,744,244	2,610,641	1,924,860
Operating expenses								
Personnel expenses	(411,380)	(354,590)	(467,517)	(379,281)	(476,647)	(393,082)	(482,009)	(389,064)
Depreciation of property, plant & equipment	(84,782)	(81,847)	(81,192)	(84,875)	(74,707)	(86,301)	(77,614)	(85,927)
Amortisation of intangible assets	(3,243)	(2,838)	(3,608)	(3,185)	(3,623)	(3,285)	(3,656)	(3,165)
Other operating expenses	(324,175)	(287,623)	(327,287)	(285,193)	(357,076)	(329,438)	(364,834)	(445,419)
Operating profit before value added tax on financial services	1,300,232	715,368	1,333,394	954,590	1,601,878	932,138	1,682,528	1,001,285
Value added tax on financial services	(116,283)	(59,595)	(132,899)	(79,787)	(163,604)	(97,652)	(180,665)	(34,494)
Profit before taxation	1,183,949	655,773	1,200,495	874,803	1,438,274	834,486	1,501,863	966,791
Income tax expense	(408,126)	(206,711)	(411,246)	(320,280)	(499,108)	(284,542)	(288,343)	(338,194)
Profit after taxation	775,823	449,062	789,249	554,523	939,165	549,944	1,213,520	628,597

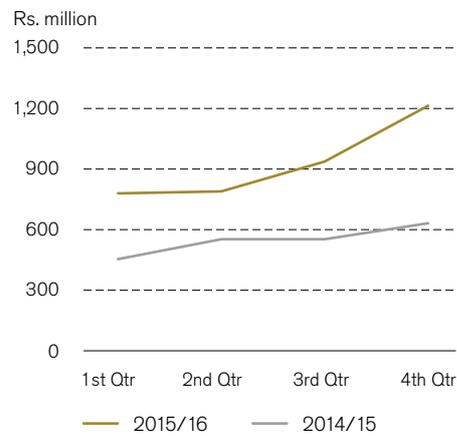
Net interest income



Operating income

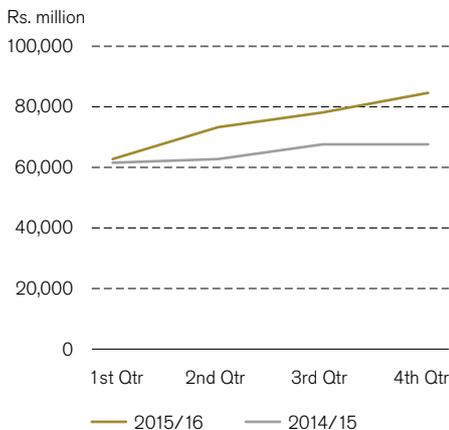
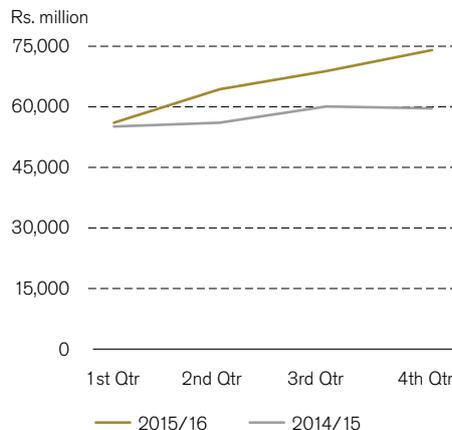
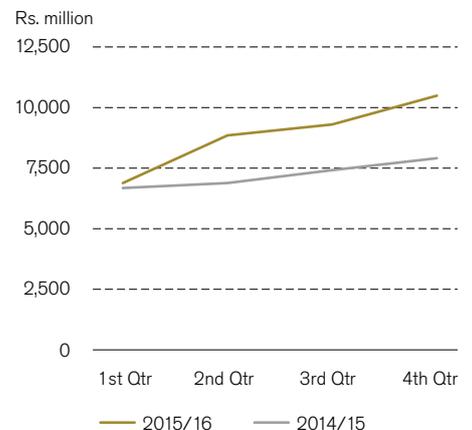


Profit after tax



STATEMENT OF FINANCIAL POSITION

As at 3 months ended	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2015 Rs. '000	30.06.2014 Rs. '000	30.09.2015 Rs. '000	30.09.2014 Rs. '000	31.12.2015 Rs. '000	31.12.2014 Rs. '000	31.03.2016 Rs. '000	31.03.2015 Rs. '000
Assets								
Cash and cash equivalents	3,123,884	3,697,398	5,263,420	3,123,884	4,397,588	6,585,776	6,051,899	6,067,670
Financial investments – held for trading	9,645	7,693	13,050	9,645	12,849	9,885	10,646	10,064
Loans and receivables	21,652,895	20,127,295	22,905,786	21,652,895	24,685,515	21,970,194	26,449,169	22,262,761
Lease rentals receivable & stock out on hire	30,728,020	30,643,047	40,086,351	30,728,020	43,381,548	31,672,614	45,104,836	33,695,517
Financial investments – available for sale	927,008	1,510,162	178,056	927,008	175,659	891,706	138,411	140,587
Other financial assets	3,371,702	2,620,596	1,829,728	3,371,702	2,762,972	3,149,852	4,142,716	2,140,178
Other non-financial assets	793,319	799,164	950,001	793,319	772,288	1,025,353	538,898	1,206,275
Intangible assets	40,028	37,201	37,179	40,028	35,386	38,661	34,766	35,307
Property, plant & equipment	2,058,399	2,078,706	1,986,208	2,058,399	1,998,558	2,020,899	2,045,295	1,984,160
Deferred tax assets	171,857	171,857	–	171,857	–	171,857	–	–
Total assets	62,876,758	61,693,119	73,249,778	62,876,758	78,222,362	67,536,799	84,516,637	67,542,519
Liabilities								
Due to banks	2,717,541	3,631,250	11,134,990	2,717,541	11,671,177	7,022,875	14,577,234	7,703,265
Due to customers	48,608,330	47,173,048	47,093,374	48,608,330	51,190,281	48,260,766	53,379,801	45,430,552
Debt issued and other borrowed funds	2,669,011	2,615,710	3,030,992	2,669,011	2,718,479	2,544,176	2,601,283	3,529,575
Other financial liabilities	480,837	338,908	1,878,690	480,837	1,877,646	1,408,986	1,869,941	1,776,066
Other non-financial liabilities	1,034,823	953,155	527,386	1,034,823	478,893	235,893	597,807	516,719
Post employment benefit liability	106,454	97,864	127,116	106,454	134,457	115,891	126,859	112,575
Current tax liabilities	381,157	205,888	608,238	381,157	850,046	549,282	741,252	534,745
Deferred tax liabilities	–	–	11,930	–	11,930	–	143,142	11,930
Total liabilities	55,998,153	55,015,823	64,412,716	55,998,153	68,932,908	60,137,868	74,037,318	59,615,427
Shareholders' funds								
Stated capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Retained earnings	3,602,995	3,598,478	5,739,972	3,602,995	6,007,074	4,031,880	6,977,889	5,180,486
Reserves	2,437,328	2,240,536	2,258,808	2,437,328	2,444,098	2,528,768	2,663,148	1,908,324
Total shareholders' funds	6,878,605	6,677,296	8,837,062	6,878,605	9,289,454	7,398,930	10,479,319	7,927,092
Total Liabilities and shareholders' funds	62,876,758	61,693,119	73,249,778	62,876,758	78,222,362	67,536,799	84,516,637	67,542,519

Total assets**Total liabilities****Total shareholders' funds**

Branches

Branch	Contact number	Fax number	Address	E-mail
Western province				
Aluthgama	034-2271161/62	034-2271155	No. 185, Galle Road, Aluthgama	aluthgama@lbfinance.lk
Avissawella	036-4929910/11	036-2234222	No. 25, Yatiyantota Road, Avissawella	avissawella@lbfinance.lk
Battaramulla	011-2885331	011-2885332	No. 755/1, Pannipitiya Road, Battaramulla	battaramulla@lbfinance.lk
Boralesgamuwa	011-4381033/34	011-2518389	No. 28, Dehiwala Road, Boralesgamuwa	boralesgamuwa@lbfinance.lk
Corporate office	011-2155000	011-2574777	No. 20, Dharmapala Mawatha, Colombo 03	
Dam Street	011-4375576/ 011-4378798	011-2435259	No. 371/1, Dam Street, Colombo 12	damstreet@lbfinance.lk
Dehiwala	011-4361869/70	011-2722446	No. 84 A, Galle Road, Dehiwala	dehiwala@lbfinance.lk
Delkanda	011-2802828	011-2804343	No. 595, High Level Road, Gangodawila, Nugegoda	delkanda@lbfinance.lk
Gampaha	033-4670650	033-4670464	No. 1B, Baudhaloka Mawatha, Gampaha	gampaha@lbfinance.lk
Head-office	011-2200000	011-2508507	No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07	mails@lbfinance.lk
Homagama	011-4361877	011-2894380	No. 76, High Level Road, Homagama	homagama@lbfinance.lk
Horana	034-4286120	034-2265810	No. 02, Ratnapura Road, Horana	horana@lbfinance.lk
Ja-Ela	011-4378060	011-2244155	No. 6/1/1, Old Negombo Road, Ja-Ela	jaela@lbfinance.lk
Kadawatha	011-4339644/45	011-2926917	No. 139/6, Kandy Road, Kadawatha	kadawatha@lbfinance.lk
Kandana	011-4380250/51	011-2239155	No. 06, Station Road, Kandana	kandana@lbfinance.lk
Kaduwela	011-4381318	011-2538222	No. 484, Avissawella Road, Kaduwela	kaduwela@lbfinance.lk
Kalutara	034-4929520/ 034-4280952	034-2223343	No. 334, Main Street, Kalutara South	kaluthara@lbfinance.lk
Kiribathgoda	011-43334550/51	011-2906155	No. 02, Kandy Road, Kiribathgoda	kiribathgoda@lbfinance.lk
Kochchikade	031-4922478	031-2274205	No. 03, Main Street, Chilaw Road, Kochchikade	kochchikade@lbfinance.lk
Kotahena	011-4376199	011-2424795	No. 03, St. Lucia's Street, Kotahena	kotahena@lbfinance.lk
Kottawa	011-2745722	011-2745449	No. 365, Highlevel Road, Kottawa	kottawa@lbfinance.lk
Maharagama	011-2838311	011-2848222	No. 27/A, High Level Road, Wattegedara, Maharagama	maharagama@lbfinance.lk
Malabe	011-4381082/83	011-2742970	No. 834/7, Kaduwela Road, Malabe	malabe@lbfinance.lk
Maradana	011-4024679	-	No. 538, Maradana Road, Colombo 10	maradana@lbfinance.lk
Mathugama	034-4947764	034-2249343	No. 34, Aluthgama Road, Mathugama	-
Moratumulla	011-4216863	011-2653365	No. 227, De Soyza Road, Moratumulla, Moratuwa	moratumulla@lbfinance.lk
Moratuwa	011-2642288/ 011-4369268	011-2642255	No. 10, Station Road, Moratuwa	moratuwa@lbfinance.lk
Mount Lavinia - premier centre	011-2710124/25	011-2710126	No. 66, Galle Road, Mount-Lavinia	mountlavinia@lbfinance.lk
Negombo	031-4872513/14	031-2231266	No. 80, Greens Road, Negombo	negombo@lbfinance.lk
Nugegoda	011-4541333	011-4541735	No. 92, Stanley Thilakarathne Mawatha, Nugegoda	nugegoda@lbfinance.lk
Panadura	038-4282500	038-2243525	No. 508, Galle Road, Panadura	panadura@lbfinance.lk
Piliyandala	011-4343408/09	011-2608895	No. 68, Horana Road, Piliyandala	piliyandala@lbfinance.lk
Pitakotte	011-4381335	011-2820967	No. 429, Kotte Road, Pitakotte	pitakotte@lbfinance.lk
Rajagiriya	011-4362962	011-2885551	No. 347/A, Kotte Road, Rajagiriya	rajagiriya@lbfinance.lk
Sea Street	011-4375934/36	011-2434597	No. 197, Sea Street, Colombo 11	seastreet@lbfinance.lk
Wattala	011-4378087	011-2933218	No. 17, Station Road, Hunupitiya, Wattala	wattala@lbfinance.lk

Branch	Contact number	Fax number	Address	E-mail
Central province				
Dambulla	066-4928929/30	066-2284990	No. 38, Kurunegala Junction, Dambulla	dambulla@lbfinance.lk
Gampola	081-4486444	-	No. 22, Nuwara Eliya Road, Gampola	-
Gampola City	0812-353609/10	-	No. 46, Nuwara Eliya Road, Gampola	gampola@lbfinance.lk
Geliyoia	0812-067740	-	No. 13A, Kandy Road, Geliyoia.	geliyoia@lbfinance.lk
Hatton	051-4924378	051-2225736	No. 52, Dunbara Road, Hatton	hatton@lbfinance.lk
Kandy	081-2238931/32	081-2200155	No. 115, Milton House, Kotugodella Veediya, Kandy	kandy@lbfinance.lk
Kandy City	081-2204155	081-2224550	No. 266, D S Senanayake Street, Kandy	kandypwn_cen@lbfinance.lk
Katugastota	081-4949236	081-2500562	No. 19, Madawala Road, Katugastota	katugastota@lbfinance.lk
Katugastota City	081-8213868	081-8213888	No. 179, Katugastota Raod, Kandy	katugastota@lbfinance.lk
Maskeliya	051-4924366	052-2277088	No. 175, Main Street, Maskeliya	maskeliya@lbfinance.lk
Matale	066-4926890	066-2222266	No. 251, Main Street, Matale	matale@lbfinance.lk
Nawalapitiya	054-2223110	054-2224050	No. 3A, Urban Council Road, Nawalapitiya	-
Nuwara Eliya	052-4924362/63	052-2234155	No. 71, City Light Building, Queen Elizabeth Drive, Nuwara Eliya	nuwaraeliya@lbfinance.lk
Pilimathalawa	081-2579940	081-2579942	No. 298, Colombo Road, Pilimathalawa	pilimathalawa@lbfinance.lk
Pussellawa	081-2478128	081-2478148	No. 473, Nuwara Eliya Road, Pussellawa	pussellawa@lbfinance.lk
Southern province				
Akuressa	041-2283559	041-2283560	No. 83, Deniyaya Road, Akuressa	akuressa@lbfinance.lk
Ambalangoda	091-4382588	091-4382590	No. 96/2, Galle Road, Ambalangoda	ambalangoda@lbfinance.lk
Deniyaya	041-2273196/97	041-2273195	No. 149, Maha Veediya, Deniyaya	deniyaya@lbfinance.lk
Elpitiya	091-49441658/59	091-2291958	No. 14, Main Street, Elpitiya	elpitiya@lbfinance.lk
Galle	091-4385065	091-2233155	No. 150, Main Street, Galle	galle@lbfinance.lk
Matara	041-4390847/48	041-4390849	No. 13, Station Road, Matara	matara@lbfinance.lk
Matara City	041-2224496/97	041-2228666	No. 282, Anagarika Dharmapala Mawatha, Nupe, Matara	mataracity@lbfinance.lk
Neluwa	091-3096960	091-3096950	No. 02, HV Building, Dellawa Road, Neluwa	neluwa@lbfinance.lk
Pitigala	091-4935445	091-4943094	No. 87, Main Street, Pitigala	pitigala@lbfinance.lk
Tangalle	041-2241750	041-2241751	No. 66, Tissa Road, Tangalle	tangalle@lbfinance.lk
Tissamaharama	047-4931676	047-2237360	No. 34, Maha Veediya, Tissamaharama	tissamaharama@lbfinance.lk
Northern province				
Chavakachcheri	021-4923360/61	021-2270623	No. 136, Kandy Road, Chavakachcheri	chavakachcheri@lbfinance.lk
Chunnakam	021-4920331/39	021-2241334	No. 55, K K S Road, Chunnakam	chunnakam@lbfinance.lk
Jaffna	021-4920310/11	021-2220243	No. 440, Hospital Road, Jaffna	jaffna@lbfinance.lk
Jaffna City	021-2217911	021-2220243	No. 111, Stanely Road, Jaffna	jaffnacity@lbfinance.lk
Jaffna Premier Centre	021-2217810	021-2217811	No. 406, Hospital Road, Jaffna	jaffnapremier@lbfinance.lk
Killinochchi	021-4923362/63	-	Opposite Kandasamy Kovil, A9 Road, Killinochchi	kilinochchi@lbfinance.lk
Manipay	021-4923356	021-2255523	No. 110, Jaffna Road, Manipay	manipay@lbfinance.lk
Nelliady	021-4923358/59	021-2262923	No. 10, Main Street, Nelliady	neliady@lbfinance.lk
Vavuniya	024-4925127	024-2226955	No. 32B, 2nd Cross Street, Vavuniya	vavuniya@lbfinance.lk

Branch	Contact number	Fax number	Address	E-mail
Eastern province				
Akkaraipattu	067-4923974	067-2279655	Sagama Road, Akkaraipattu	akkraipattu@lbfinance.lk
Ampara	063-4925110/11	063-2223504	No. 04, Opposite Clock Tower, Ampara	ampara@lbfinance.lk
Batticaloa	065-4923930	065-2229080	No. 175 A, Trinco Road, Batticaloa	batticaloa@lbfinance.lk
Chenkaladi	065-2054263	065-2054265	Opposite Market Complex, Main Road, Chenkaladi	chenkalady@lbfinance.lk
Dehiattakandiya	0272-250071	0272-250073	No. 10/2, Opposite BOC, New Town, Dehiattakandiya.	dehiattakandiya@lbfinance.lk
Kalawanchikudy	065-2251626/36	065-2251646	Hospital Road, Kalawanchikudy	kalawanchikudy@lbfinance.lk
Kalmunai	067-4924040	067-2220418	Main Street, Batticaloa Road, Kalmunai	kalmunai@lbfinance.lk
Kattankudi	065-4926492	065-2248655	No. 801, Mohomad Aiyar Building, Main Street, Kattankudi	kaththankudy@lbfinance.lk
Kinniya	026-2237443	0262-237445	No. 50/2, Main Street, Kinniya	kinniya@lbfinance.lk
Kokkadicholi	065-2056900	065-2056915	Main Street, Division 10, Kokkadicholi	kokkadicholi@lbfinance.lk
Pothuvil	063-4925557	063-2050855	Main Street, Pothuvil	pothuvil@lbfinance.lk
Saindamarathu	067-4923744	067-2225366	No. 209, Main Street, Saindamarathu	saindamarudu@lbfinance.lk
Samanthurai	067-4923976	-	Opposite Hiraj Jumah Mosque, Ampara Road, Samanthurai	samanthure@lbfinance.lk
Trincomalee	026-4924794/95	026-2226737	No. 275, Central Road, Trincomalee	trincomalee@lbfinance.lk
Valaichchenai	065-2059626	065-2059627	Main Road, Opposite Market, Valachchenai	valachchenai@lbfinance.lk
North western province				
Anamaduwa	032-2263090	032-3263092	No. 24, Chilaw Road, Anamaduwa	anamaduwa@lbfinance.lk
Chilaw	032-4929638/39	032-2224725	No. 40A, Colombo Road, Chilaw	chilaw@lbfinance.lk
Kuliyapitiya	037-4931664	037-4696319	No. 12, Main Street, Kuliyapitiya	kuliyapitiya@lbfinance.lk
Kurunegala	037-4690464	037-4690464	No. 21, Athula Cooray Building, Dambulla Road, Kurunegala	kurunegala@lbfinance.lk
Kurunegala City	037-4936670	-	No. 118 A, Colombo Road, Kurunegala	kurunegala2@lbfinance.lk
Kurunegala premier centre	037-2222411/ 037-2223411	037-2229696	No. 103/A, Colombo Road, Kurunegala	kurunegalap@lbfinance.lk
Puttalam	032-4928789/88	032-2266939	No. 10, Kurunegala Road, Puttalam	puttalam@lbfinance.lk
Wennappuwa	031-4931437	031-4874754	No. 134, Main Street, Wennappuwa	wennappuwa@lbfinance.lk

Branch	Contact number	Fax number	Address	E-mail
North central province				
Anuradhapura	025-4926029	025-2237155	No. 137, Main Street, Anuradhapura	anuradhapura@lbfinance.lk
Anuradhapura City	025-4927367	025-2226759	No.154/A, New Town, Anuradhapura	anuradhapura2@lbfinance.lk
Medawachchiya	025-2245302/04	025-2245303	No. 26, Kandy Road, Medawachchiya	madawachchiya@lbfinance.lk
Polonnaruwa	027-4926599	027-4599119	Rajarata Building, Main Street, Kaduruwela, Polonnaruwa	polonnaruwa@lbfinance.lk
Thabuththegama	025-4928717/18	025-2275567	No. 256, New Town, Thabuththegama	thambuttegama@lbfinance.lk
Uva province				
Badulla	055-4499523/ 055-4499744	055-4499744	No. 26, Anagarika Dharmapala Mawatha, Badulla	badulla@lbfinance.lk
Badulla City	055-4927888/ 055-2224255	–	No. 55, Lower Street, Badulla	badullapc@lbfinance.lk
Bandarawela	057-4926386/87	057-2225424	No. 167, Main Street, Bandarawela	bandarawela@lbfinance.lk
Mahiyanganaya	055-4927701	055-2258455	No. 56, Edwin Wickramarathna Super Market, New Town, Mahiyanganaya	mahiyanganaya@lbfinance.lk
Monaragala	055-4927685	055-2276905	No. 44, New Bus Stand Road, Monaragala	monaragala@lbfinance.lk
Welimada	057-4926081	057-2244828	No. 51/A, Nuwara Eliya Road, Welimada	welimada@lbfinance.lk
Sabaragamuwa province				
Balangoda	045-4932546/47	045-4640000	No. 19, Rest House Approach Road, Balangoda	balangoda@lbfinance.lk
Embilipitiya	047-4924424/23	047-2261990	No. 43, Kelin Veediya, Pallegama, Embilipitiya	embilipitiya@lbfinance.lk
Kegalle	035-4932340	035-4932339	No. 21, Main Street, Kegalle	kegalle@lbfinance.lk
Ratnapura	045-4641010	045-2225864	No. 49, Senanayaka Mawatha, Ratnapura	rathnapura@lbfinance.lk
Warakapola	035-2267267	035-2267788	No. 81, Kandy Road, Warakapola	warakapola@lbfinance.lk

Gold loan centres

Centre	Contact number	Fax number	Address	E-mail address
Western province				
Aluth Mawatha	011-4343878	–	No. 367/1, Aluth Mawatha, Colombo 15	aluthmawatha@lbfinance.lk
Attidiya	011-4339633	011-2736625	No. 269, Main Road, Attidiya, Dehiwala	attidiya@lbfinance.lk
Baduraliya	011-3010943	–	No. 48, Ratnapura Road, Baduraliya	baduraliya@lbfinance.lk
Bandaragama	038-2289425/26	011-2289427	No. 4, Panadura Road, Bandaragama	bandaragama@lbfinance.lk
Beruwala	034-4288369	034-2298126	No. 175/A, Galle Road, Beruwala	beruwala@lbfinance.lk
Borella	011-4614440	–	No. 54, D S Senanayake Mawatha, Colombo 08	borella@lbfinance.lk
Deans Road	011-4374656	–	No. 133, Deans Road, Maradana	deans@lbfinance.lk
Dehiwala II	011-4366502	011-2710156	No. 124, Galle Road, Dehiwala	dehiwala2@lbfinance.lk
Dematagoda	011-4610963	–	No. 551, Dematagoda Road, Colombo 09	dematagoda@lbfinance.lk
Elakanda	011-2941166	011-2941166	No. 18, Elakanda Road, Hendala, Wattala	elakanda@lbfinance.lk
Ganemulla	033-2265866	033-2265866	No. 229/1, Kadawatha Road, Ganemulla	ganemulla@lbfinance.lk
Golumadama	011-4340420	011-2637155	No. 5, Kaldemulla Road, Ratmalana	golumadama@lbfinance.lk
Gothatuwa	011-4348649	–	No. 52/17, Gothatuwa, New Town, Gothatuwa	gothatuwa@lbfinance.lk
Grandpass-Stadium	011-4335105	–	No. 395, Grandpass Road, Colombo 14	stadium@lbfinance.lk
Grandpass-Sulaiman	011-4619866	–	No. 47, Grandpass Road, Colombo 14	grandpassnew@lbfinance.lk
Hanwella	036-2252080	0362-252047	No. 24 A, Main Street, Hanwella	hanwella@lbfinance.lk
Jampettah	011-4014668	–	No. 66, Jampettah Street, Colombo 13	jampatah@lbfinance.lk
Kelaniya	011-4814050	–	No. 722, Waragoda Road, Vihara Junction, Kelaniya	kelaniya@lbfinance.lk
Keselwatte	038-4281885	038-2297849	No. 18, Galle Road, Keselwatte, Panadura	keselwatte@lbfinance.lk
Kiribathgoda (Makola)	011-4380252	011-2914838	No. 44, Makola Road, Kiribathgoda	kiribathgoda2@lbfinance.lk
Kirulapone	011-4512759	–	No. 91, High Level Road, Colombo 06	kirulapana@lbfinance.lk
Kolonnawa	011-4376746	–	No. 141A, Kolonnawa Road, Kolonnawa	kolonnawa@lbfinance.lk
Kosgashandiya	011-4613210	011-2436748	No. 21, St. Joseph's Street, Grandpass, Colombo 14	grandpass@lbfinance.lk
Maharagama II	011-4300350	011-2840136	No. 69, Dehiwala Road, Maharagama	maharagama2@lbfinance.lk
Maligawatta	011-4367623	–	No. 157/D, New Pradeepa Road, Maligawatta, Colombo 10	maligawatte@lbfinance.lk
Mattakkuliya	011-4614107	–	No. 47 D, Sri Wickrama Mawatha, Mattakkuliya, Colombo 15	mattakkuliya@lbfinance.lk
Modara	011-4615670	–	No. 81, Modara Street, Colombo 15	modara@lbfinance.lk
Narahenpita	011-2369108	011-2369107	No. 239, Kirula Road, Narahenpita	narahenpita@lbfinance.lk
Negombo II	031-4936331	–	No. 356, Main Street, Negombo	negombo2@lbfinance.lk
Nittambuwa	033-4934107	033-2297971	No. 597/1B, Kandy Road, Nittambuwa	nittambuwa@lbfinance.lk
Ragama	011-4967388	011-2953155	No. 640, Tewatte Road, Ragama	ragama@lbfinance.lk
Slave Island	011-4736824	–	No. 135, Malay Street, Colombo 2	slaveisland@lbfinance.lk
Sri Sangaraja mawatha	011-4380288	–	No. 259, Sri Sangaraja Mawatha, Colombo 10	sangaraja@lbfinance.lk
Thihariya	033-4678082	033-4678141	No. 61/2, Kandy Road, Thihariya	thihariya@lbfinance.lk
Thotalanga	011-4334700	–	No. 282, Nagalagam Street, Colombo 14	thotalanga@lbfinance.lk
Wellawatte	011-4527435	011-2362745	No. 224, Galle Road, Wellawatte, Colombo 06	wellawatta@lbfinance.lk

List of abbreviations

AFS	Available for Sale
AGM	Annual General Meeting
ALCO	Assets and Liabilities Management Committee
AML	Anti-Money Laundering
APSP	Average Petroleum Spot Price
ASPI	All Share Price Index
ATM	Automated Teller Machine
AWDR	Average-Weighted Deposit Rate
AWFDR	Average-Weighted Fixed Deposit Rate
AWPR	Average Weighted Prime Lending Rate
BFI	Banking Finance Insurance
BN	Billion
BOD	Board of Directors
BPO	Business Process Outsource
BPS	Basis Points
BRICS	Brazil, Russia, India, China, South Africa
CAGR	Compounded Annual Growth Rate
CAR	Capital Adequacy Ratio
CBSL	Central Bank of Sri Lanka
CDS	Central Depository System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CRO	Chief Risk Officer
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
EIR	Effective Interest Rate
EPF	Employees' Provident Fund
EPS	Earnings per Share
ESC	Economic Service Charge
ETF	Employees' Trust Fund
FVtPL	Fair Value through Profit or Loss
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HFT	Held for Trading
HODs	Head of Departments
HP	Hire Purchase
HTM	Held to Maturity
ICASL	The Institute of Chartered Accountants of Sri Lanka
IFA	Investment Fund Account
IFRS	International Financial Reporting Standard
IRMC	Integrated Risk Management Committee
IRMU	Integrated Risk Management Unit
ISO	International Standard Organisation
IT	Information Technology
JCE	Jointly Controlled Entity
KMP	Key Management Personnel
KPIs	Key Performance Indicators
KRIs	Key Risk Indicators
L&R	Loans and Receivables
LRA	Lanka Rating Agency
LBF	L B Finance PLC
LCB	Licensed Commercial Bank
LFC	Licensed Finance Company
LKAS	Lanka Accounting Standards
LKR	Sri Lankan Rupees
LSB	Licensed Specialised Bank
LTV	Loan to Value
MN	Million
M ³	Cubic Meter
MOU	Memorandum of Understanding
MRMR	Monthly Risk Management and Reporting
NBFI	Non-Bank Financial Institutions
NBT	Nation Building Tax
NCRE	Non-Conventional Renewable Energy
NPA	Non-Performing Advances
NII	Net Interest Income
NIM	Net Interest Margin
NPL	Non-Performing Loans
OCI	Other Comprehensive Income
PAT	Profit after Tax
PAYE	Pay As You Earn
PDC	Product Development Committee
PER	Price Earnings Ratio
PLC	Public Limited Company
RMD	Risk Management Department
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
RWA	Risk-Weighted Assets
SBU _s	Strategic Business Units
SEC	Securities and Exchange Commission
SLC	Specialised Leasing Company
SLA	Statutory Liquid Assets
SLAR	Statutory Liquid Asset Ratio
SLAS	Sri Lanka Accounting Standard
SLCF	Sri Lanka Carbon Fund
SLFRS	Sri Lanka Financial Reporting Standard
SLIPS	Sri Lanka Inter-Bank Payment System
SME	Small and Medium Enterprises
UOM	Unit of Measurement
USD	US Dollar
VAR	Value at Risk
VAT	Value Added Tax
WHT	Withholding Tax

Independent assurance report on sustainability

 G4-33



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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF LB FINANCE PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT 2015-16

Introduction and scope of the engagement

The management LB Finance PLC (“the Company”) engaged us to provide an independent assurance on the following elements of the sustainability reporting indicators under the annual report-2015-16 (“the Report”).

- Reasonable assurance on the information on financial performance as specified on [page 64](#) 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’ - Comprehensive guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’, issued by the Institute of Chartered Accountants of Sri Lanka (“CASL”).

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines (“GRI Guidelines”) and related information in particular, the requirements to achieve GRI 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.

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’ - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 25 April 2016. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the company’s personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.

- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2016.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Comprehensive guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

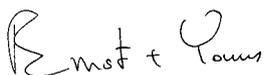
Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on [page 64](#) of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2016.
- 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' Comprehensive Sustainability Reporting Guidelines.



Chartered Accountants

17th May 2016
Colombo

GRI content index - in accordance with comprehensive criteria

G4-32

GENERAL STANDARD DISCLOSURES

GRI Indicator	Description	Page number (or Link)	External assurance
Strategy and analysis			
G4-1	Statement from the most senior decision maker of the organisation	12 - 13	✓
G4-2	Description of key impact, risk and opportunities	44 - 45	✓
Organisation profile			
G4-3	Name of the organisation	316	✓
G4-4	Primary brands, products and services	20	✓
G4-5	Location of the organisation's headquarters	316	✓
G4-6	Number of countries where the organisation operates and names of countries where either the organisation has significant operations or that are specially relevant to the sustainability topics covered in the report	22	✓
G4-7	Nature of ownership and legal form	18, 316	✓
G4-8	Markets served	22, 69	✓
G4-9	Scale of the organisation	04, 06	✓
G4-10	Total workforce by employment type, employment contract and region, broken down by gender	81	✓
G4-11	Percentage of total employees covers by collective bargaining agreements	85	✓
G4-12	Organisation's supply chain	115	✓
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership or its supply chain	69	✓
G4-14	Report how the precautionary approach or principle addressed by the organisation	84, 144	✓
G4-15	Externally developed economic, environmental and social charters, principles or other initiatives to which organisation subscribes or which it endorses	14	✓
G4-16	Membership of associations (such as industry associations) and national or international advocacy organisations	316	✓
Identified material aspects and boundaries			
G4-17	Organisation's entities covered by the report and entities not covered by the report	15	✓
G4-18	Process for defining the report content and the aspect boundaries	34	✓
G4-19	Material aspects identified for the report content	34 - 36	✓
G4-20	Aspect boundary identified material aspects within the organisation	34 - 36	✓
G4-21	Aspect boundary identified material aspects outside the organisation	34 - 36	✓
G4-22	Explanation of the effect of any re-statement of information provided in previous reports and the reason for such re-statement	15	✓
G4-23	Significant changes from previous reporting periods in the scope, aspect and boundaries	15	✓
Stakeholder engagement			
G4-24	List of stakeholder groups engaged by the organisation	32	✓
G4-25	Basis for identification and selection of stakeholders with whom to engage	32	✓
G4-26	Organisation's approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	33	✓
G4-27	Key topics and concerns raised through stakeholders engagements and how the organisation responded to them	33, 112	✓
Report profile			
G4-28	Reporting period	14	✓
G4-29	Date of most recent previous report	15	✓
G4-30	Reporting cycle	14	✓
G4-31	Contact point for questions regarding the report or its contents	15	✓
G4-32	Compliance with GRI G4 guidelines, GRI content index and the external assurance report	15, 308 - 312	✓
G4-33	Policy and current practice with regard to seeking external assurance for the report	15, 306 - 307	✓

GRI Indicator	Description	Page number (or Link)	External assurance
Governance			
G4-34	Governance structure of the organisation, including committees of the highest governance body responsible for decision-making on economic, environmental and social impact	143 , 146	✓
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executive and other employees	23 , 143	✓
G4-36	Whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics and whether post holders report directly to the highest governance body	23 , 143	✓
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	23 , 143	✓
G4-38	Composition of the highest governance body and its committees	144 , 152 , 155	✓
G4-39	Whether the Chair of the highest governance body is also an executive officer	144 - 146 , 154	✓
G4-40	Process and criteria used for nomination and selection of members to the highest governance body and its committees	144 , 152 - 153	✓
G4-41	Processes in place for the highest governing body to ensure conflicts of interests are avoided and managed	151	✓
G4-42	Highest governance body's and senior executive's roles in the development, approval and updating of the organisation's purpose, value or mission statements, strategies, policies and goals related to economic, environmental and social impacts	146	✓
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	162 , 166	✓
G4-44	Processes for evaluation of the highest governance of economic, environmental and social topics and actions taken in response to them	166	✓
G4-45	Highest governance body's role in the identification and management of economic, environmental and social impacts, risk and opportunities.	196	✓
G4-46	Highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	199	✓
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks and opportunities	24 , 44 - 45 , 145	✓
G4-48	Highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered	24	✓
G4-49	Process for communicating critical concerns to the highest governance body	24	✓
G4-50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism (s) used to address and resolve them	24	✓
G4-51	Remuneration policies for the highest governance body and senior executives	168	✓
G4-52	Process for determining remuneration	167	✓
G4-53	How stakeholders' views are sought and taken into account regarding remuneration including the results of votes on remuneration policies and proposals	83	✓
G4-54	Ratio of the annual total compensation for the organisation's highest paid individual in each country of significant operations to the median annual total compensation for all employees in the same country	85	✓
G4-55	Ratio of percentage increase in annual total compensation for the organisation's highest paid individual in each country of significant operations to the median annual total compensation for all employees in the same country	85	✓
Ethics and integrity			
G4-56	Organisation's values, principles, standards and norms of behaviour	77 , 147	✓
G4-57	Internal and external mechanism for seeking advice on ethical and lawful behaviour and matters related to organisational integrity	77 , 147	✓
G4-58	Internal and external mechanism for reporting concerns about unethical or unlawful behaviour and matters related to organisational integrity	77 , 89 , 147	✓

SPECIFIC STANDARD DISCLOSURES

GRI Indicator	Description	Page number (or Link)	External assurance
Category: Economic			
G4-EC1	Direct economic value generated and distributed	65, 66	✓
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	125	✓
G4-EC3	Coverage of the organisation's defined benefit plan obligations	83, 272	✓
G4-EC4	Financial assistance received from the government	42	✓
Material Aspect: Indirect economic impact			
G4-EC7	Development and impact of infrastructure investment and services supported	24	✓
G4-EC8	Significant indirect economic impacts, including the content of impacts	65, 119, 120	✓
Material Aspect: Procurement practices			
G4-EC9	Proportion of spending on local suppliers at significant locations of operations	115	✓
Category: Environmental			
Material Aspect: Materials			
G4-EN1	Materials used by weight or volume	127	✓
G4-EN2	Percentage of materials used that are recycled input materials	128	✓
Material Aspect: Energy			
G4-EN3	Energy consumption within the organisation	126	✓
G4-EN4	Energy consumption outside the organisation	129	✓
G4-EN5	Energy intensity	126	✓
G4-EN6	Reduction of energy consumption	126	✓
G4-EN7	Reductions in energy requirements of products and services	126	✓
Material Aspect: Water			
G4-EN8	Total water withdrawal by source	126	✓
G4-EN9	Water sources significantly affected by withdrawal of water	126	✓
G4-EN10	Percentage and total volume of water recycled and reused	126	✓
Material Aspect: Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	129	✓
G4-EN16	Energy indirect greenhouse (GHG) emissions (Scope 2)	129	✓
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	129	✓
G4-EN18	Greenhouse gas (GHG) emissions intensity	129	✓
G4-EN19	Reduction of greenhouse gas (GHG) emissions	129	✓
G4-EN20	Emissions of Ozone-Depleting Substances (ODS)	128	✓
G4-EN21	NO _x , SO _x and other significant air emissions	128	✓
Material Aspect: Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	42, 130	✓
Material Aspect: Overall			
G4-EN31	Total environment protection expenditures and investments by type	24, 130	✓
Material Aspect: Supplier environmental assessment			
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	115	✓
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	115	✓
Material Aspect: Environmental grievance mechanism			
G4-EN34	Number of grievances about environmental impacts filed, addressed and resolved through formal grievance mechanisms	130	✓

GRI Indicator	Description	Page number (or Link)	External assurance
Category: Social			
Sub-category: Labour practices and decent work place			
Material Aspect: Employment			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	80, 82	✓
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	83	✓
G4-LA3	Return to work and retention rates after parental leave, by gender	83	✓
Material Aspect: Labour/Management relations			
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	83	✓
Material Aspect: Training and education			
G4-LA9	Average hours of training per year per employee by gender and by employee category	88	✓
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	88 - 89	✓
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	83	✓
Material Aspect: Diversity and equal opportunity			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	81	✓
Material Aspect: Equal remuneration for women and men			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	85	✓
Material Aspect: Supplier assessment for labour practice			
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	115	✓
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	115	✓
Material Aspect: Labour practices and grievance mechanisms			
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	85, 115	✓
Sub-category: Human rights			
Material Aspect: Non-discrimination			
G4-HR3	Total Number of incidents of discrimination and corrective actions taken	85	✓
Material Aspect: Child labour			
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	91	✓
Material Aspect: Forced or compulsory labour			
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour and measures to contribute to the elimination of all forms of forced or compulsory labour	91	✓
Material Aspect: Security Practices			
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	85	✓
Material Aspect: Supplier human rights assessments			
G4-HR10	Percentage of new suppliers that was screened using human rights criteria	115	✓
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	115	✓

GRI Indicator	Description	Page number (or Link)	External assurance
Material Aspect: Human rights grievance mechanism			
G4-HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	85	✓
Sub-category: Society			
Material Aspect: Local communities			
G4-S01	Percentage of operations with implemented local community engagement, impact assessments and development programmes	117	✓
G4-S02	Operations with significant actual and potential negative impacts on local communities	117	✓
Material Aspect: Anti-corruption			
G4-S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	91	✓
G4-S04	Communication and training on anti-corruption policies and procedures	91	✓
G4-S05	Confirmed incidents of corruption and actions taken	91	✓
Material Aspect: Compliance			
G4-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	42	✓
Sub-category: Product responsibility			
Material Aspect: Product and service labelling			
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	111	✓
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	111	✓
G4-PR5	Results of surveys measuring customer satisfaction	112	✓
Material Aspect: Marketing communications			
G4-PR6	Sale of banned or disputed products	111	✓
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	111	✓
Material Aspect: Customer privacy			
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	114	✓
Material Aspect: Compliance			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	111	✓

FINANCIAL SECTOR DISCLOSURES

Indicator	Description	Page number (or Link)	External assurance
Material Aspect: Local communities			
FS13	Access points	22	
FS14	Initiatives to improve access to financial services	120	

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.

Allowance for impairment

A provision held on the statement of financial position as a result of the raising of a charge against profit for the incurred loss.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Amortised cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any deduction for impairment or uncollectability.

Asset and Liability Committee (ALCO)

A Risk-Management Committee in a bank that generally comprises the senior management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Bank's forecast and strategic balance sheet allocations.

Available for sale financial investments

Non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Average weighted deposit rate (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates.

Average weighted prime lending rate (AWPLR)

AWPLR is calculated by the Central Bank weekly based on commercial bank's lending rates offered to their prime customers during the week.

B

Basis Point (BP)

One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

Capital adequacy ratio

The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Flows

Cash equivalents are short-term, highly liquid investment that are readily convertible to know amount of cash and which are subject to an insignificant risk of changes in value.

Collective impairment

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant and to cover losses that have been incurred but has not yet been identified at the reporting date.

Commercial paper (CP)

An unsecured, debt instrument issued by a company, to finance short-term funding requirements. The debt is usually issued at a discount, reflecting prevailing market interest rate.

Commitments

Credit facilities approved but not yet utilised by the clients as at the reporting date.

Compounded annual growth rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at reporting date where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Cost method

A method of accounting where by the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profiles of the investee arising subsequent to the date of acquisition.

Corporate governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Corporate Sustainability

Business approach that creates long-term consumer and employee value by creating a 'green' strategy aimed toward the natural environment and taking into consideration every dimension of how a business operates in the social, cultural and economic environment.

Cost to income ratio

Operating expenses excluding impairment charge/gold loan auction losses as a percentage of total operating income (net of interest expenses).

Credit rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit risk

Risk of financial loss, if a customer or counterparty fails to meet an obligation under a contract.

Credit risk mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

D

Deferred taxation

Sum set aside for income tax in the financial statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognised financial asset or liability from an entity's statement of financial position.

Discount rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend cover

Profit attributable to ordinary shareholders as a percentage of gross dividends; indicates number of times dividend is covered by current year's distributable profits.

Dividend pay-out ratio

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend yield

Dividend expressed as a percentage of market value of a share. In absence of any capital gains, this shows the return on investing on a share relative to its market price.

E

Earnings per share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's earnings attributable to an ordinary share in issue.

Economic value added (EVA)

A measure of performance considering cost of total invested equity.

Effective interest rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

Effective tax rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Equity method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

Events after the reporting period

Transactions that are not recognised as assets or liabilities in the statement of financial position, but which give rise to the contingencies and commitments.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

F

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit or loss

A financial asset or financial liability that is held-for-trading or upon initial recognition designated by the entity as fair value through profit or loss.

Finance lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all risks and rewards of ownership to the lessee.

Financial assets

Any asset that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial liabilities

A contractual obligation to deliver cash or other financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

G

Global reporting initiative (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

Going Concern

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

Gross dividend

The proportion of profit distributed to shareholders including the tax withheld.

Guarantees

An assurance made by a third party (Guarantor) who is not a party to contract between two others, that the guarantor will be liable if the Guarantee fails to fulfil the contractual obligation.

H

Held for trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Hire purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

Impaired loans

Impaired loans are loans where the company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment

This occurs when the recoverable amount of an asset is less than its carrying amount.

Impairment charge/(reversal)

An increase/(decrease) of the difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset compared to the previous reporting date.

Individual impairment

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

Individual significant loans

Exposures which are above a certain threshold decided by the management which should be assessed for objective evidence, measurement and recognition of impairment on an individual basis.

Intangible asset

An identifiable non-monetary asset without physical substance.

Integrated reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

Interest cover

Earnings before interest and taxes divided by interest cost. This indicates the number of times interest expenses is covered by earnings before interest and tax; ability to cover interest expenses.

Interest spread

Represents the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

K

Key management personnel (KMP)

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

L**Lending portfolio**

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Letter of credit (LC)

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily.

Loss given default (LGD)

The percentage of an exposure that a lender expects to lose in the event of obligor default.

Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M**Market capitalisation**

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

Materiality

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

N**Net assets value per share (NAV)**

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net interest income

The difference between interest income earned from interest earning assets and interest expenses incurred on interest-bearing liabilities.

Net interest margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non-performing loans/advances (NPL)

The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.

Non-Performing Loans Cover

Cumulative loan provision as a percentage of total non-performing loans (net of interest in suspense)

NPL ratio

Total non-performing loans as a percentage of the total lending portfolio.

O**Off-balance sheet transactions**

Transactions that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P**Price earnings ratio (P/E ratio)**

Market price of a share divided by earnings per share; reflects number of years that would be taken to recoup shareholders' capital outlay in the form of earnings.

Probability of default (PD)

An internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

R**Related party**

Parties have the ability to control or exert a significant influence over the company's financial and operating decisions.

Return on assets (ROA)

Net profit for the year expressed as a percentage of average total assets; indicates overall effectiveness in generating profits with available assets.

Return on equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average shareholders' funds/equity.

Repurchase agreement (Repo)

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

Risk-weighted assets

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

S**Shareholders' funds**

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

T**Tier I capital**

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

Tier II capital

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

Total shareholder return

Combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

U**Useful life**

The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V**Value added**

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y**Yield to maturity**

Discount rate at which the present value of future cash flows would equal the security's current price.

Corporate information

NAME OF COMPANY  **G4-3**
L B Finance PLC

LEGAL FORM  **G4-7**
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. 07 of 2007 on 6th June 2008.

A Licensed Finance Company under the Finance Business Act No. 42 of 2011.

A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

STOCK EXCHANGE LISTING
The Company listed on 30th December 1997. The ordinary shares and unsecured subordinated redeemable debentures of the Company are listed on the Colombo Stock Exchange in Sri Lanka.

DATE OF INCORPORATION
30th May 1971

COMPANY REGISTRATION NUMBER
PQ 156

TAX PAYER IDENTIFICATION NUMBER
104033431

VAT REGISTRATION NUMBER
104033431 7000

CENTRAL BANK REGISTRATION NUMBER
RFC 1003

PRINCIPAL ACTIVITIES
Acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, margin trading facilities, factoring and trade finance facilities, micro finance, other credit facilities and value added services.

REGISTERED OFFICE  **G4-5**
No. 275/75, OPA Building,
Prof. Stanley Wijesundara Mawatha, Colombo 07.
Tel: 011-2200000
Fax: 011-5345327

CORPORATE OFFICE
No. 20, Dharmapala Mawatha, Colombo 03
Tel: 011-2155000
Fax: 011-2575098

OUTLETS
Branches - 110
Gold loan centres - 36

WEBSITE
www.lbfinance.com

FINANCIAL YEAR END
31st March

CREDIT RATING
The Company has been assigned A- (Ika) stable by Fitch Ratings Lanka Limited

BOARD OF DIRECTORS AND BOARD APPOINTED COMMITTEES

BOARD OF DIRECTORS
Mrs. Kimarli Fernando (*Acting Chairperson*)
Mrs. Shirani Jayasekara (*Senior Director*)
Mr. Dhammika Perera
(*Executive Deputy Chairman*)
Mr. J A S Sumith Adhihetty
Mr. Thosapala Hewage
Mr. L N De S Wijeyeratne
Mr. Nimal Perera
Mr. Nirosan Udage
Mr. B D A Perera
Mr. R S Yatawara
Mrs. Anandhiy K. Gunawardhana
Mrs. Yogadinusha Bhaskaran

AUDIT COMMITTEE
Mr. Lalit N De S Wijeyeratne (*Chairman*)
Mrs. Shirani Jayasekara
Mrs Anandhiy K Gunawardhana

REMUNERATION COMMITTEE
Mrs. Anandhiy K Gunawardhana (*Chairperson*)
Mr. L N De S Wijeyeratne
Mrs. Kimarli Fernando

NOMINATION COMMITTEE
Mr. Thosapala Hewage (*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. Nirosan Udage
Mr. B D A Perera
Mr. Hasitha Athapattu
Mr. Palitha Abeysekera
Mr. Bimal Perera

RELATED PARTY TRANSACTION REVIEW COMMITTEE
Mrs. Kimarli Fernando (*Chairperson*)
Mr. Lalit N De S Wijeyeratne
Mrs. Shirani Jayasekara
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

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
DFCC Bank PLC
Habib Bank Limited
Standard Chartered Bank
Indian Overseas Bank
Indian Bank

CORPORATE MEMBERSHIPS AND ASSOCIATIONS  **G4-16**
The Finance House Association of Sri Lanka
Leasing Association of Sri Lanka
The Ceylon Chamber of Commerce
CSR Lanka (Guarantee) Limited
Lanka Business Coalition on HIV and Aids
Sri Lanka Business and Biodiversity Platform

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty-Third (43rd) Annual General Meeting of L B Finance PLC will be held at the Corporate Office of the Company, No. 20, Dharmapala Mawatha, Colombo 3 on 30th June 2016 at 8.30 a.m. for the following purposes:

1. To receive the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended 31st March 2016 and the Report of the Auditors thereon.
2. To declare a Dividend as recommended by the Directors.
3. To re-elect Mr. Lalit N De S Wijeyeratne as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.
4. To elect Mr. Ravindra Shanaka Yatawara as a Director in terms of Article 92 of the Articles of Association of the Company.
5. To elect Mrs. Yogadinusha Bhaskaran as a Director in terms of Article 92 of the Articles of Association of the Company.
6. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants, as the Company's Auditors and authorise the Directors to determine their remuneration.
7. To authorise the Directors to determine donations for the year ending 31st March 2017 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) Limited

Director/Secretaries

Colombo
30th May 2016

Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf.
2. A Proxy need not be a shareholder of the Company.
3. A Form of Proxy accompanies this Notice.
4. The completed Form of Proxy should be deposited at the Corporate Office of the Company No. 20, Dharmapala Mawatha, Colombo 3, by 8.30 a.m. on 28th June 2016.

Form of proxy

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

- | | |
|--|------------------|
| Mrs. Kimarli Fernando | or failing her * |
| Mr. Dhammika Perera | or failing him* |
| Mrs. Shirani Jayasekara | or failing her * |
| Mr. Thosapala Hewage | or failing him* |
| Mr. Lalit Nihal De Silva Wijeyeratne | or failing him* |
| Mr. John Anthony Sunil Sumith Adhichetty | or failing him* |
| Mr. Wannakuwattewaduge Don Nimal Hemasiri Perera | or failing him* |
| Mr. Niroshan Udage | or failing him* |
| Mr. Bijanwalage Dudley Auburn Perera | or failing him* |
| Mr. Ravindra Shanaka Yatawara | or failing her* |
| Mrs. Anandhiy Krisnajina Gunawardhana | or failing her * |
| Mrs. Yogadinusha Bhaskaran | |

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-Third (43rd) Annual General Meeting of the Company to be held on 30th June 2016 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

- | | For | Against |
|---|--------------------------|--------------------------|
| 1. To declare a dividend as recommended by the Directors. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To re-elect Mr. Lalit N De S Wijeyeratne as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To elect Mr. Ravindra Shanaka Yatawara as a Director in terms of Article 92 of the Articles of Association of the Company | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To elect Mrs. Yogadinusha Bhaskaran as a Director in terms of Article 92 of the Articles of Association of the Company | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants as the Company's Auditors and authorise the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To authorise the Directors to determine donations for the year ending 31st March 2017 and 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 Sixteen.

.....
Signature of Shareholder

*Please delete what is inapplicable.

INSTRUCTIONS FOR COMPLETION

1. The full name, National Identity Card No. and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The completed Form of Proxy should be deposited at the Corporate Office of the Company, No. 20, Dharmapala Mawatha, Colombo 3, by 8.30 a.m. on 28th June 2016.
3. The Proxy shall –
 - (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) In the case of a company or corporate/statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the company or corporate/statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
4. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy at his/her discretion will vote as he/she thinks fit.





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