The background of the cover is an abstract painting with vibrant, textured brushstrokes in shades of red, orange, yellow, green, and blue. The colors are layered and blended, creating a sense of depth and movement. The overall effect is a rich, multi-colored composition that serves as a backdrop for the text.

Personalising Financing

L B Finance PLC Annual Report 2016/17

The financial services industry of today is largely characterised by a 'commoditised' approach, where undifferentiated products and services are offered at low profit margins with no perceptible difference between service providers – much the same way the commodities market works.

The world that is unfolding is very different. From trends we may discern today, the people of tomorrow... the technologies of tomorrow...life and the way we live it tomorrow, look set to shape a very different landscape whilst challenging existing business models as never before.

We are challenged to adopt a widely differentiated approach to offering of products and services, leverage on evolving technologies, and are required to cater to a whole new and different generation of customers.

LBF recognises the trends of change – we are getting ready for... the future of financing with a personalised approach.

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Scan to view the PDF of this Annual Report



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

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

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

To offer a caring and personalized 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 values of employees who will drive the Company to high levels of achievement.

Values

Excellence

Ethics

Professionalism

Transparency

Innovation

Quality

Goals

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

About this report

This is the fifth Integrated Annual Report of L B Finance PLC (LBF), published in accordance with the reporting requirements of the internationally-accepted reporting framework of the International Integrated Reporting Council (IIRC) and GRI standards.

As a socially responsible corporate entity, LBF has always contributed to uplift the standards of both business and society. In order to manage both the positive and negative impacts of business activities, LBF considers economic, social and environmental impacts of its business activities on the community. The main purpose of the Report is to disclose relevant information to stakeholders in a clear and concise way on the strategy, governance, performance and prospects of the Company so that they could arrive at informed decisions.

LBF believes that the disclosure on all material aspects of business will increase the trust and confidence of the stakeholders towards the Company. By adhering to the international reporting standards, the Company wishes to increase transparency and provide sufficient information about the activities of the Company to its stakeholders.

This Report is prepared considering the interests of different stakeholder groups. The Company's website – www.lbfinance.com contains the Annual Report besides information on sustainability initiatives of the Company.

CONTRIBUTION OF 'CAPITAL(S)' TO VALUE CREATION

According to the guidelines of the IIRC, 'capitals' can be identified as Financial, Manufactured, Intellectual, Human, Natural, Social and Relationship. These are interrelated; and comprehensive discussions on the duality of value creation along with the delivered and derived components takes place under each of the aforementioned capitals.

The Company undertakes a comprehensive analysis of these stated capitals in order to ensure that these capitals are optimised in generating value. These capitals would run through a detailed analysis to identify the impacts on the driving forces such as economic, social, political, technological, regulatory and environmental factors, are taken into account in the Company's approach towards reporting on responsible operation.

REPORTING PERIOD

The Annual Report 2016/17 of L B Finance PLC contains information pertaining to the 12-month period from 1st April 2016 to 31st March 2017. This period is consistent with the Company's usual Annual Reporting cycle for both financial and sustainability reporting.

IDENTIFYING MATERIALITY

LBF is faced with a plethora of information to report. While reporting all of it would be impractical, it is important that relevant information is not left out. As such, the Company reports all material information that could reasonably be considered important for reflecting the economic, environmental and social impacts or influencing the decisions of stakeholders and, therefore, merit inclusion in the Report.

'Materiality' is the threshold at which information or issues become sufficiently important to be included in the Report. Beyond this threshold, all material aspects are reported relative to their priority.





REPORTING SCOPE AND BOUNDARIES

The information contained in this Report relates to the operations of L B Finance PLC. The Company currently carries out its operations only in Sri Lanka and does not have any subsidiaries, associates or joint ventures, overseas operations or other business affiliations. The Company's shareholding structure, operations and its geographical presence are disclosed on pages 6 and 73 respectively.

REPORTING PRINCIPLE AND EXTERNAL ASSURANCE

Our Report is consistent with the requirement of GRI standards and prepared in accordance with the said requirements. The application of the Company to the above is assured by Messrs Ernst & Young, Chartered Accountants and LBF's External Auditors. Independent Auditors' Report and the Assurance Report on sustainability can be found on pages 301 and 302 respectively.

COMPLIANCE

LBF conducts the operation in compliance with all applicable laws, regulations, standards and guidelines for voluntarily disclosure.

Accordingly, the financial statements audited by Messrs Ernst & Young have been prepared in accordance

with Sri Lanka Accounting Standards comprising of 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 of Sri Lanka (SEC).

RESTATEMENTS AND SIGNIFICANT CHANGES FROM THE PREVIOUS REPORT AND DATE OF MOST RECENT PREVIOUS REPORT

The Company's most recent Report was for the financial year ended 31st March 2016. There have not been any changes in the reporting material topics and/or boundaries from the previous year and the Company has restated, wherever necessary, 2015/16 numbers and statements to conform to the current year's presentations. This Report has been prepared in accordance with the GRI standards 'Comprehensive Option'. (For changes or restatement – page 222)

FEEDBACK AND FURTHER INFORMATION AND SUGGESTIONS

We have strived to respond to your comments and suggestions received during the previous financial year. We welcome your comments and suggestions on this Report. (Feed back form on page 317)

YOU MAY CONTACT

Chief Financial Officer
L B Finance PLC
Corporate Office
No. 20, Dharmapala Mawatha
Colombo 03

Tel : 011 2155 000

Fax : 011 2564488



THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF SRI LANKA



- International Integrated Reporting Framework
- Global Reporting Standards
- A Preparer's Guide to Integrated Reporting by The Institute of Chartered Accountants Sri Lanka
- Accountability – AA100SES

Organisational overview

About us



SHAREHOLDING STRUCTURE

L B Finance PLC is a key player in the non-bank financial institution (NBF) sector in Sri Lanka, the third largest LFC in terms of total assets. A listed company by incorporation, it is a subsidiary company of Vallibel One PLC, a diversified conglomerate engaged in finance manufacturing and leisure industries. Vallibel One PLC is also the parent company of Royal Ceramics Lanka PLC

and Greener Water Limited, besides being a shareholder of Delmege Limited and The Fortress Resorts PLC.

In addition to its direct stake of 51.75 percent in LBF, Vallibel One also has an indirect holding of 13.49 percent through Royal Ceramics Lanka PLC, giving it an effective holding of 65.24 percent. The general public and other hold 22.18 percent of the shares. LBF does not have any subsidiary or associate companies.

The Company's managing structure has the Board of Directors, headed by the acting Chairperson at the helm, which provides leadership to the Company. The Board approves the strategy and ensures that the Company has a proper framework of controls and governance in place. The Managing Director (MD), reporting to the Board, is responsible for implementing the strategy and the day to day operations. The Managing Director is assisted by three Executive Directors, each responsible for each business line. The managing structure of the Company is based on the three main product lines, viz. lending deposits and value added services. Each business line is headed by a member of the Senior Management Team.

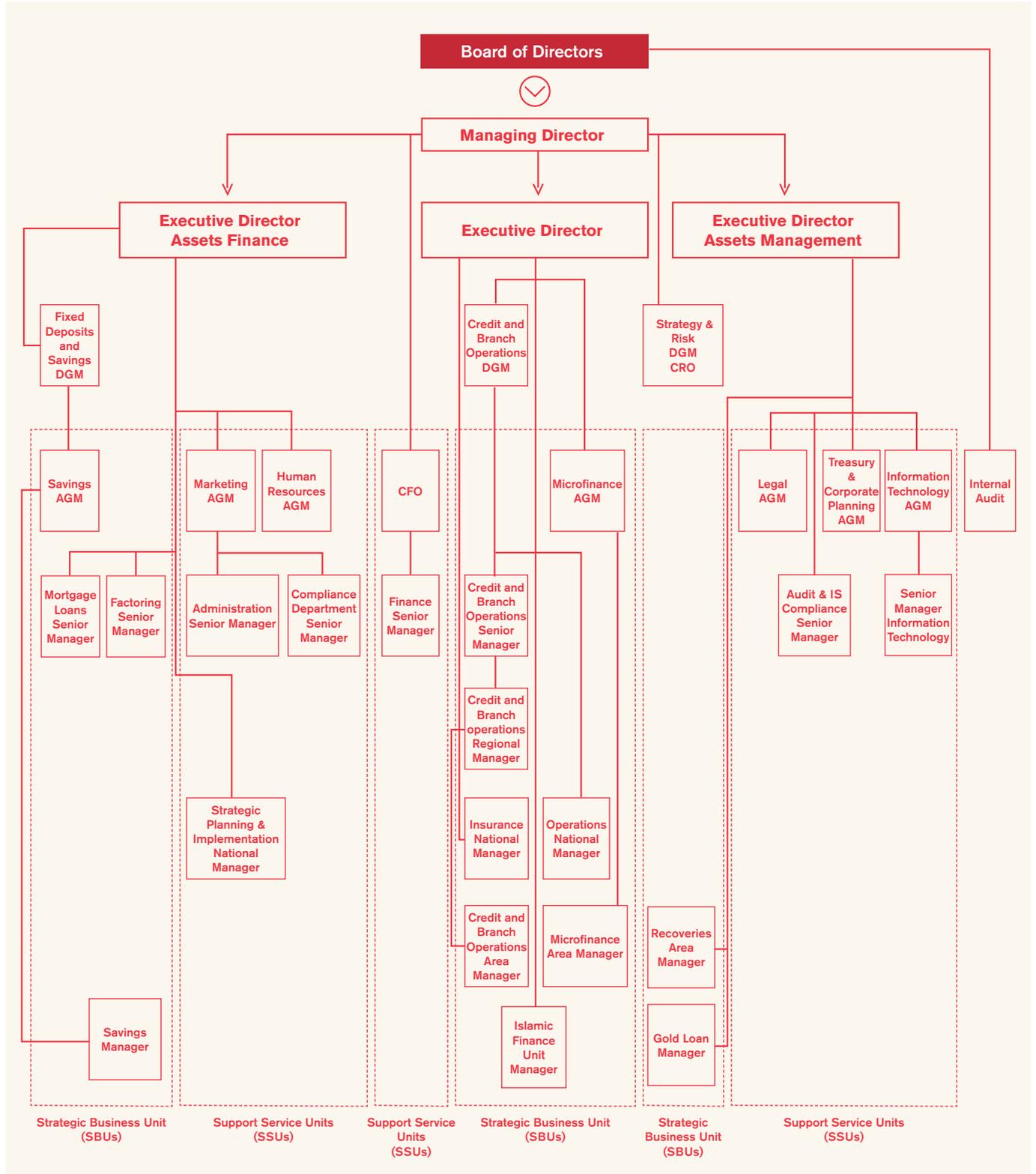


MAIN BUSINESS ACTIVITIES AND BUSINESS SEGMENTS

Main lending products include leasing, vehicle loans, mortgage loans, gold loans, factoring, working capital solutions and Islamic Finance. Deposits are the primary source of funding that comes from fixed and savings. The Company continues to be innovative and wants to extend the boundaries of its operations to promote sustainability and differentiate itself by providing personalised finance services. Value added services include money exchange and utility bill payment.



MANAGING STRUCTURE



Awards and recognition – 2016/17



CA Sri Lanka 52nd annual report awards

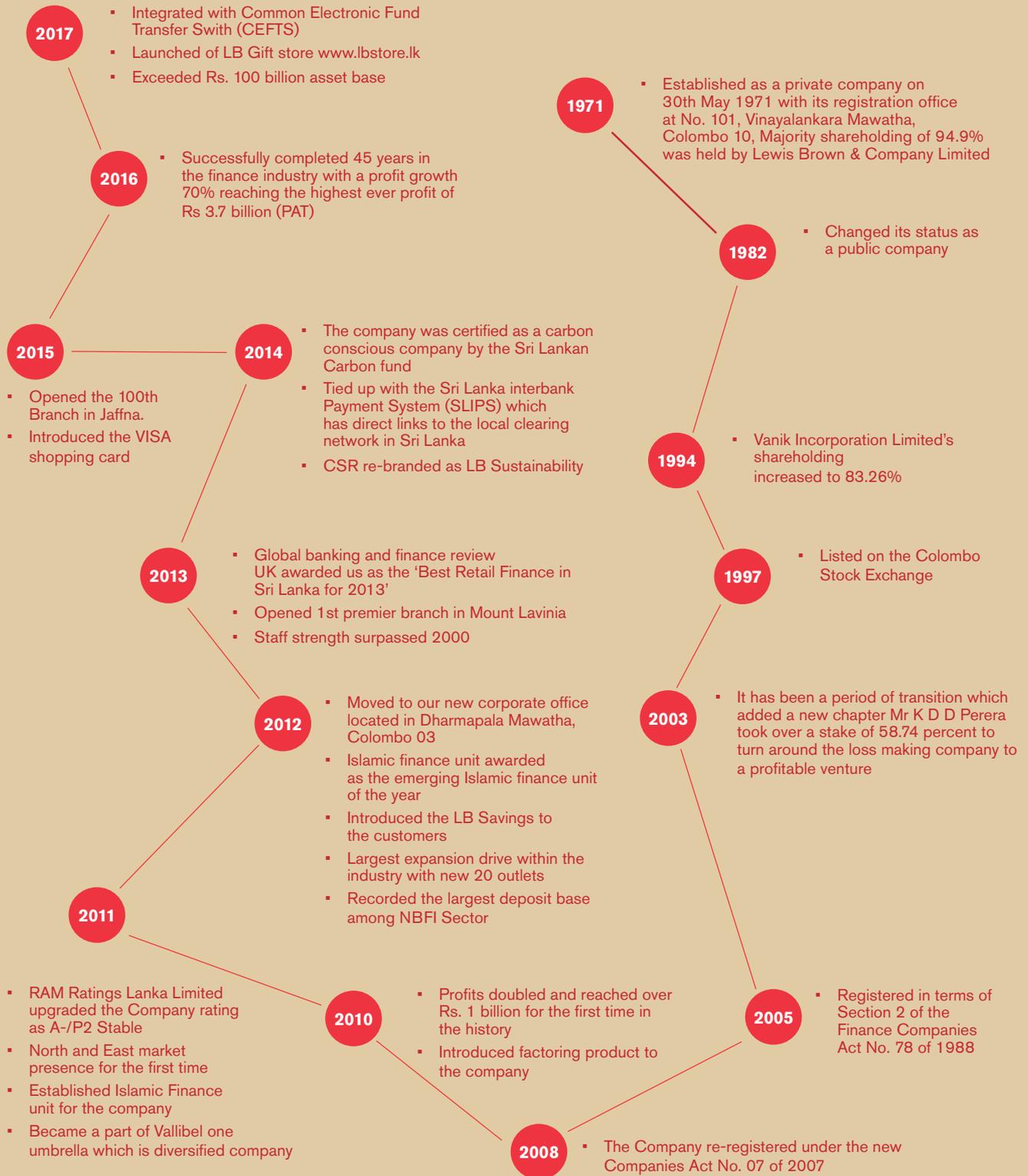
Organized by Institute of Chartered Accountants of Sri Lanka, this award acknowledges companies with transparency, accountability and good governance in financial reporting. We grabbed overall special Gold award for Integrated Reporting best disclosure on Capital Management, Silver award for Finance & Leasing Companies Category and Bronze award for Corporate Social Responsibility Reporting.



CMA Excellence in integrated reporting awards

Organised by Certified Management Accountants of Sri Lanka, this award acknowledges companies with best integrated reports. We won Bronze award overall for our Annual report 2015/16.

Milestones



Strategic journey

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.

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.

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.

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.

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.

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.

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.

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.

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.

2018

Streamlining processes

The company set ambitious targets but was challenged with changes in regulations introduced to curtail operations with greater interest to protect the current account of the country. Company changed the focus on new segments of the market and new products.

For rapid and smooth change in operations, the Company paid higher attention on quality recruitment and training of staff towards the achievement of quality product service delivery as well to maintain operational excellence.

The Company focused in streamlining processes and used a top down approach stemming from the Board Audit Committee, Board Integrated Risk Management Committee, Board Remuneration Committee and the likes to guide the changes.

Achieving the finer balance in market share, net interest margin, credit quality and process excellence was driven with dedicated attention of the management and worthy contributions by the staff. Customers and partners who had faith in LBF and respected our brand were undeterred despite the regulatory changes that came forth to curtail credit growth. Each of the facts mentioned above were a product of meticulous tactical and long term planning and successful implementation of the strategies that were formulated.



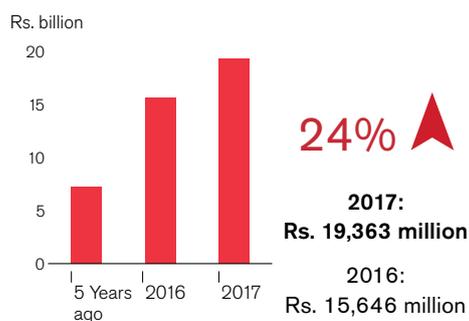
Highlights of the year

FINANCIAL HIGHLIGHTS

Indicator		2016/17	2015/16	Change (%)
Operating results				
Income	Rs. million	19,363.42	15,646.46	23.76
Interest income	Rs. million	17,909.93	14,428.72	24.13
Net interest income	Rs. million	9,797.59	8,655.47	13.20
Profit before taxation (PBT)	Rs. million	5,874.84	5,324.61	10.33
Profit after taxation (PAT)	Rs. million	3,918.20	3,717.79	5.39
Financial position				
Total assets	Rs. million	102,763.03	84,516.63	21.59
Lending portfolio	Rs. million	89,149.74	71,554.00	24.59
Deposits	Rs. million	60,401.95	53,379.80	13.16
Borrowings	Rs. million	25,822.36	17,178.51	50.32
Shareholders' funds	Rs. million	12,509.68	10,479.31	19.38
Share information				
Market price per share	Rs.	118.40	106.10	11.59
Market capitalisation	Rs. million	16,400.09	14,696.36	11.59
Net asset value per share	Rs.	90.31	75.66	19.36
Earning per share (EPS)	Rs.	28.29	26.84	5.40
Price earning ratio (PE)	Times	4.19	3.95	6.08
Dividend per share (DPS)	Rs.	9.00	7.50	20.00
Dividend yield	%	8.48	9.99	(15.12)
Dividend payout ratio	%	31.82	27.94	13.89
Statutory ratios				
Core capital to risk-weighted assets ratio (Tier 1) >5	%	16.12	16.84	(4.28)
Total risk-weighted capital ratio (Tier I & II) >10	%	17.06	18.81	(9.30)
Equity to deposits >10	%	20.71	19.63	5.50
Liquidity ratio	%	14.47	18.04	(19.79)
Other ratios				
Return on assets (ROA)	%	4.18	4.89	(14.52)
Return on equity (ROE)	%	34.09	40.40	(15.62)
Net interest margin (NIM)	%	10.91	12.17	(10.35)
Loan to deposits	Times	1.48	1.34	10.45
Non-performing loans ratio (NPL)	%	2.14	3.28	(34.76)



Income



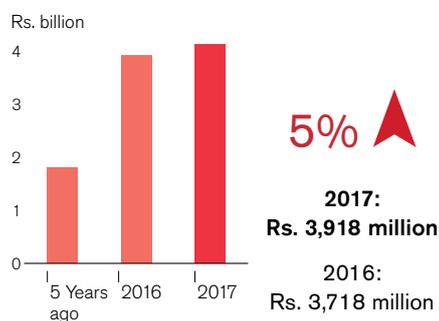
Net Interest Income



Profit Before Tax (PBT)



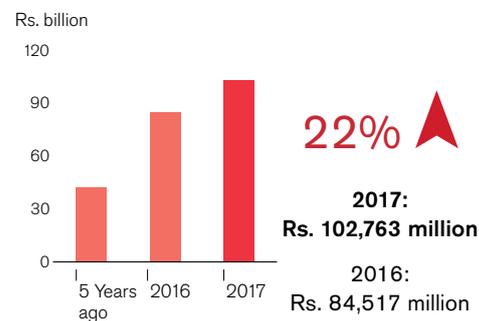
Profit After Tax (PAT)



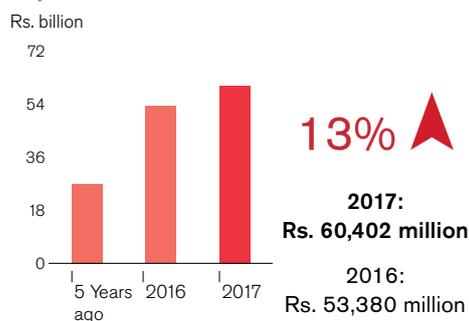
Lease, Hire Purchase, Loans and Receivables/ Lending to Customers



Total Assets



Due to Customers/ Deposits from Customers



Total Shareholders' Funds



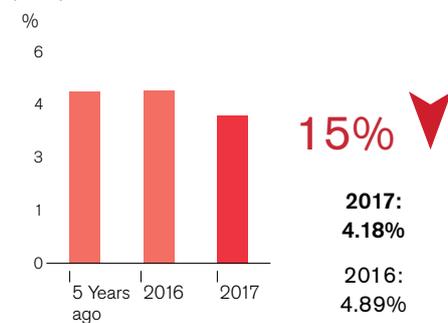
Dividend per Share



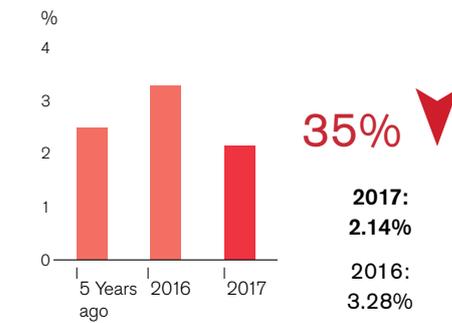
Market Capitalisation



Return on Assets (ROA)



Non-Performing Loans Ratio (NPL)



NON-FINANCIAL HIGHLIGHTS

Indicator		2016/17	2015/16
Human capital			
Total workforce	Number	3,221	2,744
New employees hired	Number	1,022	1,036
Employment opportunities created	Number	477	343
Employees who completed 20 years of service	Number	17	14
Training programmes conducted	Number	88	65
Investment in training and development	Rs. million	8.04	11.18
Training hours	Number	20,672	30,647
Average hours of training per employee	Number	6.42	11.17
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
Value distribution to employees	Rs. million	2,324.85	1,826.37
Social and relationship capital			
Economic value added	Rs. million	2,341.15	3,097.60
Significant fines for violation of laws and regulations	Rs. million	Nil	Nil
Value distribution to society via Government	Rs. million	2,660.77	2,593.28
Community development projects	Number	17	33
Investment on community development projects	Rs. million	2.58	4.99
Staff volunteered hours	Number	2,302	2,094
Customer solutions	Number	27	26
Lending customers	Number	353,520	310,560
Deposit customers	Number	250,627	199,692
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	1,592.21	1402.49
Manufactured Capital			
Total outlets	Number	154	146
Total branches	Number	118	110
Total gold loan centres	Number	36	36
New outlets opened	Number	8	12
Intellectual capital			
Customer service focus training hours			
Brand value	Rs. million	3,853	4,121
Brand ranking (LMD)	Number	26	26
Natural capital			
Environment related projects	Number	9	21
Water consumption	m ³	30,388	28,559
Water consumption per Rs. million of revenue	m ³	1.60	1.83
Trees planted/distributed	Number	400	1,667
Trees saved from recycling	Number	135	545
Investment on natural environment	Rs. million	3.29	12.19
Paper consumption	kg	173,639	137,255
Paper recycled	kg	7,938	32,065
E-Waste recycled	kg	122	247
Energy consumption	GJ	23,720	22,471
Energy per Rs. million of revenue	GJ	1.23	1.44
Total carbon footprint	tCO ₂ e	4,361	2,717
Significant environmental fines	Rs. million	Nil	Nil



Manufactured Capital

Invested

Rs. 47.75 million

on IT development

154 → **8**

Total
outlets

New branches
opened

(3)
Strategic
relocations

Human Capital

477

New employment
opportunities

3,221 → **571**

Total No. of
employees

No. of
promotions

Intellectual Capital

Ranked

26th

in Sri Lanka by
Brand Finance

Brand value

Rs. 3,853 million

Introduced

LB-Gift store

Natural Capital

4,360 tCo₂e

Carbon footprint

7,938 Kg

Waste paper recycled

Social and Relationship Capital

**More than half a million
customer base**

27

Financial solutions

Rs. 14.54 million

CSR cost

41 initiatives



Letter from the Acting Chairperson



We surpassed the landmark of Rupees one hundred billion in assets and proved our financial might, continued to maintain the asset quality and optimal capital levels. Empowering our staff, we strode towards maintaining excellent customer service, capitalising on digital channels and platforms.

It gives me great pleasure to present this Report containing our exceptional achievements during 2016/17. I am pleased to say that we adapted our strategies successfully to meet the challenges posed by the environment, continuously innovating in order to exceed customer expectations and meeting the financial needs of a multitude of customers across the country. During the year, we crossed the significant milestone of Rs. 100 billion in total assets to end the year on Rs. 102.76 billion. The results for the year exhibit an impressive growth over the previous year. Our profit before tax on financial services of Rs. 6.9 billion, is the highest recorded figure in the non-bank financial institutions (NBFIs) sector while our gross NPA ratio was 2.14 percent compared to 3.28 percent last year.

The world economy recovered from the setbacks in early 2016 and ended on a positive note, recording a growth of 3.1 percent to end the year and indicating further signs of growth. The outlook for 2017 remains more positive. At home, though the Sri Lankan economy experienced relative political stability and grew at a moderate rate of marginally over 5 percent, it was apparent that investor confidence remained lacklustre. The inconsistencies and the uncertainties with regard to the prevalent policy framework were the main contributors. Large infrastructure development projects and road development projects helped boost the economy. However, the positive impact of these need to be sustainable in the long run for the economy to truly benefit. Further, the economic activity in the Northern and the Eastern Provinces did not sustain the expected growth momentum. Despite the improvements on the fiscal front, the rising rates of interest posed a major challenge to the business environment. The increase in policy rates by the Central Bank drove market interest rates up, resulting in slower credit growth and tighter liquidity. This led to intense competition among financial institutions for deposits, squeezing interest margins.

The increase in the Loan to Value (LTV) ratios for credit facilities in respect of motor vehicles and the change in the import duties on vehicles posed an immense challenge and affected our core business of vehicle leasing. The growth in the leasing portfolio was 28.70 percent as opposed to 51.90 percent in the previous year.

The performance recorded by the Company, in the face of these challenges, was remarkable. While more details on our performance are given in the Management Discussion and Analysis, it is noteworthy to mention that we have bettered our performance in the previous year.

Our capital adequacy ratios are well above the regulatory minimum and provide sufficient leeway to embark on our growth plans.

Our well thought out strategies exploited the opportunities and turned obstacles in our favour and carved out niche markets in hitherto underserved market segments. We increased our concentration in the market for registered vehicles and mortgage loans. We also aggressively engaged in gold loans with the stabilisation of gold prices in the international market.

We firmly believe that the use of technology provides us a clear competitive advantage and thus leveraged on technology to create value. We were the first corporate in Sri Lanka to implement Microsoft's latest database platform to operate the core operational systems. Apart from the competitive advantage, it also leads to faster turnaround times and reduced cost, enabling us to serve our customers better. We also utilised digital channels to reach out to technically advanced market segments and the millennial customers. This provided us the opportunity to widen our customer base in addition to the well-spread network of branches.



In our effort to draw up strategies to overcome the external challenges, we undertook a study of our cost structure with the objective of rationalising our expenditure. I am happy to note that, through this effort; we managed to eliminate certain unproductive expenses and streamlined the cost structure.

We continued our customer centricity and the staff members spared no effort to identify and serve customer requirements. Customer service was further strengthened with the upgrading of the call centre facilities.

Through our operations during the year, we created value that is sustainable for our shareholders as reflected in ROE of 34.09 percent, EPS of Rs. 28.29 and the share price as at 31st March 2017 recorded at Rs. 118.40. An interim dividend of Rs. 6.00 per share was paid and a final dividend of Rs. 3.00 per share has been proposed by the Board of Directors, bringing the dividend payout ratio to 31.82 percent, increased from 27.94 percent in the previous year.

Furthermore, as a responsible corporate citizen, we nurtured the environment and consciously implemented measures to reduce the use of paper and our carbon footprint. Our services, spread across all areas of the country promotes financial inclusivity and help people of all walks of life, adding value to the society and the economy. Our ranges of products are designed to serve the financial needs of all sectors of society, weaving lasting relationships with our customers. It is pertinent to mention that our microfinancing and microleasing activities are designed to assist the less privileged people in the society. The micro finance has assisted many small scale entrepreneurs in their self-employment projects.

Our geographic reach spreads across the country, promulgating entrepreneurship to all corners of the Nation. We take it upon ourselves to help the less privileged sectors through our sustainability initiatives. During the year, through our CSR activities, we helped the communities across the country in areas where we have a presence. LBF staff volunteered their services and assisted in many ways. The volunteering days/hours put in by our staff during the year was an impressive 2,197 hours.

Over the 46-year history of the Company, we have always upheld the highest standards of business ethics and governance. Our operations are conducted in a professional and transparent manner while our risk management function has been strengthened to commensurate with the growth in business and in line with the industry best practices. A dedicated compliance function was established during the year to complement our governance practices and to formalise the process of compliance with rules and regulations.

The talented and dynamic staff of LBF remains the driving force throughout our journey of 46 years and the strength behind all our achievements. We will continue to invest in their career development by providing them with training opportunities that will help define their future. During the year under review, we took several measures to increase staff engagement. We are truly encouraged by the commitment shown by our team; they have voluntarily undertaken multiple tasks and delivered amazing results.

I take this opportunity to thank the entire Board of Directors for their enthusiastic participation and unstinted co-operation in directing this great institution; their

pragmatism has contributed to the furtherance of our objectives. A big thank you to the shareholders for their confidence in our Company. I have no doubt that you will witness even greater performance in the coming years. My gratitude to our esteemed customers for their continued loyalty and patronage of our services; we look forward to serving you even better in the years to come. My appreciation to the Managing Director, Mr. Sumith Adihetty and the Corporate Management Team for their leadership and dedication without their untiring efforts, none of these achievements would have been possible. My sincere gratitude to the entire staff who exhibited great commitment and dedication; I can assure you of a mutually rewarding and fulfilling career progression.

Whilst revelling in our achievements during the year, we look towards the coming year with enthusiasm, to make it an even more successful year for all our stakeholders. We will be forming new and robust strategies to storm the financial services industry with innovative products and services and to reach new heights. I have no doubt that given the professionalism of the Board of Directors and the dedication, commitment and dynamism of the team we will be able to reach new milestones. I urge all our valued stakeholders to partner us on this journey, as you have done in the past.

Kimarli Fernando
Acting Chairperson
31st May 2017

Managing Director's review



Forging ahead as a pioneer in the NBFIs segment, LBF continues to be a significant force to be reckoned with, adapting to meet the challenges that come our way, we constantly innovate as we progress on our chosen path to delight our customers and fostering mutually rewarding relationships with all stakeholders.

In a year that was wrought with many challenges, we proved our resilience by successfully innovating and meeting the challenges posed by the external environment and asserted our dominance in the industry. The year under review, saw us reaping the benefits of the strategic moves we introduced over the past few years and forging ahead, exploiting our strengths. Yet again, we earned the highest profit before tax on financial services of Rs. 6.9 billion in the Non-Bank Financial Institutions (NBFI) sector and consequently paid the highest taxes as well, amounting to Rs. 2.73 billion. We also joined the league of Rs. 100 billion asset base in the NBFIs, the third in the industry to achieve this milestone. In this journey, we did not forget to uphold our values and business ethics that we have built up over the Company's 46-year history.

THE EXTERNAL ENVIRONMENT

A lacklustre year for the world economy ended with an average growth rate and renewed hope for the coming year, mainly due to the expected recovery in the emerging economies. The stabilisation of gold and fuel prices contributed to this performance. On the domestic front, the economy recorded a modest growth and the restrictive monetary policies reduced the growth in credit and squeezing liquidity in the market. Rising interest rates saw the disposable income declining and a subdued demand for consumer credit. The revised import duty structure led to a decline in the demand for new and unregistered vehicles.

FACING THE CHALLENGES

In the backdrop of this challenging environment, it was imperative that we adapt our corporate strategies in order to face the situation and turn the challenges to opportunities. Under the guidance of the Board of Directors, the management team strategised to understand our customer needs and focused on delivering a superior customer service. Concentrating on our strengths, we increased our mortgage loan portfolio and exploited new sectors in asset financing. The introduction of the loan to value ratio (LTV) in respect

of leased vehicles led to a decline in the demand for unregistered vehicles. This opened up an opportunity for us in the market for registered vehicles, which we exploited successfully.

The banking sector, which was affected by the fall in gold prices, had to bring down their exposure to gold backed loans as a result of a regulatory directive. We capitalised on this opportunity and increased our exposure, having mitigated our risks. Our growth rate in the gold loan portfolio was impressive, at around 24 percent. Similarly, we found an opportunity in serving the small scale borrowers' need for mortgage loans, as the banks concentrated on the high end property market.

We continued our focus on our key strengths, which is our core business of leasing, asset-backed financing and gold loans, where we hold a substantial market share of the NBFI sector. This will continue to be our focus in the future as well.

Our branch expansion by way of brick and mortar structures took a step back pending regulatory approval. However, we made use of alternate channels such as digital platforms to increase our reach to customers.

PERFORMANCE

We completed yet another year of exceptional performance, ending the year with profit after tax of Rs. 3.92 billion a year on year growth of 5.39 percent. We continued to maximise wealth for our shareholders, recording an ROE of 34.09 percent and earnings per share (EPS) improving to Rs. 28.29 from Rs. 26.84. An interim dividend of Rs. 6.00 per share was paid and a final dividend of Rs. 3.00 per share is proposed. This will bring the dividend payout ratio to 31.82 percent as against 27.94 percent in 2015/16.

Net interest income for the year recorded a lower growth of 13.20 percent to reach Rs. 9.80 billion, which is mainly attributable to the higher rates paid on deposits due to

the tight liquidity situation in the market. However, with the success of the strategic initiatives that were implemented, we were able to overcome the setbacks and record an impressive performance. Our strategic initiatives to face the challenges in the external environment paid off well and our total assets grew by 21.59 percent. We reached the Rs. 100 billion asset milestone in January 2017 to end the year at Rs. 102.76 billion. The total advances recorded at Rs. 89.15 billion at the end of the financial year, recording a growth of 24.59 percent over the previous year. Our deposits grew by an impressive 13.16 percent to reach Rs. 60.40 billion. Fixed deposits recorded a growth of 14.41 percent over the previous year. The growth was achieved mainly through new client acquisitions and deepening relationships across all customer segments including consumer, microfinancing and small and medium-size enterprises. The Company managed to improve the quality of the loan book through improved credit standards and investing in staff for close monitoring of advances along with adopting stringent follow up procedures. As a result, non-performing loans decreased to 2.14 percent from 3.28 percent last year, which is below the average for the LFCs/SLCs sector.

In order to improve our efficiency, a cost review was undertaken with the assistance of an external consultant, followed by cost rationalisation measures. The pay off of these measures is expected in the coming years.

The capital base grew by Rs. 2.03 billion during the year due to retained profits and remained well above the minimum capital requirement by the regulator. Our regulatory capital ratios of 16.12 percent for core capital and 17.06 percent for total capital reinforce our resilience to withstand any financial shocks and are in line with the anticipated increase in regulatory capital adequacy requirements.

TECHNOLOGY TO THE FOREFRONT

We firmly believe that technology will give us a cutting edge advantage over competition. It will enable us to provide

a more effective and speedier service to our customers. During the year, we have upgraded our core database platforms using latest Microsoft technologies, leveraging speedier access and expanding the reach by use of cloud technologies.

NURTURING NATURE

Pursuing our quest for better performance, we did not ignore our responsibility towards preserving the nature. We took several steps to manage energy, water and material usage through our Environmental Management System (EMS). We continued to fulfil our social responsibility through initiatives such as the Reforestation Project at Moragahakanda and the Environmental Conservation Project at Horton Plains.

With the mind-set to promote Green Transport we launched green financing facilities few years ago. This product promotes the use of hybrid and electrical vehicles which reduce fuel consumption, thus reducing our carbon footprint.

TAKING CARE OF OUR STAFF

As always, our staff remained our greatest strength in all our achievements. We initiated several moves to increase the staff engagement and motivation. Our empowered team has proved their multi-faceted skills by volunteering to take up additional responsibilities. Our strategies with regard to talent acquisition have been to on-board school leavers and train them so as to groom them to become the next generation leaders. This has resulted in LBF having a dynamic team who are innovative and responsive to serve our customer needs.

THE WAY FORWARD

Based on structural changes introduced a few years back, we have been decentralising our operations, facilitating the expansion of the franchise and the providing a speedier service to our customers. We will continue on this path and keep empowering our employees. Technology will continue to be a business enabler, and will be used to create a competitive advantage. Our strategy has been to be the pioneer in the industry by

taking advantage of new technology and this shall drive our business forward. We have been engaging in discussions with a leading software solution provider to enhance our core systems. Innovation has been a key success factor for us and we will reach out to our customers in order to understand their financial needs and be a true partner for them at all times.

Our efforts will continue in finding ways and means of preserving the environment and maintaining the sustainability of our business at all times as we continue to create value for our stakeholders.

A WORD OF APPRECIATION

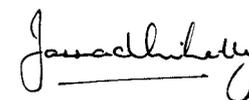
I wish to acknowledge the wisdom and guidance provided by our Board of Directors headed by our Chairperson, Ms. Kimarli Fernando. To our management team and entire staff, a big thank you for the commitment and diligence in all our endeavours. Without your professionalism and untiring efforts, an achievement of this nature would not have been feasible.

My gratitude to our customers for their continued loyalty and patronage. We will strive to innovate and meet your financial needs even better.

I wish to acknowledge the valued contribution made by the Regulator and other Government institutions through their guidance and support.

My thanks to all other stakeholders for their support in partnering us. We will continue on our journey of creating value for you through mutually rewarding relationships.

I have no doubt that our team efforts and commitment to task will enable us to reach even greater heights in the coming years.



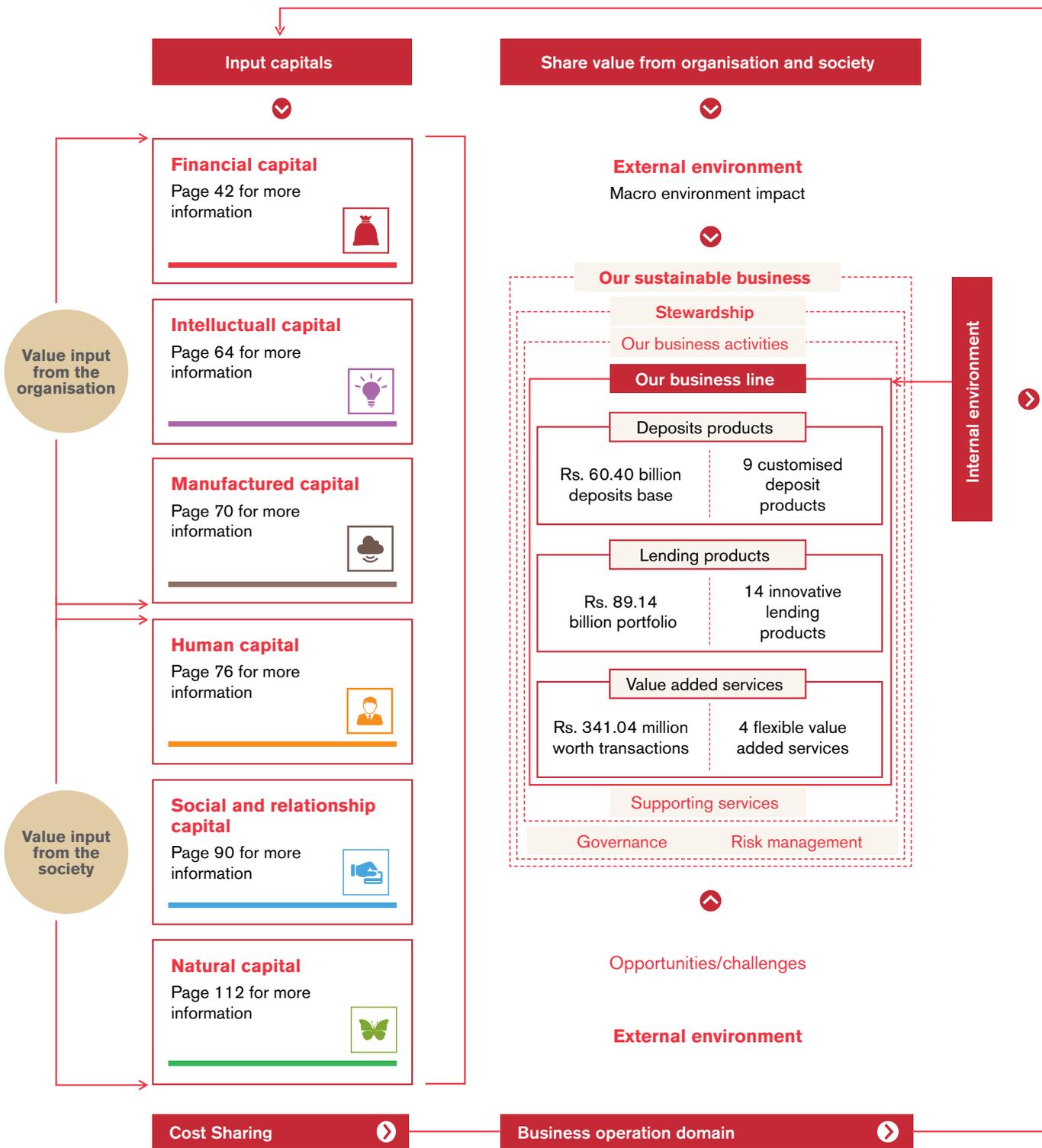
Sumith Adhietty
Managing Director

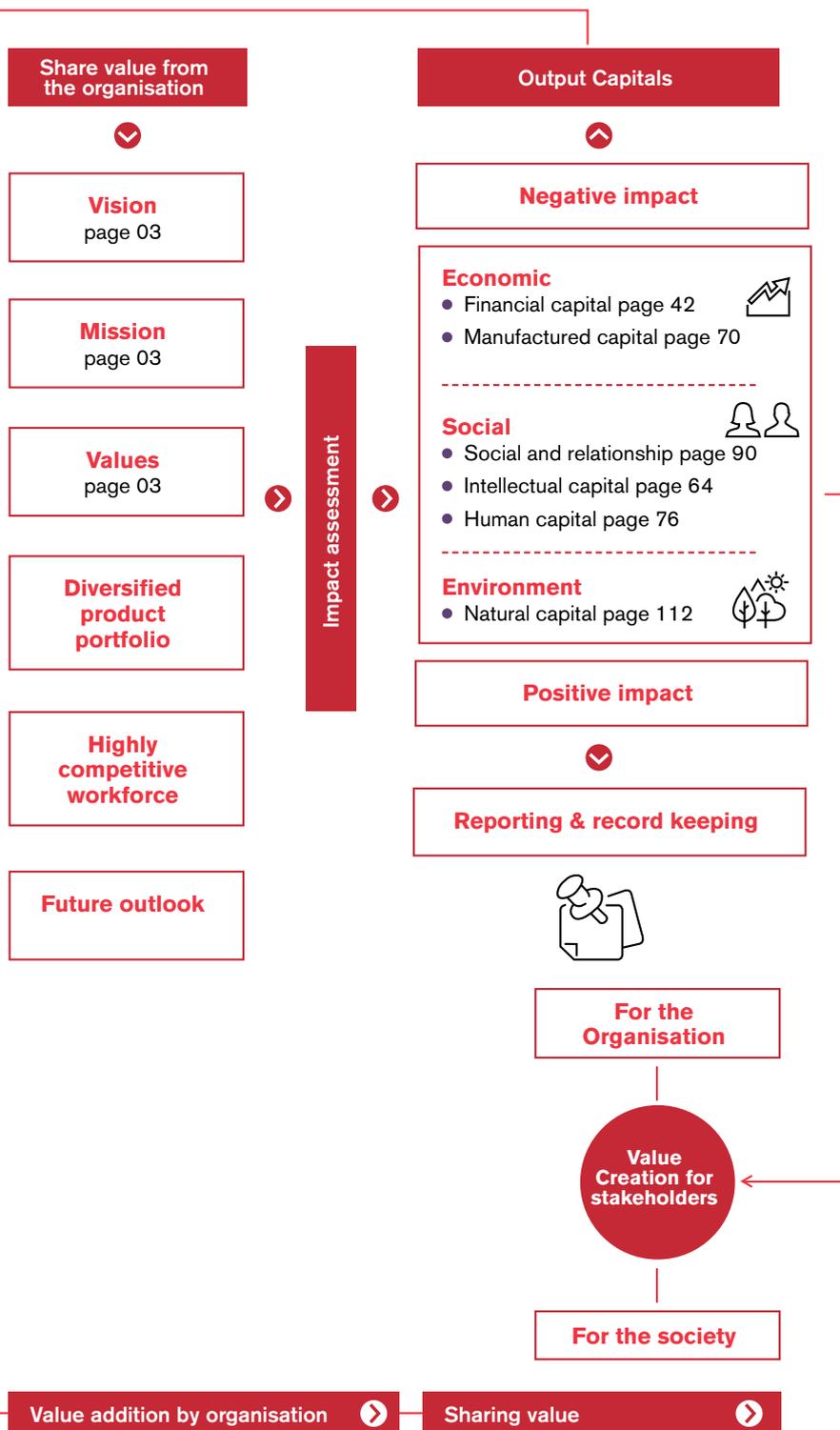
31st May 2017

The background is an abstract painting with thick, textured brushstrokes. The dominant color is a vibrant red, which covers most of the left and center. On the right side, there are vertical bands of orange, green, and yellow, suggesting a sunset or a landscape. The overall effect is dynamic and colorful.

Management discussion and analysis

Business model





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.

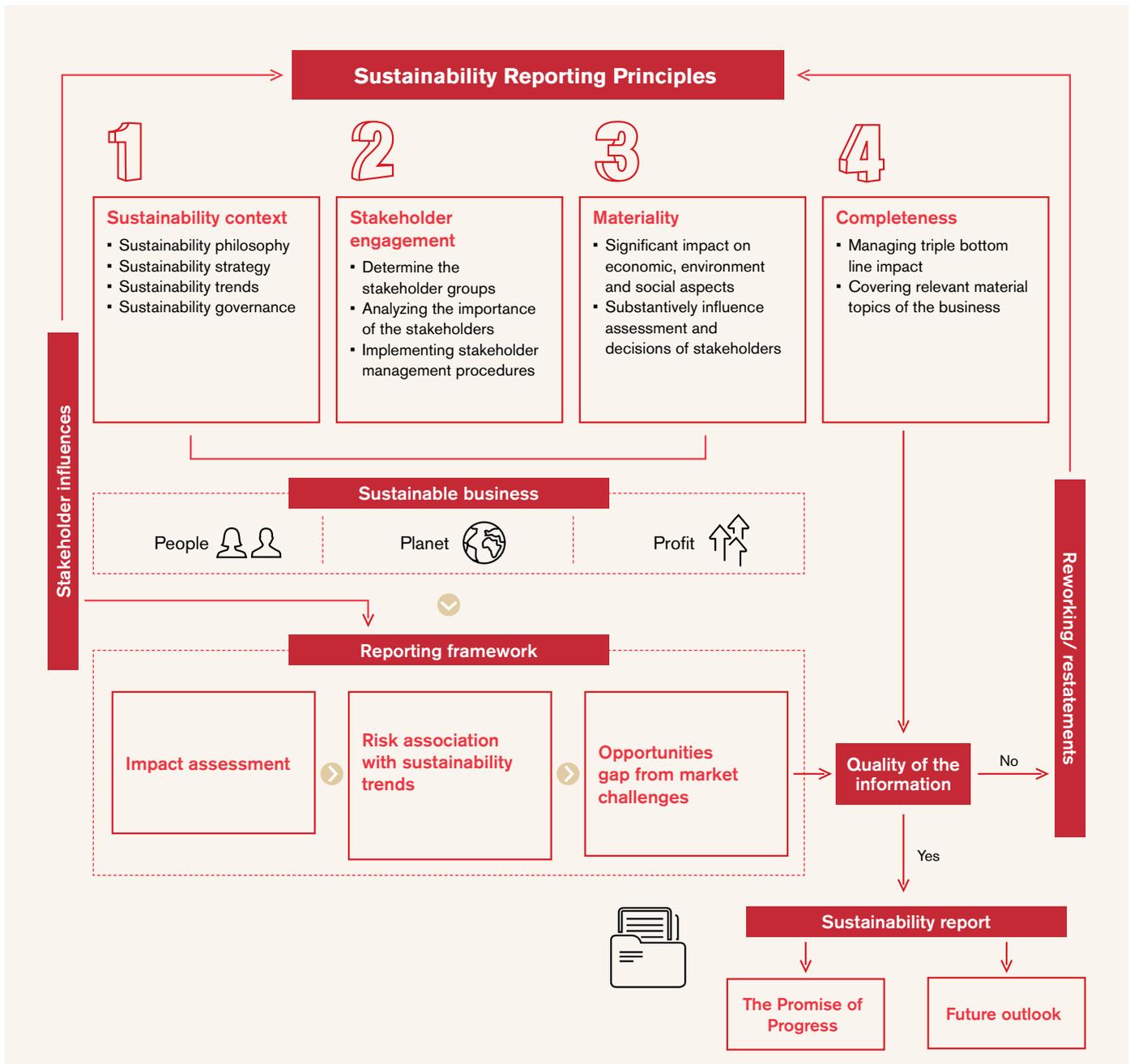
The simplicity of LBF's business model has delivered a clear laid out strategy aligned with the vision, mission and strategic objectives. Continuous dialogue with key stakeholders have ensured to help the Company reach its committed goal of reaching stakeholder expectations. Living by as a responsible 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.

Building sustainable relationships

Leading the way as a responsible corporate citizen, LBF has embraced sustainability as a high priority item in its corporate agenda. Since we recognise the importance of being sustainable in all aspects of our operations, values of sustainability are embedded in the strategy, product development as well as in the operations. We drive our sustainability values with commitment and dedication, with the stewardship from the Board itself, in order to create a sustainable future for all our stakeholders. This stems from the Management focus on creating value for the stakeholders through our operation and the corporate transformation for sustainability. It is our firm belief, that unless we adopt a sustainable business model, the Company, too will be non-existent in the long run.

SUSTAINABILITY FRAMEWORK



Sustainability Trends



Focus

- Greater emphasis on consumer engagement
- Growing demand for multi-channel business model
- Technological advancement to widened outreach of customer touch points
- Popularity of social media
- Equal opportunities and acquiring highly talented individuals from the market
- Eco-friendly business practices and green ethics



Opportunities and challenges

- Leverage on emerging technologies to achieve differentiation as a more customer-centric bank.
- Promote financial inclusion to the rural communities.
- Encourage customers to subscribe to a new business paradigm that addresses the consequences of climate change.
- Increasing employee sustainability by managing the needs of young generation.
- Addressing HR challenges resulting from an ageing workforce
- Eco-friendly business practices and green ethics



Risk Management

- Integrated Risk Management Committee (IRMC) act as a responsible body for the Risk management process.
- Adherence to all mandatory regulations.
- Encourage employee goal congruence.
- Create a robust communicative culture.
- Capital protection, both for internal as well as regulatory purposes.
- Better understating of risk for competitive advantage.

SUSTAINABILITY PHILOSOPHY

A few years ago, we initiated a strategic shift in our Corporate Social Responsibility approach: moving from a national level focus to a more strategic approach by addressing the international sustainability agenda.

LBF has always followed universally accepted guidelines. Analysing the emerging concepts of the global context, we focus our sustainability philosophy

on the Sustainable Development Goals (SDGs) put forward by the United Nations (UN), which was implemented as of January 2016. It consists of a call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. This framework is aimed at bold and transformative initiatives which will lead the world on a sustainable and resilient development path. In order to support this sustainability agenda, we have taken steps to align

our sustainability platform with the Sustainable Development Goals. SDGs are integrated and inter-connected, and balance the three aspects of sustainable development, i.e., the economic, social and environmental aspects. Our track record of working towards multiple goals provides us with a valuable experience and proven policy expertise to ensure we all reach the targets set out in the SDGs by 2030.

Sustainability strategy

Financial capital



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Page - 55

Intellectual capital



Strengthen the means of implementation and revitalize the global partnership for sustainable development
Page - 75

Social and relationship capital



End poverty in all its forms everywhere
Page - 110



Ensure healthy lives and promote well-being for all at all ages
Page - 110



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Page - 109



Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Page - 110

Human capital



Achieve gender equality and empower all women and girls
Page - 83

Natural capital



Ensure availability and sustainable management of water and sanitation for all
Page - 116



Ensure sustainable consumption and production patterns
Page - 117



Take urgent action to combat climate change and its impacts
Page - 119



Protect, restore and promote sustainable use of terrestrial ecosystems, sustainable management of forests, combat desertification, and halt and reverse land degradation, and halt biodiversity loss
Page - 120

Manufactured capital



Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
Page - 73

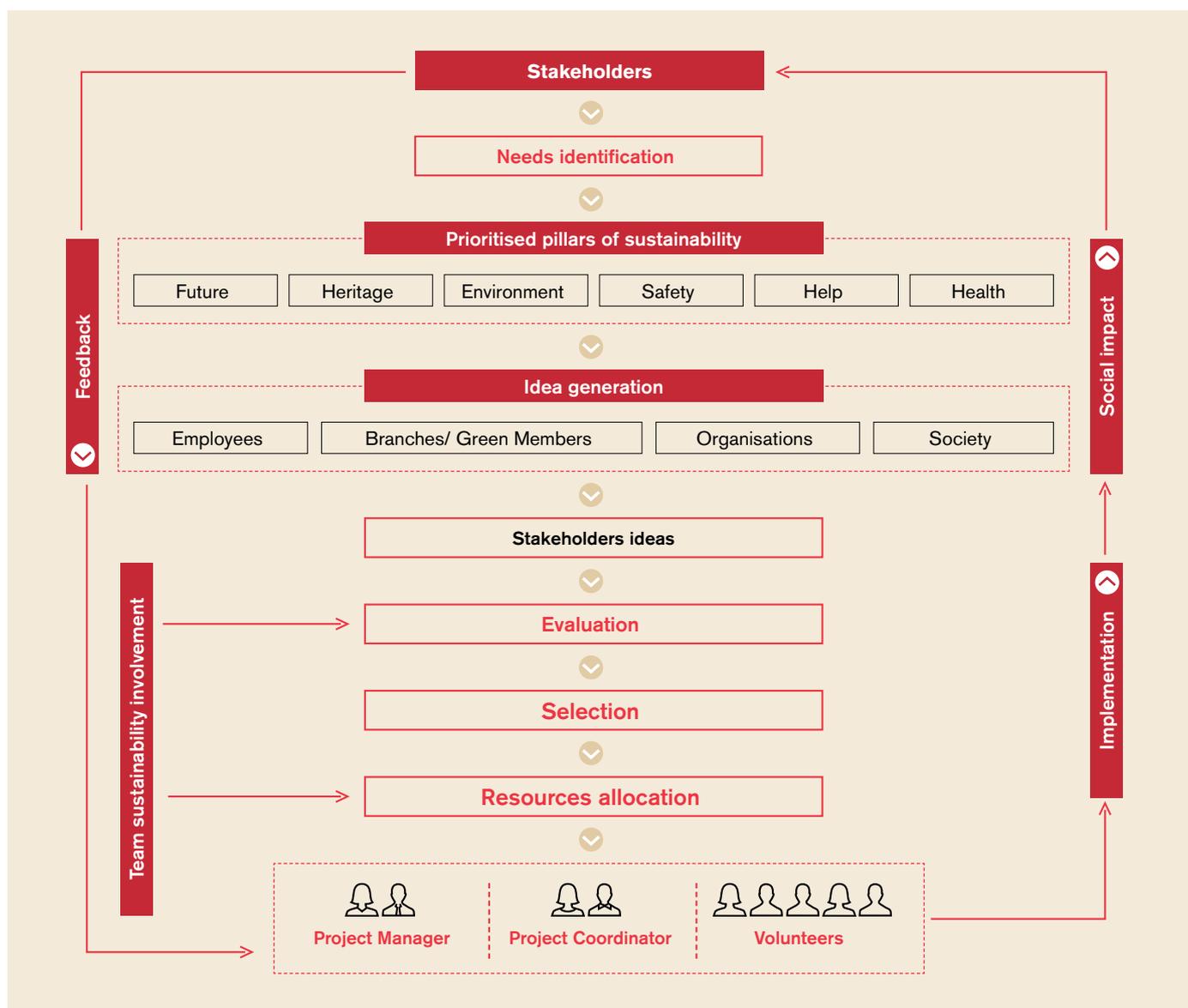
SUSTAINABLE DEVELOPMENT GOALS



CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABILITY GOVERNANCE

The CSR and sustainability governance of LBF is built upon the identified sustainability requirements of stakeholders and devising a methodology to meet them. This is carried out through the internal Sustainability Committee formulated for this purpose. This team, under the guidance of the Corporate Management, formulates the sustainability

strategy, decides on the activities and projects, allocates resources and ensures successful completion of projects. The execution of the sustainability strategy is carried through employee voluntary activities, through branch initiatives and the work of internal clubs and societies. Thus, the team Sustainability ensures the completion of the sustainability agenda for the year and the creation of sustainable value.



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

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 Impacted	No. of volunteers	No. of volunteering hours spent	Infrastructure investment Rs.	Service Rs.	Engagement type (Pro bono, In-kind)
Environment							
Wildlife Conservation	Notice boards for Safari Parks	Ridiyagama	3	24	1,175,500		Pro bono/in-kind
	Outfits for Wildlife officers in National Parks	Wasgamuwa, Kaudulla, Horton point, Horagolla	7	56		200,703	in-kind
	Sponsorship for poster on Endemics Birds of Sri Lanka	All Island	5	21		46,000	in-kind
	Project-Horton Plains	Horton Plains	6	88		16,458	Pro bono
Environment first	Awareness boards around Kurunegala Lake	Kurunegala	3	12	171,750		Pro bono/in-kind
Photographic club	Colours of Sri Lanka- Photography day Competition	All Island	7	28		1,400,960	Pro bono/in-kind
Clean Beach	Beach cleaning projects	Unawatuna	31	192		18,896	Pro bono



Project	Initiative	Area Impacted	No. of volunteers	No. of volunteering hours spent	Infrastructure investment Rs.	Service Rs.	Engagement type (Pro bono, In-kind)
Plant a Tree save the planet	Reforestation project in Moragahahena	Matale	9	180		207,155	in-kind
Sustainability Pledge	Sustainability awareness notice boards	Colombo			60,000		Pro bono/in-kind
Future							
O/L Seminar series	Ordinary level examination seminar series	Ampara	11	264		650,885	Pro bono/in-kind
150 Pre-School Modification	Pre-school modification and renovation	All Island	12	173	6,921,878		Pro bono/in-kind
L B Computer labs	Computers donation to the Schools	Attidiya/ Nikaweratiya	5	36	62,785		Pro bono/in-kind
Sisu Shakthi-Scholarship	Scholarship programme for self-employees children	All Island				660,000	in-kind
Future First	School seminar programmes	Matara	10	100	28,900		Pro bono/in-kind
	Sponsoring to school sports	Kurunegala/ Eheliyagoda/ Delgoda/ Kekirawa/ Horana	9	25		184,479	in-kind
	Donations to schools	Nuwara-Eliya/ Panadura/ Anuradhapura	11	36		20,000	in-kind
Health							
Health First	Health checkup camps and seminars for staff	Colombo	19	87		14,055	Pro bono/in-kind
Help							
Help First	Disaster recovery programmes for public	Colombo/ Ratnapura	20	67		202,160	Pro bono/in-kind
	Blood donation campaigns	Colombo	236	304		191,997	Pro bono/in-kind
	Annual Eye Hospital Donation project	Colombo				1,001,000	in-kind
	Donations to community	Colombo/ Puttalam	17	69		655,205	in-kind
	Sponsoring for programmes, sports events and equipment	Gampaha/ Colombo	22	100		387,850	in-kind
Readers Club	Readers club of sharing knowledge	Colombo	10	74		148,995	Pro bono/in-kind
Safety							
Safety First	Safety awareness seminars and workshops	Colombo/Mahiyaganaya/ Ambilipitiya	48	366		117,320	Pro bono/in-kind
Total			501	2,302	8,420,813	6,124,118	

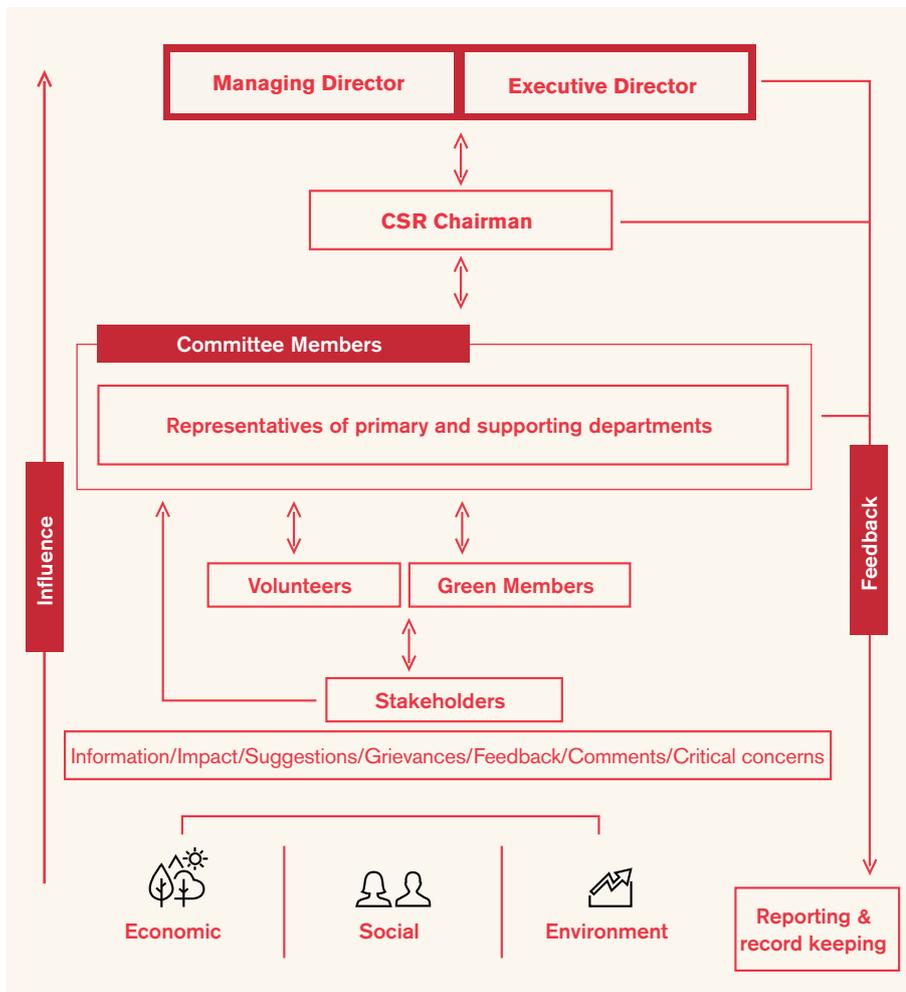
Sustainability committee

We strongly believe that responsible stewardship is the key to creating a sustainable future for all communities associated with the business. We have always remained true to our fundamental values. We continue to uphold the promise to deliver consistent value to all stakeholders as we believe that our success is measured not only in terms of our ability to produce shareholder value, but also our accountability to all stakeholders associated with our business. We have embraced the triple bottom line model as a template to convey tangible value to all those impacted by our work.

DELEGATING RESPONSIBILITY – KEY SUSTAINABILITY TOPICS

Sustainability Topic	Responsibility
Economic performance	Board of Directors sustainability committee
Social empowerment	Sustainability committee
Environment management	Sustainability committee
Risk management	Board of Directors
Integrated report/Sustainability report	Sustainability committee

COMPOSITION



Frequency of reviewing the process – when necessary

SUSTAINABILITY GUIDELINES AND FRAMEWORKS (NATIONAL AND INTERNATIONAL)

By following an integrated approach that fills greater social responsibility and corporate accountability on our part, we subscribe to responsible business practices that are linked into governance framework at L B finance PLC stewardship of all CSR activities and sustainability practices confirm to global accepted good governance practices and transparent reporting guidelines in compulsory levels and voluntary levels that reflect the integrity of our all actions (Economic, Social and Environment).

- Regulatory disclosure frameworks
- Voluntary disclosure frameworks
 - GRI Standards –
 - Integrated Reporting framework

CRITICAL CONCERNS REPORTED DURING THE YEAR

There is no significant critical concerns reported during the year.

SUSTAINABILITY REPORT

Sustainability Committee of the Company formally review and approving the organisation sustainability report.



Stakeholder engagement

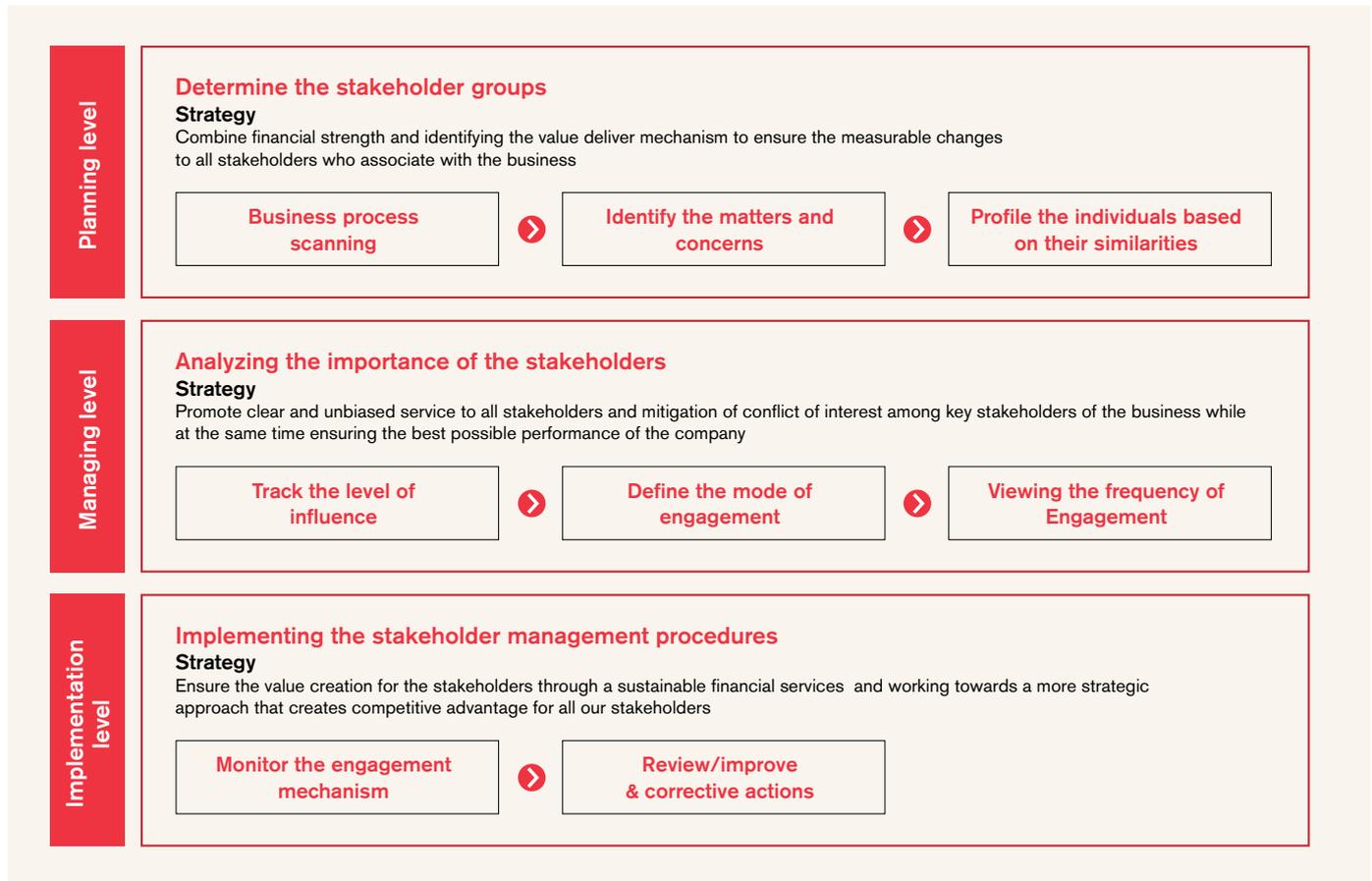
Stakeholders are the individuals, groups or entities that are affected by the products, services or operations of the Company or whose actions, decisions or attitudes affect the strategy, objectives and operations of the Company. LBF aims to build lasting relationships that add value to both parties, with its stakeholders. LBF has in place a rigorous process to identify its significant stakeholders. Through its process of engagement with the stakeholders, LBF is able to identify and understand their aspirations, concerns and also find ways and means of adding value to the stakeholder relationships in order to build lasting relationships. A process of continuous dialog and engagement enables LBF to comprehend the aspirations and intents of its stakeholders and take them into consideration in

formulating its business strategies, adding value to the relationships. The process of value addition works in directions, giving value to stakeholders and deriving value from the stakeholders.

The main stakeholder groups identified by LBF are:

- Customers
- Investors/shareholders
- Employees
- Business partners
- Regulator and other Government institutions
- Society

STAKEHOLDER ENGAGEMENT PROCESS



In order to attain sustainability in economic, environmental and social aspects, it is imperative that we engage meaningfully with our stakeholders. As such, our stakeholder engagement process, is an organised mechanism so that we could identify all stakeholder groups, and engage with them effectively in order to address their concerns. Through a process of scanning the

business environment, the parties who are impacted by our business operations are identified, who are then grouped according to similarities in order to identify broad stakeholder groups. Stakeholder engagement takes place, addressing their concerns in the best possible way so as to provide them a superior service and at the same time, ensuring the optimal performance of the Company.

STAKEHOLDER ENGAGEMENT MECHANISM

Matters and Concerns raised by the stakeholders	Matters and concerns received from	Our strategic response
Product innovations	Customer	Superior customer service, introduction of innovative products, maintaining customer privacy
Ethical lending practice	Customer	
Maintain customer privacy	Customer	
Promoting island-wide accessibility	Customer	
Customer satisfaction through superior products and services	Customer	
Reward management	Employee	Competitive rewards and benefits, enhance training and development, ensure employee welfare
Acquiring best talented people in the market	Employee	
Grievances handling	Employee	
Occupation health and safety	Employee	
New laws and regulations	Regulators and Government	On-time submission of statutory payments, adaptation actions on supervisory concerns
Mandatory laws imposed by the Government or Acts	Regulators and Government	
Empowering community through sustainable financial services	Civil society	Community engagement employee volunteerism, Community capacity building
Conducting CSR projects	Civil society	
Public relation	Civil society	
Sustainable return on investment	Shareholders	Ensuring sustainable return on investment, development of shareholder communication channels
Safeguarding the quality of assets	Shareholders	
Local sourcing	Business Partners	Local sourcing, developing strategic partnerships
Ethical sourcing practice	Business Partners	
Providing opportunity for budding suppliers	Business Partners	
Maintain strategic partnerships	Business Partners	



STAKEHOLDER ENGAGEMENT METHODS

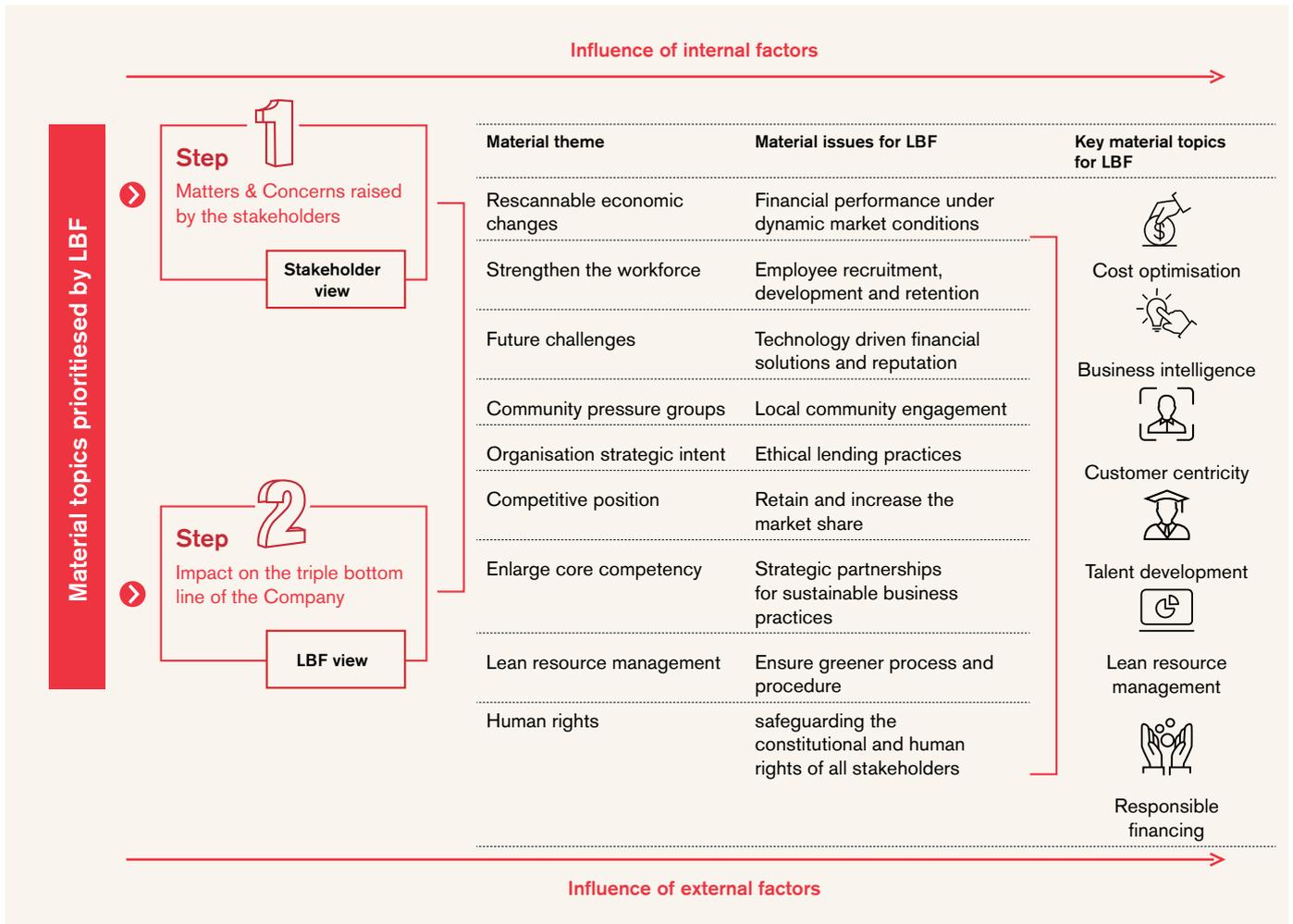
Stakeholder	Level of engagement	Engagement mode	Frequency
Investors/ Shareholders	Consult	Shareholder meetings/Annual General Meetings	Annual
	Consult	Extraordinary General Meetings	Ad hoc as and when necessary
	Inform	Annual Report	Annual
	Inform	Interim financial statements	Quarterly
	Inform	Announcements 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
	Remain passive	Website information updates	On a regular basis
Employees	Consult	Monthly review meetings	Monthly
	Consult	Management meeting	Monthly
	Inform	HR newsletter	Annual
	Collaborate	Company social events	Annual/Ad hoc
	Inform	E mail updates	On a regular basis
	Involve	HR Portal	On a regular basis
	Inform	Employee notice board	On a regular basis
	Consult	Employee direct meetings	On a regular basis
Customers	Involve	Customer hotline	As necessary
	Consult	Customer surveys	Annual
	Consult	One-to-one meetings	As necessary
	Consult	Direct customer feedbacks	On a regular basis
	Remain passive	Media campaigns/advertisements	On a regular basis
	Remain passive	Website information updates	On a regular basis
Business partners	Consult	Supplier meetings	As necessary
	Involve	Letters/E mails/Telephone conversations	On a regular basis
	Transact	Supplier get-together	Annual
	Consult	One-to-one meetings	As necessary
	Consult	Periodic visits	As necessary
Regulatory and Government	Consult	Directives and circulars	As necessary
	Consult	On-site review by CBSL	Annual
	Remain passive	Press releases	As necessary
	Consult	Meetings and discussions with Board and Senior Management	As necessary
	Inform	Submission of returns and status reports	Periodic deadlines
	Consult	Training and workshops organised by regulators	As necessary
Society	Remain passive	Media advertisements and press releases	As necessary
	Collaborate	Public events	On a regular basis
	Collaborate	Community projects	As necessary
	Consult	Call centre conversations	As necessary
	Collaborate	Interact through branch network	As necessary
	Remain passive	Social media	On a regular basis
	Remain passive	Sustainability website	On a regular basis

IDENTIFICATION OF MATERIAL ASPECTS

Not all issues or concerns will have the same impact on our stakeholders and it will not be a meaningful attempt to address all issues at the same level. Hence, we adopt a process to identify material events that would have an impact on the value creation process so that they could be addressed in a manner that would not adversely affect the creation of value to our stakeholders.

At LBF, materiality is assessed by the dual impact an event may have on each area. Thereby, an event is evaluated by the degree to which an issue is significant,

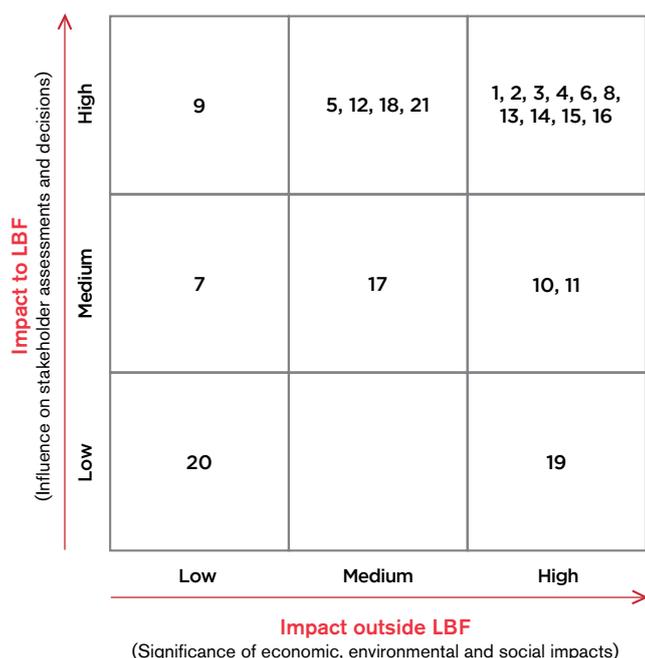
not only to society and our stakeholders but also the degree to which it is relevant to LBF's scope of operations and ethical commitments and its impact on economic, social and environmental aspect of the organisation. In structuring the flow of information and determining materiality, we observe each aspect in the light of the management ethos pertaining to the particular material themes. Accordingly, a number of quantitative and qualitative tools are used to obtain a deeper understanding of the large volume of information. Materiality is then measured using the following principles:





	Matters and Concerns raised by the stakeholders	Impact outside LBF	Impact to LBF	Our response	
	Financial performance under the dynamic market conditions				
	1. Financial performance	High	High	Financial capital page 42	
	2. Wealth creation for stakeholders	High	High		
	Employee recruitment, development and retention				
	3. Career development	High	High	Human capital page 76	
	4. Reward management	High	High		
	5. Acquiring best talented people in the market	Medium	High		
	6. Grievances handling	High	High		
	7. Occupation health and safety	Low	Medium		
	Technology driven financial solutions and reputation				
	8. Effective usage of social media	High	High		Intellectual capital page 64
	9. Enhance the brand value	Low	High		
	Local community engagement				
	10. Corporate social responsibility projects	High	Medium	Social and relationship capital page 90	
	11. Transparent sourcing practices	High	Medium		
	12. Customer satisfaction	Medium	High		
	13. Strong relationship with investors	High	High		
	Ethical business practices				
	14. Customer privacy	High	High	Intellectual capital page 64	
	15. Product responsibility	High	High		
	Retain and increase the market share				
	16. Expand customer reach	High	High	Manufactured capital page 70	
	17. Invest on value added services	Medium	Medium		
	Strategic partnerships for sustainable business practices				
	18. Partnership with business alliances	Medium	High	Social and relationship capital page 90	
	Ensure greener process and procedure				
	19. Efficient energy consumption	High	Low	Natural capital page 112	
	20. E-waste management system	Low	Low		
	Safeguarding the constitutional and human rights of all stakeholders				
	21. Human rights assessment and management	Medium	High	Human capital page 76	

Materiality matrix



THE PROMISE OF PROGRESS

Over the past years, LBF has built a solid foundation from which to confront the future: we have a successful history; a distinctive culture and a shared pride in our performance; our footprint is unique and coveted by our peers. Moreover, throughout the Company, employees place great value on working together as a team and share a genuine desire to serve our customers. We are confident that our strategy is sound and the execution of these strategies would bring meaningful progress and create longer-term value for all stakeholders.

MAPPING MATERIAL ISSUES TO GRI STANDARDS

Material issues	Relevant GRI Indicator	Sub topics
Cost Optimisation	GRI 200 – Economic	<ul style="list-style-type: none"> Financial performance Wealth creation for stakeholders
	<ul style="list-style-type: none"> 201 202 203 204 	<ul style="list-style-type: none"> Career development Reward management Acquiring best talented people in the market Grievances handling
Business Intelligence		<ul style="list-style-type: none"> Occupation health and safety
Customer Centricity		<ul style="list-style-type: none"> Effective usage of social media
Talent Development	GRI 400 – Social	<ul style="list-style-type: none"> Enhance the brand value Corporate social responsibility projects Transparent sourcing practices Customer satisfaction Strong relationship with investors Customer privacy Product responsibility Expand customer reach Invest on value added services
	<ul style="list-style-type: none"> 401 403 404 405 413 416 418 	
Lean Resource Management	GRI 300 – Environment	<ul style="list-style-type: none"> Partnership with business alliances Efficient energy consumption Ewaste management system Human rights assessment and management
	<ul style="list-style-type: none"> 301 302 305 	
Responsible Financing		

Operating environment

EXTERNAL ENVIRONMENT

THE WORLD ECONOMY PICKED UP IN THE SECOND HALF OF 2016

The world economy, which showed signs of sluggish growth in the first half of 2016, picked up growth momentum in the second half, helped by higher than expected recoveries in the advanced economies, prompting the IMF to revise the projection upwards. The outcome of major political events such as Brexit and the US Presidential Election created uncertainties in the financial markets and the global economic outlook. Emerging markets and developing economies recorded sluggish growth. It is estimated that the growth rate recorded for the year was 3.1 percent, still the weakest since 2009. The stabilisation of oil prices led to improved economic activity in oil producing countries including Russia. Economic policy measures to correct imbalances in China helped its economy. However, some EU countries as well as Britain did not perform as expected. In the light of these developments, global interest rates moved upward and the US dollar appreciated against major currencies. The momentum in the world economic growth is expected to continue into 2017 and 2018 as well at 3.5 percent and 3.6 percent respectively.

Gold prices continued an upward trend in the first half of 2016, however lost its momentum following the Brexit. Monthly gold prices had a 27.3 percent increase up to July 2016 and lost 14.8 percent in the balance part of the year closing at US dollar 1,150.9/t oz. as at end December 2016. However, gold prices remained almost stable in the financial period 2016/17 increasing marginally by 1.3 percent YoY to US dollar 1,249/t oz. as at end March 2017.

GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK*

Item	2015	2016	2017 (Proj)	2018 (Proj)
World output	3.4	3.1	3.5	3.6
<i>Advanced economies</i>	2.1	1.7	2.0	2.0
United States	2.6	1.6	2.3	2.5
Euro area	2.0	1.7	1.7	1.6
United Kingdom	2.2	1.8	2.0	1.5
Japan	1.2	1.0	1.2	0.6
<i>Emerging market and developing economies</i>	4.1	4.1	4.5	4.8
Emerging and developing Asia	6.7	6.4	6.4	6.4
China	6.9	6.7	6.6	6.2
India	7.6	6.8	7.2	7.7
World trade volume (Goods and services)	2.7	2.2	3.8	3.9
Price movements				
Consumer prices advanced economies	0.3	0.8	2.0	1.9
Emerging market and developing economies	4.7	4.4	4.7	4.4
Commodity prices (US dollar)				
Oil	(47.2)	(15.7)	28.9	(0.3)
Non-fuel	(17.4)	(1.9)	8.5	(1.3)
Six-month London Interbank Offered Rate (LIBOR) on US dollar deposits (per cent)	0.5	1.1	1.7	2.8

*Annual percentage change unless otherwise indicated.

Source: World Economic Outlook (April 2017), IMF

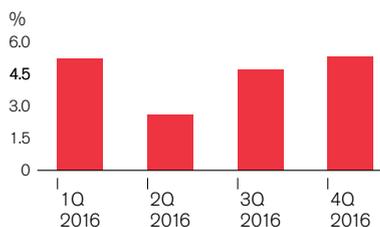
Increasing interest rates in the US is further negative on the Sri Lankan economy and the financial sector, where the country has to risk adjust its domestic interest rates. US Central Bank increased its official rates by 25 basis points to 1 percent in March 2017. This is the third rate revision made by the US Central Bank after the credit crunch in 2008 and the second hike during 2016/17.

SRI LANKAN ECONOMY RECORDED A MODEST GROWTH

The Sri Lankan economy recorded a modest growth rate of 4.4 percent in 2016 as against 4.8 percent in the previous year with unfavourable weather conditions that prevailed during the year adversely impacted economic activities, primarily in the Agricultural sector. Inflation, which remained low in the first quarter of 2016 rose thereafter to record 4 percent by end of 2016 while 12-month moving average change recorded at 5.6 percent by end of March 2017 increased taxes dampened corporate earnings while weak external sector performance led to depreciation of the Rupee. Construction sector recorded an improved performance in the second half of the year. Foreign Direct Investment (FDI) failed to record an improvement and the country's BOP witnessed a deficit for the second consecutive year despite improved earnings from tourism as well as increased worker remittances and other service industries. The unemployment rate declined to 4.4 percent in 2016 from 4.7 percent in the previous year.

QUARTERLY GROWTH PICKED UP IN THE LATTER PART OF 2016

GDP Growth



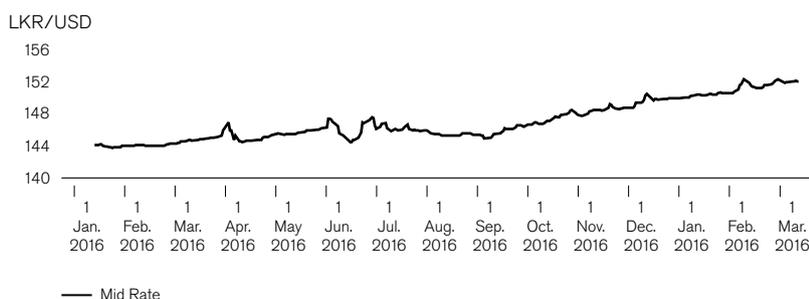
CBSL tightened the monetary policy measures up to the third quarter, 2016 in order to contain adverse effects of high credit growth and excessive monetary expansion. The Central Bank raised the Statutory Reserve Ratio by 150 basis points in January 2016. CBSL also raised its key policy interest rates by a total of 100 basis points in two steps in 2016, the first in February 2016 and the second in July 2016. As a result, market interest rates moved upwards during the year. Moreover rates were increased by further 25 basis points in March 2017.

CBSL POLICY RATE CHANGES IN THE PAST

Effective date	SDFR (%)	SLFR (%)	SRR (%)
24th March 2017	7.25	8.75	7.50
28th July 2016	7.00	8.50	7.50
19th February 2016	6.50	8.00	7.50
16th January 2016	6.00	7.50	7.50

The volatile situation in the world economy and increased in US interest rates resulted in investors shifting to safe haven assets such as US Treasuries, Gold and stronger currencies such as US dollar, Japanese Yen and Swiss Franc from riskier assets such as bonds and equities in emerging and frontier markets. This led to an outflow from the equities bond markets in Sri Lanka thus created pressure on Sri Lankan rupee. This will also make borrowing in international markets more expensive for Sri Lanka. Moreover depreciating rupee will also negatively affect the cost of servicing foreign debt and hence will have a spiral effect on currency depreciation.

Sri Lanka Rupee depreciated against US dollar in 2016



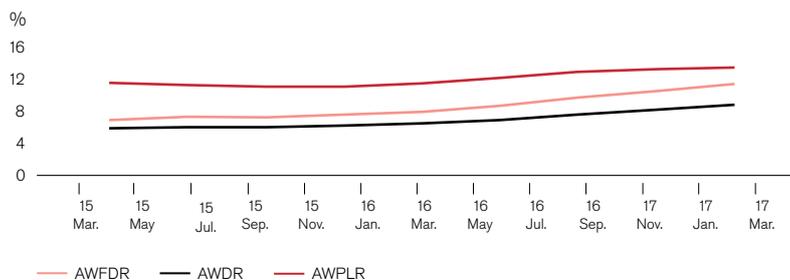
The year-on-year growth of credit to the private sector, which was at 25.1 per cent at end 2015 peaked at 28.5 per cent by July 2016, before declining to 21.9 per cent by end 2016 in response to the monetary policy measures adopted by the Central Bank. In absolute terms, the increase in credit extended to the private sector was Rs. 754.9 billion during 2016 compared to the increase of Rs. 691.4 billion in the previous year.

Sluggish economic activity in the country and uncertain tax and regulatory of policy acted as a major deterrent for the Company and industry performance. CBSL expects the Sri Lankan economy to grow at a modest rate of 5 percent in 2017 amidst adverse weather patterns and challenging global economic conditions. Thereafter, it is expected to pick up to 7 percent by 2020. Although, we remain positive on the long term prospects of the economy with long term government policy plans materialising gradually, micro credit and SME segments fuelling the private sector businesses and expanding middle income population driving consumer growth. Favourable foreign policies are expected to result in strengthening relationships with other countries and result in international trade benefits while strengthening the balance of payment situation. Liberal investor policies may also promote foreign direct investments when moving towards becoming an international hub in South Asia.

INDUSTRY PERFORMANCE

Rising interest rates, fiscal policy changes, tighter monetary policy and regulatory directives on the sector such as tightening Loan to Value (LTV) ratios on leasing created a challenging business environment for the financial sector. Liquidity shortfalls in the financial markets during the year encouraged banks and NBFIs to offer competitive rates for deposits to meet their short term funding requirements. Rising deposit rates directly affected the borrowing capacity of NBFIs resulting in a slower loan growth. With liquidity shortages, overall deposit rates increased faster than lending rates, leading to narrower spreads and net interest margins (NIMs). Average Weighted Deposit Rate (AWDR) increased by 237 basis points YoY to 8.81 percent whilst Average Weighted Lending Rates (AWLR) increased by 195 basis points YoY to 13.40 percent in 2016/17.

Monthly movement in AWLR and AWDR, AWFDR



The rise in prices of vehicles and tighter LTV requirement curtailed the growth of the leasing business, which was one of the fastest growing lending products for the Company. Increased duties levied on import of vehicles, depreciation of the Rupee, raising FOB values of vehicles for tax purposes, removing the depreciation table related to used or reconditioned vehicle imports and the implementation of engine capacity based tax structure resulted in a substantial price increase in almost all the popular vehicle categories in the country. The increase in vehicle prices as well as rising interest rates led to a much slower growth in new lease facilities granted in 2016.

The applicable LTV ratio for leasing vehicles (both registered and unregistered) based on market value was brought down from 100 percent to 70 percent with effect

from 15th September 2015. This further curtailed growth in the leasing sector with customers finding it difficult to fund the balance value amidst rising vehicle prices. Growth in the leasing was reduced from 52.1 percent YoY in 2015 to 17.0 percent YoY in 2016. Central Bank further tightened the LTV ratio in January 2017 and implemented multiple limits based on vehicle category.

In respect of unregistered vehicles and registered vehicles less than one year from first registration LTV will be 25 percent for three-wheelers, 50 percent for motor cars, dual purpose vehicles and SUVs, 90 percent for commercial vehicles and 70 percent for any other vehicles. Vehicles that are registered for more than one year can be leased up to 70 percent of its market value. This is expected to have a material impact on the future of the leasing industry, especially the unregistered category. Additional fiscal policy measures such as raising VAT on financial services, introduction of the Economic Service Charge (ESC) as well as tightened monetary policy measures further impacted the revenue generating capacity and consequently the margins. VAT charged on operating profits of financial services institutions before deducting personnel costs were increased from 11 percent to 15 percent in line with general VAT revisions. Imposition of 0.5 percent Economic Service Charge on income in 2016 April resulted in early collection of tax revenue by the Tax Authorities which is subsequently set-off against corporate taxes once tax accounts are finalised. Effective early payment of taxes results in loss of time value of money by the finance companies.

Stagnant maximum rates of deposit applicable for savings and fixed deposits of NBFIs set by the Regulator, was another drawback faced by finance companies to source deposits. With rising rates of interest, the competition for deposits intensified with commercial banks offering higher rates. The revision to the interest rate ceiling affected the bottom line of NBFIs since they had to either forego lending opportunities or borrow at a higher cost to finance the lending requirement.

In a bid to consolidate the industry, CBSL issued a Directive for the core capital requirement of Licensed Finance Companies (LFC) in February 2017. Accordingly, every LFC has to maintain a minimum unimpaired core capital of Rs. 400 million until 31st December 2017 which will be increased to Rs. 1 billion by 1st January 2018. Minimum requirement will be raised there after by Rs. 0.5 billion per annum until it reaches Rs. 2.5 billion by 1st January 2021. According to the Directive, in the event of non-compliance, CBSL shall impose restrictions on mobilising deposits, lending, dividends and expansion of business operations on such companies.

COMPANY PERFORMANCE

Despite the challenging environment that prevailed, LBF managed to adapt its strategies along with the product offering to mitigate the adverse impact while utilising the opportunities to expand operations, improve asset quality and manage risk. Increased duties on vehicle imports affected the second hand market for registered vehicles and resulted in increased market values. This resulted in increased recoverability and reduced bad

debts. Default rates on leasing products dropped due to the high cost of arranging a new lease or re-leasing with higher vehicle prices, strict LTV regulations and increasing leasing rates which are fixed for the contract period. High rates and tougher fund sourcing situation has encouraged existing customers to continue their existing vehicle leases.

To mitigate the impact of strict regulations, LBF carried out product development to satisfy the financing needs of its customers and diversify its income sources from the core business of vehicle leasing. Three wheeler leasing is the most affected segment from the LTV regulation that permits to lease only up to 25 percent of the value of a brand new three wheeler. Power Draft was introduced for customers to lodge their valuable assets including vehicles as security and obtain financial assistance. This product gives the flexibility to the customers to settle any amount at any given time during the contract period. Moreover, marketing strategies have also been aligned to deal with the situation and focus was diverted to promote second hand three wheelers registered for more than one year. The directions allow the Company to lease up to 70 percent of the market value of any vehicle registered for more than one year. Strategically, adjusting service offerings to the changing situation enabled the Company to maintain a growth in leasing volumes and reach its budgeted expectations.

New products were also introduced to diversify the business from the core vehicle leasing business to mortgages, factoring, gold loan and margin trading. Gold loan portfolio increased by 23.8 percent YoY to Rs. 16.3 billion in 2016/17.

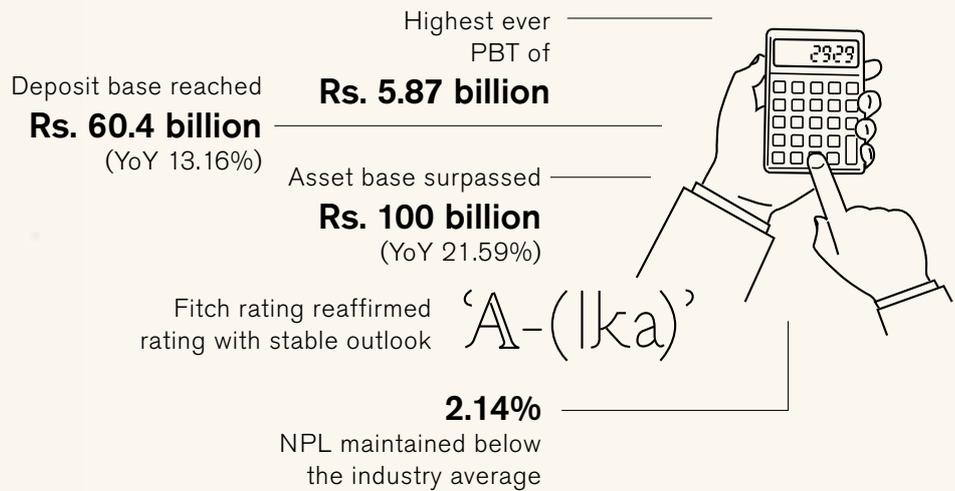


Increasing interest rates negatively affected the bottom line with diminishing spreads and shrinking NIMs. Company's lending portfolio had a longer re-pricing period than its deposit base. This directly impacted the NIM and has put pressure on bottom line earnings. The Company took a strategic move to shorten the average re-pricing period in the lending portfolio and lengthen the re-pricing period of its sources of funding. Gold loan, Power Plus and Power Draft were introduced on variable rates that will be re-priced in the short term. On the flip side, the Company opted for longer term borrowing other than raising short term deposits to fund its lending requirements. The Company also considers obtaining a foreign loan, since the greater disparity in local Rupee rates and dollar rates have resulted in an arbitrage opportunity to maximise profitability even after factoring the currency depreciation risk.

In order to mitigate the risk of sudden liquidity shortages with large corporate deposit withdrawals, the Company now focuses on individual customer deposits.

LBF also increased its branch network from 110 to 118 during 2016/17 for a wider reach to customers and to have a greater access to the fast growing micro and SME sectors. LBFs core capital stands at Rs.12.5 billion thus becoming one of the very few finance companies who meets the 2021 minimum capital requirement directed by CBSL. We believe the strong balance sheet of the Company will leverage to strengthen its position in the industry.

Financial Capital



Management approach

Cost Optimisation:

We focus on cost optimisation than cost cutting strategies to provide a meaningful improvement to our cost to income ratio

Strategic Priorities

- Structural cost transformation
- Fixed long term funding sources and avenues
- Adequate internal controls to minimize the operational volatilities
- Customer at the centre of the business

2016/2017 Progress Towards Objectives

Objective	Status	Page
Focus more on non-traditional financial products	█	Loan and advances grew by 24.59% 49
Bring the NIM to the historical average levels	█	NIM recorded at 10.19% 45
Structural cost transformation mechanism focus on physical, fiscal and funding level	█	Cost to income ratio recorded at 39.01% 44
Diversification of funding sources	█	Borrowings increased to Rs. 23.77 billions 49

Objectives 2017/18 and beyond

Target year 2017/18

Upgrade the credit rating to the next level

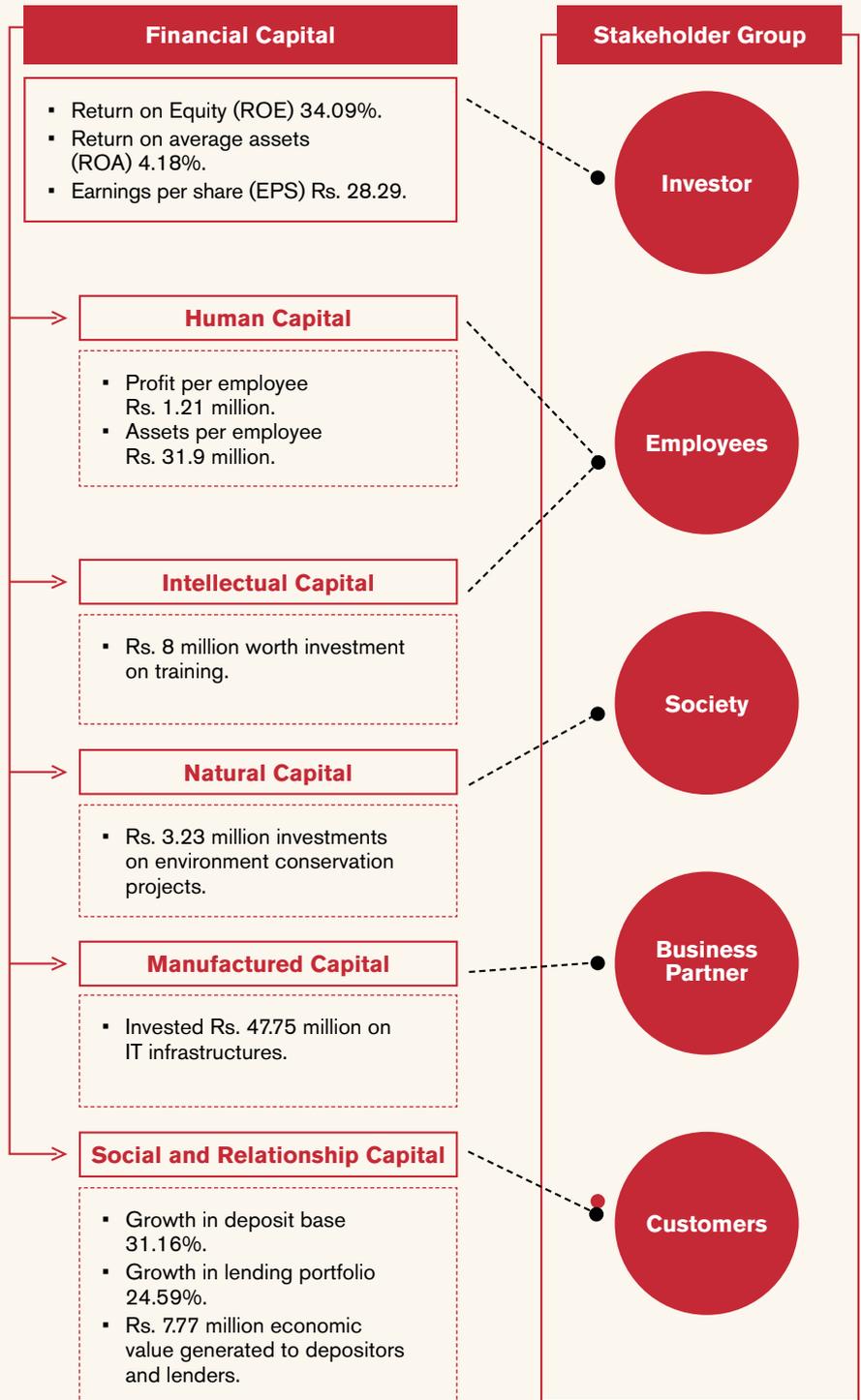
Shareholder value creation through minimum volatility of earnings



Target year 2018/19

Re-engineering and re-sizing the company balance sheet to optimise the risk and return equation.

Value creation among capitals



Challenges we faced



Increase the NIM
Page 45



Managing the fiscal impact
Page 46

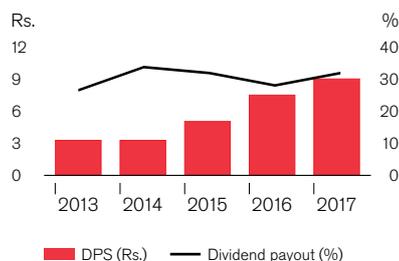


Cost Optimisation
Page 44

OVERVIEW OF FINANCIAL RESULTS

LB recorded a 5.39 percent year on year (YoY) increase in its net profit attributable to common shareholders to Rs. 3.92 billion in 2016/17. Net interest income reported a lower YoY growth of 13.20 percent to Rs. 9.80 billion in the period due to increased cost on servicing deposits amidst liquidity shortage in the market, resulting in squeezing margins. However strategic initiatives on product and marketing helped mitigate the situation and structural cost transformation supported margins. The Company continued to maximise shareholder wealth during the year with earnings per share improving to Rs. 28.29, resulting in a return on equity of 34.09 percent. L B announced an interim dividend of Rs. 6 per share in March 2017 and expects to increase its payout to Rs. 9.00 per share for the financial year as against Rs. 7.50 per share distributed in 2015/16. This will result in an increased dividend payout ratio of 31.82 percent for 2016/17 from 27.94 percent in 2015/16.

Dividend payout and DPS



Financial highlights	31st March 2017 Rs. '000	31st March 2016 Rs. '000
Total assets	102,763,035	84,516,637
Investments	7,658,692	9,059,818
Loans (net of impairment)	89,149,743	71,554,005
Deposits by the public	60,401,955	53,379,801
Interest-bearing liabilities	25,822,363	17,178,516
Net profit after tax	3,918,204	3,717,792

Financial highlights	31st March 2017 Rs. '000	31st March 2016 Rs. '000
Total comprehensive income	3,900,303	3,729,029
Return on equity	34.09%	40.40%
Cost to income ratio	39.01%	35.89%
Earnings per share (Rs.)	28.29	26.84
Dividend per share (Rs.)	9.00	7.50

As we continue to develop sustainable revenue streams while exercising prudent risk management, our core business is performing well with a strong growth in loan volumes. Cost to income ratio (i.e. total operating expenses excluding impairment as a percentage of total operating income excluding impairment) surged from 35.89 percent in 2015/16 to 39.01 percent in 2016/17 due to lower net interest margins and operating expenses growing at a faster pace than operating income. Operating expenses grew by 23.87 percent YoY to Rs. 4.39 billion and total operating income grew by 13.96 percent YoY to Rs. 11.25 billion in 2016/17. Although productivity ratio (i.e. total operating expenses excluding impairment as a percentage of total income) is stable at 22 percent range in 2015/16 and 2016/17.

We are one of the largest non-banking financial institutions in Sri Lanka with a total asset base of Rs. 102.76 billion. Our total loan book expanded by Rs. 17.28 billion to Rs. 91.48 billion and customer deposits increased by Rs. 7.02 billion to Rs. 60.40 billion in 2016/17. Growth was achieved through client acquisition and deepening relationships across all customer segments including consumer, microfinancing and small and medium size enterprises. The Company managed to improve the loan quality by investing in people for close monitoring and adopting stringent follow-up procedures. Non-performing loans as a percentage of gross loans decreased to 2.14 percent from 3.28 percent last year.

Capital base grew by Rs. 2.03 billion during the year and remained well above the minimum capital requirement by the regulator. This further solidified our resilience to the anticipated increase in capital adequacy requirements.

STRUCTURAL COST TRANSFORMATION

We focus on cost optimisation than cost cutting strategies to provide a meaningful improvement to our cost to income ratio. During the financial year, the Company carried out a cost review programme with the assistance of an external advisor.

Following key initiatives were taken:

- Modification of email signatures to a standard size
- Minimise the cancellation of receipts
- Avoid repetitive steps in client handling
- Avoid duplication of work in documentation
- Encourage staff to re-use rough printouts
- Introduction of the central document depository system
- Replacement of old air conditioners with new air conditioners with inverter technology and introduce of energy saving bulbs

We have undertaken a series of important initiatives to enhance our operating model and respond to changing customer preferences. The change also came in with the commitment to deliver a meaningful improvement to our cost to income ratio.

Notable initiatives for continuous improvement:

- Fixed deposits are transferred to savings accounts at maturity/ previously cheques were issued
- Payments to suppliers through savings accounts/previously cheques were issued

These initiatives will minimise the cost of cheque printing and value added services such as E-connect and CEFTS will result in customer or supplier convenience, leading to higher levels of satisfaction. This promotes savings products and cross selling of products.

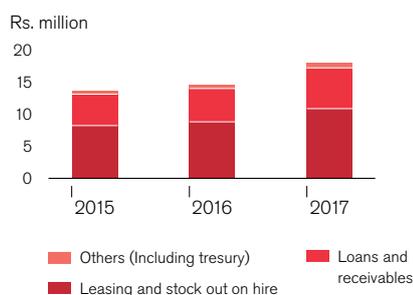
Cost optimisation study is estimated to save approximately 2 percent of the administration cost per annum and currently company is in the process of implementing the recommendations.

FINANCIAL PERFORMANCE

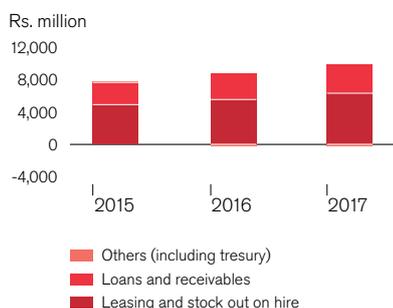
INTEREST INCOME

Total Interest Income grew by 24.13 percent YoY to Rs. 17.91 billion in 2016/17 with improved business volumes and increasing rates. All the major business segments such as loans, leases and Treasury contributed to the growth. L B managed its risk and return at both product level and business levels.

Gross interest income



Net interest income



NET INTEREST INCOME

Net interest income grew by 13.20 percent to Rs. 9.80 billion in 2016/17 with increased loan volumes that helped counter the higher cost of interest-bearing liabilities. The volume growth is estimated to have contributed Rs. 3.9 billion to gross interest income. Total interest earning assets increased by 19.07 percent YoY to Rs. 99.16 billion while net interest margin (net interest income as a percentage of average earning assets) or NIMs declined by 126 basis points as of March 2017. Year on year yields on lending assets increased by 131 basis points caused by gradual increase in lending rates. However rapid pace of re-pricing in the short-term deposit base as against loans, especially leases with longer-term tenure and fixed rates, impacted negatively on net interest margin. On an average (behavioural) 75 percent of the total deposit base matured and got re-priced within 12 months and approximately 50 percent of the total fixed rate lending portfolio matured (behavioural) less than one year. Moreover stiff competition in the industry has curtailed the Company's ability to immediately pass down the additional cost on increasing borrowing rates by revising its lending rates. This further impacted negatively on the net interest margins of the Company.

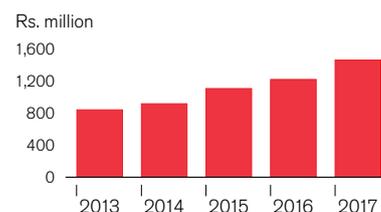
However Company has taken measures to mitigate the scenario by increasing exposure to short-term lending such as gold loan, power plus, power draft, variable rate mortgage loans and personal loans. In order to further ease the maturity gap, we have substantially increased the exposure to fix rate bank borrowings during the year. We are able to maintain an average behavioural deposit renewal ratio of 80 percent during last two years.

OTHER OPERATING INCOME

Other operating income (i.e. total income other than interest income) increased 408.03 percent YoY to Rs. 196.21 million during the year. The growth was mainly driven by a non-recurring profit from sale of land held for trading amounting to Rs. 185 million. Meanwhile fees and commissions grew by 3.48 percent YoY to Rs. 1.21 billion directly resulted by higher transaction volumes.

However, the recurring growth was lower than the previous year due to the absence of documentation charges (loan processing fees) with the elimination of documentation charges from Three-wheeler and Motor Cycle leasing. Income from documentation charges declined by 10 percent YoY to Rs. 736.20 million during the period. All other fees have increased along with transaction volumes.

Other operating income



NON-INTEREST EXPENSES

Non-interest expenses increased 23.87 percent YoY to Rs. 4.39 billion in 2016/17 caused by increasing salaries and employee benefits. Salaries and employee benefits increased 26.96 percent to Rs. 2.33 billion and represented 53.15 percent of the total operating expenses in 2016/17 (51.86 percent in 2015/16).

During the year Company has paid the Budgetary Relief allowance including all arrears (Workers Act 2016) and performance bonus was also increased by half a month to employees. This resulted in an aggregated additional cost of Rs. 137.00 million. On the other hand annual salary revisions, new recruitments and other related expenses (such as EPF, ETF and Bonus) also contributed to the growth.

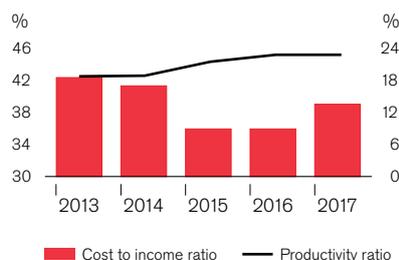
Office administration and establishment expenses mainly include rent on premises, electricity, insurance (both general and health), security, printing and stationery, postage and telecommunication. The growth of office administration and establishment expenses were driven by higher transaction volumes,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

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

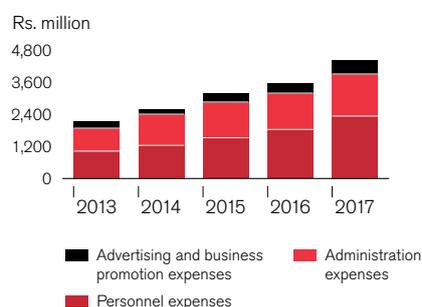
Advertising and business promotion expenses increased 34.36 percent YoY to Rs. 493.48 million. We firmly believe that the continuous reminders and awareness will generate solid business growth. The business volume is one of the Key Performance Indicators (KPI) and the Company achieved a continuous volume growth even under stiff competition and the highly-regulated environment.

We managed to maintain our total productivity ratio (total expenses as a percentage of total revenue) while focussing revenue growth across all business segments.

Cost to income and productivity ratio



Expenses composition

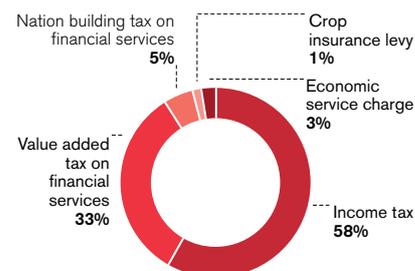


TAXES

Taxation includes both direct taxes such as income tax and financial service taxes and indirect taxes include value added tax (VAT), withholding tax, payee tax and stamp duty. The effective tax rate increased slightly by 3.10 percent from 30.18 percent to 33.28 percent as a result of increased in VAT on financial services.

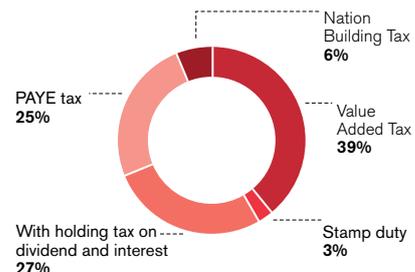
The Company has a responsibility as tax payer. The Company has a tax strategy that outlines the framework by which the Company's tax obligations are met from an operational and risk management perspective. We adopt an overarching risk philosophy in relation to tax matters which aims to mitigate any adverse or unexpected financial consequences and protect our reputation. Total tax actually paid by our financial operations amounted to Rs. 2.73 billion (2016: Rs. 2.32 billion) and tax collected from third parties and employees amounted to Rs. 1.06 billion (2016: Rs. 1.00 billion).

Tax incurred – 2017



Tax incurred	Rs. million
Income tax	1,595
Value added tax on financial services	896
Nation building tax on financial services	131
Crop insurance levy	39
Economic service charge	70

Tax collected and paid – 2017



Tax collected and paid 2017	Rs. million
Value added tax	414
Stamp duty	27
Withholding tax on dividend and interest	292
Payee tax	262
Nation building tax	66

Financial highlights	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000
Profit before Taxes	6,901,944	5,918,067	3,647,086
VAT on financial services	1,027,101	593,452	315,232
Profit after VAT on financial services	5,874,843	5,324,616	3,331,854
Current income tax	1,595,055	1,479,084	954,304
Deferred income tax	361,584	127,739	195,423
Taxation charge	1,956,639	1,606,823	1,149,728
Effective Tax Rate (Taxation Charge /Profit after VAT on FS)	33.31	30.18	34.51

Total tax expense including VAT on financial services, NBT and income tax increased by 35.61 percent YoY to Rs. 2.98 billion in 2016/17. Income tax expense increased by 21.77 percent YoY to Rs. 1.96 billion while VAT on financial services increased by 73.10 percent YoY to Rs. 1.03 billion during the year. Increased VAT on financial services was mainly caused by increased taxable income subjected to VAT on financial services. This is related to the leasing portfolio, where new leases with no direct VAT, gradually replacing the old leases that were subjected to direct VAT. Income related to old leases was not subjected to VAT on financial services; however income related to new leases is liable to VAT on financial services. Taxable income component subjected to VAT on financial services in the total income from the leasing portfolio increased to 85 percent in 2016/17 from 68 percent in 2015/16. This resulted in an additional Rs. 162 million in VAT expenses in 2016/17. we expect the ratio will reach 95 percent at the end of current financial year. Meanwhile, increasing VAT rate from 11 percent to 15 percent with effect from 1st November 2016 also contributed to the increased expense. Tax expense related to the rate increase accounted for Rs. 141 million in 2016/17.

Deferred tax liability mainly arises due to the exponential growth in lease portfolio during the last three years. Lower tax base due to higher amount of capital allowance claimed and higher accounting base due to the lower amount of amortisation (EIR method) has created temporally liability gap between tax base and accounting base. We expect to continue the growth in lease volume; hence a reversal in deferred tax liability is unlikely in the short term. Deferred tax liability as a percentage of total shareholders' funds was 4.02 percent in 2016/17 as against a lower 1.37 percent in the previous year.

LOANS AND RECEIVABLES SEGMENT (+25.18 PERCENT)

Gross Loans and receivables grew by 25.18 percent or Rs. 6.84 billion to Rs. 34.01 billion in 2016/17 mainly driven by Key Loan Segments – gold loans, medium and short term-loans, mortgages and power draft – collectively grew by 38.01 percent YoY or Rs. 8.05 billion to Rs. 29.32 billion in 2016/17. At present the company does not promote vehicle loans due to the

undifferentiated nature of value added tax (VAT) implications when compared to leasing product after the removal of direct VAT from finance leases. Factoring portfolio in the loans and receivables reduced by 39.4 percent on gross basis due to a write-off of Rs. 95.8 million and sizable settlements occurred during the year and towards the end of the period. Company is gradually withdrawing from the real estate business; hence the real estate loan portfolio continues to decline.

LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE SEGMENT (+22.20 PERCENT)

Lease rentals receivable and stock out on hire grew by 22.20 percent or Rs. 10.44 billion to Rs. 57.47 billion, mainly driven by increased leasing volumes. Hire purchases are not aggressively promoted by the Company due to the undifferentiating nature of value added tax (VAT) implications compared to leases.

TREASURY SEGMENT (-10.81 PERCENT)

The Company maintained a higher average liquidity level (mandatory and excess) than the previous year driven by increased treasury and bond yields, resulting in increased interest income from other financial assets. Treasury is not considered a profit centre or cost centre; however it has rate targets for external borrowings. Branch profitability is calculated on transfer pricing method, where branches who have excess liquidity will lend to branches with shortage of liquidity. A nominal rate will be used for the interest related to funding and profitability is calculated only for a hypothetical scenario and no real transaction.

CREDIT QUALITY

Credit quality of the Company loan book continued to improve with stringent strategic measures applied and successful follow-up procedures on collection. Non-performing loan ratio (i.e. non-performing loans as percentage of total loans) decreased to 2.14 percent in 2016/17 from 3.28 percent in 2015/16. Total non-performing loans (NPL) decreased

	2017 Rs. million	2016 Rs. million	2015 Rs. million	2014 Rs. million	2013 Rs. million
Deferred Tax Asset	0.00	0.00	0.00	171.86	180.55
Deferred Tax Liabilities	503.49	143.14	11.93	0.00	0.00

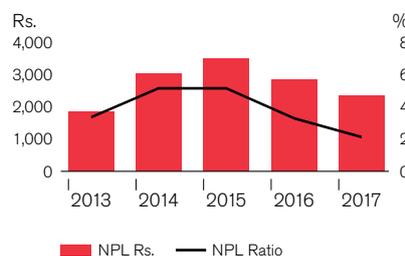
by 17.94 percent YoY to Rs. 2.35 billion in 2016/17. During the year Company wrote-off Rs. 411.76 million which had been provided for in the previous years. It is important to note that the company's definition on NPL classification is stricter than the classification of the CBSL; CBSL defines non-performing loan as a loan which is six instalments in arrears, however L B defines NPL as a loan which is five instalments in arrears. Even with a strict definition, the company's NPL ratio yet remains below the industry average of 5.30 percent compared to 2.43 percent in December 2016 (CBSL Annual Report 2016).

Net impairment was a reversal of Rs. 42.26 million in 2016/17 as against a charge of Rs. 382.43 million in 2016/17 mainly due to reversal of overestimated Loss Given Default (LGD) and collection from written off contracts. Overestimated Loss Given Default (LGD) in a previous year was realized (sold/settled) during the current year amounted to Rs. 153.48 million. Income received from written off contracts amounted to Rs. 133.72 million in 2016/17. Impairment charge excluding LGD reversal and write offs collection, which are more of in recurring nature, amounted to Rs. 244.94 million in 2016/17 compared to Rs. 461.95 million in 2015/16. The improvement is mainly due to substantial increase in vehicle prices and tough leasing regulations that encouraged customers to continue their existing leasing arrangements without any default.

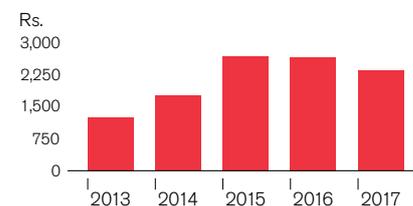
Financial highlights	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000
Gross loans (With unearned income)	109,781,320	87,250,688	68,707,988
Unearned income	18,301,275	13,054,924	10,082,076
Gross loans (1)	91,480,045	74,195,764	58,625,911
	-	-	-
Non-performing loans (With unearned income)	2,350,483	2,864,495	3,508,634
Unearned income	120,228	151,755	339,115
Gross Non-performing loans	2,230,255	2,712,740	3,169,520
	-	-	-
IFRS loan loss provision (2)	2,330,302	2,641,758	2,667,633
CBSL loan loss provision	1,808,955	2,186,693	2,323,606
Excess/(Shortfall) loan loss provision compared to CBSL	521,300	455,066	344,027
IFRS loan loss provision as a percent gross loans (2/1)	2.55%	3.56%	4.55%
IFRS loan loss provision as a percent non-performing loans	104.49%	97.38%	84.17%
Total regulatory loan loss provision as a percent gross loans	1.97%	2.95%	3.96%
Total regulatory loan loss provision as a percent non-performing loans	80.83%	80.61%	73.31%
Total assets	102,763,035	84,516,637	67,542,519
Net loans (After Imparment)	89,149,743	71,554,005	55,958,278
NPL: gross loans	2.44%	3.66%	5.41%
NPL: net loans	2.50%	3.79%	5.66%
NPL: total asset	2.17%	3.21%	4.69%
NPL: gross loans-unearned income basis*	2.14%	3.28%	5.15%

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

Non-performing loans (Unearned income basis)



Aggregate impairment



ASSETS

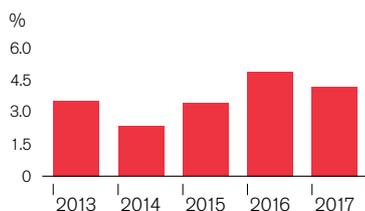
Total assets increased by 21.59 percent YoY to Rs. 102.76 billion while on a gross basis loans, leases and stock out on hire grew by 23.30 percent YoY to Rs. 91.48 billion during the year.

CASH AND CASH EQUIVALENTS AND OTHER FINANCIAL ASSETS

Our cash resources held to meet statutory reserves and the prudential liquidity targets stood at Rs. 8.92 billion, which is also well above the statutory liquidity requirement of Rs. 6.28 billion. We continued to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

Total Asset Mix	2017	2016
Cash Resources	6,051,899	2,895,085
Loans	71,554,005	89,149,743
Securities	3,945,291	6,467,838
Other Assets	2,965,442	4,250,369
	84,516,637	102,765,052

Return on average assets



LOANS

Loans, lease and stock out on hire portfolio, after allowing for impairment losses, grew by 24.59 percent YoY to Rs. 89.15 billion this year. Performance was solid in all business segments, where loans and receivables increased 26.62 percent YoY while lease rentals receivable and stock out on hire grew by 23.40 percent to Rs. 55.66 billion.

PROPERTY, PLANT AND EQUIPMENT

The Company acquired a property in Colombo 03 for a total consideration of Rs. 1.38 billion in 2017 to be in line with its future expansion plans. This was financed through a long-term bank borrowing.

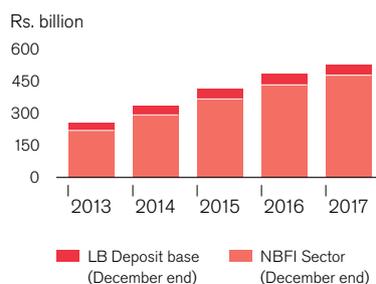
LIABILITIES

Total liabilities increased 21.90 percent YoY to Rs. 90.25 billion in 2016/17, driven by increases in due to banks and customer deposits.

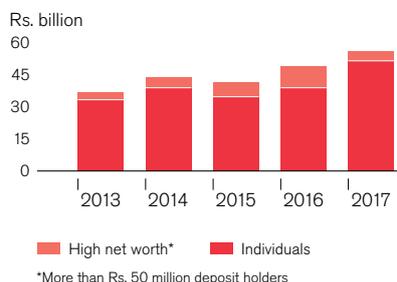
DUE TO CUSTOMERS

Customer deposits increased 13.16 percent YoY to Rs. 60.40 billion in 2016/17 with higher share of deposits from Individual customers as a result of close relationships. Our objective is to ease the concentration on larger value deposits to minimise the liquidity risk in the total deposit base.

Deposit base – NBFIs sector vs LBF



Deposits portfolio



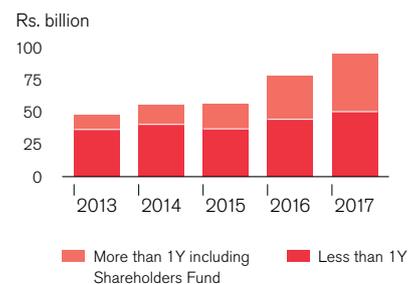
DUE TO BANKS

During the year, we have borrowed Rs. 18.04 billion in long-term loans from the banking sector with an average tenure of four years. This will reduce the maturity gap of assets and liabilities and mitigate the risk related to withdrawal of larger value deposits.

DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS (SUBORDINATED DEBENTURES)

During the year Company redeemed Rs. 545.00 million worth of subordinated debentures, resulting in decreasing total subordinated debentures to Rs. 2.00 billion. Subordinated debentures also help strengthening Tier 2 capital and 40 percent of the total outstanding value is considered to Tier 2 capital. Company intends to issue new debentures during the current financial year.

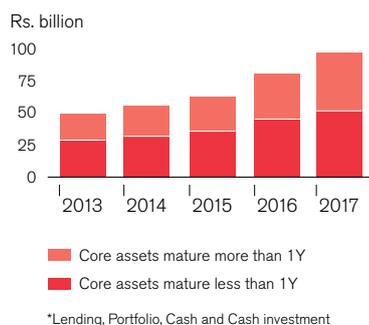
Maturity of funding mix



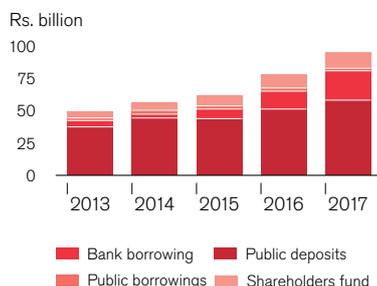
SHAREHOLDERS' EQUITY

Total shareholders' equity rose to Rs. 12.51 billion in 2016/17 from Rs. 10.48 billion in the previous year. During the year the Company paid an interim dividend of Rs. 831.00 million.

Maturity of core assets*



Funding mix



It is noted that the approximately 50 percent of the Company core assets and 50 percent of the funding mixed matured within the current year (2017/18).

CAPITAL MANAGEMENT

We are committed to maintain a strong capital base to support the business expansion, provide a cushion against unforeseen risks, safeguarding shareholder wealth and fostering investor confidence. The policy allows taking advantage of emerging opportunities and invests further in the core business to enhance shareholder returns. The Company's capital management framework includes a capital adequacy assessment process to ensure that the Company can mitigate current and future risks and achieve its strategic objectives.

CAPITAL ADEQUACY

For the year ended	Capital adequacy 2017	Capital adequacy 2016	Regulatory requirement	Excess over regulatory requirement
Tier 1	16.12%	16.84%	5%	11.12%
Tier 1+2	17.06%	18.81%	10%	7.06%

REGULATORY CAPITAL

Our core capital remained well in excess of regulatory capital requirement in 2016/17. CBSL, which is the regulatory authority to implement and monitor capital standards for companies in the financial services industry, imposed a minimum core capital requirement of Rs. 2.50 billion to be maintained by all non-banking finance companies with effect from 1st January 2021. The Company is ready and well-positioned for the changes.

CREDIT RATINGS AND DEPOSIT HOLDERS PAYOFF

L B's National Long-Term Rating is 'A-(Ika)' with a stable outlook by Fitch Ratings Lanka. Which denote expectations of low default risk and the capacity for payment of financial commitments is considered to be strong. Depositors require higher deposit rates from risky banks/financial institutions (lower credit ratings) and hence create market discipline. However, we find no evidence for market disciplines and most of the time rates are similar across the Non-Bank Financial Institutions (NBFI) despite of their credit rating levels. It is known that the loan growth has a causal effect on deposit rates. L B also offer very similar rates to the market due to the need of funds and retain long standing depositors. Hence L B has maximised the depositors risk to return ratio (return/risk) by offering market rates relatively at a lower default risk.

OFF-BALANCE SHEET ITEMS AND OTHER MATTERS

During the year Company reported a 63.01 percent YoY decrease in its total contingent liabilities to Rs. 75.8 million mainly due to decrease in import LCs. Import LCs declined by 68.00 percent YoY to Rs. 58.4 million during the period under review. Meanwhile total commitments recorded 22.10 percent YoY decrease to Rs. 944.3 million due to reduced commitments for unutilised facilities on factoring. The Company implemented a strategy to scale down the portfolio since 2012 to exit from high risk facilities thus reducing the commitment for unutilised facilities on factoring by 18.60 percent YoY to Rs. 728.3 million in 2016/17. Commitment for unutilised facilities on power draft reported a 7.8 percent YoY increase to Rs. 190 million.

Further operating leases (SLFRS 16) which identified as off-balance sheet item that mainly consist rented buildings for the Company.

The Western Province Provincial Council, the Central Province Provincial Council and the Southern Province Provincial Council have communicated with L B Finance PLC (LBF), requiring it to register as Pawnbrokers in terms of their respective Provincial Council Statutes, in view of the Gold Loan business carried out by LBF within such Provinces. Pursuant to receipt of such notices, LBF has challenged the right of such Provincial Councils to require registration by LBF. The basis for LBF's position that registration is not necessary is that its Gold Loan business is being carried out in terms of the Mortgage Act as mortgages of movables, and that LBF is in fact not engaged in Pawnbroking business, and thus need not register in terms of

such Statutes. LBF has filed three Writ Applications in the Court of Appeal, challenging the requirement to register under the said Provincial Council Statutes, and such Writ Applications are pending adjudication at present.

FUTURE ACCOUNTING DEVELOPMENTS

SLFRS – 09

FINANCIAL INSTRUMENTS

IMPAIRMENT

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

- (i) Over the following 12 months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts. SLFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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

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

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

Stage 3 – Incurred loss method. Under the incurred loss method the Company identified the loan as impaired if a payment on a loan is contractually 5 months/rentals in arrears or objectively identified as credit deteriorated even if the rental in arrears less than 5 (see Note 4.17 Allowance for Impairment Losses). Losses expected as a result of future events are not recognised. As the Company's definition of default is not likely to change materially and will align with the regulatory definition, the treatment of loans in stage 3 remains substantially the same as the current treatment of impaired loans under LKS 39.

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

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

- Assessment of Significant Increase in Credit Risk
- Macroeconomic Factors, Forward Looking Information and Multiple Scenarios SLFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

DEFINITION OF DEFAULT

We have rebutted the following presumption in SLFRS 9 and proved qualitatively and statistically the reasons for repudiation:

Rebut the presumption of 30 days and considers 90 days (three months) pass due as the point of significant increase in credit risk.

- Up to 90 days of pass due of a customer is generally only an administrative oversight and specifically it does not result due to the financial difficulties of the borrower hence the Company is in the view that the customers' credit risk do not significantly increases up to 90 days past due;
- Further we have evaluated the historical behaviour patterns of leasing customer portfolio to assess the reasonability of the rebutting the presumption.

Rebut the presumption of 90 days and consider 150 days (five months) past due as the definition of default.

- Which will align with the regulatory (CBSL) definition of default
- Further We have evaluated the historical behaviour patterns of its leasing customer portfolio to assess the reasonability of the rebutting the presumption

PROBABILITY OF DEFAULT (PD) ESTIMATION

Hence majority of our client base being retail; we use internal information to estimate the PDs. The client has two credit statuses which can be identified as default or not default. We used Cohort method (CM) to compute the PDs. Cohort method (CM) is applied where the number of obligors at the end of each month and the number of obligors that have defaulted during next month are counted respectively. The resulting PD estimate is arrived at by dividing the overall number of defaults (during the month) by the overall number of obligors (previous month end). At each stage of the loan PDs are computed. Most recent PDs are stressed by giving higher weights and used forward looking information to adjust the PDs.

EXPECTED LIFE

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

MODEL VALIDATION

- New models and systems for expected loss computation are being developed to meet the requirements of SLFRS 9. The impairment model and computation was reviewed by the EY Assurance/Tax Transactions Advisory Division of Sri Lanka and agreed with the Model.
- The Multiple economic factor model developed to forecast the expected Non-Performing Loans. The model is reviewed by the University of Colombo, Science and Technology CELL and going through with some modifications.

TRANSITION AND IMPACT

The impact of SLFRS 9 on the Company's financial results at the time of adoption is dependent upon prevailing market factors and economic conditions at that time of actual implementation. We have estimated the gross and net impact as at as at 31st March 2017. Following asset types are taken for the expected loss estimation.

- Loans and lease receivables
- At fair value through other comprehensive income
- Loan commitment
- Financial guarantee

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

Colombo Stock Exchange has instructed all Listed Companies to conduct an impact analysis under new implementation of SLFRS 9. We have complied with requirement and the impact is as follows:

	Rs. '000
Total expected loss as at 31st March 2017 for all products	754,360
(Minus) Collective provision for unimpaired loans	(568,159)
(under)/over provision as at 31st March 2017	(186,201)

For a description of the changes in requirements please refer to Note 3.8 of the 2016/17 Financial Statements.

SLFRS – 15

REVENUE FROM CONTRACTS WITH CUSTOMERS

The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will impact the businesses that earn fee and commission revenues. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Majority of our revenue generating instruments meet the definition of financial instruments and remain out of scope. The areas of focus for the assessment will be fees and commission revenues from financial services. The new Standard will require entities to capitalise the fees as well as contact cost and amortised on a systematic

basis that is consistent with the pattern of transfer of the associated services, which will have an impact on operating profits. We do not see a significant impact on our current operating profit due to the new standard. Colombo Stock Exchange has instructed all Listed Companies to conduct an impact analysis under new implementation of SLFRS 16. We have complied with requirements and do not see significant impact on operating profits.

SLFRS – 16

LEASES

The standard requires a lessee to recognise an asset for the right to use the leased item and a liability for the present value of its future lease payments. SLFRS 16 will result in leases being recorded on the Company's Balance Sheet, including those currently classified as operating leases except for short-term leases and leases with low value of the underlying asset. If we capitalised all our longer-term operating leases as finance leases which will create land and building assets and long-term lease creditor liability. Currently Company in the process of identifying the impact from the implementation.

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.

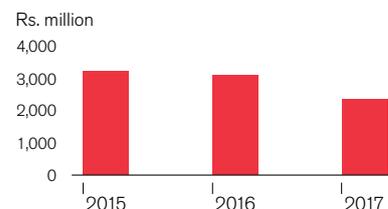
Item	2016/17 Rs. million	2015/16 Rs. million	2014/15 Rs. million
Invested equity			
Shareholders' funds	12,509.68	10,479.31	7,927.09
Add: Cumulative loan loss provision/provision for impairment	2,330.30	2,641.75	2,667.63
Total	14,839.98	13,121.06	10,594.72
Earnings			
Profit attributable to shareholders	3,900.30	3,729.02	2,170.57
Add: Loan losses and provisions/impairment provision	(42.27)	382.43	1,804.84
Total	3,858.04	4,111.45	3,975.41
Economic cost % (Average Treasury Bill rate plus 2% risk premium)	10.85	8.55	8.27
Economic cost	1,516.89	1,013.85	767.30
Economic value added	2,341.15	3,097.60	3,208.11

MARKET VALUE ADDED (MVA) STATEMENT

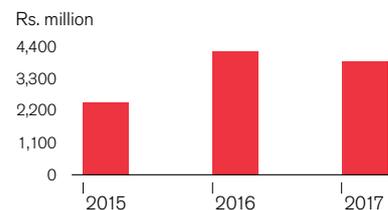
MVA is the difference between the market value of the Company and the capital contributed by investors; In other words, it is the sum of all Company capital claims held against the market value of debt and equity.

Item	2016/17 Rs. million	2015/16 Rs. million	2014/15 Rs. million
Market capitalisation			
Market value of equity	16,400.09	14,696.36	10,402.42
Less: Equity owners' funds			
Shareholders' funds	12,509.68	10,479.31	7,927.09
Total equity owners' funds	12,509.68	10,479.31	7,927.09
Market value added	3,890.41	4,217.05	2,475.33

Economic Value Added



Market Value Added



ECONOMIC VALUE GENERATED AND DISTRIBUTED

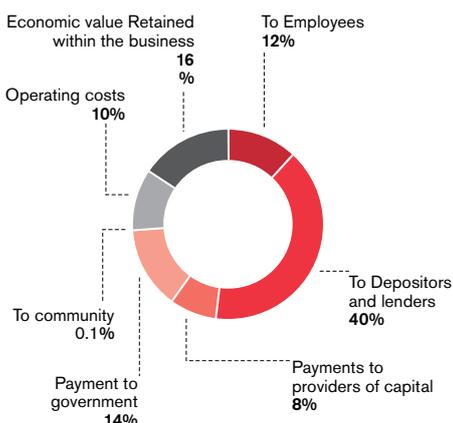
Information on the generated and distributed economic value provides a basic indication of how the Company has created wealth for the stakeholders. Components of the economic value generated and distributed provides an economic profile of the Company, which may be useful for controlling other performance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



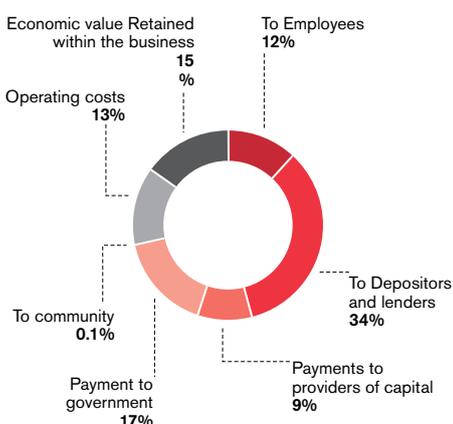
DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

For the year ended 31st March	2016/17 Rs. million	%	2015/16 Rs. million	%	2014/15 Rs. million	%
Direct economic value generated						
Interest income	17,909.94		14,428.72		13,687.07	
Fee and commission income	1,209.34		1,168.68		959.83	
Net gain/(loss) from trading	(0.15)		0.96		2.75	
Other operating income	244.30		48.09		138.09	
Economic value generated	19,363.43		15,646.46		14,787.75	
Economic value distributed						
To employees						
Employees salaries and benefits	2,324.85		1,826.37		1,512.78	
	2,324.85	12.01	1,826.37	11.67	1,512.78	10.23
To depositors and lenders						
Interest expenses	7,766.75		5,409.62		5,588.24	
	7,766.75	40.11	5,409.62	34.57	5,588.24	37.79
Payments to providers of capital						
Dividend to shareholders	1,246.63		1,038.86		692.57	
Interest to debenture holders	345.59		363.63		361.25	
	1,592.21	8.22	1,402.49	8.96	1,053.82	7.13
Payments to government						
Income tax expenses	1,595.06		1,479.08		954.30	
Super gain tax (SGT)	-		484.23		-	
VAT and NBT on financial services	1,027.10		593.45		315.23	
Crop insurance and levy	38.61		36.52		21.92	
	2,660.77	13.74	2,593.28	16.57	1,291.45	8.73
To community						
Social responsibility projects	14.54		17.27		7.85	
Donations	0.16		0.10		0.10	
	14.70	0.08	17.37	0.11	7.95	0.05
Operating costs						
Depreciation and amortisation set aside	343.22		332.42		351.42	
Impairment charge for loans and other losses	(42.27)		382.43		1,804.83	
Training cost	8.05		11.18		3.23	
Other operating expenses	1,667.12		1,319.48		1,274.09	
	1,976.12	10.21	2,045.51	13.07	3,433.57	23.22
Economic value retained	3,028.03	15.64	2,351.82	15.03	1,899.94	12.85
Economic value distributed	19,363.43	100.00	15,646.46	100.00	14,787.75	100.00

Economic value distributed 2016/17



Economic value distributed 2015/16



INVESTOR

LBF has crafted its business strategies in the best interest of its shareholders' while carefully balancing its risk and return to maximise the shareholder wealth. Investors are LBF's lifeblood. Therefore, LBF constantly keeps them posted on the Company's strategies, plans and performance, thereby gaining their trust and confidence in the Company.

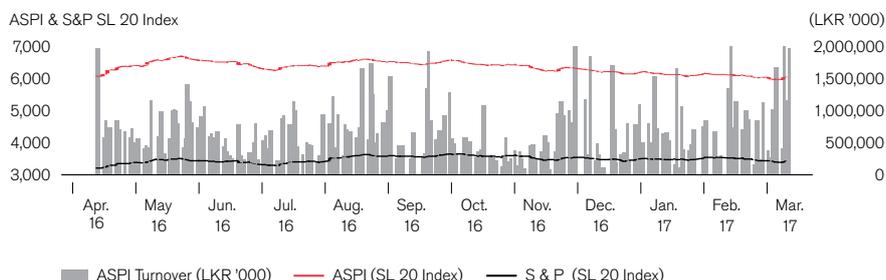
In the year under review total shareholders' equity extended by 19.37 percent to Rs. 12.51 billion from Rs. 10.48 billion in the previous year. Company paid an interim dividend of Rs. 831.09 million for the year 2016/17 it has also proposed of final dividend of Rs. 3.00 per share in May 2017. This resulted in a total payout of Rs. 9.00 per share in 2016/17 financial year. Above average growth in the profitability helped LBF's share to outperform the market and sector indices during the financial period.

In order to maintain professionalism and good governance, some of the channels LBF uses to keep the investors informed are the Annual General Meeting, investor meetings, annual report, interim financial statements and announcements at the Colombo Stock Exchange (CSE), press conferences, and media releases. The Company makes use of electronic media for communication where appropriate.

THE COLOMBO STOCK EXCHANGE

The Colombo bourse remained subdued during the financial year 2016/17, due to uncertainties in the policy environment in the country and external shocks. Most of the investors opted for a 'wait and see' strategy where forward plans and execution of strategies remained broadly muted. All Share Price Index closed almost flat at 6,061.94 points compared to 2015/16. Standard and Poor (S&PSL 20) which tracks the performance of larger blue chip companies increased by 7.32 percent YoY to 3,438.88 points at the end of the financial year. Uncertain macro environment resulted in a significant foreign outflow from Sri Lankan equities in the first half of 2016. However foreign investors were confident of the long-term growth prospects of the country with positive indications on the GSP+ concessionary scheme by the European Union. Net foreign inflow of the Colombo bourse during the financial period was Rs. 7.56 billion. The daily average turnover of CSE dropped by 24.32 percent YoY to Rs. 728.04 million in 2016/17, while daily share volume dropped by 24.61 percent YoY to 28.01 million shares. Market capitalisation of listed companies expanded only by 2.97 percent to Rs.2.66 trillion at the end of the period.

ASPI & S&P SL 20 Index and market turnover



BANKING, FINANCE AND INSURANCE SECTOR (BFI)

Banking, Finance and Insurance sector was largely affected by substantial increases in tax expenses and regulatory changes such as the increase in the LTV requirement on leasing. Increasing interest rates with liquidity constraints in the domestic financial markets were also putting pressure on the Company's core businesses in the sector. BFI sector index decreased by 1.65 percent YoY to 14,748.99 points during 2016/17. In the sector, average daily turnover decreased by 25.56 percent YoY to Rs. 4.75 billion, while average daily volume dropped by 3.79 percent YoY to 150.97 million shares in 2016/17. Investors valued the sector low with forecasted drop in earnings growth. Sector P/E dropped from 9.30 times in 2015/16 to 6.17 times in 2016/17, while sector P/B dropped from 1.24 times in 2015/16 to 1.03 times in 2016/17.

LBF SHARE

GENERAL INFORMATION

Total number of shares in issue as at 31st March 2017	138,514,284
Public shareholding as at 31st March 2017	21.94%
Beta values against ASPI as at 31st March 2017	1.19
Stock symbol	LFIN : N0000
News wire codes of LBF share:	
Bloomberg	LFIN: SL
Dow Jones	LFINN
Reuters	LFIN. CM

ANNUAL PERFORMANCE

	2016/17	2015/16
Share Price		
Highest (Rs.)	134.00	239.00*
Lowest (Rs.)	105.10	97.50
Closing (Rs.)	118.40	106.10
Number of transactions	5,616	10,241
Number of shares traded	11,098,533	7,494,871
Value of shares traded (Rs. billion)	1.41	1.05
Number of days traded	240	235
Average daily turnover (Rs. million)	5.87	4.48
Market capitalisation (Rs. billion)	16.40	14.69

*Before split adjustment

QUARTERLY PERFORMANCE

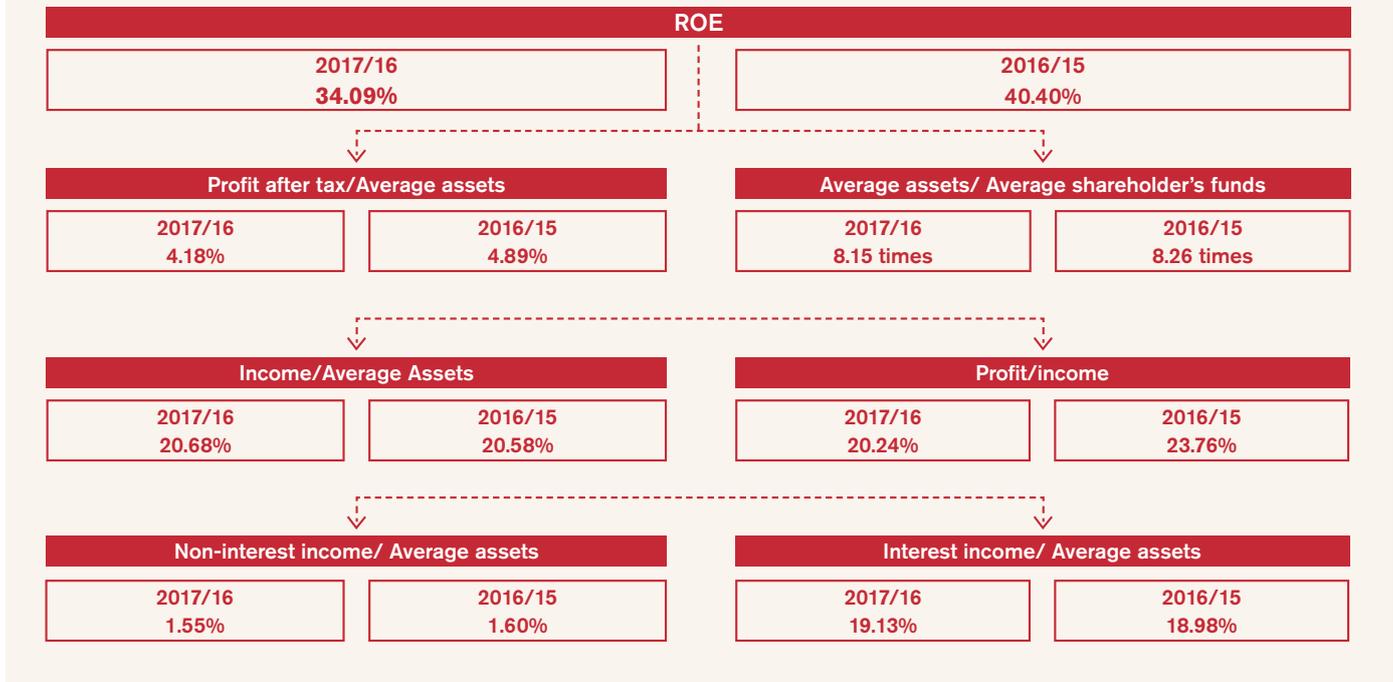
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Share Price				
Highest (Rs.)	134.00	128.00	130.50	126.80
Lowest (Rs.)	105.10	116.00	119.90	118.00
Closing (Rs.)	128.30	126.90	125.00	118.40
Number of transactions	2,760	1,247	879	730
Number of shares traded	4,688,735	2,909,405	2,934,108	566,305
Value of shares traded (Rs. million)	602.81	366.29	370.61	68.47
Number of days traded	60	61	60	59
Average daily turnover (Rs. million)	200.94	122.10	123.53	22.82

STATED CAPITAL

The stated capital of the Company as at 31st March 2017 was Rs. 838 million represented by 138.5 million fully paid ordinary shares. The share capital comprised a single class in which every share has the same voting power and the same entitlement to dividends.

FINANCIAL ANALYSIS

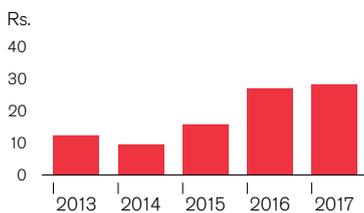
Dupont analysis (ROE analysis)



EARNINGS PER SHARE (EPS)

The earnings per share (EPS) for the period increased to Rs. 28.29 in 2016/17 from Rs. 26.84 in 2015/16, as a result of increased profit attributable to shareholders.

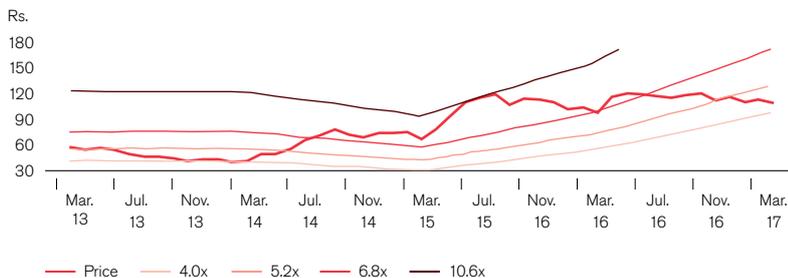
Movement of EPS



PRICE EARNINGS RATIO (P/E)

The P/E ratio as at 31st March 2017 increased to 4.18 times from 3.95 times as at 31st March 2016, which indicates the strong investor confidence placed on the share. Despite the challenging outlook on the industry and pressure on profitability, an increased P/E amidst increasing EPS is clear evidence of investors' confidence in the successful implementation of Company strategies.

P/E Multiple band chart



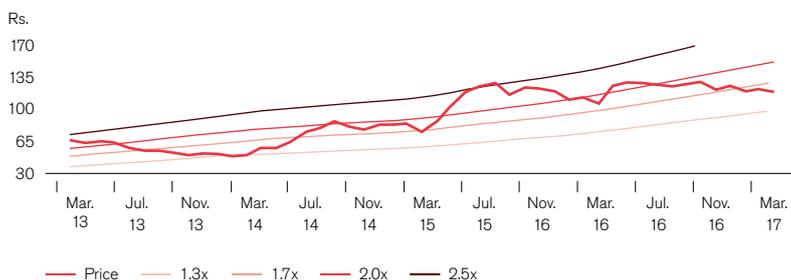
NET ASSET VALUE PER SHARE

As at the financial year ended 31st March 2017, the net assets value per share of the Company stood at Rs. 90.31, which reflected an increase of 19 percent compared to Rs. 75.66 the previous year.

PRICE TO BOOK VALUE RATIO (P/B)

The P/B ratio as at 31st March 2017 marginally decreased to 1.31 times from 1.40 times compared to the previous financial year due to increased shareholder wealth outpaces the share price growth.

P/B Multiple band chart



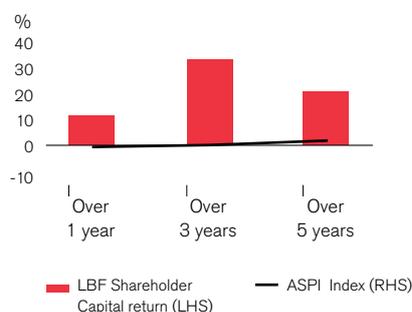
TOTAL SHAREHOLDER RETURN

Total shareholder return (including both dividends and change in share price of the common share), recorded a 20.08 percent for the accounting period 2016/17 including gross dividend per share of Rs. 9.00. Return was lower than the previous year of 51.26 percent due to poor market performance. Share market index return was improved to -0.16 percent in 2016/17 from -10.97 percent in 2015/16. Annualised total return in last three years reported high at 33.24 percent due to remarkable performance of the Company especially from 2014 to 2016. Our consistent dividend policy continues to be a key component of shareholders' return while above average growth in the business helped share price appreciation. Share price appreciated 11.59 percent in 2016/17 as opposed to a lower market return of -0.16 percent. We remain focused on achieving sustainable, long-term earnings growth and maintaining stable dividend income streams to our shareholders.

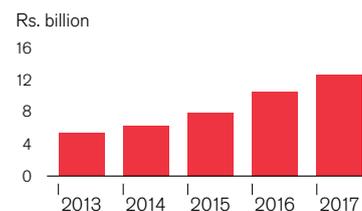
SHAREHOLDERS' RETURNS

Year ended 31st March	2017	2016	2015
Closing market price (Rs.)	118.40	106.10	75.10
Dividends paid/proposed (Rs.)	9.0	7.5	5.00
Dividend yield	8.48%	9.99%	6.66%
Change in share price	11.59%	41.28%	50.05%
Total annual shareholder return	20.08%	51.26%	60.04%

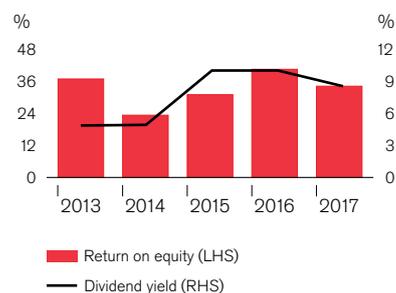
Shareholders' returns



Shareholders' equity



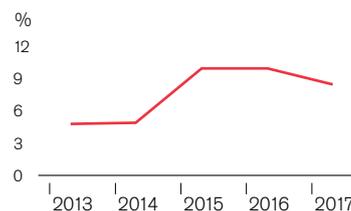
Return on equity



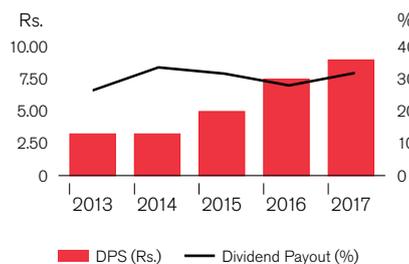
DIVIDENDS

LBF's investor friendly dividend policy balances the immediate returns to investors, whilst retaining funds for future investments. This ensures growth in the medium and long term which grows shareholder wealth in these time frames. The Board has proposed a final dividend of Rs. 3.00 per share (Interim dividend of Rs. 6.00 per share paid on 30th March 2017). The dividend payout ratio was increased to 31.82 percent in 2016/17 from 27.94 percent in 2015/16.

Dividend yield



Dividend payout



LIQUIDITY

Average daily shares traded during the year increased to 46,243 in 2016/17 from 31,893 shares in 2015/16. Total shares that changed hands during the year increased to 11 million in 2016/17 from 7 million in 2015/16.

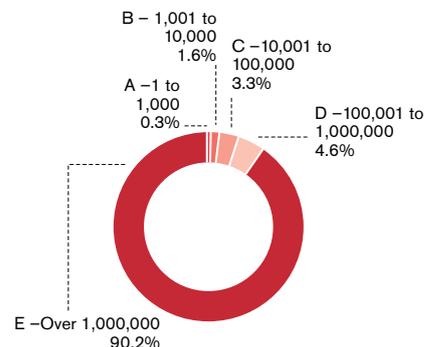
ANALYSIS OF SHAREHOLDERS

With reference to the distribution of shareholding, approximately 90.22 percent of the shares amounted to shareholding of over one million shares whilst it was 91.94 percent in the previous year. The total number of shareholders increased to 2,102 in the year under review from 2,096 in the previous year. Local investors constituted to 97.94 percent of the investor base (99.48 percent in 2015/16). Out of the total shareholder base 6.51 percent was individual shareholders (6.18 percent in 2015/16).

PUBLIC HOLDING

Public holding as at 31st March 2017 was 21.94 percent comprising 2,094 shareholders. This is a decrease when compared to the previous year's 22.78 percent public holding comprising 2,089 shareholders.

Distribution of shareholdings



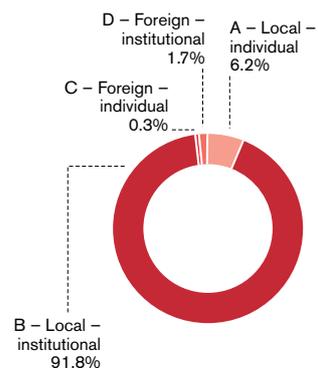
DISTRIBUTION OF SHAREHOLDINGS

	As at 31st March 2017				As at 31st March 2016			
	Number of shareholders	%	Number of shares held	%	Number of shareholders	%	Number of shares held	%
1 to 1,000	1,277	60.75	346,474	0.25	1,262	60.21	376,870	0.27
1,001 to 10,000	634	30.16	2,225,833	1.61	635	30.30	2,195,664	1.59
10,001 to 100,000	160	7.61	4,606,349	3.32	174	8.30	4,754,003	3.43
100,001 to 1,000,000	25	1.19	6,367,596	4.60	18	0.86	3,836,937	2.77
Over 1,000,000	6	0.29	124,968,032	90.22	7	0.33	127,350,810	91.94
Total	2,102	100.00	138,514,284	100.00	2,096	100.00	138,514,284	100.00

COMPOSITION OF SHAREHOLDINGS

Category	As at 31st March 2017			As at 31st March 2016		
	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
Local – Individual	1,949	8,571,568	6.19	1,942	8,083,876	5.84
Local – Institutional	123	127,083,242	91.75	133	129,705,146	93.64
Foreign – Individual	24	450,622	0.32	17	471,896	0.34
Foreign – Institutional	6	2,408,852	1.74	4	253,366	0.18
Total	2,102	138,514,284	100.00	2,096	138,514,284	100.00

Composition of shareholdings



DIRECTORS SHAREHOLDINGS

Names of Directors	No. of shares as at 31st March 2017	As a % of total shares	No. of shares as at 31st March 2016	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 Adhietty	106,120	0.077	106,120	0.077
Mr. Thosapala Hewage	-	-	-	-
Mr. L N De Silva Wijeyeratne	-	-	-	-
Mr. N Udage	173,837	0.126	58,719	0.042
Mr. B D A Perera	-	-	-	-
Mr. R S Yatawara	-	-	-	-
Mrs. A K Gunawardhana	-	-	-	-
Mrs. Y Bhaskaran	-	-	-	-

LARGEST SHAREHOLDERS OF THE COMPANY

Shareholders	As at 31st March 2017			As at 31st March 2016	
	Number of shares	Percentage holding (%)	Cumulative Percentage holding (%)	Number of shares	Percentage holding (%)
1 Vallibel One PLC	71,682,400	51.751	51.751	70,642,400	51.000
2 Royal Ceramics Lanka PLC/Commercial Bank of Ceylon PLC/ Royal Ceramics Lanka PLC	36,123,232	26.079	77.830	36,123,232	26.079
3 Esna Holdings (Pvt) Limited	14,062,400	10.152	87.982	14,062,400	10.152
4 SBI Ven Holdings Pte Limited	1,600,000	1.155	89.137	-	-
5 Sterling Holdings (Pvt) Limited	1,500,000	1.083	90.220	-	-
6 AIA Insurance Lanka PLC A/C No.07	777,843	0.562	90.782	-	-
7 Mr. H A Van Starrex	573,408	0.414	91.196	354,370	0.256
8 Janashakthi Insurance PLC (Policy Holders)	500,000	0.361	91.557	500,000	0.361
9 Bnynsanv Re-Frontaura Global Frontier Fund LLC	393,821	0.284	91.841	-	-
10 Mr. K D A Perera	373,776	0.270	92.111	149,422	0.108
11 Mr. N P D E Samaranyake	350,000	0.253	92.364	292,500	0.211
12 Seylan Bank PLC/ Dr. Thirugnanasambandar Senthilverl	331,884	0.240	92.604	-	-
13 Mr. A A Page	314,800	0.227	92.831	314,800	0.227
14 Mr. E Bianchi	308,800	0.223	93.054	308,800	0.223
15 Waldock Mackenzie Limited/ Mrs G Soysa	222,504	0.161	93.215	222,504	0.161
16 Waldock Mackenzie Limited/Mrs. K R E M D M B Jayasundara	220,000	0.159	93.374	-	-
17 Mrs. P C Cooray	208,632	0.151	93.525	208,632	0.151
18 Mellon Bank N A -Commonwealth of Massachusetts	207,243	0.150	93.675	207,243	0.150
19 Mr. N Udage	173,837	0.126	93.801	58,719	0.042
20 Commercial Credit and Finance PLC	161,297	0.116	93.917	11,297	0.008
Total largest shareholders	130,085,877	93.917			
Total of other shareholders	8,428,407	6.083			
Total	138,514,284	100.000			

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 2016/17 are shown below:

Date of disclosure	Details of disclosure
10th March 2017	Interim Dividend announcement
11th October 2016	Dealings by Directors
7th September 2016	Dealings by Directors
22nd August 2016	Dealings by Directors
19th August 2016	Dealings by Directors
15th August 2016	Dealings by Directors
10th August 2016	Dealings by Directors
9th August 2016	Dealings by Directors
5th August 2016	Dealings by Directors
30th June 2016	Dealings by Directors
19th May 2016	Resignation of Chairman and appointment of Acting Chairman

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 not traded on the CSE. During the year under review, no new debentures were issued.

DEBENTURE MARKET PRICE FOR THE YEAR

Year	2016/17			2015/16		
	Type A	Type B	Type C	Type A	Type B	Type C
Highest (Rs.)	Did not trade during the year	Did not trade during the year	Did not trade during the year	102.00	112.98	104.00
Highest date				29-03-16	11-08-15	24-03-16
Lowest (Rs.)				102.00	112.98	104.00
Lowest date				29-03-16	11-08-15	24-03-16
Close (Rs.)				102.00	112.98	104.00
Yield (%)				13.11	9.78	13.07

Intellectual Capital

Reach brand value of **Rs. 3,853 million**
LMD brand 2017

Continued with the **ISO 27001: 2013**
certification

Reached **45,333**
social media followers

Introduced LB Gift Store and
money exchange brand



Management approach

Business intelligence:

Understanding the business and achieve success by empowering all resources with the right information at the right time to gain insightful business knowledge with the ability to anticipate change and uncover new opportunities within the competitive environment.

Strategic priorities

- Improvement of capacity and security features -
- Attract talented and experienced professionals -
- Capacity building, leadership and skill development -

2016/2017 Progress towards objectives

Objective	Status	Page
Updated information technology platform	100% updated all database softwares	67
Enhanced existing information security system	Obtain the full membership of FINCSIRT	67
Build up corporate brand	26th among the top 100 Brands in the country by Brand Finance	67
Maintenance of the ISO 27001:2013 certification	Successfully completed the second and final surveillance audit.	67

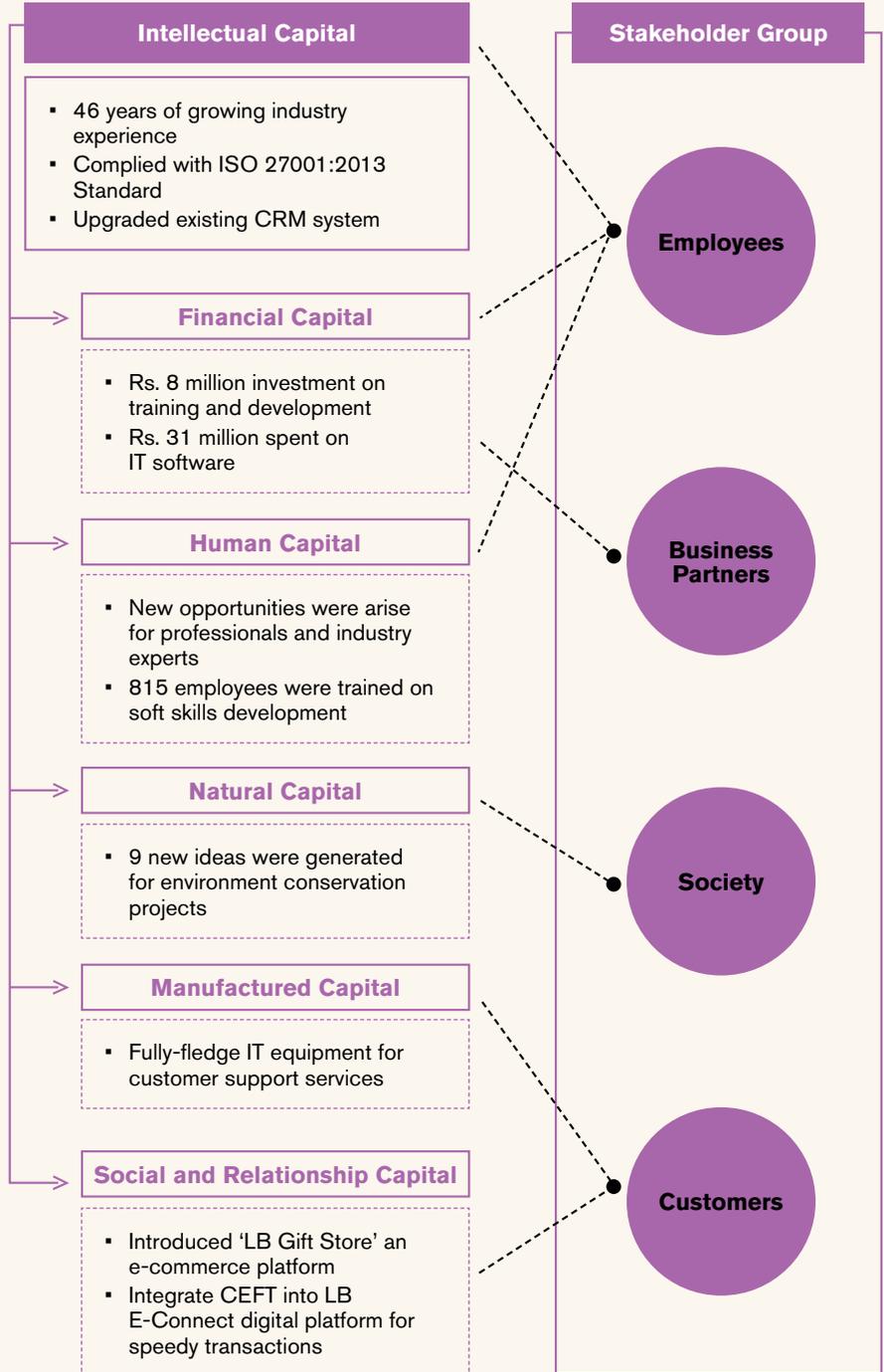
Objectives 2017/18 and beyond

- Target year 2017/18**
- Create a grater social media network presence
 - Use of Cloud technology for business application



- Target year 2018/19**
- Digitalized the office environment
 - To be ranked among the first 10 in top hundred most valuable brands in Sri Lanka

Value creation among capitals



Challenges we faced



Retention of knowledge
Page 66



Growing the brand value
Page 67

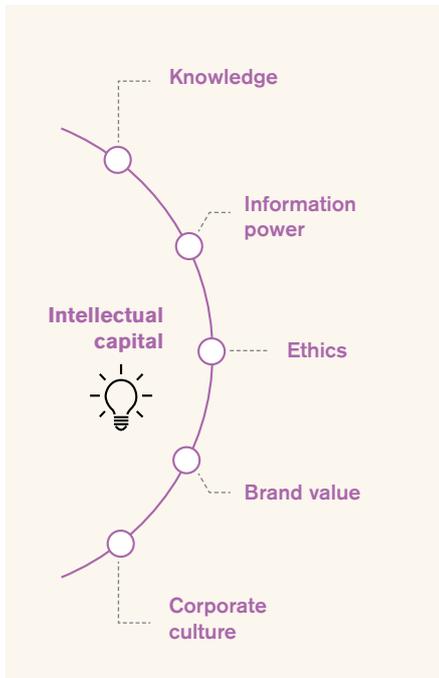


Information security threat
Page 67

OVERVIEW

Intellectual capital is perhaps, the most difficult capital to quantify, due to its intangible nature. However, it is a true business asset and a significant component of any business operation that adds substantial value.

LBF recognises intellectual capital under five main elements as described below:



The financial sector in which LBF operates is highly competitive and maintaining our market leadership under such conditions becomes a challenging task. Intellectual capital provides us a competitive edge to effectively compete under such market conditions. Along with our carefully-planned strategy, the components of intellectual capital help us perform above our competition.

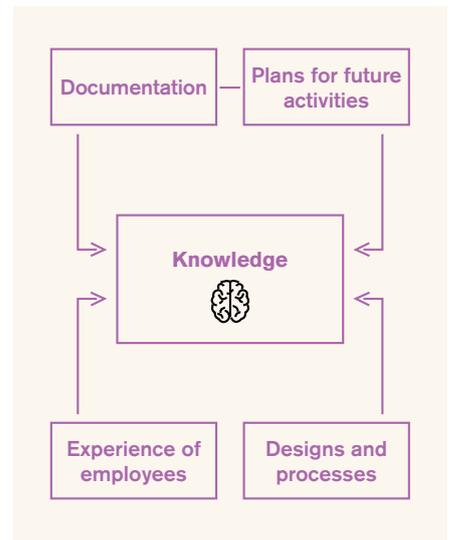
There are so many diverse aspects which impinge on our business model. We have to allocate resources to integrate the activities of our functional areas into a seamless whole, where the whole will be more than just the sum of the parts. Our high level strategies have to be translated into practical action plans taking into account our priorities.

The action plans have to be communicated to our employees and where necessary other stakeholders, so that they will be dedicated to their implementation and be accountable and responsible.

In retrospect, there are a number of elements of our resources, organisation, strategy and plans that have to be balanced and made cohesive in order for us to generate long-term value. If there are internal practices, values and routines that are not in accordance with our objectives and strategies, we need to weed them out. As a diverse company in a diverse society we need to respect and promote cultural and other diversity. We need to constantly assess the impact and return on investment of our IT systems. To reduce costs we also need to as far as possible borrow from previous experience when solving business problems. As a socially conscious company we also need to monitor ethical impacts on social and environmental performance.

KNOWLEDGE

During our existence of 46 years in the financial services industry, we have gathered a wealth of experience and expertise which forms LBF's knowledge base. This is used in our day-to-day operations and for planning future activities, as depicted in the diagram below:



During the last 4 decades, our strategy in creating a knowledge base was through combining a tacit and explicit knowledge pool. This included the recruitment, development and retention of our Human Capital.

The Directors, who are from varying disciplines, possess diverse academic qualifications, industry knowledge and experience. This diversity enables them to provide the Company with the required guidance and direction when conducting the business affairs of LBF, which has proved to be very effective. They provide the necessary strategic direction to sustain our position in the industry. This is further backed by competent employees at each level of the organisation who possess qualifications and experience in various disciplines that are useful for the Company. Prospective employees are selected through our talent acquisition process and attracted by remuneration and other benefits above the industry standards.

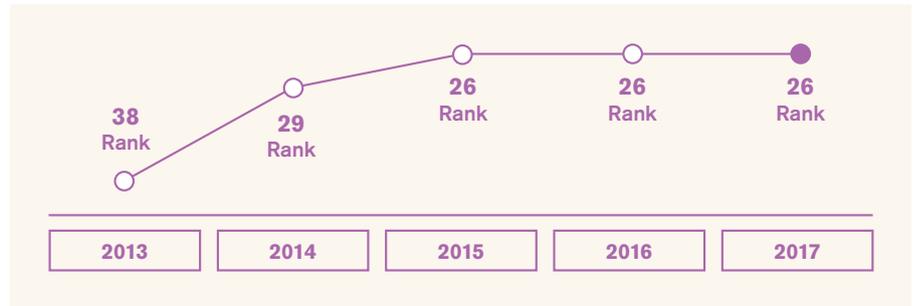
To ensure that the employees possess the required knowledge related to their work area, the Company provides them access to the latest industry related and technological information and invest in internal and external training. This builds up their knowledge to perform their job roles and also pave the way for career development. Employee performance is measured periodically. Employees with satisfactory performance are rewarded with opportunities for career growth.

The operational processes and procedures which have been developed over the years are invaluable for the Company. The processes are strengthened with the requisite internal controls over time, making use of the inherent knowledge of staff.

BRAND VALUE

Over the history of 46 years that the Company has been in operation, LBF has turned into a Company to be reckoned with and an institution with strong financial standing. The LBF brand, valued at Rs. 3,853 million (LMD – 2017) has been built up over the years. The LBF Brand was placed 26th among the top 100 Brands in the country by Brand Finance. Our brand is a key value driver for the Company and a vital aspect of our strategic focus. We have taken several initiatives to create and maintain a distinct brand identity that signifies value for our stakeholders.

BANK RANKING



We offer our customers a unique range of products and financial services to fulfil their varying needs. Customer satisfaction surveys are conducted on a continuous basis to obtain customer feedback and our products and services are improved accordingly.

INFORMATION TECHNOLOGY

Information technology plays a key role in our operations and the services we offer our customers. Our IT platforms enable us to offer innovative products to customers as well as provide customer convenience. LBF has kept abreast of the advances in technology enabling us to provide an exceptional service to our growing customer base and aims to be the first in the industry to introduce the latest technology so that we have a competitive advantage over our competitors.

The state-of-the-art features of our software enable our customers to reach us 24 x 7, wherever they are located. The extensive use of technology enables us to build in advanced features into our products and enhance our delivery channels. It also brings convenience and provides a speedier service to our customers.

In order to maintain information security standards, the Company continued with the ISO 27001:2013 certification and complied with the relevant standards and regulations. In order to verify the adherence to these standards, an audit was carried out by Bureau Veritas in August 2016.

During the year, the following initiatives were implemented with regard to IT:

- Upgrade the data centre capacity
- Introducing the CEFT fund transfer for L B e-Connect customers
- Upgrade all database software into latest versions
- L B Gift store
- Upgrade the Customer Relationship Management (CRM) System to automate the answering and storing of call data
- Introduction of improved Incident Management system for IT support



“ I opened a Fixed deposit at  L B FINANCE and got my e-vouchers instantly ”

Log Into



Corporate culture

The corporate culture at LBF is based on six values:

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

These values underpin our strategies and action plans in order to provide a service that is ethical and of a very high standard.

Being a service provider, providing an excellent service to customers stem from our corporate values. This year, we carried out a training programme under the name of Customer Service Excellence to enhance our service standards.



ETHICS

The Company's business ethics which are founded on the basis of professionalism and good governance delivers strong returns on investment across the Company. It helps us to attract and retain customers, build mutually beneficial relationships with business partners, and attract and retain talented employees. Our ethical standards guide the way we operate as we reach to establish ourselves in new markets and when we develop and offer new products and services.

Integrity, accountability and transparency are all key features in the way LBF conducts business operations. As a responsible and established corporate entity, the Company endeavours to build a business that upholds the highest standards of ethics and responsible financing.

The Whistle-blowing Policy of LBF encourage all staff to raise concerns, expose irregularities, uncover financial malpractices and prevent frauds without any fear of any adverse consequences to the relevant staff. The Code of Conduct applicable to all staff set out the principles for employee behaviour. All whistleblower incidents or issues are reviewed by committee comprising of senior management.

LEGAL ASPECTS

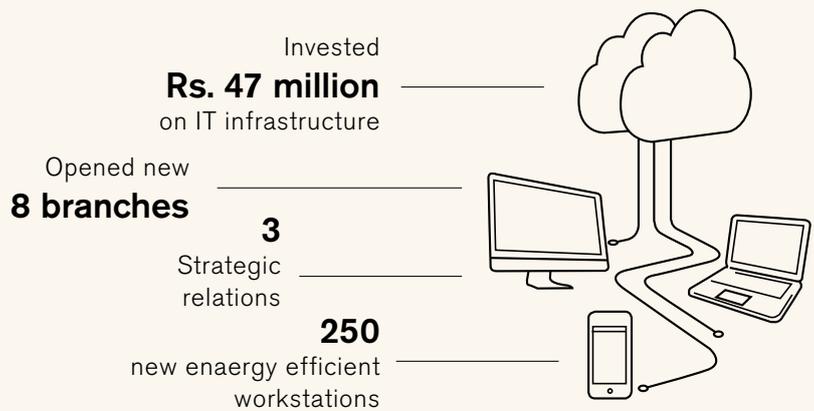
The nature of our business activities invariably brings about many legal issues that require the attention of the Legal and Compliance Departments. These departments have processes and procedures in place to facilitate its duties and take care of the Company's statutory responsibilities.

Outlook

We continuously seek ways of enhancing our brand image by providing innovative tailor-made customer solutions and unparalleled customer service from which we both derive and deliver value. We make every attempt to be proactive to changes in the environment so as to be prepared for any eventuality.

We are constantly looking for ways in which we can make the best use of IT to realise our corporate vision. In the coming year, we intend to implement a new Enterprise Resources Planning System which will cater to our expanding information management requirements as well as key performance indicators. We will not hesitate to spend our resources on providing training for employees in order to improve their skills and knowledge. We will continue to offer innovative products in order to provide convenience for our customers and to remain ahead of competition.





Management approach

Customer centricity:

Understand customers' evolving needs and facilitate adapt promptly to their expectations and providing concrete solutions that will cater every stage of a customer's life

Strategic priorities

- Expand customer reach -
- Superior customer convenience -
- Efficient IT platform -
- Provide personalized information -

2016/2017 Progress towards objectives

Objective	Status	Page
Expansion in regional presence	Opened new 8 branches	73
Enhance efficiency of IT platform	Server hardware capacity upgrade	74
Enhance the communication system	Upgrade existing virtual private network	75

Objectives 2017/18 and beyond

Target year 2017/18

Implementation of a data warehousing platform to enhance business analytics

Introduce video conferencing for better communication amongst branch network

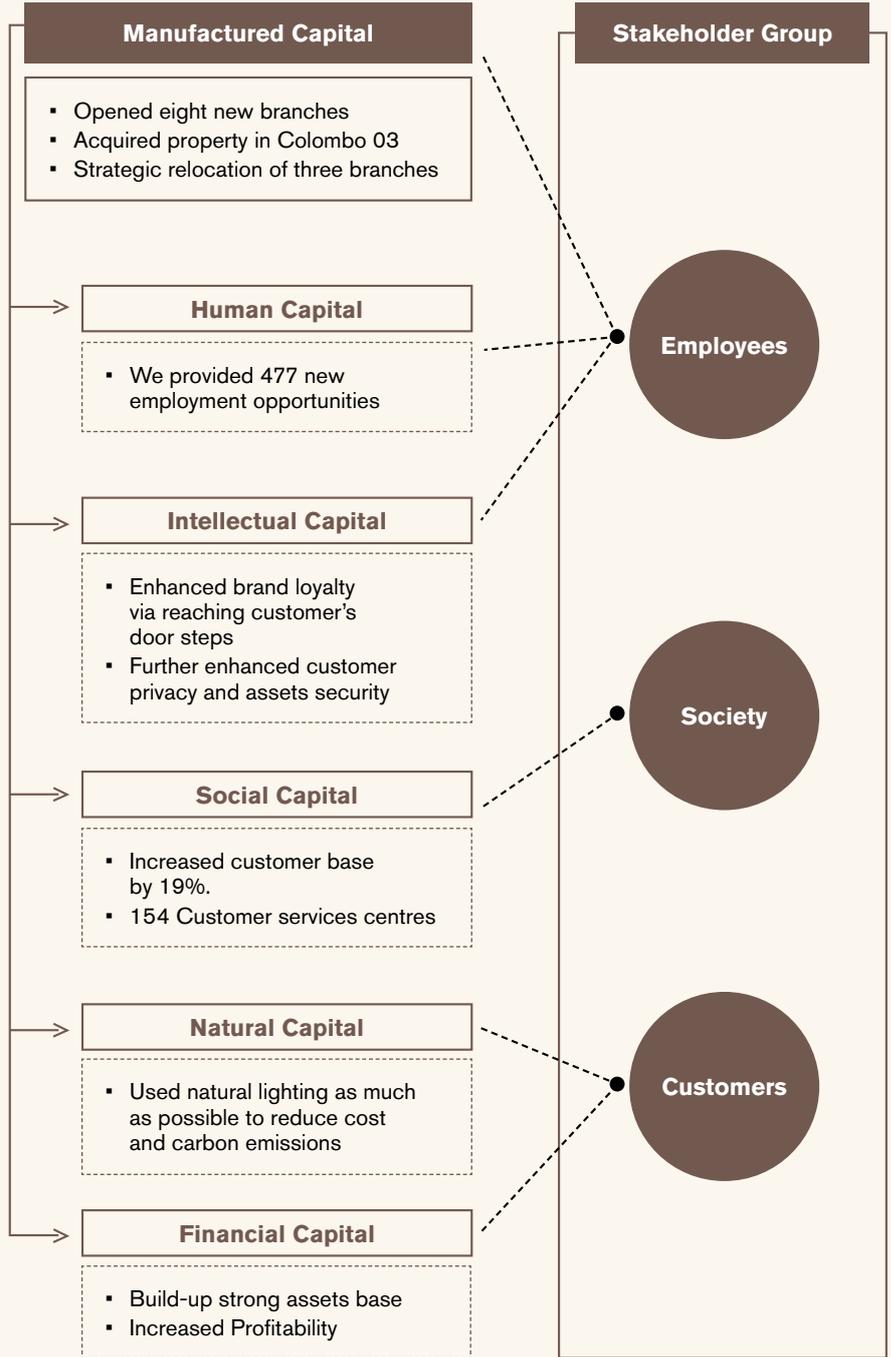


Target year 2018/19

Use energy efficient equipment and renewable energy for selected outlets

Provision of a cloud solution to expand data services

Value creation among capitals



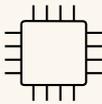
Challenges we faced



Regional expansion
Page 73



Customer convenience
Page 73



New technology
Page 75

OVERVIEW

The components of the Company's manufactured capital, as shown in the diagram below, it consists of the tangible assets such as the brick and mortar branches, gold loan centres as well as the vehicles and IT equipment of the Company. These assets are used in serving the customers of LBF. The key component of assets enable the Company to easily churn its information and data to produce valuable information for the purpose of decision-making as well as gaining a competitive edge. As such manufactured capital enables the Company to create more value for its stakeholders.

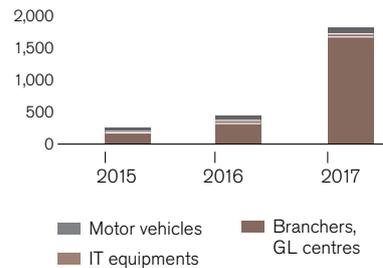
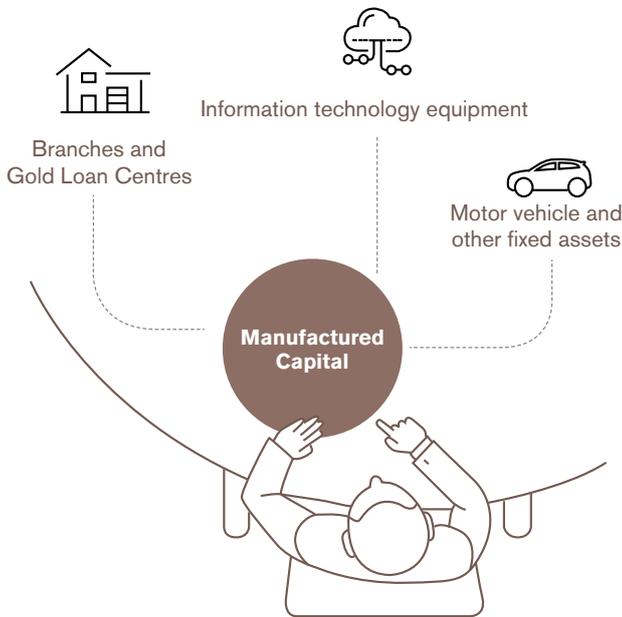
INVESTMENT IN MANUFACTURED CAPITAL

During the year, LBF opened eight branches bringing the total number of branches to 118 and gold loan centres remain unchanged at 36. Our investment in the branch network during the year amounted to Rs. 1,667.36 million while our investment in IT infrastructure totalled Rs. 47.75 million. We also invested Rs. 94.05 million in motor vehicles in line with the expansion in our operations. The Company acquired a premium property within the Colombo city limit, which strengthened asset base during the

year. Since these investments amount to significant outflow of funds, it is imperative that we properly evaluate the expected returns so that the benefits can be reaped within the expected time frame. At the same time, we are also mindful of controlling the expenditure associated with the capital cost in order to maintain the overall cost efficiency of the Company.

Since the strategic focus for 2017 has been decided as strengthening client relationships, the branch network plays a key role in reaching out to the customers to understand their financial requirements, how we can serve them best and how we can optimise the use of technology.

The graph below shows the investment on manufactured capital in last three years:



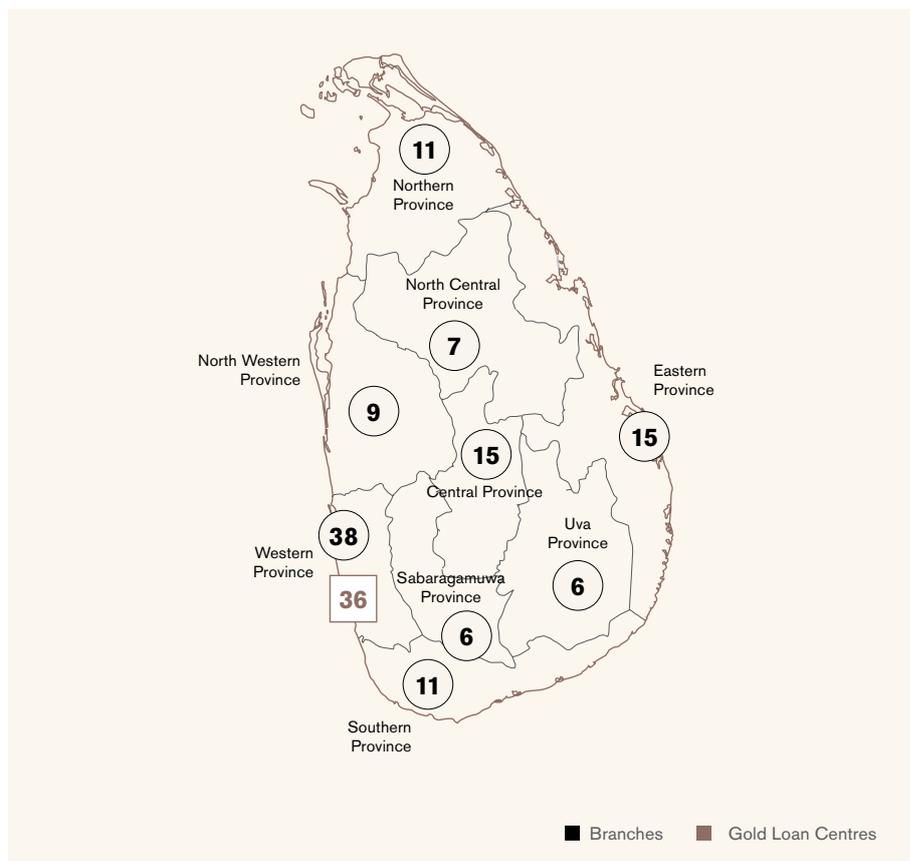
As we reflected on the outcome of strategic initiatives during the past year, we came up with the positive outcomes to the Company overall, as well as the triple bottom line. Manufactured capital and other capitals must help to create value, to shareholders as well, as create job opportunities, reducing unemployment, enhancing financial inclusiveness and led to reduced carbon emission to Sri Lankan economy, society and environment.

CUSTOMER REACH

LBF's branch network and gold loan centres constitute the mechanism through which the Company reaches out to the customers and serve their financial requirements. It is pertinent to mention that we have branches in all the districts of Sri Lanka thus enabling us to reach Sri Lankans all over the country and providing them with financial convenience. Our new branches were located mostly in the Northern and Eastern Provinces enabling financial inclusion in the hitherto untouched areas.

Branches and gold loan centres serve as the primary point of contact with LBF's customers enabling us to interact with them, understanding and meeting their financial requirements.

LBF also has specialised premier branches that provide a superior service in comfort. The customers at these branches are provided a far superior service and made to feel 'special'. On similar lines, there is a VIP gold loan centre at the Corporate Office.



Conventional branches are transformed to new age customer convenience centres by upgrading the atmosphere and service standards. Every services point will be reviewed periodically, identifying strengths and weaknesses while updating their operating environments according to the Company strategy. In addition to the 'brick

and mortar' branches, our digital platforms enable us to interact with our tech savvy customers through online channels. This not only enables us to reach the millennial generation, but also offers convenient financial solutions to our customers.



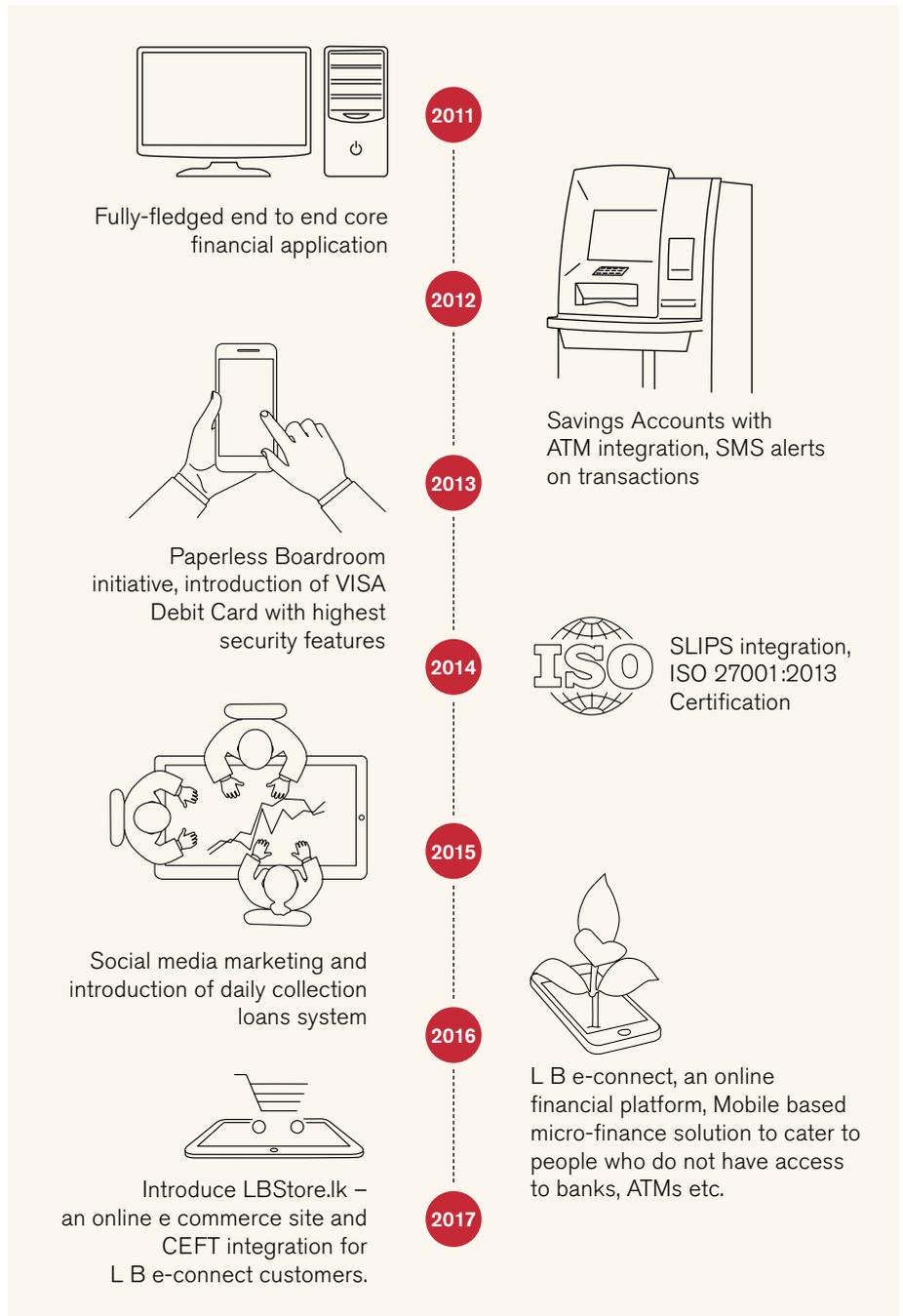
Category	2016/17	2015/16	2014/15	2013/14
Conversions (upgrades)	-	1	-	2
Closed	-	-	2	-
New branches	8	10	3	8
New Gold Loan centres	-	2	-	-
Strategic relocations	3	1	3	-

INFORMATION TECHNOLOGY AS A BUSINESS ENABLER

The latest technology has enabled LBF to introduce innovative products while providing a much more superior customer service and customer convenience. Furthermore, IT is used by the Company as a tool that can provide a competitive edge.

IT also enables us to be at the forefront of competition. From an operational perspective, IT makes it easier and faster to generate management information, making decision-making easier and faster. Automated HR systems enable the storage of employee data and faster and reliable self-service mechanism to the employees. It also takes away the mundane and repetitive tasks away from employees bringing them a higher level of job satisfaction.

Continuous development and improvement of the IT infrastructure have provided an IT driven environment that is capable of spearheading all technological directives of the Company. During the year total of Rs. 47 million was invested in new technological equipment and system developments. It is thus an investment of financial capital which would increase the value of financial capital.



OUR DIGITAL JOURNEY

Our progression in enhancing our business offering through the power of technology is shown below:

In the year under review, LBF focussed on a total IT platform enhancement rather than piecemeal improvements. This would reduce the future investments substantially. This has been achieved through careful consideration of factors such as power and capacity of the IT devices used for day-to-day operations, productivity, cost effectiveness and energy efficiency, lower maintenance cost as well as the ability to reduce the carbon emission due to our operation. We also upgraded our Virtual Private Networking (VPN) facility to improve the connectivity between our widely-distributed service points.

Given the rapidly changing external environment, we will be relying upon the latest technology to improve the speed and efficiency of services. We are of the view that a dedicated ATM network would expand the current service boundaries in the next year while proposed new management information system will be the key turning point of the corporate decision-making process.

IT INFRASTRUCTURE DEVELOPMENTS



Hardware capacity Upgrade

Objective - Improve the productivity of all the core system operations.

Impacted area - All business lines



L B e-connect

Objective - CEFT Intergration

Impacted area - Savings



LB Gift Store

Objective - Personalised customer service

Impacted area - Fixed deposits and savings



Sustainability website

Objective - Enhanced Sustainability Communication

Impacted area - All stakeholders

Looking to the future – strategies and outlook

As we cross the 46th year of operations, we envisage continuing our customer reach by expanding overseas, in line with our business expansion strategy while continuing our customer centric focus. Our widened network will not only benefit our direct customers but will also impact a wider circle of stakeholders such as the local communities positively, through our social and environmental activities.

As we continue to expand our services through innovative methods, managing and mining big data becomes a main requirement. Therefore, we have focused on data analytics through implementation of a data warehousing platform and cloud solutions to expand our data services, in partnership with the leading international technological solutions providers.

Our focus remains on enhancing the network infrastructure and the communication platform connecting the branch network. We are considering green initiatives in order to bring in a more sustainable approach to our manufactured capital plan to reduce emission and to achieve sustainable outcomes.



Human Capital

Total No. of employees **3,221**

Employee training hours **20,672**

Rs. 8.04 million
Total cost for training

571
Employees were promoted



Management approach

Talent Development:

Inspiring employees to use their skills, talents, competencies, capabilities and experience in a way that adds value to the business and provides personal growth.

Strategic Priorities

- Creating a performance driven culture -
- Work life balance -
- Encourage team work -
- Qualified and experienced team -
- Provide safe & healthy work environment -

2016/17 Progress Towards Objectives

Objective	Status	Page
Objective Promotion based on performance	60% completion of new performance management system	84
Attract people of talent, aptitude and aspiration	477 New employment opportunities	79
Recognised creativity through team building	4 Team building activities focusing on different cultural and seasonal events.	86
Increase health awareness	2 health awareness programmes	87

Objectives 2017/18 and beyond

Target year 2017/18

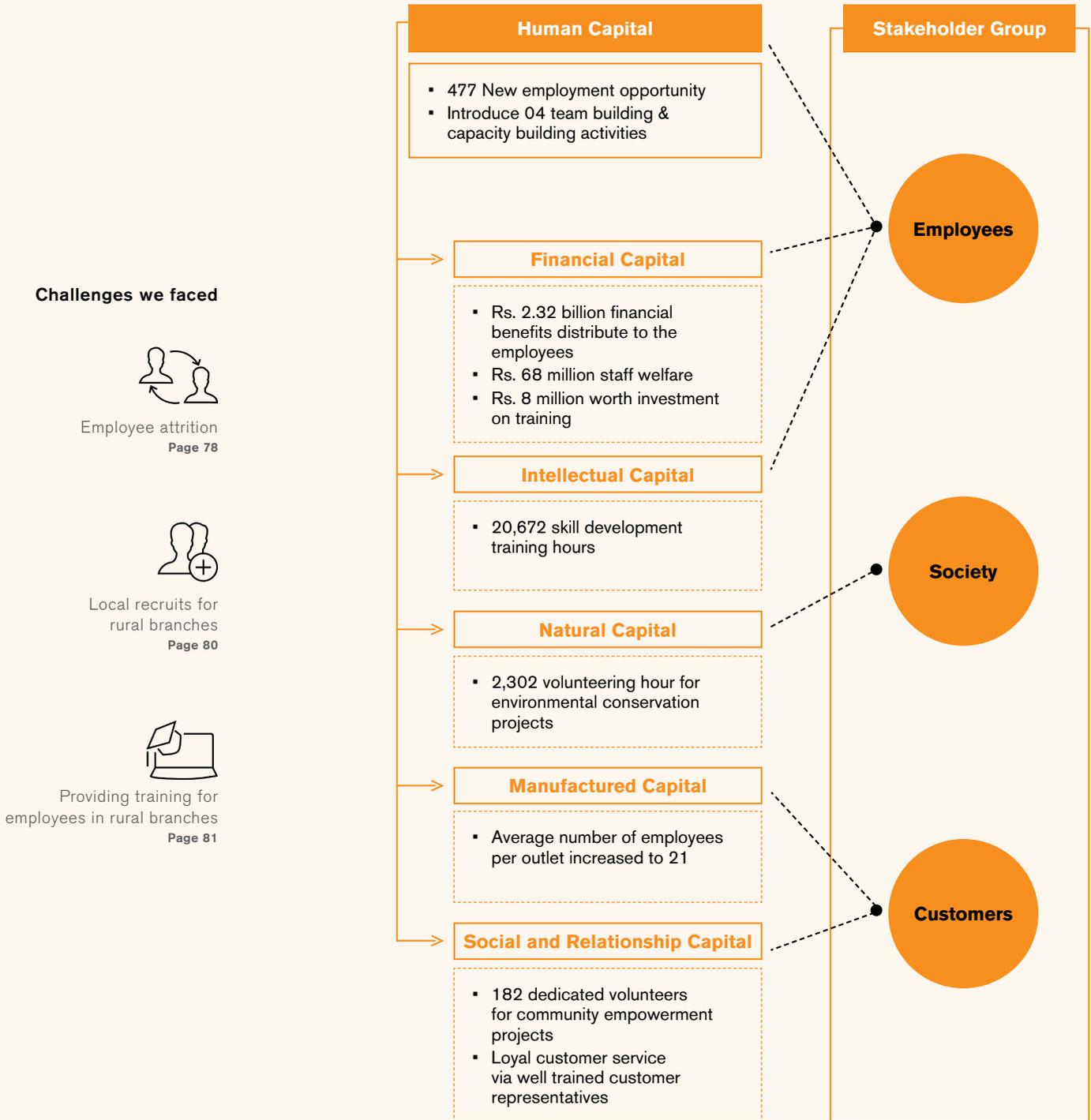
- Introduce an e-learning platform
- Increase health awareness among employees
- Employee e-suggestion box
- Introduce flexi hours for selected employee sections



Target year 2018/19

- Selection of best employees from branches and gold loan centres
- Create new employment opportunities to achieve 3,000 workforce

Value creation among capitals



APPROACH TO HUMAN RESOURCE MANAGEMENT

The achievements of LBF over its 46 year history would not have been possible if not for the dedication and commitment of the multi-talented team of employees at LBF. The untiring efforts put in by the team have ensured that LBF remained a force to be reckoned within the financial services industry. They have ensured that the strategy of the Company was put into action and ensured that we achieve

our objectives. As such, we consider our employees as our most valuable asset. The Company has in place, a well-thought-out HR strategy to look after the interests of our work force so that they will, in turn, do their utmost to serve our customers with care and respect, always upholding the integrity of the institution. The remuneration as well as employee welfare, career development and progression are all significant components of this HR strategy.



TALENT ACQUISITION AND RETENTION

LBF has a professional, well-thought-out and flexible recruitment process that ensures the Company recruits people for the jobs that suit their talents and capabilities. 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.

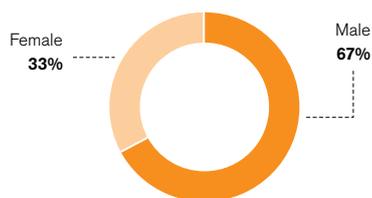
We identify employees as being fundamental to our success and future growth. A strategic and professional approach of recruitment and selection enables us to attract, appoint and retain employees with the necessary skills and attributes to fulfil strategic aims and support the Company's values. We are committed to ensuring that the recruitment and selection of employees are conducted in a manner that is systematic, efficient and effective, whilst promoting good practices, adopting a proactive approach to equality and diversity issues supporting the core business of our Company

New employees hired by gender 2016/17

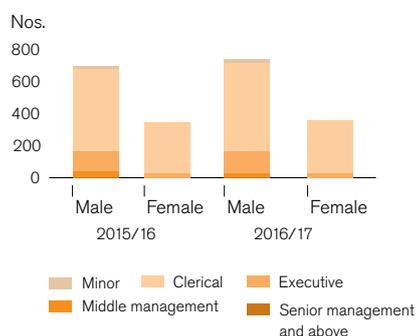




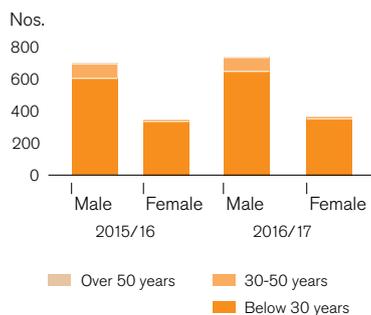
New employees hired by gender 2015/16



New employee hires by employment category and gender



New employee hires by age and gender



EMPLOYEES BY REGION WISE

Province	Male	Female
Central	178	76
Eastern	157	78
North Central	103	31
North Western	128	65
Northern	77	47
Sabaragamuwa	123	42
Southern	158	76
Uva	70	26
Western	1,082	704
Total	2,076	1,145

ANALYSIS OF EMPLOYEES BY CONTRACT TYPE AND GENDER

Employee type	2016/17		2015/16	
	Male	Female	Male	Female
Full-time employees (Permanent)	2,069	1,144	1,746	994
Employees on contract basis (Temporary)	7	1	4	-
Part time employees	-	-	-	-
Total	2,076	1,145	1,750	994

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:

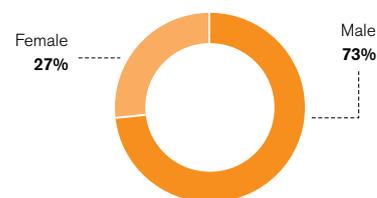
- Education** – Develop the Company's employees' skills through learning experiences
- Experience** – Move employees across divisions and jobs enriching their work experience
- Exposure** – Give them opportunities to interact with Senior Management, provide them with mentoring and training and prepare 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 in-depth 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 58.24 percent from 61.29 percent.

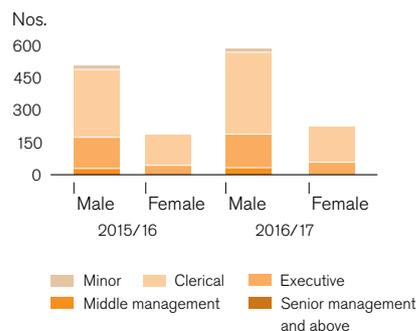
Employee turnover by gender 2016/17



Employee turnover by gender 2015/16



Employee turnover by employment category and gender



Employee turnover by age and gender



EMPLOYEE – HIRE AND TURNOVER

Province	2016/17		2015/16	
	Hired	Turnover	Hired	Turnover
Central	60	43	64	44
Eastern	103	68	88	47
Northern	54	26	40	26
North-central	53	32	44	33
North-western	71	55	66	31
Sabaragamuwa	58	44	35	31
Southern	71	49	46	29
Uva	33	24	18	14
Western	593	471	635	438
Total	1,096	812	1,036	693

RETURN TO WORK AND RETENTION RATE AFTER PARENTAL LEAVE

Description	2016/17	2015/16
Total number of female employees	1,145	953
Total number of employees that took maternity leave	91	49
Number of employees who returned to work after maternity leave ended	57	44
Number of employees who returned to work after maternity leave ended and still employed twelve months after their return to work	53	19
Return to work rate	62.63	89.80
Retention rate	92.98	61.29

SERVICE ANALYSIS OF EMPLOYEES BY CATEGORY

Category	2016/17				
	Senior management and above	Middle Management	Executive	Clerical	Minor
Above 20 years	2	9	5	1	–
16-20 years	3	3	6	1	2
11-15 years	6	30	36	–	7
6-10 years	5	82	309	11	12
Below 5 years	16	120	845	1639	71

COMPOSITION OF GOVERNANCE BODIES AND EMPLOYEE GENDER

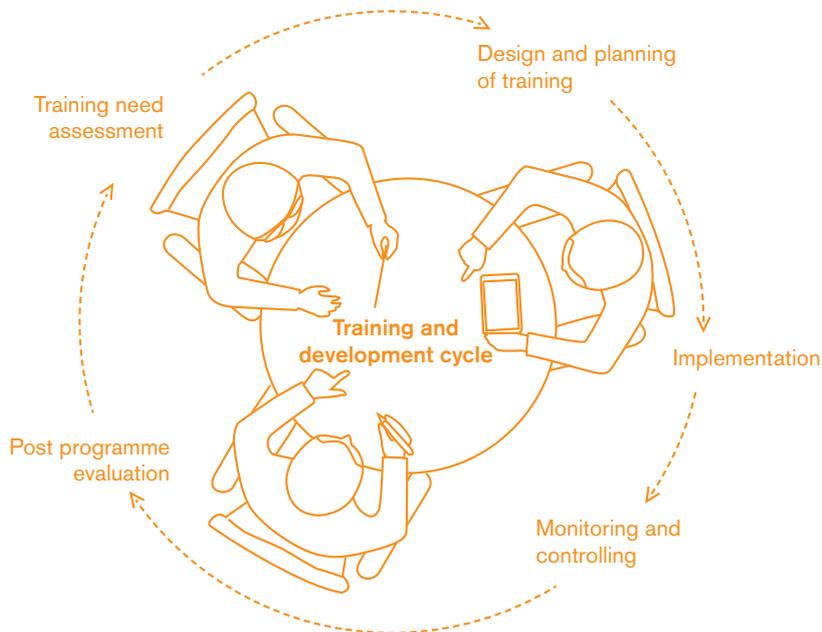
Category	2016/17		2015/16	
	Male	Female	Male	Female
Board of Directors	7	4	8	4
Senior Management	19	3	21	3
Middle Management	217	27	191	22
Executive	732	469	598	411
Clerical	1,013	645	845	559
Minor	92	–	94	–
Total	2,076	1,145	1,757	999



TRAINING AND 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 programmes, LBF is open to requests from employees.

At LBF context, all employees are receiving the regular performance and career development reviews within the period.

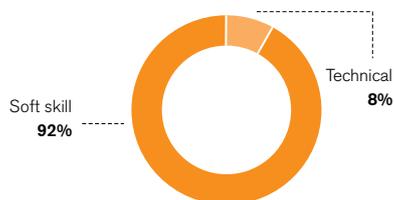


Some aspects on which training and development are based on are given below:

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. 4.53 million on training and development covering 20,672 training hours for 3,335 employees.
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 molded towards Generation Y.
Lifelong learning	LBF encourages and assists the Company's employees to obtain professional qualifications through the reimbursement of membership fees.
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.

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.

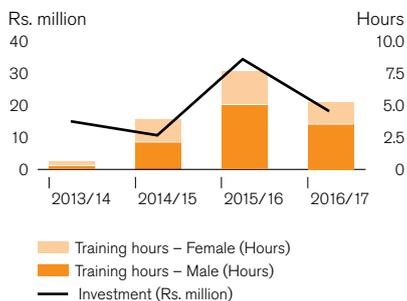
Training hours by type of training 2016/17



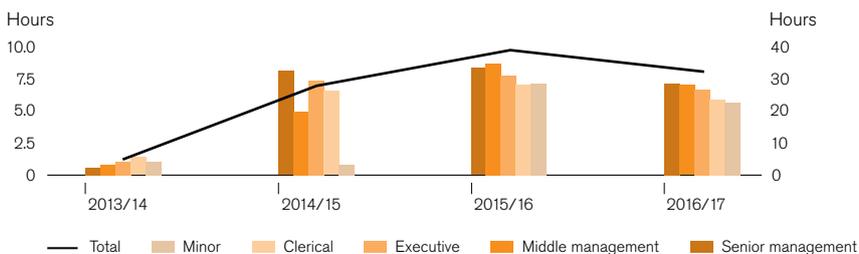
Training hours by type of training 2015/16



Training hours by gender and investment in training



Average training hours by employee category



Type of training	2016/17		2015/16	
	No. of employees	Cost (Rs.)	No. of employees	Cost (Rs.)
Employee motivation	536	526,246	198	189,154
Marketing skills	Nil	Nil	329	406,500
First aid training	17	FOC	19	-
Grooming session	5	30,000	-	-
Internal customer service	Nil	Nil	292	175,428
Service excellence	510	960,139	1,598	2,322,050
Microsoft office packages	Nil	Nil	12	-
Internally held technical Training programmes	139	FOC	-	-
Out bound training	113	529,689	-	-
Toastmasters (Speechcraft)	26	200,000	-	-
soft skill training (Internal/ external programmes)	815	2,026,326	2,966	4,666,752
managerial skills	Nil	Nil	88	619,152
Orientation	983	FOC	-	-
information communication technology	Nil	Nil	74	189,000
Performance oriented Training	191	260,969	-	-
Total	3,335	4,533,369	5,576	8,568,036

Employee category and type of programme	2016/17					
	Male	Female	Total	Total Males	Total Females	Total
Senior Management						
Technical	40	-	40	5	-	5
Soft skills	198	11	209	29	1	30
Middle Management						
Technical	89	32	121	11	4	15
Soft skills	1,584	429	2,013	234	57	291
Executive						
Technical	475	90	565	64	15	79
Soft skills	3,998	1,973	5,971	599	304	903
Clerical						
Technical	595	340	935	90	63	153
Soft skills	7,149	3,627	10,776	1,180	671	1,851
Minor						
Technical	-	-	-	-	-	-
Soft skills	45	-	45	8	-	8
Total	14,171	6,502	20,672	2,220	1,115	3,335
Average training hours per employee	6.2					
Average training hours per - Male	6.83					
Average training hours per - Female	5.68					



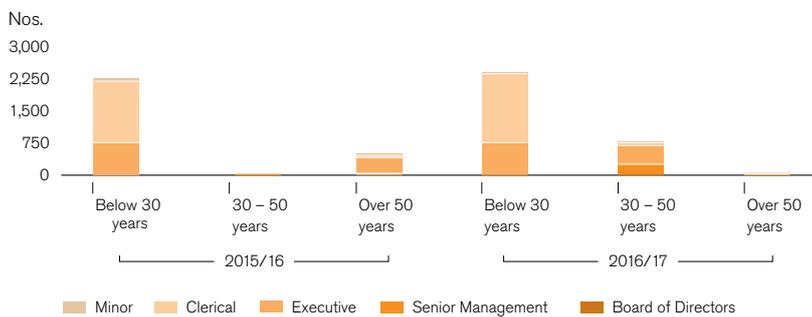
EMPLOYEE PRODUCTIVITY

EQUAL OPPORTUNITY AND DIVERSITY

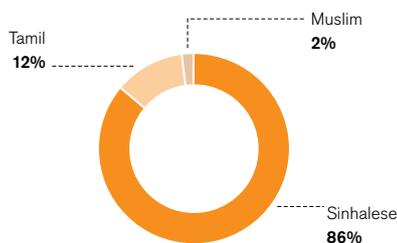
Diversity is recognised and valued within LBF's culture. The Company has always believed that best diversity practices contribute to the positive results in the work environment. LBF valuing diversity policy, describes how diversity practices should be present in the work environment. This policy comprises 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.

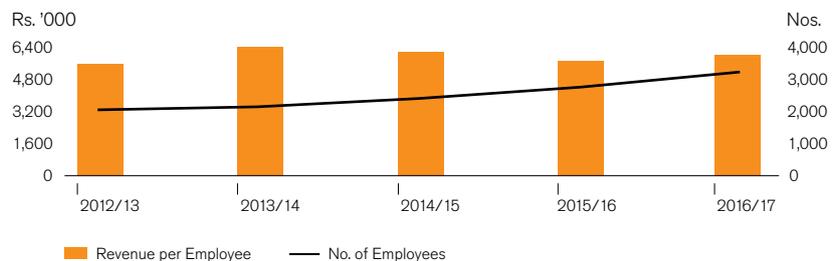
Diversity of governance bodies and employees



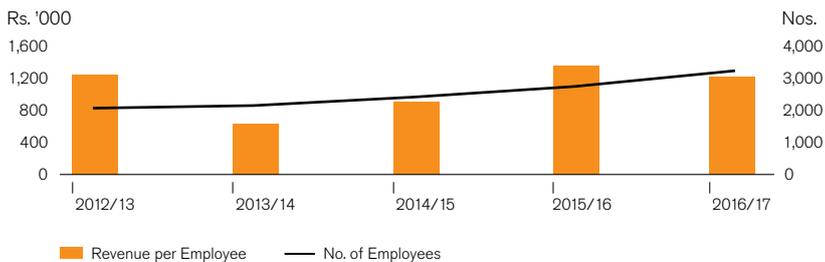
Ethnic representation 2016/17



Revenue per employee



Profit per employee



Category	Ratio of basic salary men to women			
	2016/17		2015/16	
	Female	Male	Female	Male
Senior Management	1	2.41	1	2.42
Middle Management	1	0.93	1	0.91
Executive	1	1.03	1	1.05
Clerical	1	1.03	1	1.01



EVALUATION AND REWARDS

REMUNERATION AND BENEFITS

LBF has developed a compensation structure that rewards employees (full time) 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.

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	2016/17 Rs. million	2015/16 Rs. million
Salaries and other related expenses	2,021.25	1,573.92
Employer's contribution to EPF	162.96	129.98
Employer's contribution to ETF	32.59	25.99
Gratuity	37.10	33.03

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



CAREER MANAGEMENT AND SUCCESSION PLANNING

LBF believes in business partnerships more than employment and developing and supporting them in their careers. Our employee development and succession planning programmes ensure that we have the right talent for key positions even after the loss of a key worker.

Our succession planning model identifies the 'choke points', things that can stop the business from running, the critical/key positions and their vulnerabilities. We use different tools to identify employees with the right talent to train as a replacement for those critical positions.

Potential candidates are sent through a comprehensive assessment and development centres with cross-training initiatives and calculated specific individual development plans (IDP).

LBF successfully conducted an Employee Opinion Survey in 2016 covering key employment-related areas and the participation was satisfactory at 67 percent. As a result, we have developed and implemented a comprehensive participative bottom-up performance management planning process for tactical tasks and top-down goal dissemination process for strategic initiatives to get the troops engaged in the strategic direction of the Company.

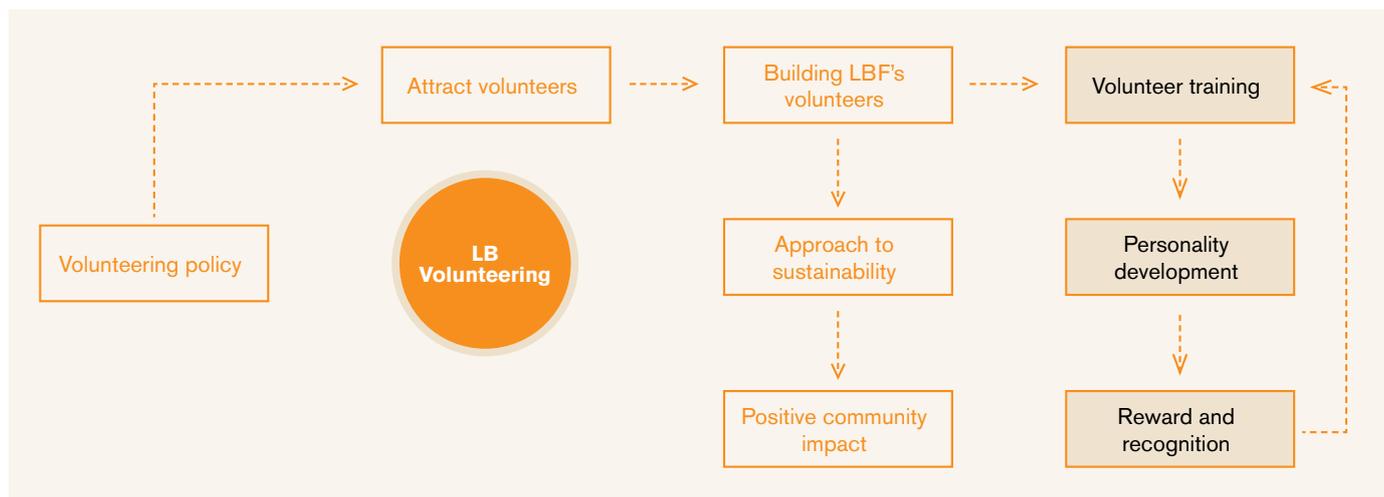
CATEGORY-WISE PROMOTIONS

Category	2016/17	2015/16
Board of Directors	0	1
Senior Management	2	2
Middle Management	52	60
Executive	512	256
Clerical	5	2
Total	571	321

ENGAGEMENT

Employee engagement ensures providing a better quality of life to team members and to make them happy and motivated which leads them to take an active interest in their work. This also aims at creating an environment to enhance mental, physical and spiritual well-being of the team members to enable them to perform at a higher level of productivity

LBF VOLUNTEERING



LBF Volunteering



Objective - To encourage and guide volunteering at LBF and to impact not only communities but also employee wellbeing

Key initiative - Rewarding and recognition of key performers

Surpassed the set target of 2,302 volunteering hours for this year.

Date formed
11th November 2014

Number of members
182

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.

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:

ACTIVITIES

- Sports – LBF promotes sports through engaging its employees in corporate sports events. Similarly the Company organised Inter Department Cricket Tournament
- Dress down day – Friday has been selected as the dress down day which allows employees to wear casual attire
- 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.
- LB Got Talent – Recognising hidden talents and rewarding them
- LB Toastmasters Club – This develops the ability to be an effective, powerful and inspirational communicator and leader





The walking club



Objective - Promoting health and fitness among the employees.

Key initiative - BMI monitoring and rewarding health screening

Date formed
7th February 2014

Number of members
122

Readers club



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

Key initiative - launching the library with a wide collection of books.

Introducing of LB Lunch time knowledge TV.

Date formed
8th March 2016

Number of members
83

Photographic Society



Photographic Society
of LB Finance

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

Key initiative - 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

Date formed
6th February 2014

Number of members
146



RESPECT AND PROTECTION

LABOUR PRACTICE AND DECENT WORK PRACTICES

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

MINIMUM NOTICE PERIOD FOR OPERATIONAL CHANGES

Type of change	Minimum notice period
Transfers	1 Week
Retirements	8 Weeks
Terminations/Resignations	4 Weeks

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

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

HEALTH AND SAFETY

We follow a Zero accident work practices. As such we seek to create a hazard-free environment and have introduced policies and procedures to secure all premises in which we operate across the island. Our focus ranges from simple precautions to situations that demand more complex applications. Basic safety instructions are prominently displayed at all locations, while a specialised Business Continuity Plan in place for potential emergencies. This measure the health and safety are considered as priority area under the Business Continuity Plan. Further, as a service sector organisation, our employees are not exposed to the risk of occupational diseases.

PROMOTING HEALTH AND HEALTHY LIVING

A health screening programme was CSR 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.



FIRE TRAINING WORKSHOP FOR STAFF

LBF continuously provides fire training workshops in order to educate on necessary steps to be followed on an emergency. The year under review, company organised a workshop in the Southern Province. The main objective is to have hands on training to successfully face a similar situation to safeguard company interests.

HUMAN RIGHTS

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.

GRIEVANCES HANDLING

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.

HR GOVERNANCE

Responsibility assigned: to Human resource department

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.

NON-DISCRIMINATION

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.

WHISTLE-BLOWING

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.

CHILD LABOUR

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

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.

Outlook

We would need to absorb the cultural dynamics of these communities and understand the intricacies of their lifestyles. Consequently, a rethink of our approach towards human capital development would feature a more inclusive recruitment strategy that subscribes to a greater degree of local hiring. Doing so would not only enhance our service levels but also propel LBF as the financial institution of choice among the country's mass populace. LBF is in the process of creating a performance management system.



Social and Relationship Capital

Economic value generated to community

Rs. 2.59 million

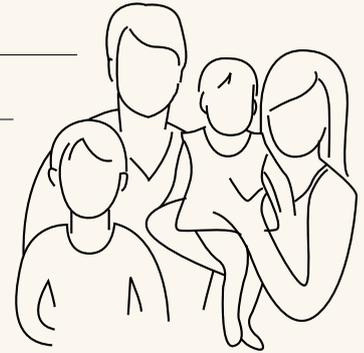
27

total financial solutions

5

suppliers engagement events

More than half a million customer base



Management approach

Responsible Financing:

Create a stable and progressive solution oriented environment by striking the right balance between cost and quality and promoting ethical and transparent financing practices

Strategic Priorities

- Affordability of service and customer convenience -
- Financial inclusion -
- Supplier networking -
- Community investments -

2016/2017 Progress Towards Objectives

Objective	Status	Page
Expansion in regional presence	60% customer penetration outside Western Province	92
Increased investments in digitalization	Introduce CEFTS that facilitates immediate real time fund transfers/ payments	93
Responsible financing	Rs. 14.54 million invested on CSR activities	108
sustainable procurement practices	100% of total payments to local suppliers	106

Objectives 2017/18 and beyond

Target year 2017/18

Start more regional payment centres to expedite the disbursements

150 Pre-school development projects in rural areas



Target year 2018/19

Partner with a foreign exchange house to introduce our own money transfer mechanism for currency remittance

To champion a new business culture and create a scalable growth in microfinance

Value creation among capitals

Challenges we faced



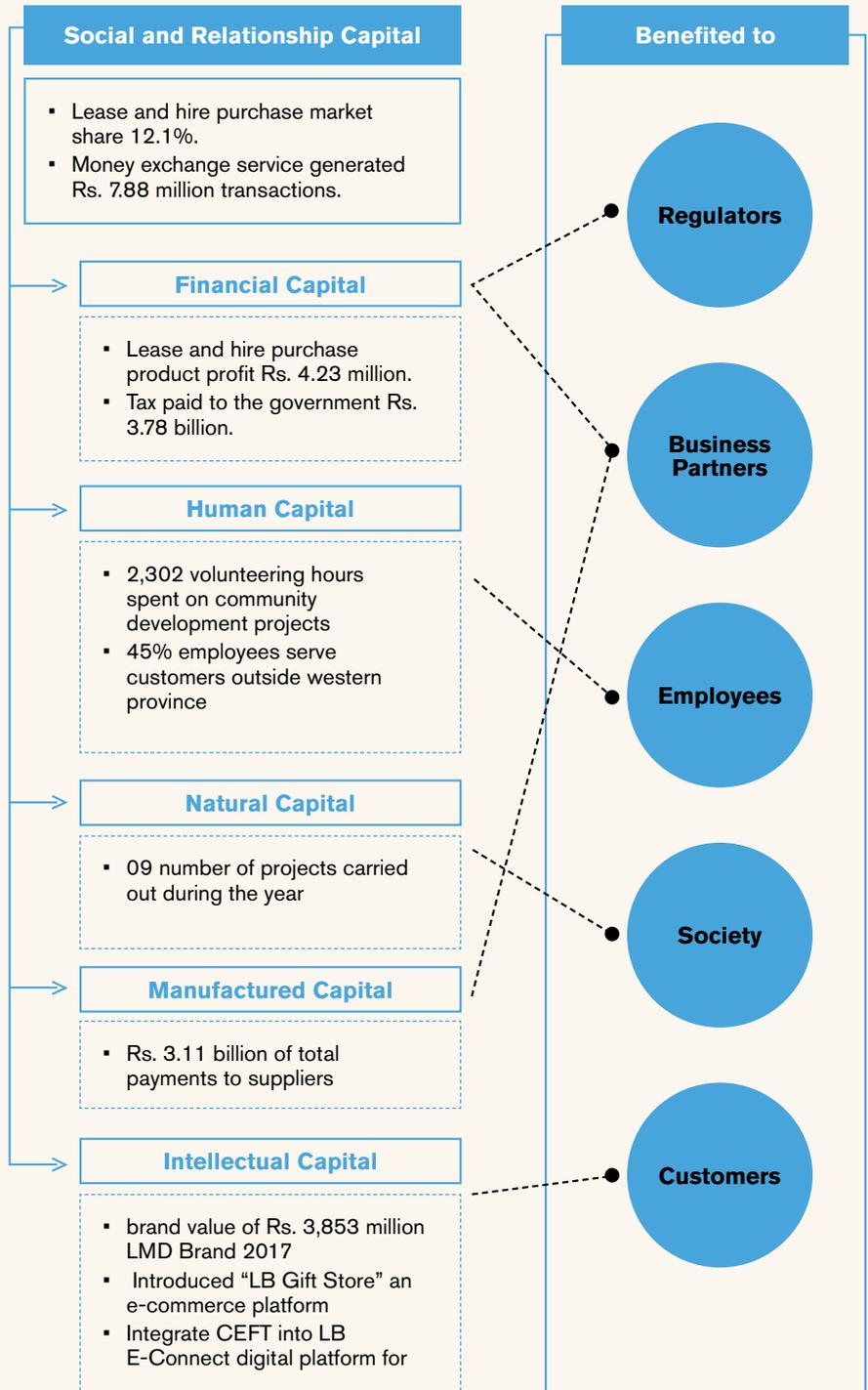
Volatility in macro-economic factors
Page 96



Intense market competition
Page 103



Changing the mindset of the society and gaining positive feedback
Page 108



CUSTOMERS

Customers are the reason for the existence of the Company and meeting their financial requirements is the main objective. With the wide geographic presence consisting of 118 branches and 36 gold loan centres, LBF caters to the financial requirements of a wide range of customers. The spectrum of products offered suit the diverse needs of our customer base.

MEETING THE DIVERSE FINANCIAL NEEDS – OUR MAIN OBJECTIVE

LBF has a wide customer range both individuals and corporates in different business scales including large, SME and micro. Catering to the diverse needs of customers is a prime component of LBF strategy. Total customer base of the company increased by 19 percent in 2016/17; with lending customers by 14 percent and depositors increasing by 27 percent.

STRATEGIC FOCUS DURING THE YEAR

During the year under review, we have been focusing on cross selling in order to broaden our personal finance portfolio. Another aspect that we focused on was customer profitability rather than product profitability. Even though some products such as Pay Hub, LB Gift Store and Rent-A-Car may not be commercially significant for a large financial operation, the existence of these products compliments core products by enhancing customer satisfaction and trust.

We also concentrated on improving relationship marketing in order to enhance our customer centric focus while minimising risk. Offering ancillary services to existing customers improve our relationship with the customer and minimise risk for the company as well. For example, assisting leasing customers to sell and upgrade their vehicles.

The concept of personalised financing has benefitted all stakeholders from customers to shareholders, to business partners and to employees. By providing an opportunity for business partners such as vehicles agents, mobile vendors and online marketers access to the LB customer base and promote their products LBF helped to build a strategic bond with them. Relationship marketing of this nature coupled with close follow up procedures have helped LBF to create a niche market and improved asset quality while reducing NPAs. Growing our business in this manner and reducing cost resulted in improved profitability and cost efficiencies for LBF, leading to higher wealth creation for shareholders. Our employees are provided with adequate training opportunities and they also gain extensive experience working on LBF's innovative and novel financial platform, creating a well trained and educated work force.

CUSTOMERS USING MORE THAN ONE PRODUCT INCREASED GRADUALLY

No. of Customers (%)	2013	2014	2015	2016	2017
In 1 Product	96.5	90.0	82.2	77.0	74.9
In 2 Products	3.3	9.3	16.5	21.2	23.0
In 3 Products and More	0.2	0.6	1.3	1.7	2.1

KEY INITIATIVES IN 2016/17,

- Realigned strategies to promote second hand vehicle leasing and micro leasing to mitigate the impact of LTV
- Linked with Toyota, Maruti, and Audi to offer high discount to leasing customers
- Promoted Three Wheeler and Motor Cycle as a family vehicle
- Diversified in to other lending categories such as mortgage loans whilst reducing the exposure to leasing.
- Set up an in house legal unit to speed up the mortgage loan approval process.
- Launched innovative novel product, L B Gift store.
- Renewed emphasis on product Power plus
- Launched happy returns savings investment plan
- Introduced CEFTS to speed up electronic money transfer.
- Re-commenced Murabaha trade Financing
- Mega Scale promotional campaign for Islamic brand

PLANNED INITIATIVES FOR 2017/18,

- To develop an online platform to link island wide car sale dealers and leasing customers
- Automate the leasing approval process to speed up the service
- Establish regional payment centres to expedite the disbursements
- To promote power plus in Colombo suburbs and other key cities in the country
- To offer a VIP gold loan service to improve privacy.
- To introduce a new personal loan scheme for pensioners named, Kruthahastha
- To extend e-connect service to fixed deposits
- Introduce a retirement benefit plan under savings products
- Plans to add all credit card payments and insurance payment feature to Pay Hub
- Initiative for Islamic financing
 - Planning to launch Musharaka product
 - Set a mega launch for Wakala products.

KEY PRODUCTS AND SERVICES

PRODUCT PORTFOLIO

Investing

Total deposit base Rs. 60.40 billion

Fixed deposits

Fixed deposits yield the highest return on investment with an array of attractive benefits including promotional campaigns during festive seasons. LBF has a total fixed deposit base of Rs. 57.89 billion.



Savings deposits

LBF has the second largest savings deposit base in the NBFI sector, amounting to Rs. 2.3 billion. LBF offers four different products under the savings deposit category.

- Kids' Savings - A unique savings account that enable parents to save for their children and offer attractive rates of interest and gift schemes.
- Regular savings - A rewarding way to get into the habit of saving and be rewarded with multiple benefits
- Senior citizen savings – A savings product with a relatively high yield and privileged services and benefits for the deserving senior citizens .
- Salary plan – A perfect savings scheme for the salaried, self-employed and professionals.



Financing

Lending portfolio Rs. 89.15 billion

Leasing and Hire purchase

Flexible financial solutions provided by convenient leasing and hire purchase services.



Fixed deposits and Savings deposits

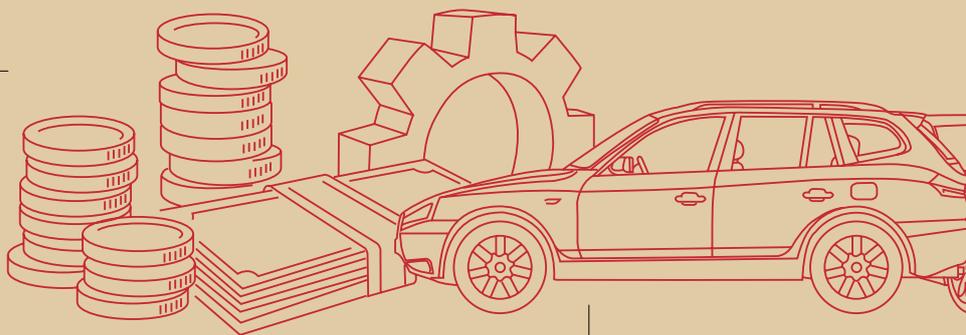
Mudharaba savings products share the concept of partnership business, where customer provides capital and the Company provide entrepreneurs.

A common equity based Islamic mode of investment for fixed deposits and savings, with a deposit base of Rs. 379 million.



Auto lease

LBF 's also offered the highest number of Ijara contracts for vehicles in the 2nd half of 2016/17 among its competitors.



Islamic Finance

Value added services

Total transactions worth Rs. 341.04 million

Loans

Mortgage loans – Convenient and flexible financing with longer tenors of repayment to build/own your dream house.

Vehicle loans – Help to finance your dream vehicle with flexible terms.



Working capital financing

Factoring – allows a smooth cash flow facilitating the customer to innovate and develop his business.

Power plus – improves the daily funding requirements for smooth operation.

Power draft – a solution for working capital requirement.



Investment and personal financing

Gold loans – provide best value for gold at competitive interest rates for urgent cash requirements.

Margin trading – service is a flexible financial tool, which provides leverage for stock market investors, to grow the share portfolio.

Personal loans – uniquely designed product to suit various requirements for upgrading lifestyles.



Fee based services

LBF has introduced a range of fee based products to diversify the Company income.

PayHub

Customers can pay utility bills anytime with convenience, with real time payment updates.



Money transfer

Web based remittance product supported by the latest technology.



Micro lease

Became more popular with three wheeler leasing and motor cycle leasing, which includes total hassle-free leasing service to finance the vehicle of customer's choice.



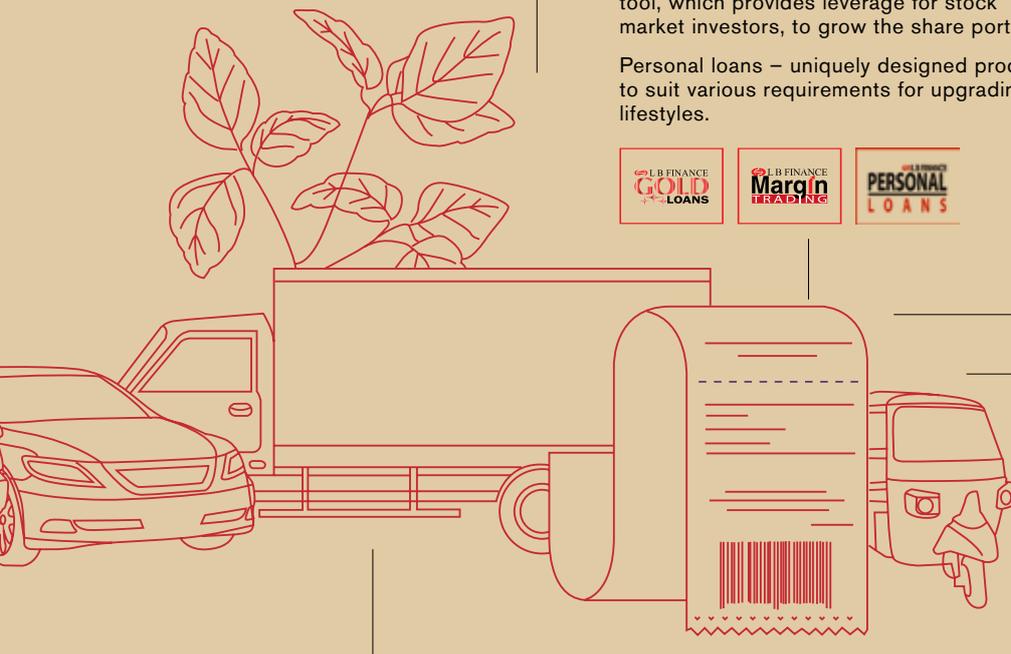
Micro financing

Dirimaga micro loan for all entrepreneurs to take their business to the next level.



Rent a car

A quick and easy way to satisfy customers' travelling needs.



LOAN VALUE DURING LAST 5 YEARS

	Mar-13 Rs. '000	Mar-14 Rs. '000	Mar-15 Rs. '000	Mar-16 Rs. '000	Mar-17 Rs. '000
Lease and Hire	28,271,347	30,299,456	33,695,517	45,104,836	55,660,963
Gold loans	10,671,742	8,007,047	10,380,704	13,136,351	16,267,505
Mortgage Loan	405,315	1,191,646	2,240,428	3,711,837	6,189,501
Vehicle Loan	3,330,973	7,304,695	7,195,496	5,099,563	4,184,086
Power Draft	226,339	341,405	563,910	1,455,258	2,117,675
FD Loan	1,125,180	1,071,293	1,060,988	1,389,833	1,911,853
Power Plus	-	-	31,065	696,623	1,576,682
Factoring	533,872	881,939	447,376	454,203	336,971
Margin trading	97,892	18,457	2,873	17,800	31,934
Daily loan	-	11,926	40,872	140,501	145,382
Other	61,674	64,830	299,050	347,200	727,189
Total	44,724,334	49,192,694	55,958,278	71,554,005	89,149,743

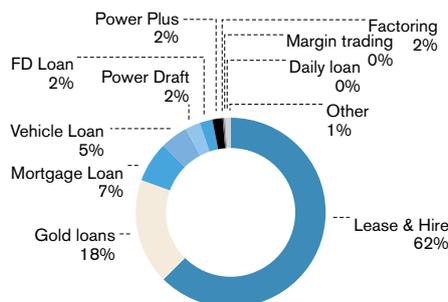
CUSTOMER CENTRIC PRODUCTS CRAFTED TO FIT FOR PURPOSE

Personalised lending products to suit all customer segments, eventually resulted in customers in the lower middle income band, who cannot meet the lending criteria of commercial banks, attracting towards LBF. Mortgage loans that are less than Rs. 5 million in value make up 50 percent of the company's total mortgage loans while micro leasing accounts for 34 percent in the total leasing portfolio. Lending products include leasing, mortgage loans, vehicle loans, factoring, over draft, micro finance, gold loans, personal loans and margin trading.

Current increasing interest rate scenario in the country has curtailed the growth potential of all types of lending products due to the increase in the monthly instalment. Vehicle leasing, the key product of LBF, was the worst affected with regulatory and fiscal policy changes in 2016/17. In order to mitigate the impact company took a strategic decision to diversify its focus from leasing to other lending products such as mortgage loans and re-designed its marketing strategies for leasing such as promoting leasing on registered vehicles (LTV is relaxed on any vehicle registered for more than 1 year at 70 percent). Leasing and hire purchase portfolio represented 62 percent of the total lending book of LBF in 2016/17.

Company warrants a market share of around 10 percent in leasing and hire purchase and believes strong growth potential does exist despite the challenging environment.

Loan products



LEASING AND HIRE PURCHASE SEGMENT

With over 45 years in the business, the Company has developed expertise and its legacy brand was strongly associated with vehicle leasing. Currently vehicle leasing is the main lending product of LBF accounting to 61.5 percent of the total lending portfolio in 2016/17. High interest rates, increasing vehicle prices and tightening LTV requirement curtailed the growth of vehicle leasing in 2016/17. Increasing duties on vehicle imports, depreciating local currency, raising FOB values of vehicles for tax purposes,

removing the depreciation table related to used or reconditioned vehicle imports and the implementation of engine capacity base tax structure resulted in a substantial price increase in almost all the popular vehicle categories.

LTV rule that limits the maximum leasing amount for a vehicle (both registered and unregistered) based on its market value was reduced from 100 percent to 70 percent with effect from 15 September 2015. Central Bank further tightened the LTV on 16th January 2017 while implementing multiple limits based on vehicle category. In respect of unregistered and registered vehicles less than one year from first registration, LTV will be 25 percent for three wheelers, 50 percent for cars & SUVs, 90 percent for commercial vehicles and 70 percent for any other vehicle. Vehicles that are registered for more than one year can be leased up to 70 percent of its market value. This is expected to have a material impact on the future leasing business, especially the unregistered category. However it is important to note that LTV rule does not apply for motor bicycles.

To minimise the impact, the company re-designed its marketing strategy towards registered vehicles (registered for more than one year), where 70 percent LTV is not applicable and micro leasing. By providing personalized financing, the Company has taken its best efforts to meet the financing requirements of its customers. To promote the registered vehicle leasing, the company has introduced a bundle product promotion that includes a cash discount, free insurance, free registration and other benefits depending on the vehicle model. LB has signed agreements with Toyota, AMW and Zenok (Audi) for such bundled product offerings and strong relationship with them enabled the company to obtain significant price discounts which were passed down to customers. LB offered a gift voucher to lease holders when the final installment is paid and the facility is fully settled as a goodwill gesture.

Further, L B leasing sales force assists existing leasing customers to upgrade their vehicles. In order to help customers in purchasing or selling their vehicles, LB maintained a close relationship with island-wide car sale dealers and stationed one staff member at the dealers' site. Going forward, the Company is planning to develop an online platform to link the island wide car sale dealers to facilitate online vehicle transaction facility to its customers.

Moreover, to speed up the approval process, the company has plans to automate the leasing approval process that is currently done by sending files through courier.

SUMMARISED FINANCIAL PERFORMANCE – LEASING AND HIRE PURCHASE

	2014/15 Rs. '000	2015/16 Rs. '000	2016/17 Rs. '000
Interest income	8,197,150	8,742,046	10,852,921
Product profit	2,144,938	3,832,273	4,235,148
Portfolio value	33,695,517	45,104,836	55,660,963
Portfolio growth (%)	11.2	33.9	23.4
Market share (%)	8.0	8.8	10.1

MICRO LEASING

Micro leasing is an excellent example of personalizing financing, targeting the lower income population to uplift their livelihoods and strengthen the small entrepreneur culture within the country. Under micro leasing, the company offers leasing facilities for Three Wheelers and Motor Cycles. Three Wheeler leasing is the most affected leasing category from the LTV regulation that permit to lease only up to 25 percent of the value of a brand new three wheeler. Marketing strategies were re-designed to cope up the situation and focus was diverted to promote second hand three wheelers registered for more than one year. The Company also promotes motor cycle leasing for salaried employees that can be granted up to 100 percent of its value for the leasing facility. (i.e. no LTV rule for motor cycles).

In order to differentiate the product from competitors, the company offers promotional gifts such as tyres, mobile phones and taxi meters for second hand Three Wheeler leasing. Substantial price increase in brand new Three Wheelers has resulted in a high demand in the second hand market. At present highest penetration in Three Wheelers are recorded in Colombo, which is 25 percent while other areas remain low at 6-7 percent. Company believes there is a massive potential in the second hand Three Wheeler market going forward.

Responsive strategic initiatives by the company are expected to gradually recover the lost volume in leasing with the tightening regulations. On average, Three Wheel leasing volume dropped almost by 1/3 a month (total un-registered three wheeler sales have dropped by 1/5) while registered Three Wheel leasing has grown by little more than three times a month.

Marketing strategies were diverted to create a perception change in customers' minds, especially in the rural areas, to use Three Wheeler as a family vehicle. Except for the Colombo district, Three Wheeler is mostly used as a family vehicle and self-employed personnel. In addition a special marketing campaign is carried out with David Pieris (the authorised dealer for Bajaj Three Wheelers) to promote brand new three Wheelers to self-employed personnel and for salaried employees (both private and government) at a special interest rate. The Company has an estimated market share of around 22 percent in the un-registered Three Wheeler market and remained the third largest player in the product category. However company estimate that the LTV rule will affect 15 percent of the Three Wheeler leasing volumes.

Weak public transportation system in most of the country's rural areas has resulted in a massive potential for Three Wheelers and Motor Cycles. The company has very well personalized its financing products to cater to the needs of every customer.

Motor Cycle has been popular as the first vehicle among youth and ladies. At present around 30,000 Motor Cycles are registered per month and the Company see a substantial potential in Motor Cycle leasing. Promotional strategies such as offering a jacket as a gift were effective in differentiating LB from its competitors. Company plans to be the market leader in motor cycle leasing.

While taking risks and satisfying every customer, the Company has taken stringent measures to minimize the risk and improve asset quality. Even in micro leasing, customer need to have a proven income source to obtain a lease, however for brand new Three Wheelers, company offers 25 percent leasing without any hesitation since the strong second hand asset value. For school leavers who don't have a proven income source can link with their parents to arrange leasing facilities. In addition, increasing vehicle prices have increased the chances of recoverability while higher rates and strict LTV ratios has also encouraged existing customers to continue instalment payments without any default. This has resulted in improving overall asset quality of the lending portfolio.

The company hired more staff, mostly school leavers, during the financial year to support the aggressive marketing campaign of Three Wheeler and Motor Cycle leasing.

LOANS AND RECEIVABLES SEGMENT VEHICLE LOANS

Vehicle loans do not contribute materially to the Company's lending portfolio but exists as a product to satisfy the unique needs of customers. Under vehicle loans, customer obtains a loan by using his own vehicle as collateral to finance a personal need other than purchasing a vehicle.

MORTGAGE LOANS

Mortgage loan is yet another personalised non-existence lending product with a prime focus on small value facilities with less document requirement and for documentary evidence for income

sources. In case of a default, Parate law does not apply for small scale facilities (less than Rs. 5 million in value) hence banks are not able to auction the property. LBF goes an extra mile to take up the risk and cater to the needs of this under privileged customer segment while taking stringent measures to improve asset quality. Specially devoted staff cadre visits customers to obtain confirmation on the income source where there is lack of documentary evidence. Loans are given to customers who have a confirmed income source and for businesses that has a potential to grow with additional financing. In order to differentiate from peers, the Company focuses on speedy service, flexibility, convenience, and tailor-made for the specific financial needs of customers based on their repayment capability. Mortgage loans will facilitate the customer to purchase, refinance, effect improvements to properties either business or personal, or consolidate debts by mortgaging their assets.

Mortgage loan is the fastest growing lending product and has grown from Rs. 405 million in 2012/13 to over Rs. 6 billion in 2016/17. The product is the prime focus of LBF's strategy to diversify its lending portfolio to reduce the risk related to heavy weight leasing. Mortgage loans represented 7 percent of the total loan book in 2016/17 up from 1 percent in 2012/13. Stringent measures and asset back security has resulted in improving overall asset quality of the Company's lending portfolio. The Company also focuses on promoting more housing loans due to low default risk compared to business loans. In addition all mortgages are required to obtain a mortgage protection insurance cover.

The Company took a strategic initiative in 2016 to form a separate in house legal unit and recruited more lawyers to speed up the credit approval process (title check etc.) and minimise risk. The Company focuses to disburse mortgage loans within 24 hours given that there is no issue in title deeds.

Mortgage loans are further personalised in to three segments; fixed rate, variable rate and interest only (with a grace period to settle lump-sum capital or convert to a variable or fixed mortgage after the agreed period). LBF also offers both short-term and long-term loans and it is the first finance Company to offer long-term mortgage loans (started in 2012) to comfort the fixed income earners and uplift their standard of living.

Mortgage loans under variable rate are offered only for personal and housing with a long-term tenure up to 20 years (for business purposes maximum seven years). Longer term tenure will minimise the monthly instalment and benefit those earning a fixed income salary and support to uplift their livelihood. Variable interest rate will be reviewed annually and based on market rates.

Fixed rate mortgage loans are offered mainly focusing business customers with a maximum period of tenure up to seven years. This facilitates expansion or start-up businesses and personal purposes like education and wedding etc.

Interest only loan scheme was introduced to customers who need to minimise the initial cash flow for a short period and has the capacity to pay the lump-sum amount on a future agreed date or convert the loan to a normal fixed or variable mortgage facility. For instance an employee expecting EPF payment or a business engage in land sale can benefit from this product.

The Company sees a strong growth potential in the mortgage loan with the booming construction and property industries in the country, especially in the apartment and hotel segments. Experienced and devoted staff for mortgage loans is mostly internally grown and due to the rapid expansion pace, the Company has head hunted personnel from banks and other financial institutions.

FACTORING

The product was initiated in December 2010 to provide business customers with

personalised, innovative and tailor-made working capital solutions. The product mainly targets the SME sector and caters to a wide spectrum of businesses such as manufacturing, whole sellers and other service providers. In order to offer a value added service to factoring customers, LBF takes the responsibility of handling the debtor account related to factoring. It has also assigned a special team to follow up the collection procedure to minimise risk. Although considering the high risk nature of the product with un-secured collaterals, the Company implemented a strategy to scale down the portfolio since 2012 to exit from high risk facilities. Successful execution of the strategy resulted in a lower gross NPA.

Factoring portfolio reduced from Rs. 454 million in 2015/16 to Rs. 337 million in 2016/17 due to scaling down and focusing on improving asset quality.

With a fast growing SME sector in the country and highly under penetrated factoring business outside the Western region, the Company believes the product has a considerable long-term potential.

MICRO FINANCING

Personalising Financing concept of L B has ultimately helped the under privilege low income customers who are undeserved by the banks. *Dirimaga* loan scheme is designed to promote micro financing to customers who are already engaging in businesses and has physical evidence of a daily income source (regardless of proper documentary evidence). Before credit approval, it needs to be further proven that additional financing will result in an incremental value for the business thus growth. 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. Moreover loans are given for short tenure maximum up to 90 days. *Dirimaga* reached a portfolio value of Rs. 145 million (+3.5 percent YoY) in 2016/17. Company has a separate staff in different caliber to operate and market the product.

CBSL has enacted the regulation for Micro financing industry and formal regulations will lead to a negative impact on the industry in the short term. However LB welcomes the new regulation and its already structured and standardised product offering will have an edge to cater to the growing demand. In addition, the Company believes *Dirimaga* to have a substantial potential with fast growing micro business segment in the economy as the future growth in Sri Lanka is expected to be driven by SME and Micro businesses.

POWER DRAFT

Power Draft was introduced in April 2011 to offer Over Draft (O/D) facilities for both individuals and business clientele of the Company. This facility allows customers to keep their valuable assets such as vehicles or land as a security against the loan. The duration of the facility will depend on the loan value and usually short-term up to maximum 12 months. LBF offers a total hassle free process and benefits the businesses with urgent cash needs.

Power draft portfolio has grown from Rs. 1,455 million in 2015/16 to Rs. 2,118 million in 2016/17 while due to asset backed security it carries a low risk.

POWER PLUS

Power plus is another tailor made product under the personalised financing concept to offer an incremental benefit for the businesses in the country. The product benefits corporates and individuals who have reached their maximum capacity of borrowing though yet have the capacity to get an incremental growth with additional debt. Product is based on post-dated cheques, where LBF will hold clients post-dated cheques as security and provide loans for their short-term working capital requirements.

The product was initiated in November 2014 and reached Rs. 1 million portfolio value in August 2016 and reached Rs. 1.5 billion by end of 2016/17.

The product supports the growth of the SME sector where the growth is restricted due to funding difficulties. Power plus mainly focuses to promote its offering in Colombo suburbs and commercial cities in the country.

GOLD LOANS

LBF continues to be the market leader in gold loans among non-banking financial institutions, which bears testimony to the level of confidence and trust among customers. Gold loan portfolio accounted for Rs. 16.3 billion in 2016/17 with a market share of 58 percent. The product was targeted at middle and low income class population segment to satisfy their urgent financing needs. The product yet again contributes to the personalised financing concept of the Company. The product is presented to the customer on a 3C model; Convenience – speedy service, Clarity – transparent sales pitch and Caring – close relationship with customers. Special features such as ability to settle and receive articles without prior notice, wider access centers through the branch network (opened from Monday to Saturday till 6.00 p.m. including public and bank holidays), free insurance for gold articles, SMS alerts and range of short-term tenures made the product attractive to customers.

The Company has a specially dedicated, professional and well trained staff to offer a quality service to customers and manage gold articles.

Since the Company does not have significant competitive threat in the non-banking sector, it aligns its strategies to compete with larger commercial banks. Marketing strategies are pointed towards building trust and increasing awareness. In order to differentiate the service offering, the Company is planning to increase privacy in transactions by creating a VIP service that offers the service in a separate cubicle. The Company's strategic goal is to become the most trusted gold loan provider in the country.

MARGIN TRADING

Margin trading helps stock market investors to multiply their investment capacities to deal with investment opportunities to maximise returns. Unfortunately due to the bearish trend in Colombo share market, the product saw a sluggish performance in 2016/17. Even though LBF does not have any major strategic growth plans for margin trading, it understand the importance of offering services to stock market investors and positive contributions will reap when the market recovers. Margin trading portfolio value has grown to Rs. 31.9 million in 2016/17 from Rs. 17.8 million in 2015/16.

PERSONAL LOANS

The product is uniquely designed for individuals who have a proven fixed income source such as a monthly salary to suit various requirements for upgrading life styles. In order to further reduce the default risk, the Company requires two guarantors to grant the facility. For low salary employees such as factory workers, the Company negotiates with the employers and offer bulk loans with the employer guarantee. Personal loan portfolio grew 173 percent YoY to Rs. 563 million in 2016/17. The Company plans to increase the number of customer base through a quality service.

LBF plans to introduce a new personal product namely, Kruthahastha exclusively for pensioners in the country. This further strengthen personalised financing concept that offers a range of tailor made products to suit any person that walks in to LBF.

ISLAMIC FINANCE

LBF commenced Islamic Finance services in 2010 under the brand Al Salamah to offer personalised financial services to the Muslim population in the country. Product offered under Al Salama meet all the requirements set by the

Sharia'h law. Under the Islamic Financing Unit, LBF offers a wide range of products such as Mudharabah fixed and savings deposits, Ijara leasing facilities and Murbaha trade financing through its island wide branch network.

Despite having almost the same product features as Islamic products offered by competitors, the Company focuses to differentiate through improving operational efficiencies such as quick delivery, service convenience through its island wide branch network and on time profit distribution. The Company has set up exclusive branches in high Muslim density areas such as Sea Street Colombo, Kandy City Centre and Kinniya Trincomalee under Al-Salama brand linked with the parent LB brand. In some selected areas where the Muslim population is high but having a separate section is not commercially viable (areas such as Geliyoia, Kuliypitiya, Kalutara etc), the Company has stationed a special appointee devoted for Islamic financial services.

In order to increase brand awareness, LBF conducted a mega scale promotional campaign in the Eastern region for the Al Salama brand linked with the LB brand. This is expected to generate future sales from Islamic Finance Unit and support company financials.

While operational teams are centralised in Colombo, marketing teams are spread in all branches to scout business. The Company has its in-house Sharia's advisor to ensure adherence to Sharia'h guidelines in Al Salama business activities. The Company increased the staff cadre for Islamic business from 12 in 2015/16 to 22 in 2016/17 through head hunting and recruitment of school leavers with a focus on the Murabaha product expansion. Moreover staff training was also increased with notable changes, where staff was

given on-the-job and on-site training for the first time in 2016/17 (previously done in Colombo).

All Islamic products are governed by the Central Bank's regulatory framework for lending and deposits while Islamic lending is financed by Islamic deposits and other Company funds.

Mudharaba savings products share the concept of partnership business, where customer provides capital and the Company provide entrepreneurs. Profit, which is not pre-determined, will be shared on agreed time intervals. Mudharabah savings products are further personalised in to Fixed Deposits (maximum one year), Savings, Kids Savings and Senior Citizens Savings.

Despite having a serious negative impact and slowed down growth from tightened LTV ratio, Ijara leasing product reached Rs. 2.5 billion in 2016/17. LBF's Al Salama offered the highest number of Ijara contracts for vehicles in the second half of 2016/17 among its peer comparisons. In order to further personalise the product, it started to capitalise the insurance premium for the asset to facilitate a virtual easy insurance payment plan for customers since 2015/16. Ijara has now become less popular with tightening regulatory framework and, customers are increasingly attracted to Musharaka product which is similar to an Over Draft facility to meet their financing needs.

In a bid to further widen the scope of personalised financing, the Company has set to launch a new product called Wakala next year. This will be similar to an agency agreement that can be either a working capital loan on the asset side or a term investment on the liability side, where LBF will be the agent. Profit sharing rate will be personalised and will vary from customer to customer. Wakala will facilitate an extended term deposit period up to five years where term of the current Mudharabah fixed deposit limits to one year.

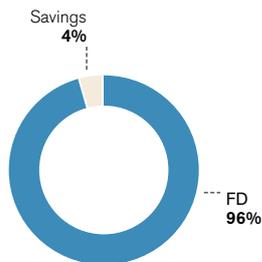
SUMMARISED FINANCIAL PERFORMANCE - LOANS AND RECEIVABLES

	FY-15 Rs. '000	FY-16 Rs. '000	FY-17 Rs. '000
Interest Income	4,834,687	5,179,323	6,349,685
Product Profit	1,302,471	2,006,281	2,330,407
Portfolio value	22,262,761	26,449,169	33,488,779
Portfolio growth (%)	17.8	18.8	26.6
Market share (%)			
Gold loans	44.1	51.2	57.6
Other loans & receivables	5.5	3.9	3.6

DEPOSITS

Personalised deposit products to satisfy all customer segments and personalised service and stronger relationship developed by staff enabled the Company to build customer loyalty with an emotion. This is clearly evident from the higher senior citizen deposits in the total fixed deposit base. Senior citizens represent 65 percent of the total fixed deposit base of the Company. Total deposit customers grew by 27.2 percent YoY in 2016/17. Total deposit value grew by 13.2 percent YoY to Rs. 58.3 billion mainly driven by the growth of fixed deposits due to increasing interest rates. LBF warrants for 11 percent market share of the total deposits in the NBFi sector.

Deposit base



FIXED DEPOSITS

Leveraging on its reputation, LBF has become the second largest fixed deposit base holder in non-banking financial institutions sector in the country. Fixed deposits offer wide range of tenures and remained the largest funding source of LBF to date. Customer can open a fixed deposit with a minimum amount of Rs. 5,000 in wide range of tenures from one month to five years and opt to receive interest monthly or at maturity. In order to minimise risks and reduce cost, the Company initiated a strategy to reduce the dependency on fixed deposit as the largest funding source. To further personalise the product, it is offered in three forms namely general, Senior Citizen and Islamic Mudharaba. To minimise the risk of cash shortages from sudden withdrawals, the Company now promotes smaller deposits than larger values. It has also endeavored to increase longer term deposits by offering attractive rates to overcome maturity mismatch.

Wide spread branch network and continuous promotional schemes and campaigns are in progress to grow the fixed deposit base. Central Bank increased the interest rate cap for finance companies two times during the financial year and helped the Company to offer higher rates and attract deposits.

LBF plans to extend the e-connect service to fixed deposits, which will facilitate customers to open fixed deposits, balance inquiry, real time transfers and many

more customer friendly features. With the objective of becoming the market leader in fixed deposits, the Company focuses to further strengthen customer relationships and continue promotions to attract new customers and cross selling from existing customers. The Company recently launched LB Gift Store and offer gift vouchers for new fixed deposits to purchase products through the gift store.

SAVINGS DEPOSITS

To foster the savings habit among customers, LBF has personalised its savings products to suit different customer segments and their varied saving objectives. The Company continued with its strategic decision to expand the savings deposit portfolio on the total deposit mix to create a low cost deposit base. Fixed deposit carries relatively a higher interest rate thus the cost of funds are higher. Savings deposit mix in the total deposit base increased from 0.7 percent in 2012/13 to 4 percent in 2016/17. Total savings deposit base expanded to Rs. 2,359 million in 2016/17 from Rs. 263 million in 2012/13.

Savings products include Regular Savings, Kids Savings, Senior Citizens saving, Salary Plan Savings and newly introduced investment plan product, Happy Returns. Senior and regular savings are the highest contributors to the total deposit portfolio while Senior Citizen deposits represent 25 percent of the base. Happy Returns that were introduced in 2017 suits saving customers to build an investment plan by depositing a fixed monthly amount to receive a lump-sum with an attractive return in an agreed period between two to five years. Effective rate of Happy Returns are encouragingly attractive than the rate of regular savings account.

Products offer almost all the features for similar product categories in the industry. In order to differentiate its offering, the Company focuses on value added services, promotions and speedy service. Except Kids Saving and Happy Returns all other saving products are offered with a Visa debit card (introduced in 2014) and

online banking facility called e-connect. Visa debit card can be used at all Visa ATM networks and for shopping at all Visa network vendors both locally and internationally. Number of debit cards issued increased from 5,768 in 2015/16 to 8,979 in 2016/17 while total transaction value from debit cards increased by 62 percent YoY to Rs. 925 million in 2016/17. L B e-connect facilitates customers to reconcile account information and do transactions online, which is a speedy and convenient service. Other features such as rewards, seasonal benefits, e-statements and free SMS notifications on transactions are also offered to enhance security, customer confidence and satisfaction. Understanding the need of changing with advancing technology, in 2017, the Company introduced CEFTS (Common Electronic Fund Transfer Switch) that facilitates immediate real time fund transfers/ payments through LankaPay between CEFTS members. Free of charge standing order facilities, unlimited number of withdrawals without affecting the interest payments on monthly basis, gift vouchers on recently launched LB gift store and loan facilities up to 15 times of monthly salary are the other attractive features that benefit customers.

In a bid to further personalise its savings product, the Company is planning to introduce a retirement benefit plan to improve the savings habit among people in the age of 40s. The country is witnessing an aging population and the product is expected to have a substantial potential in the longer-term.

FEE BASED SERVICES

Apart from core interest generating products, LBF has introduced a range of fee base products to diversify the Company income. This includes Pay Hub, Money transfer, Money exchange and Rent-A-Car.

PAY HUB

With the sole objective to provide a value addition to Company's core financing business and to improve customer convenience, Pay Hub was introduced in December 2012 to facilitate utility bill payments through LBF branches and e-connect online facilities (e-connect is linked to PayHub). The Company has created alliances with all reputed utility service providers including, all mobile telecommunication companies, Sri Lanka Telecom, National Water Supply and Drainage Board, Ceylon Electricity Board and Lanka Electricity Company. Special agreements are signed with mobile vendors on a selected commission rate hence there is no fee for customers. For water and electricity payment government utility providers does not pay a commission hence charge a nominal flat fee per transaction from the customer. The product enables to increase the shop traffic or more walk in customers to LBF branches, resulting in a free advertising for LBF's core products thus improving its businesses. Moreover all inquiries related to bill payments through Pay Hub system will be handled by LBF to avoid customer hesitation.

Understanding the qualitative benefits for LBF's core business, the Company plans to expand the service by planning to introduce all credit card settlements and insurance payments through Pay Hub. The wide branch network will be an added advantage in promoting these products and vendors will also benefit through enhanced customer satisfaction.

MONEY TRANSFER

LBF became a sub agent of world renowned Money Gram international in October 2015 to facilitate worldwide money transfer services to its customers. The system recorded a significant growth since inception and currently generates around 1,000 transactions, which is worth Rs. 50 million in value per month on average.

In order to promote the product, the Company has introduced a special loyalty programme and also seeking the possibility to partner with an overseas foreign exchange house to introduce an own money transfer mechanism for foreign remittances.

RENT-A-CAR

LBF started rent a car business in December 2013 to diversify business and expand the fee based income, though not material for the overall finance business. This is maintained as a complementary service for our customers and does not have a profit maximising objective.

L B MONEY EXCHANGE

The product was launched on 1st November 2016 to facilitate foreign currency exchange services to customers. This is also part of the personalised financing concept to improve customer satisfaction and convenience, targeting residents, non-residents and companies who accept foreign currency. The service engages in purchase and sale of major foreign currencies at rates in favour of customers and higher than commercial banks at a zero percent commission. Since the product is at the introductory stage and rates are set in favour of customers, resulting in low spreads in 2016/17, however is expected to improve gradually.

Staff engaged in foreign currency exchange is being given continuous training on handling foreign currency notes, rules & regulations and dealing with Central Bank on a timely basis. The Company has invested in sophisticated IT systems and modern equipment such as advanced cash machines to high quality customer service and mitigates transaction risks with the service. The Company currently offers the service at 21 identified branches and focuses to expand service availability to 45 branches in areas where material volume of foreign exchange is transacted.

The Company believes the exchange business to have a substantial potential considering the size of the un-regulated business (estimated to be five times the regulated business) and competitive edge of the wider branch network to have a convenient service.

OTHER SERVICES

Further personalising the service offering the Company also offers other services such as offering guarantees for fixed deposit holders, support LC opening for importers while financing the margin requirement and offering online retail store facility through LB Gift Store.

LB GIFT STORE

LB Gift Store is an innovative product offered by the Company to its fixed and savings deposit customers to purchase goods online (the service is the first of its kind in banking and non-banking sectors). LBF has partnered with a pioneer online store in the country, 'Mydeal.lk' and offers a range of products including electronics, mobile phones, home appliances, kids toys, gift vouchers, travel packages, etc. As a promotion LBF offers a gift voucher when a customer (fixed and savings) make a deposit or complete the lease contract. Customers can use the voucher to purchase any item to their choice from more than 10,000 goods available in the store. If the customer wants to purchase more than the value of the voucher, they can purchase and pay through any debit/ credit card or cash on delivery. Goods will be delivered to the designated address by Mydeal delivery staff island-wide.

This is yet another valued added service provided by LBF and will help to gain customer trust and cross promote its deposit and lending products. The service yet again supports the concept of personalised financing in terms of offering every possible service and cross selling for customers using more than one product.

MARKETING

Marketing is a key function that helps LBF continue in a position of strength and create awareness of its products.

A sound understanding of the operating environment and customer requirements enable LBF to promote the relevant products to its wide customer base. In the process, we build up our brand image and take necessary measures to improve customer satisfaction and customer experience. Our widespread branch network, customer loyalty programmes and improving customer connectivity through the call centre enabled us to improve our customer centricity. Details related to building the brand image and its sustenance is contained under the intellectual capital on page 64.



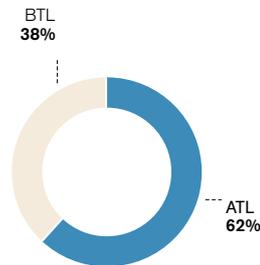
CREATING AWARENESS

Creating awareness about the Company's products and services is the key to reaching out to more potential customers in target markets and maintaining the existing customer base. We employ a mix of communication methods in order to reach our customers effectively.

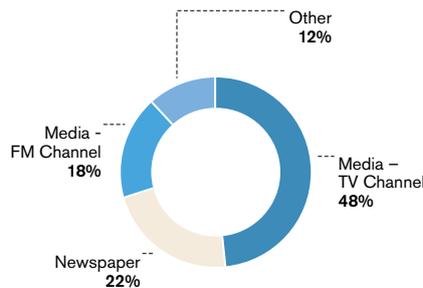
LBF uses two communication channels which are recognized as Above the Line (ATL) and Below the Line (BTL). ATL advertising uses mass media as a medium of communication to enhance the brand image and reaching the target customer

base. This is much more effective, when the target group is very large and is difficult to define. BTL techniques are used to target a specific market group and ensures brand recall and promote the features of the products within the customer segment.

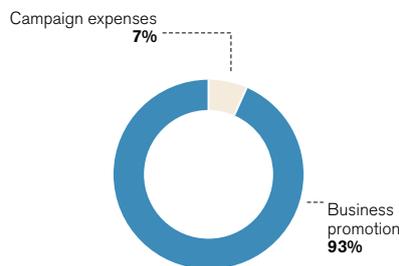
Advertising expenses



ATL related expenses



BTL related expenses



During the year, LBF enhanced the existing product portfolio by introducing new features and also widened its portfolio of products through new product offerings. The Company's strategy was to make use of mass media more during the year.

The advertising campaigns were conducted mostly through electronic media, press, other mass media channels and 61.84 percent of the total expenses were spent on this medium while the balance 38.16 percent included the advertising campaigns carried out through BTL activities such as business promotions.

Special promotions are communicated through the web, via the LBF official web site and social media networks. E-flyers through email advertisements are used as an effective method of communication. The Company makes use of social media such as Facebook to build a network of loyal customers. Seasonal promotions targeting specific customer segments are successful in reaching out to new customers.

PRODUCT RESPONSIBILITY

All our advertisements and promotional material adhere to the regulations stipulated by the Central Bank of Sri Lanka and are subject to monitoring by the Senior Management. The stipulated guidelines and ethical considerations govern all branding and advertising. All information required is contained in the advertisements enabling customers to make informed decisions about our products and services while a designated customer relationship officer would be available for clarifications and customer support.

All advertising and promotions related to deposit products adhere to the Central Bank mandated requirements and are subject to monitoring by the Senior Management. The given guidelines and ethical considerations govern all LBF's branding and advertising. All necessary and requested information are provided to the customers while a designated customer relationship officer would be available for clarifications and customer support. In the year under review, the marketing communications, including advertising, labeling and promotions undertaken were compliant with regulations and voluntary codes concerning advertising. During the year the Company has not promoted or advertised banned or disputed products or services which are not included under the product portfolio.

CUSTOMER RELATIONSHIP

LBF's loyal customer base consists of more than half a million customers who have trusted the Company as a superior financial service provider among the competitors. The customer centric focus of LBF ensures that all the customers experience a superior service at LBF. The Company enhanced the existing customer relations unit by introducing complaints management unit, customer complains hotline, loyalty programme and marketing monitoring unit which were established in the previous year.

During the year, LBF strengthened the call centre facility providing a better communication process while managing customer relationships effectively.

CUSTOMER HEALTH AND SAFETY

In the process of promoting products and services, LBF gives due consideration to customer health and safety. As a good corporate citizen, the Company ensures our customers get the best products available in the market. When providing leasing facilities, our specialized officers examine the vehicle condition according to the pre-determined standards before handing it over to the customer. In our operations, 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 conducts seasonal promotional campaigns that provide additional benefits to the customers at no extra cost. Most promotions included gift items, where the Company partnered with reputed suppliers who conform to our supplier assessment criteria, to ensure the quality of the products and to protect customers from any negative consequences. All the materials used for promotional purposes are reusable and recyclable, in support of our environmental focused objectives.

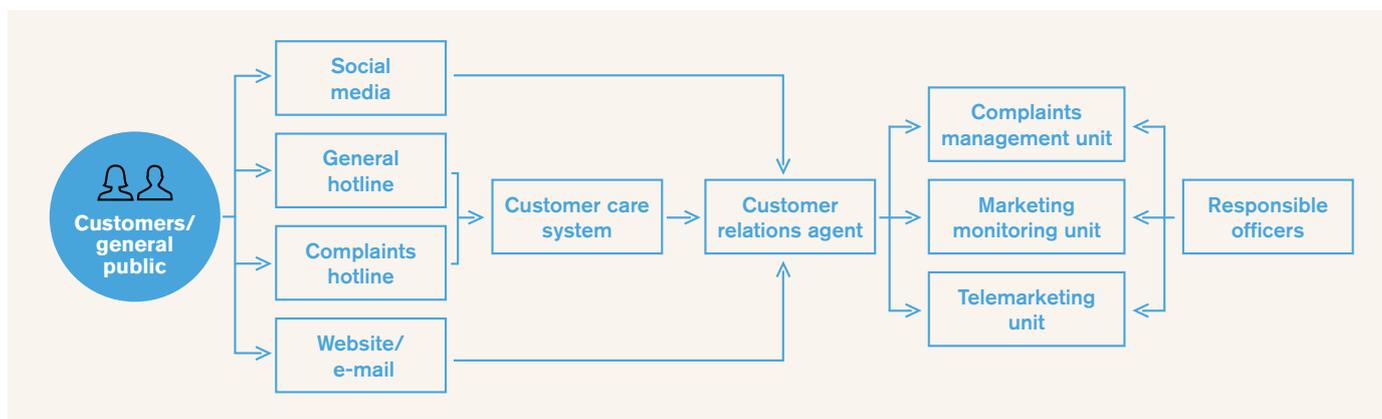
CUSTOMER RELATIONSHIP MANAGEMENT

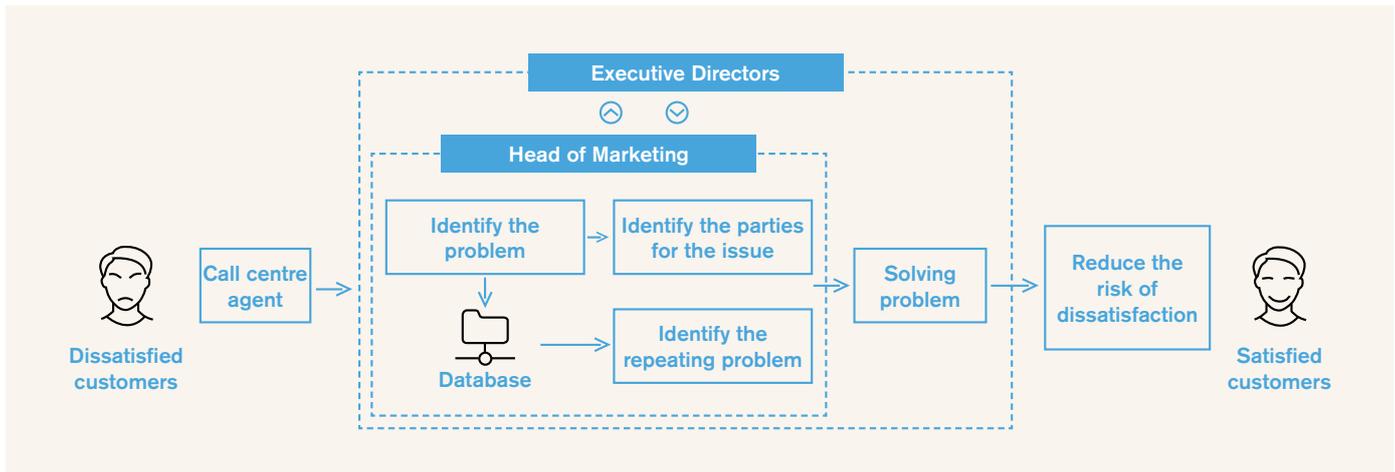
CALL CENTRE

Customer service was enhanced by the establishment of the call centre which operates 24X7. The centre is manned by experienced employees, also trained in customer relations, who are able to provide speedy solutions to customers. All call centre employees are trained to build better customer relations with customer oriented trainings as discussed in page 81 in the human capital. The increased number of inquiries revealed the centralised call centre operation is a success which addressed more than 23,000 inquiries within the year. In the year under review there were significant improvements in the balancing and handling customer inquiry traffic via the newly introduced customer care system.

COMPLAINT MANAGEMENT (CMU)

A CMU was set up to cater to dissatisfied customers and ascertain the degree of impact to the Company. CMU's primary objective is to prevent customer complaints from escalating into customer dissatisfaction by immediately identifying issues and providing quick responses. During the year, the total number of complaints received was 23,547. All complaints are stored in an organised database to





Customer complaints analysis is carried out post resolution in order to minimize customer dissatisfaction. This provides a means for dissatisfied customers to express their concerns and have their concerns addressed with proper follow up by an independent unit.

CUSTOMER SATISFACTION AND CONVENIENCE

The call centre engage with our existing customers to explore the satisfaction levels and also promote new facilities open for them.

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 ensures that the product specialist communicates in an effective way while monitoring customer satisfaction. SMS leasing inquiries worked well during the year and facilitated the increase of facilities granted.

MARKET ANALYSIS

Having accurate data relating to the market enables successful marketing. Products and promotions should keep pace with changes in the market. To achieve this, LBF conducted several market researches for promotional campaigns and loyalty programmes.

MYSTERY SHOPPING

LBF used mystery shoppers since 2010 to evaluate the overall customer experience at 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.

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 more focus on employee communication and relationship training.

CUSTOMER PRIVACY

The customer data obtained is considered very confidential and LBF takes precautions to prevent it from being misused. The Company follows the ISO 27001:2013 Information Security Management System and the CBSL confidentiality requirements to ensure customer privacy. Providing customer information to third parties is regulated. LBF's employee contracts include a clause on customer privacy which is mandatory for all employees.

In the year under review, there were no incidents of violations of customer privacy or loss of data.

Aspect
Product and service information, labelling, Marketing communication, health and safety (advertising, promotions and sponsorship)

☑

Compliance review
Incident of non-compliance with regulation result fine or penalty, warning, breaching voluntary codes

☑

LB Context
None

Outlook

LBF targets enhancing our brand image and customer loyalty towards via employees, research and development, sales support, business promotions and innovative services. The Company will continue its focus on incorporating environmental sustainability in promotions and advertising. LBF's journey is one of finding undeserved customer requirements and untapped market opportunities and serve them in order 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 PARTNERS

Business partners consist of the suppliers of goods and services required to carry out the activities of the Company. They play a key role by providing goods and services of high quality, in a reliable, timely, efficient and flexible manner in order to carry out the activities of the Company uninterrupted. The procurement procedure followed by LBF is well documented so as to enable the Company to procure quality goods and services at a reasonable price while maintaining high ethical standards and taking into account social and environment responsibilities.

LBF makes use of its brand image and size of the operation to negotiate reasonable prices for goods and services sourced in order to build up maximum value for its stakeholders.

TYPES OF BUSINESS PARTNERS

Business partners can be categorised as follows:

Assets and material suppliers

Vehicles, IT Equipment, furniture, office equipment and stationary items

Outsourced services

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

Financial services providers

Banks and financial institutions, auditors

Other services

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

SUPPLIER BASE AND SPENDING

LBF's total supplier base expanded to 28,543 partners in 2016/17 from 24,224 partners in the previous year, while total payments to suppliers increased to Rs. 63.3 billion from Rs. 37.1 billion during the year due to expansion of business activities, including opening of new branches. Assets and material suppliers

are the largest category of suppliers consisting of 26,609 partners and the Company has spent Rs. 45.8 billion (72 percent of total payments) on vehicle purchases during 2016/17. The Company engages with local business partners whenever possible to generate direct and indirect employment opportunities within the localities.

BUSINESS PARTNER ASSESSMENT

LBF follows an unbiased process for evaluation of business partners. The evaluation comprises of five key elements; quality and value, capacity and competency, green features offered, legal and regulatory compliance and environmental commitment.



LBF's business partner evaluation process, except IT vendor management is centralised in order to maintain quality and standards that will in turn enable LBF to offer products and services of a high quality. IT services are procured through the IT Steering Committee. Selected vendors are required to enter into a non-disclosure agreement (NDA) with the Company due to the sensitive nature of the business handled by LBF.

The evaluation process followed by LBF takes into consideration the environment friendly features adopted by the suppliers in their operations. Energy efficiency, use



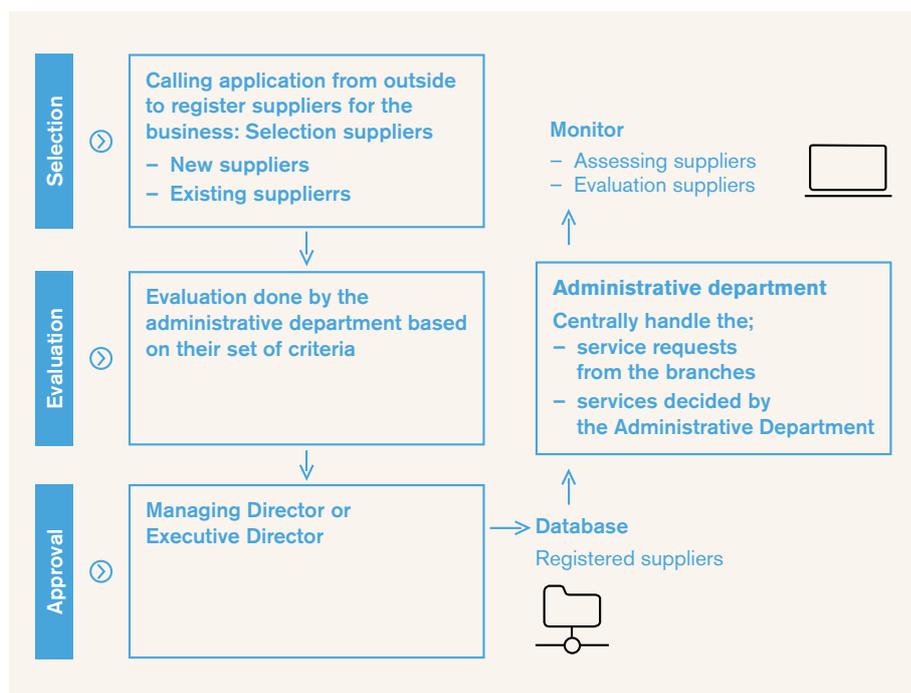
of recycled materials and waste reduction are some of the aspects. Transparency, adherence to applicable legal and regulatory requirements, human rights and health and safety aspects are also considered. The Company was unable to evaluate suppliers regarding their acts concerning human rights, internal labour practices and environmental policies during the financial period. Hence actual and potential negative impacts within the supply chain on such matters remain unidentified.

BUSINESS PARTNER ENGAGEMENT

A continuous dialog with business partners enables LBF to engage effectively with business partners. The Company strives to build sustainable relationships based on mutual trust for mutual benefit. Engagement with business partners takes place through supplier events organised for the purpose and through one on one basis discussions to understand any issues faced by them.

Effective business partner engagement enabled LBF to obtain the best products at the best prices. The business partners offered value propositions in LBF's promotional activities. LBF also promotes environment friendly policies by providing support for customers to purchase hybrid and electric vehicles. LBF sponsored a weekly TV programme on vehicle sale on which gives publicity to small and medium size vehicle suppliers in different regions, building up lasting business relationships.

SUPPLY CHAIN MANAGEMENT



Type of suppliers (Local)	No. of Suppliers registered	Value distributed to suppliers during the year Rs. billion
Asset and material	26,609	45.8
Out sourced services	1,917	9.4
Financial services providers	17	8.1
Total	28,543	63.3

Outlook

The Company will continue to engage with the suppliers in order to maintain healthy relations that are mutually beneficial through the business partner engagement process. In addition, planned digitisation of services and innovative products will connect suppliers with L B supply chain, resulting in increased sales to suppliers. This will strengthen partner engagement and suppliers bonding with L B For an example developing a digital platform to connect customers and car sale dealers to buy and sell vehicles will bring increased sales to car sale partners and better connectivity with the Company.

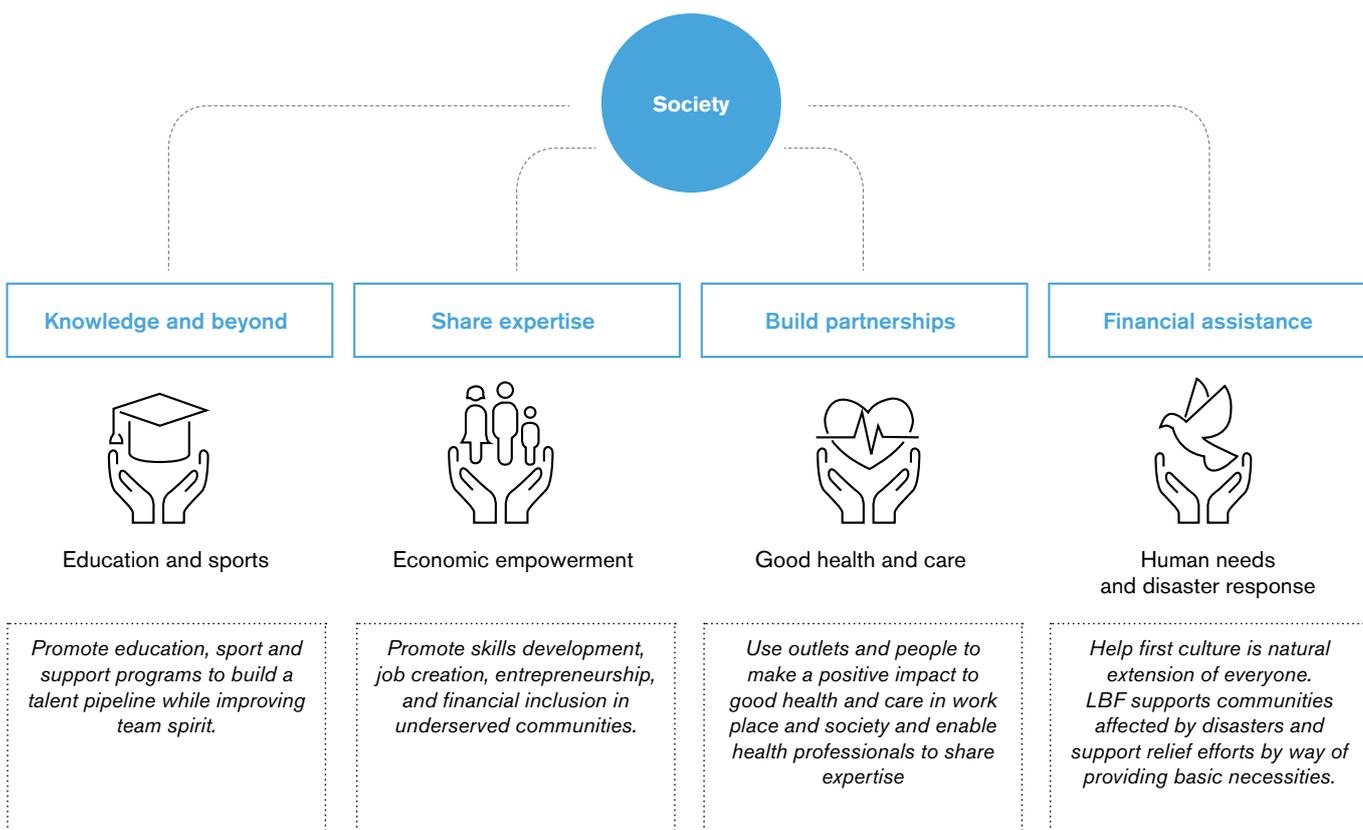


SOCIETY

We seek to add sustainable value to the society that we work and live in, for the betterment of the society. For the year 2016/17 the Company has invested Rs. 14.5 million which represents 0.37 percent of net profit after tax, for betterment of the society. LBF builds long-term relationships with the communities that we operate in, which works out to be mutually beneficial. The Company encourages its staff to volunteer their services for the local community programmes, thus building long lasting partnerships with the communities. The

CSR activities of the Company are carried out by a CSR Committee which plans and carries out the activities for the year. Our CSR activities are based on four pillars; spreading knowledge, sharing expertise, building partnerships and providing financial assistance.

While our operations promote financial literacy, LBF also carries out activities that supports education, sports activities to build a healthier generation and grooming young leaders, to name a few. During the year Company's business operations did not create any negative impact to the society.



VOLUNTEERING

Employees are encouraged to participate in volunteering activities in line with the CSR Plan. The CSR Committee monitors and allocates adequate resources to carry out the CSR plan for the year. LBF's volunteering policy has been developed to 'do more, do better, and reach further' in uplifting lives and changing mind sets.



Year	No. of volunteer activities	No. of employees engaged	No. of Volunteer hours
2016/17	41	501	2,302
2015/16	41	359	2,094
2014/15	40	330	1,753

KNOWLEDGE AND BEYOND

SUPPORTING EDUCATION

In order to promote economic growth and reduce unemployment, it is necessary to equip the society with necessary skills. The Company invests resources in providing these skills to the younger generation, especially information technology related skills for underserved communities. This is critical for digital inclusion and building a talent pool for the community. Being equipped with knowledge on information technology also offers opportunities for entrepreneurs to develop their own businesses. LBF's mission under this programme is to educate young people in order to overcome the barriers that they face and help mould the leaders for the future. We promote education and sports programmes to build a talent pool while also improving the team spirit. The following are some of the programmes conducted or supported by LBF.

GENERAL INTELLECTUALS WITH VALUES

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 and internal study carried out it was observed that most of the three-wheeler customers of the Company have not got an opportunity to do their higher studies. To overcome this issue the Company partnered with Science Society of the University of Colombo to carry out a seminar series for ordinary level students with the objective of motivating them and encouraging them for higher education. Even though this initiative has a negative impact for prospective three-wheeler business, LBF is committed to carry out this project in the years to come.

SUMMARY OF PROJECTS CARRIED TO O/L STUDENTS

Year	District	No. of students	Cost Rs.	Volunteering Hours
2016/17	Ampara	750	650,885	220
2015/16	Matale	800	636,915	183
2014/15	Polonnaruwa	800	680,690	144
2013/14	Moneragala	700	598,098	84



L B Finance is propelled by the desire to contribute to the quality of life experienced by everyone; that has been L B Finance's vision since the start. L B Finance's commitment to corporate social

responsibility has many facets, including supporting young people, who will be the next generation leaders, to be all they can be. For the fourth consecutive year L B Finance partnered with the Society of Science of the University of Colombo to carry on a seminar series for O/L students in Ampara district while participating over 750 students from different schools in the area. The objective of this CSR activity is to enhance the livelihood of this poverty driven area towards a better and prosperous future. As a result the students of this area will be further equipped to face modern challenges of the society with enhanced knowledge. L B Finance provided model exam paper books and past paper exam books for science and mathematics and this seminar series was carried out from October 7th to November 11th in Ampara. Over the previous years this project was conducted in Monaragala, Polonnaruwa and Matale areas while participating over 2,200 students.

LBF believes in supporting school students through providing additional learning materials and school supplies. These donations will take the burden off the families who are unable to purchase past paper books and school supplies for their children. Through this project, we aim to enable more children to go to school continuously and to help local communities improve their education standards in an independent and consistent manner.



To coincide with the 45th anniversary of the Company, LBF introduced the 'L B Sisu Shakthi' scholarship programme in July 2016. Targeted at the children of the three wheeler drivers, a total of

45 Scholarships were conferred under three categories for highest achievers in 2016 which were Grade 5 scholarship, G.C.E. O/L examination and G.C.E. A/L examination.

IT LITERACY

With the aim of uplifting the computer literacy of children who are in need, LB Finance was able to donate a fully equipped computer lab for children at Ruth's Children Home Attidiya. This project is to be monitored continuously and the Company also committed to bear the maintenance cost.



As a step to empower IT literacy rate in remote areas, the Company continued its efforts in providing computer equipment to a school in Kotawehera, benefiting more than 195 students in different communities covering many rural areas.

ART AND CULTURE

LBF sponsored a Children's Day Programme on 1st October 2016 which was held in Nuwara Eliya with the help of Nuwara Eliya police. Our goal was to foster talents and abilities of children from poor families and differently abled students.



SPORTS

We believe it is necessary to improve fitness, health, leadership skills and self-esteem of students. In contributing towards this objective, LBF sponsored a bill board in swimming pool premises at St.Anne's College, Kurunegala.

Below are some of the sports related activities LBF carried out throughout the year.

- Sponsored the Commando basketball team for their sports equipment.
- Donation of sports equipment to schools



SHARING EXPERTISE

ECONOMIC EMPOWERMENT

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 undeserved 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 micro leasing and micro finance products are tailored for this. These products enable LBF to support Government's effort in bringing the wide income disparities in the country. LBF's most common micro leasing product is the financing of three wheelers and motor bikes.

	As a % of lending portfolio	
	2016/17	2015/16
Two wheelers leased	2.76	1.44
Three wheelers leased	18.52	22.22
Dirimaga	0.16	0.20

BUILDING PARTNERSHIPS

The Company's CSR activities to enrich the lives of people of the society are not limited to meeting existing needs, but also looking for opportunities to help identify needs or areas where LBF can help. Following are some of the areas that the Company has identified and served.

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 help 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 the most. Eye lenses were provided to National Eye Hospital in response to a request made by them. LBF initiated a project in June 2010 for cataract surgeries to needy patients. These lenses which are expensive and not affordable by poor patients, greatly improve the vision. The project is conducted annually with the objective of supporting people

ANNUAL BLOOD DONATION

This is an annual activity that has been on the Company's CSR calendar. LBF has conducted regular blood donation campaigns over the last few years under

the theme of 'Accepting deposits that save lives'. Continuing this activity, last year we conducted several blood donation campaigns with the support of the staff in different branches across regions. This year, we also joined hands with the National Blood Transfusion Service to commemorate global celebration of World Blood Donor Day by conducting a blood donation campaigns at the Head Office premises with the participation of 223 staff members of our LB family. Our Sustainability Team plans to carry out this campaign, on an annual basis, through our island-wide outlets to help save lives.



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	Total cost (Rs.)
2016/17	1,001,000
2015/16	2,006,323
2014/15	1,000,000
2013/14	2,002,698

SPONSORSHIP FOR 'HOMMAGE' OF PHOTOGRAPHER AND ICONOCLAST - RALEX RANASINGHE
Been a socially responsible citizen L B Finance is not stuck in a traditional frame of building partnerships. As a gratitude to late Photographer and iconic Ralex Ranasinghe, LBF sponsored his memorial coffee table book launch held at LB Finance Corporate Office with the presence of senior artists in Sri Lanka.



FINANCIAL ASSISTANCE COMMUNITY NEEDS AND DISASTER RESPONSE
With the intention of making Sri Lanka a great place to live for all its people, LBF supports the community to uplift their life styles. Under the theme of 'HELP 1st', the Company reaches out to people affected by natural disasters and assist them with essential needs and provide support to get their lives back to a normal state.

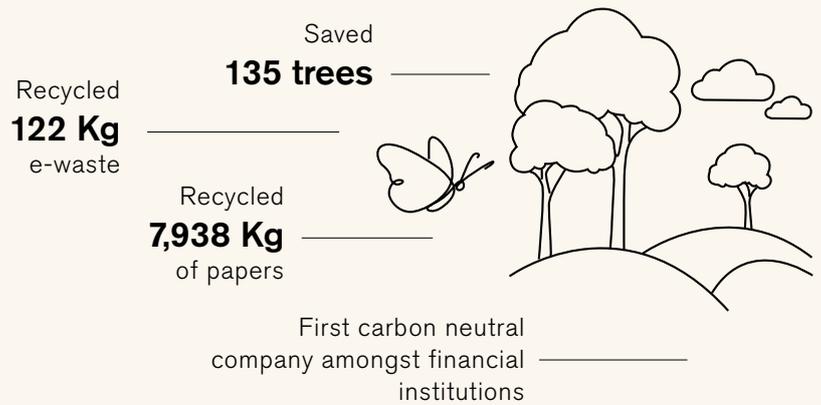
SPONSORSHIP OF MOBILE TOILETS FOR FLOOD AFFECTED PEOPLE
In May 2016, Sri Lanka was affected by a severe tropical storm that caused widespread flooding and landslides in 22 districts out of the 25 districts in the country, destroying homes and submerging entire villages. The LBF sustainability team sponsored mobile toilets to the victims of this disaster.

DEVELOPMENT OF PRE-SCHOOLS
With the aim of uplifting the facilities of preschools that are underdeveloped, LBF took the initiative to renovate some of them. This is a mega project which will benefit the needy preschools island wide. We have started from northern east preschools. The main objective of this initiative is to standardize the Montessori's of the country and ensure equality of facilities among. For the ended fiscal year 2016/17 company completed 18 preschools in Ampara and Polonnaruwa Districts.



DONATION TO THE CEYLON BLIND SCHOOL
As a responsible citizen while contributing to economic growth LBF also understand the importance of supporting almost every needy segment. We believe with right education, tools and services, a person who is blind or deaf can do almost anything. This year LBF was able to financially assist the School for Deaf and Blind at Ratmalana.

Natural Capital



Management approach

Lean Resource:

Managing our environmental leads to embrace lean resource management concepts together with the fundamentals of 3R (Reduce, Re-use, Recycle) to derive pragmatic solutions to be applied in our day-to-day operations.

Strategic Priorities

- Maintain carbon neutral status -
- Responsible waste management practices -
- Investment on green initiatives -

2016/2017 Progress Towards Objectives

Objective	Status	Page
Maintain carbon neutral status	█ Carbon neutral company for 2nd consecutive year	118
Continue annual 'plant a tree, plant a hope' projects	█ Be a part of Moragahakanda reforestation project	119
Introduce a carbon neutral product	█ Introduced solar power financing scheme	121
Maintain energy intensity ratio below 8GJ per employee	█ 7.36 GJ per employee	115

Objectives 2017/18 and beyond

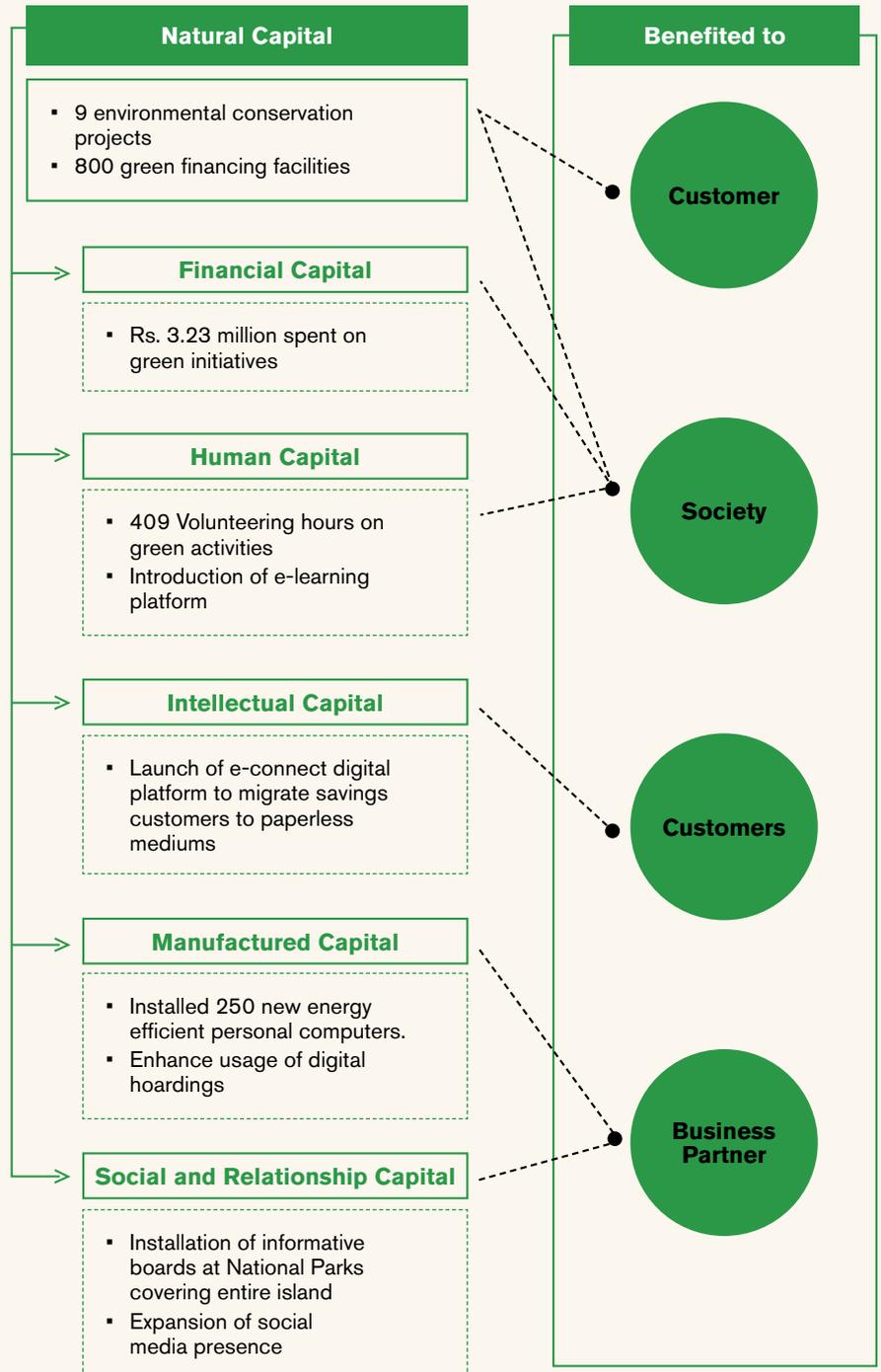
Target year 2017/18
 Promote paperless e-solutions amongst customers
 Introduce a carbon neutral product



Target year 2018/19
 Introduce green branch concept
 Focus on self-carbon credit generating projects



Value creation among capitals



Challenges we faced



Reduction of carbon footprint against the growth of the Company
Page 119



Getting customers involved in green initiatives
Page 120



Restructuring of operations to implement green initiatives
Page 121

APPROACH

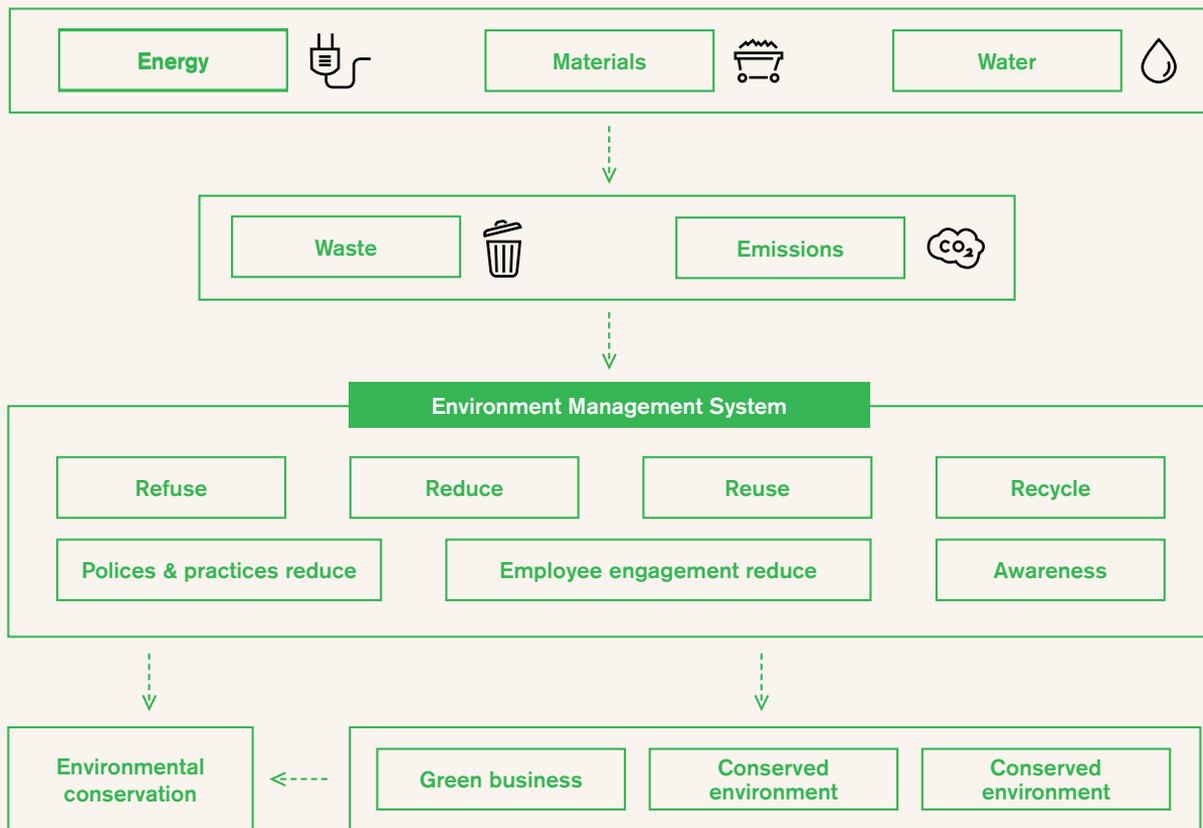
As a responsible entity to the Nation, the Company strongly believes that the nature plays a big role in our business operations. Every action towards the natural environment has a direct impact; therefore, natural capital management strategy is a vital component of long-term and sustainable value creation of the Company. However Company considers it as a moral obligation to deal with the environment in a sustainable manner and strives to conserve it; the Company is therefore

committed to implementing environment focused initiatives, reductions in energy consumption and waste management.

The Company has set a goal to become a carbon neutral organisation. In achieving this goal the Company had to first become carbon conscious. The Company has made substantial progress towards carbon neutrality. LBF environmental policy intends to bestow benefits to all our stakeholders and ultimately the environment as a whole.

Our natural capital management strategy addresses five aspects; energy, water, material, emission and environmental conservation. Our sustainability initiatives have dealt with each of these aspects separately, which has led to sustainable results in the long-term. The Company adopted an Environment Management System (EMS) and every action towards the environment is based on this.

Environmental Management System (EMS)





The Company's operations are aligned with EMS. The main resources that LBF uses are material, energy and water, and the Company generates waste and emissions directly or indirectly through its operations. If these are directly released to the environment, it would make a bad impact on the environment.

The EMS ensures the usage of our main resources in the best possible way. This is achieved through few key steps. Refusing to use what is unnecessary, reducing usage through effective and efficient management of resources, reusing resources whenever possible and recycling after utilisation. In addition, the Company has put in place policies and practices which they adhere to and ensures that employees are aware of these.

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 our main focus areas.

The Company has joined with many other parties to protect the environment. They are green partners who help to initiate and carry out environment-based projects and recycle partners who help to keep our environment free from hazards.

SUSTAINABLE PARTNERS

GREEN PARTNERS

Biodiversity Sri Lanka
Department of Wild Life
Central Environmental Authority
Sri Lanka Climate Fund
Young Zoologist Association of Sri Lanka

RECYCLE PARTNERS

Think Green (Pvt) Limited
Neptune Papers (Pvt) Limited
Asia Recycling (Pvt) Limited

ENERGY MANAGEMENT

All our 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. In order to reach the optimum energy consumption, the Company needs to keep records on the energy usage, continuously. LBF believes that sustainability is a participative process and therefore involves employees actively in this process.

The energy consumption ratios show an increasing trend compared to last year. This is a result of the expansion of the Company's business volumes and new recruitments. The Company observes these ratios and plans to reduce the energy consumption as much as possible. It involves actions towards reducing energy consumption, creating awareness in employees and the public and, implementing policies and habits to promote employee engagement in power saving.

The material impacts and influence on the environment, the Company have made during the year relating to energy management are shown below:

ENERGY CONSUMPTION

	2016/17	2015/16
Total energy consumption	23,720 GJ	22,470 GJ
Cost Rs. million	97.67	109.27
Per Employee	7.36 GJ	8.19 GJ
Per Working Day	96.43 GJ	91.34 GJ
Per Outlet	154.03 GJ	153.91 GJ

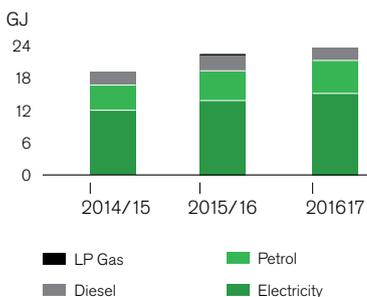
OUR CONTINUOUS ACTIONS ON ENERGY MANAGEMENT

Main focus	Our actions
Reduce	Use of high-tech energy efficient equipment Energy reduction methodologies Data Collection and Analysis Carrying Energy Audits Installation of Solar water heating system to save electricity Energy efficient name and sign boards for outlets Maximum Utilisation of Natural Lighting
Awareness	Display of energy saving tips Awareness Seminars for Employees
Employee engagement	Taking green practices home
Policies and practices	Commitment of employees to Sustainability pledge Reduce the operating time of equipment

ENERGY CONSUMPTION

Energy Type	2016/17	2015/16	Change %
Diesel	2,339.57 GJ	3,031.08 GJ	22.81
Petrol	6,200.48 GJ	5,537.82 GJ	11.97
Electricity	15,180.55 GJ	13,898.34 GJ	9.23
LP Gas	-	3.46 GJ	(100.00)
Total	23,720.60 GJ	22,470.69 GJ	5.56

Energy consumption ('000)



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 our employees.

WATER USAGE

The Company constantly reminds employees of the need for water conservation by way of tags, notices and labels. LBF supply mineral water to our employees through a third party supplier.

In 2016/17 the Company consumed 30,888 m³ water for general purposes compared to last year's consumption of 28,559 m³.

With varying conditions in the geographical spread of our outlets, the water situation also varies in a degree of concern. To ease the situation the Company has uses ground water through wells in 16 outlets. During the year, the Company spent Rs. 7.89 million on water usage while the expenditure in the previous year remained at Rs. 7.67 million. To maximise efficiency in water usage the Company practices reducing and reusing of water. The Company has ensured there is no impact to the water sources as a result of the withdrawal or discharge of water.

WATER WITHDRAWAL BY SOURCE

Water source	2016/17		2015/16	
Municipal water supplies	30,273 m ³	97.97%	27,978 m ³	97.96%
Other water suppliers	615 m ³	2.03%	581 m ³	2.04%
Total	30,888 m³	100.00%	28,559 m³	100.00%

USE OF WATER

Water consumption	2016/17	2015/16
Per employee	9.59	10.41
Per working day	125.56	116.09
Per outlet	200.57	195.61
Cost Rs. million	7.89	7.67

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

OUR CONTINUES ACTIONS ON WATER MANAGEMENT

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
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.

The Company has successfully reduced water consumption per employee from 9.59 m³ to 10.41 m³ during the reporting period. The Company's other ratios such as water consumption per working day and per outlet increased due to the expansion and new recruitments. LBF plans to reduce these rates consistently next year. LBF outlook for the upcoming year is to focus on reducing and reusing water on a broader scale. Engaging employees in water conservation will help us to share the knowledge that could be applied at home and thereby help them start the process of water conservation in their homes.

MATERIAL USAGE

Given the nature of our business operations the Company does not use huge quantities of materials. The main item is paper which does have a direct environmental impact. Compared to the scale of the business, the materiality of the usage of this resource is not significant but, the Company 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.



	Unit	2016/17		2015/16		2014/15		2013/14		2012/13	
		Quantity	Value (Rs.)								
Stationery materials											
Paper	Kgs	173,639	47,708,803	137,255	42,284,121	105,698	28,321,673	96,935	24,740,680	75,678	20,579,411
Files	Kgs	4,786	1,376,545	4,759	1,325,810	4,073	1,140,845	4,395	1,089,595	4,028	1,085,315
Toners	Pieces	1,923	14,464,880	1,320	9,583,010	948	7,110,310	800	5,616,450	636	5,051,700
Ribbon	Pieces	1,660	1,838,056	1,379	1,679,895	1,733	1,222,635	2,409.00	3,275,045	2,626	2,303,785
Other	Pieces	289,560	6,521,307	274,945	5,324,540	298,920	3,393,655	215,748	3,076,314	185,017	3,133,913
Marketing materials											
Leaflets	Kgs	21,066	9,700,448	23,973	7,384,885	11,596	4,160,663	13,253	5,765,260	10,975	5,683,851
Corrugated boards	Kgs	5,087	8,913,427	6,325	9,976,695	4,894	4,467,312	4,474	3,548,088	2,048	1,595,925

WASTE MANAGEMENT

The Company actively monitors waste management practices as a part of its business operations. The success of the waste management strategy depends on the awareness created on how and when waste is generated. Awareness was created among employees to promote best practices. LBF EMS ensures that the Company follows responsible waste disposal practices by continuing to monitor waste by type of material used and disposed.

The Company mainly measures e-waste and paper waste recycling. Total weights of waste and savings through recycling are given below:

TOTAL WEIGHT OF RECYCLED WASTE BY TYPE

Type of waste	2016/17	2015/16	2014/15
Paper (kgs)	7,938	32,065	9,336
E-waste (kgs)	122	247	318



SAVINGS INCURRED THROUGH RECYCLING

Year	Recycled paper (Kgs)	No. of trees	Litres of oil	KWh of electricity	Litres of water	Cubic meters of land fill
2016/17	7,938	135	13,931	31,752	252,270	24
2015/16	32,065	545	56,274	128,260	1,019,026	96
2014/15	9,336	160	16,385	37,344	296,698	28
2013/14	2,378	40	4,173	9,512	75,573	07

The Company attempts to promote responsible disposal on wastes among employees. Currently LBF succeeds in waste management on e-waste, paper waste, CFL bulbs and food waste. Degradable and non-degradable wastes are sorted and disposed separately without causing any harm to the environment.

OUR CONTINUES ACTIONS ON WASTE MANAGEMENT

Main focus	Our actions
Refuse	Digitalised document management system stores the documents which would create a paperless environment. 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. Avoid usage of paper by conducting management meetings at the Paperless Boardroom Usage of paperless fax machines for operatios
Reduce	To monitor and control the consumption using inventory management system
Reuse	Reuse of paper and envelopes as much as possible
Recycle	Paper items are directed for recycling. Recycling collection points are located throughout the office All paper waste is recycled through Neptune Recyclers Recycle all e-waste with an authorised e-waste recycle partner
Awareness	Awareness e-mails and computer wall papers Sticker campaigns to promote the effective usage of material
Policies and Practices	Policies on material usage Duplex printing is a Company policy and is set as default

EMISSION MANAGEMENT

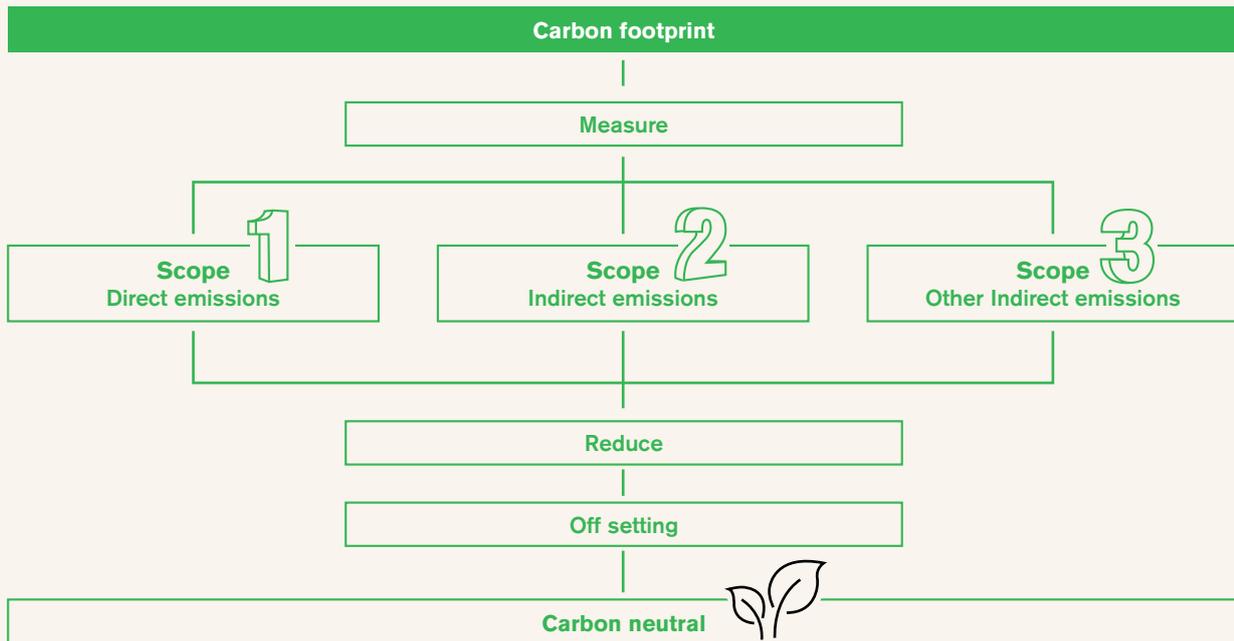
The Company did not merely pay lip service to being an environmentally conscious organisation. The Company kept true to its words by implementing a sound environmental policy as a part of its strategy. The Company started its journey in 2013 by measuring the carbon footprint; the total emission of Greenhouse Gases in carbon equivalents. Our efforts became fruitful, when we were awarded the certification from Sri Lanka Climate

Fund as a carbon neutral company. The Company achieved this milestone in 2015. During the year, there were no significant air emissions from the Company operations or emission of ozone depleting substances, pollutants and other hazardous compounds. As a result, the Company did not compute a measurement on emissions except for which are computed under the carbon footprint measurement.

THE CARBON FOOTPRINT

This involves measuring direct and indirect carbon emissions by monitoring each part of the Company's operations. LBF 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 for measurements.

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. In measuring our carbon footprint all our operational carbon emissions were analysed under three scopes.

Scope 01 – refers to the direct carbon emissions. It includes emissions released directly from our operations which are own or controlled by us. This mainly includes emissions arising from business transportation through Company own vehicles, official travels and vehicles owned by the Management.

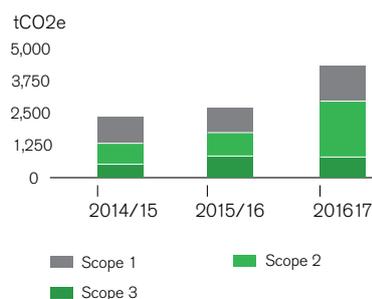
Scope 02 – refers to direct carbon emission arising from purchased energy. This includes emissions from purchased electricity consumed by the Company.

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.

CARBON FOOTPRINT

Scope	Tonnes of CO ₂ equivalent 2016/17	Tonnes of CO ₂ equivalent 2015/16
Scope 1 – Direct GHG emission	808.23	838.36
Scope 2 – Indirect GHG emission	2,150.58	920.74
Scope 3 – Other indirect GHG emission	1,391.28	958.27
Total carbon footprint	4,360.72	2,717.38

Carbon Footprint



According to the current year's analysis, the carbon footprint was 4,360.72 tonnes of CO₂ equivalent which is increased by 60.48 percent from the previous year's CO₂ emission of 2,343.09. The main contributor to the carbon emissions in the current year has been the category items of scope 2 which was to 2,150.58 tonnes of CO₂ equivalent.

Most economic activities inevitably have their environmental footprint. In our case our expansion, both geographically and operationally have increased the scope 3 emissions by 45 percent. The Company strives to minimise this by moving towards a high energy efficient and low energy consuming lighting and other equipment. The Company anticipates this would pay off in reducing its CO₂ emissions.

ACTIONS ON CARBON EMISSION MANAGEMENT DURING THE YEAR

The Company considers reducing CO₂ emissions as a priority. With successful business expansions taking place, the Company has been able to manage the carbon emission with the controls in place. For this purpose the Company has given more priority to manage scope 2 emission which has the highest impact to our carbon footprint. The Company has focused on investing in more energy efficient initiatives by exploring opportunities to reduce energy consumption. The Company has not developed a mechanism to calculate the indirect energy consumption outside the organisation.

The Company has taken several initiatives to reduce its carbon footprint by raising awareness and preserving the environment. Our environmental initiatives are categorised into two segments, namely the workplace and beyond. Therefore the Company encourages all customers, corporate entities and the general public to contribute in shifting our economy to a low-carbon economy. The Company 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. A clear testimony to this is obtaining carbon conscious status in 2014. One of the leading players in the industry followed us obtaining the same certification. Therefore our effort in the industry to set a benchmark has extended to others and the Company believes in multiplying the positive impact of the efforts in the country as a whole.

REFORESTATION PROJECT AT MORAGAHAKANDA

Joining together with the Climate Fund, LBF sponsored a one acre plot of land consisting of 400 trees.

The main objectives of this project was support the nation to:

- Expand the National forest cover from current extent of 29 percent to 32 percent
- Reduce carbon emission and reach zero carbon footprint in Sri Lanka
- Support the Government in achieving self-sufficiency in producing organic fertiliser for minimising application of artificial fertiliser



OUR ENVIRONMENTAL CONSERVATION

The Company is strongly committed to being a responsible corporate citizen. Though our direct impact on natural capital may be negligible the Company cannot ignore the impact it makes through its suppliers and customers. Our mission is to look beyond our immediate impact and benefits to ourselves, and to improve the global environment as a whole. This is the philosophy underlying our gamut of environmental activities.

During the year, the Company complied 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 or filed on environmental impacts. This bears testament to our commitment in conserving the environment.

OUR FOCUS ON BIODIVERSITY AND WILDLIFE

As a partner of the Sri Lanka Business and Biodiversity Platform, the Company believes that there is a direct and indirect impact of its activities on 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 our operational areas and takes action in helping to conserve the biodiversity. The Company 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 our support towards biodiversity conservation.

LB CONSERVATION



This was initiated to incorporate environmental conservation efforts, the efforts of LB Conservation primarily

focuses on protecting endemic species in Sri Lanka. In the last few years, LBF has carried out many awareness programmes on endemic birds in Sri Lanka. Last year LBF commenced a new conservation project in Horton Plains in collaboration with Sri Lanka Department of Wildlife Conservation and the University of Sabaragamuwa. In this project the Company expects to facilitate the research teams in their observations and researches carried out in Horton Plains eco system. This will help to keep regular records on the national park and take further steps in conservation activities.

Going forward the Company will work on a variety of initiatives that include conserving species, restoring ecosystems, protecting biodiversity and environmental education. To strengthen the conservation efforts a contribution of Rs. 100/- per hybrid vehicle was allocated.

GANTRY DISPLAY FOR ENVIRONMENT CONSERVATION

In reinforcing our commitment to creating awareness on conservation among our community, this year the Company continued our flagship project of sponsoring the gantry located in Colpetty junction. Our aim was to take the message to the general public as well.

CREATING DISCIPLINED WILDLIFE EXPLORERS

A joint environmental conservation project partnering with Young Zoologists' Association was undertaken by the sustainability team to display boards with caution messages at the entrance of Udawalawe, Wilpattu, Minneriya, Wasgamuwa, Horton Plains and Bundala national parks, to create awareness among visitors.

Objective:

- To protect and conserve the environment

This initiative involves:

- Supporting value-addition in conservation
- Promoting good habits among people
- Raising awareness on natural habitats
- Contributing to nature through business



EMPLOYEE ENGAGEMENT THROUGH PHOTOGRAPHY

Under the theme of 'Colours of Sri Lanka', LBF requested for photographs of the beauty of nature from our employees for our annual calendar 2017 and twelve selected photographs were included in the calendar which promotes the beauty of our mother country.

LB BEACH CLEAN

Though biodiversity is immaterial to our operations, as a socially responsible corporate in order to improve the beauty of the coastal areas and to save the animal lives around the beach, this year also the Company carried a beach cleaning project under the theme of 'Clean Beach'. Our Galle branch organised this project and this was a great way to get involved in protecting the marine environment. A large number of volunteers from our different branches got engaged in this cleaning project.



DISTRIBUTION OF FOREST RANGER OUTFITS

As we are passionate about the environment and the wildlife, we carried out several projects during the year to support wildlife conservation. In 2015 and 2016, we distributed forest ranger outfits for field officers engaged in protecting wildlife in Minneriya and Wilpattu National Parks. In 2016/17 we broaden the project by distributing wild life jackets for a range of national parks situated in different locations over the country. This year, we completed Wasgamuwa, Horagolla, Kaudulla, and Horton Plains national parks by providing wildlife jackets.

The Company expects to continue this project in the coming years as we are passionate about the environment.

Year	National Parks
2016/17	Horton Plains, Kaudulla, Wasgamuwa, Angamadilla, Horagolla
2015/16	Ritigala
2014/15	Yala
2013/14	Minneriya
2012/13	Wilpattu



SPONSORSHIP FOR POSTER ON ENDEMIC BIRDS IN SRI LANKA

Though Sri Lanka is a small land area, the diversity is quite high in habitats harbours and the island is rich and diverse in fauna and flora, with many endemic bird species. Today, the demands and aspirations of an expanding human population has made it difficult to protect, preserve and manage this diverse wild heritage of ours. Being a corporate responsible citizen we believe it's our duty to save these unique species and emphasise towards uplifting wild life concerns.

PROMOTING GREEN

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

GREEN FACILITIES GRANTED

Year	No. of green financing facilities	Amount granted (Rs. million)
2016/17	800	2,471.36
2015/16	368	1,081.61
2014/15	443	1,260.95
2013/14	146	396.75
2012/13	62	209.89

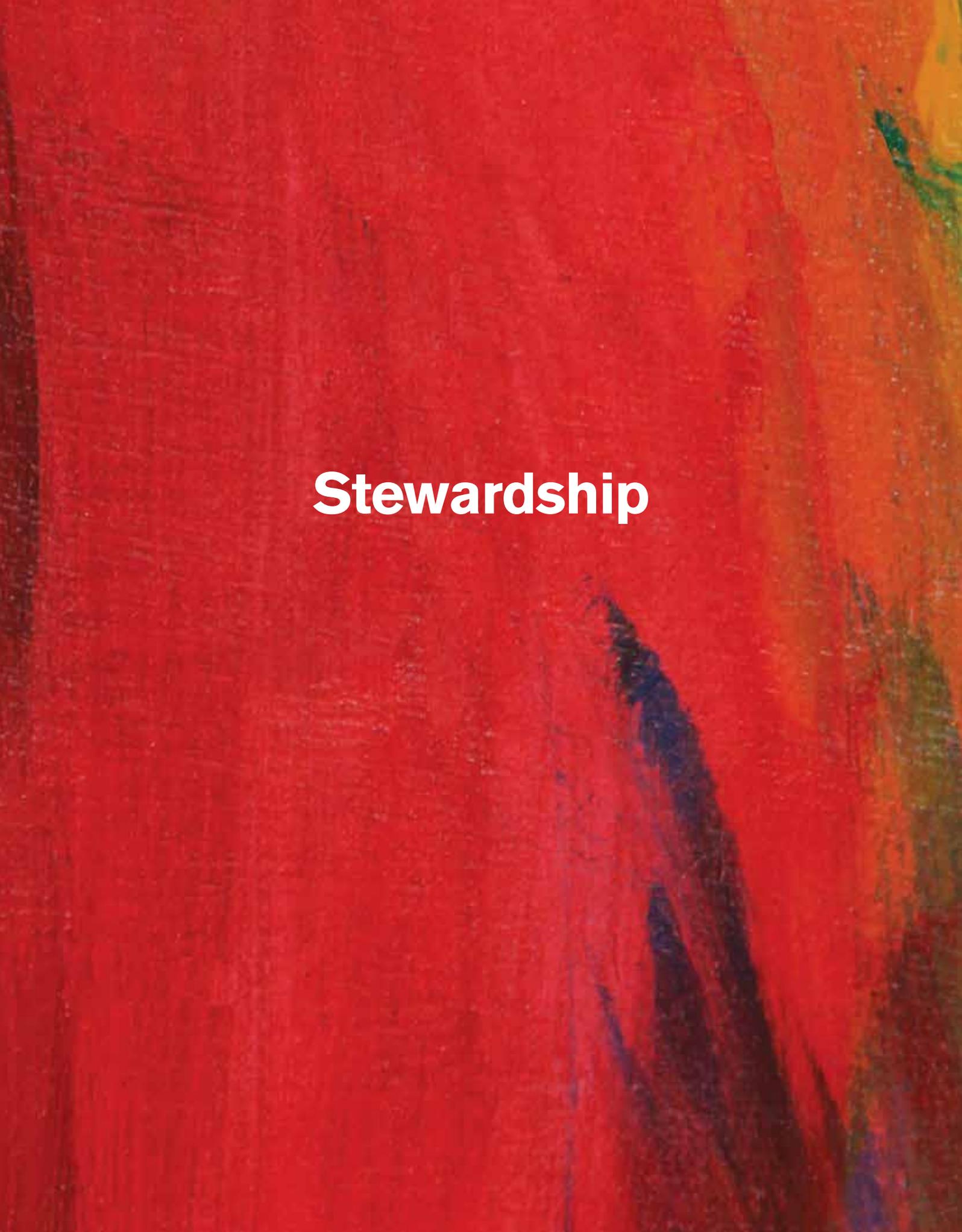
Outlook

LBF's commitment towards sustainability has grown stronger over the years and the Company has reached a few significant milestones which prove our dedication and commitment. The Company believes that, through this dedication it would be able to make a difference in the society to make a sustainable tomorrow. Our 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 our customers on the environment. By promoting hybrid vehicles and electric vehicles, the Company will further facilitate its contribution towards making its journey towards creating a carbon neutral culture.

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



The background is an abstract composition of thick, textured brushstrokes. A large, vibrant red area dominates the left and center. To the right, there are vertical bands of orange and yellow, with some green and blue strokes interspersed, particularly in the lower right quadrant. The overall effect is dynamic and expressive, with visible brushwork and color blending.

Stewardship

Board of Directors



Mrs. Kimarli Fernando
Acting Chairperson



Mr. Dhammika Perera
Executive Deputy Chairman



Mrs. Shirani Jayasekara
Independent Non-Executive Director



Mr. J A S Sumith Adhihetty
Managing Director



Mr. Thosapala Hewage
Independent Non-Executive Director



Mr. Lalit N de S Wijeyeratne
Independent Non-Executive Director



Mr. Niroshan Udage
Executive Director



Mr. B D A Perera
Executive Director



Mrs. Anandhiy K Gunawardhana
Independent Non-Executive Director



Mr. Ravindra S Yatawara
Executive Director

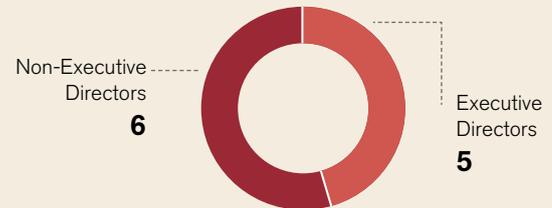


Mrs. Yogadinusha Bhaskaran
Non-Executive Director

The LBF Board

The LBF Board is made up of highly qualified directors from diverse backgrounds who are committed to the sustainable management of the business and affairs of the organisation with the goal of enhancing long-term stakeholder value.

Composition



Gander Balance

Male: Female

7:4



Period of service

0-5 Years

4



5-10 Years

3



< 10 Years

4



Experience

Between 20 - 30 years

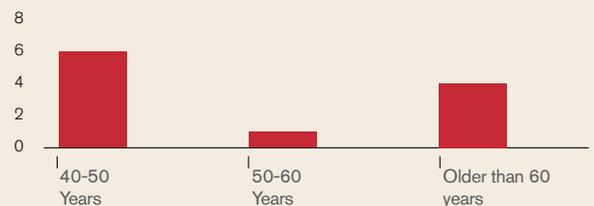
7

More than 30 years

4

Age

No.





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 27 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 Subcommittees:

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 28 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 Subcommittees:

None

Current appointments:

Chairman of Vallibel One PLC, Vallibel Power Erathna PLC, Royal Ceramics Lanka PLC, The Fortress Resorts PLC, Delmege Limited, Lanka Tiles PLC, Lanka Ceramic PLC. Co-Chairman of Hayleys PLC and The Kingsbury PLC, Deputy Chairman of Horana Plantations PLC, also serves on the Board of Vallibel Finance PLC (as an Executive Director), Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC, Dipped Products PLC, Hayleys Global Beverages (Pvt) Limited and Sun Tan Beach Resorts Limited.

Mrs. Shirani Jayasekara
Independent Non-Executive Director

Skills and experience:

She has over 37 years of experience combining Finance and IT, Audit and Risk Management in Sri Lanka, Zambia and Bahrain. She is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants UK.

Appointed to the Board:

On 25th August 2010.

Membership of Board Subcommittees:

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 Carsons Cumberbatch PLC.

Mr. J A S Sumith Adhietty
Managing Director

Skills and experience:

A well known professional in the marketing field, counts over 35 years of experience in the finance sector.

Appointed to the Board:

On 10th December 2003

Membership of Board Subcommittees:

Member of the Nomination Committee and Integrated Risk Management Committee.

Current appointments: Serves on the Board of Vallibel One PLC, Summer Season Residences Limited, Summer Season Limited, La Forteresse (Pvt) Limited, Greener Water Limited and Alila Hotels and Resorts (Pvt) 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 (Pvt) 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 Postgraduate Diploma in Development Studies from the University of Cambridge, UK. He served as the Ambassador of Sri Lanka in Nepal for four years. He counts 42 years of experience as a professional Development Administrator and Natural Resource Manager.

Appointed to the Board:

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

Membership of Board Subcommittees:
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 & 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 37 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 Subcommittees:
Chairman of the Audit Committee 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, The Nuwara Eliya Hotels Company PLC, Rockland Distilleries (Pvt) Limited, The Kingsbury PLC, Aitken Spence Plantation Managements PLC, Royal Ceramics Lanka 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 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 Accounting Standards and Monitoring Board of Sri Lanka.

Mr. Niroshan Udage
Executive Director

Skills and experience:

Bachelor's Degree in Science from the University of Colombo and possesses 26 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 Subcommittees:
Member of the Integrated Risk Management Committee.

Former appointments:
Director of Hayleys Fibre PLC

Mr. B D A Perera
Executive Director

Skills and experience:

An Associate Member of the Chartered Institute of Management Accountants (ACMA), CGMA [UK] and holds a BSc (Business Administration) Special Degree from the University of Sri Jayewardenepura, successfully completed High Potentials Leadership Programme in 2012 at Harvard Business School in Boston, MA, USA. Counts over 19 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 Subcommittees:
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 & Creasy, Attorneys-at-Law and Notaries Public, she graduated from the University of Colombo's Faculty of Law in 1995 with a 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 (LLM with Distinction) by Georgetown University, Washington DC, in May 2000 and, thereafter, served a seven month internship with the International Monetary Fund's Legal Department in Washington D.C. Her areas of specialisation are Corporate and Commercial Law, Mergers and Acquisitions.

Appointed to the Board :
On 1st March 2013

Membership of Board Subcommittees:
Chairperson of the Remuneration Committee and Member of the Audit Committee.

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

Mr. Ravindra Yatawara
Executive Director

Skills and Experience:

Holds a BSc. Degree in Business Administration from the Oklahoma State University, the USA. Counts over 21 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 Subcommittees:
None

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

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

Mrs. Yogadinusha Bhaskaran
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 of Sri Lanka.

Appointed to the Board:
On 15th March 2016.

Membership of Board Subcommittees:
None

Current appointments:
Chief Executive Officer of Vallibel One PLC, Director of Delmege Limited, Alternate Director to Mr. K.D.D Perera in Dipped Products PLC, Hayleys Fabric PLC and Haycarb PLC.

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

Senior management



Mr. Marlon Perera
Deputy General Manager –
Deposits



Mr. Ainsley Motha
Deputy General Manager –
Credit and Branch
Operations



Mr. Bimal Perera
Deputy General Manager –
Strategy and Risk



Mr. Hasitha Athapattu
Chief Financial Officer



**Mr. Chethana
Kahandugoda**
Assistant General Manager
– Information Technology



Mr. Roshan Jayawardena
Assistant General Manager –
Microfinance



Mr. Udul Chandrasena
Assistant General Manager
– Treasury



Mr. Prasanna Kalinga
Assistant General Manager –
Human Resources



Ms. Harshani Mapatuna
Assistant General Manager
– Legal



Mr. Bharatha Vithana Pathirana
Assistant General Manager – Fixed
Deposits and Savings Accounts



Ms. Nirosha Amanulla
Senior Manager – Kandy
Branch



Mr. Hirantha Jayasinghe
Senior Manager – Credit
and Branch Operations



Mr. Chintaka Chandrasena
Senior Manager – Credit and
Branch Operations



Mr. Gayan Aywardane
Senior Manager – Central
Region



Mr. Kalpa Sanjeewa
Senior Manager – Credit and Branch
Operations



Mr. Kenneth Daniel
Senior Manager – Credit
and Branch Operations



Mr. Dinudaya Abeywardena
Senior Manager – Corporate
Lending



Mr. Shanaka Perera
Senior Manager –
Administration



Mr. Malith Hewage
Senior Manager – Finance



Mr. Dinusha Mudunkotuwa
Senior Manager –
Business Analysis



Mr. Anil Bandara
Senior Manager – IS Audit
and Compliance

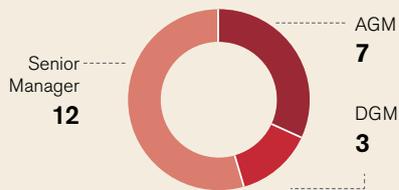


Ms. Zairaa Kaleel
Compliance Officer

The LBF Senior Management Team

An experienced and qualified team that ensure the smooth functioning of the day-to-day operations of the Company. They ensure that risks and opportunities are identified and steps are taken to achieve targets within defined time frames and budgets.

Composition



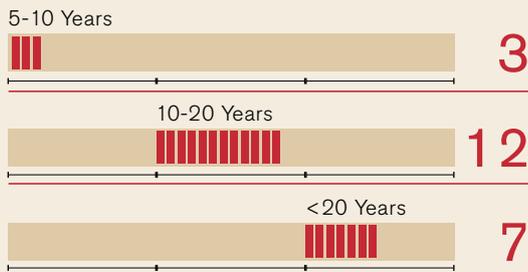
Gender

Male: Female

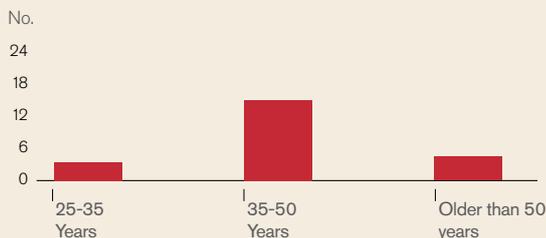
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Experience



Age



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. Ainsley Motha

Deputy General Manager – Credit and Branch Operations

MBA (Aus.)

Joined LBF in 2013, counts over 26 years of experience in banking, leasing and finance industry.

Mr. Bimal Perera

Deputy General Manager – Strategy and Risk

CFA Charter Holder, Certified FRM

Joined LBF in 2013, counts over 14 years of experience in fields of corporate Treasury, strategic planning, investment finance and risk management both locally and overseas.

Mr. Hasitha Athapattu

Chief Financial Officer

CFA Charterholder, MEdon 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 18 years experience in fields of private banking, wealth management, debt and equity research, accounting and operations both locally and overseas

Mr. Chethana Kahandugoda

Assistant General Manager – Information Technology

MSc Information Technology (University of Colombo), MIEEE

Joined LBF in 2010, counts over 18 years of experience in the fields of information and communication technology, principally in the finance industry.

Mr. Roshan Jayawardena

*Assistant General Manager – Microfinance
DipM, MCIM (UK), MBA (University of
Sunderland, UK), FSSM (UK)*

Joined LBF in 2007, counts over 27 years of experience in the fields of banking, finance, retail and telecom and food industry.

Mr. Udul Chandrasena

*Assistant General Manager – Treasury
ACMA, MA (Econ.)*

Joined LBF in 2017, counts more than 30 years of experience in Capital Markets, Commercial Banking and Financial Management locally and overseas.

Mr. Prasanna Kalinga

*Assistant General Manager – Human Resources
BA*

Joined LBF in 2016, counts over 18 years of industry experience in international and local arena.

Ms. Harshani Mapatuna

*Assistant General Manager – Legal
LLB (University of Colombo), Attorney-at-Law*

Joined LBF in 2004, counts over 20 years of experience in the finance industry.

Mr. Bharatha Vithana Pathirana

*Assistant General Manager – Fixed Deposits and Savings Accounts
Chartered Marketer (UK), Practicing Marketer (SL) MBA(PIM-USJ), MSc (Cardiff. Met), B.Sc (Hons.) University of Delhi, India., PG.Dip.M (UK), MCIM (UK), CMA (Australia), MSLIM.*

Joined LBF in 2015, counts over 19 years of experience in the fields of banking, finance, trade finance, operations, general management and marketing.

Ms. Nirosha Amanulla

Senior Manager – Kandy Branch

Joined LBF in 1985, counts over 31 years of experience in the finance industry and her career features many managerial positions.

Mr. Hirantha Jayasinghe

*Senior Manager – Credit and Branch Operations
MBA (UK)*

Joined LBF in 1999, counts over 17 years of experience in the areas of credit, marketing, recovery and branch operations.

Mr. Chintaka Chandrasena

*Senior Manager – Credit and Branch Operations
MBA (UK)*

Joined LBF in 1996, counts over 20 years of experience in the areas of credit, marketing, recovery and branch operations.

Mr. Gayan Aywardane

Senior Manager – Central Region

Joined LBF in 2015, Counts over 15 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 16 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 22 Years of experience in the leasing, finance and banking industry and career 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 12 years of experience in the banking and finance industry and his career features many managerial positions.

Mr. Shanaka Perera

Senior Manager – Administration

Joined LBF in 1998, counts over 19 years of experience in the fields of administration, procurement and has held many managerial positions.

Mr. Malith Hewage

Senior Manager – Finance

BSc Accounting (Sp.) – University of Sri Jayawardenapura, ACA (Sri Lanka)

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

Mr. Dinusha Mudunkotuwa

Senior Manager – Business Analysis

Bachelor's in Information and Communication Technology (University of Colombo)

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

Mr. Anil Bandara

Senior Manager – IS Audit and Compliance

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

Joined LBF in 2016, counts over 25 years of experience in information system and general audits.

Ms. Zairaa Kaleel

Compliance Officer

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

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

Corporate governance



“Total commitment to ethical practices in the conduct of business, while striving to enhance shareholders’ value”

ACTING CHAIRPERSON'S STATEMENT

L B Finance PLC shall continue its endeavour to enhance its shareholders' value by protecting their interests by ensuring performance at all levels and maximising returns with optimal use of resources in pursuit of excellence.

L B Finance PLC recognises the principles and importance of Corporate Governance and has been complying with not only the statutory requirements, but also has voluntarily formulated and adhered to a set of strong Corporate Governance practices. The Company's philosophy on Corporate Governance is to bestow a high standard of transparency, fairness and accountability for performance at all levels and to ensure and achieve excellence through professionalism, social responsiveness, sound business practices and optimum efficiency. This in turn enables the Company to maintain a high level of business ethics to maximise the shareholders' value and to protect their interest.

The Company shall strive hard to serve the interests of its stakeholders comprising shareholders, customers, Government, employees, debentureholders, creditors and society at large.

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

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

A handwritten signature in black ink that reads "Kimarli Fernando". The signature is written in a cursive style and is underlined.

Kimarli Fernando
Acting Chairperson
31st May 2017

CORPORATE GOVERNANCE INITIATIVES DURING 2016/2017 AT A GLANCE

- Reviewed and updated the whistle-blowing policy.
- Board Audit Committee was presented with the IT governance framework on services obtained by the Company to ensure compliance with IT security framework.
- IT system access and security procedures reviewed and strengthened.
- Whistle-blowing policy was relaunched across the Company.
- Conducted awareness sessions on 'Anti-Money Laundering'.
- Formation of a separate Compliance Unit with adequate staff members.
- Formation of a separate IT Audit and Compliance Unit with adequate staff members.

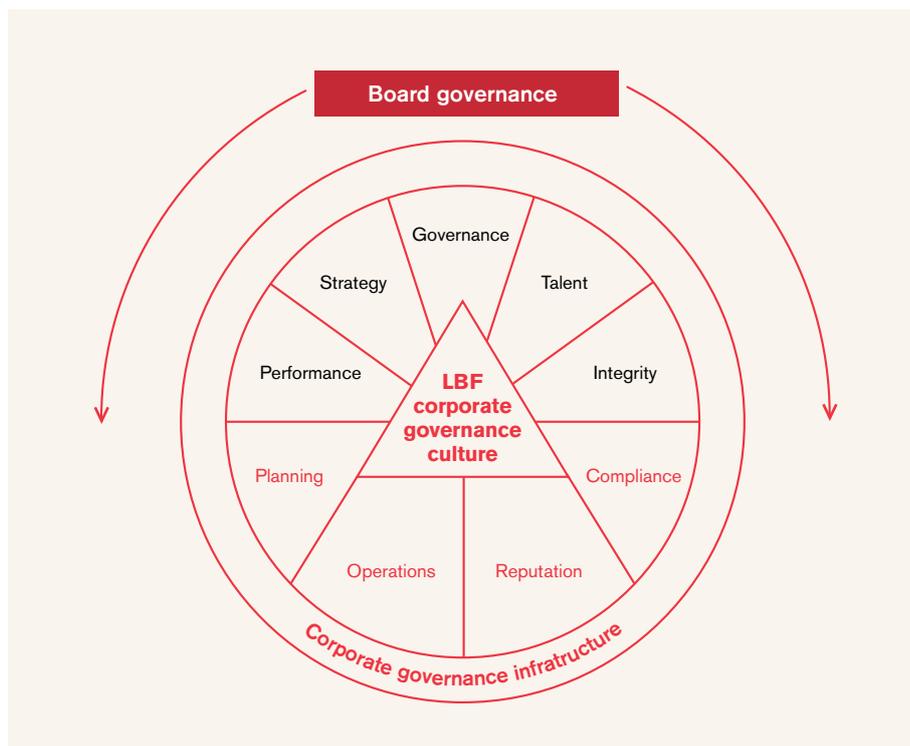
CORPORATE GOVERNANCE FRAMEWORK

L B's governance framework plays an important role in helping the Board gain a better understanding of their oversight role. The framework has attributes that contribute to effective governance and tools for addressing governance risk. Framework also provides a more cogent construct for evaluating how the management's responsibilities fit with the Board's oversight responsibilities.

In developing our Governance Framework, we focused on a number of questions with which the Boards often struggle, including

- What should the Board be doing in the critical areas of oversight, such as strategy and risk
- In dealing with legal and regulatory compliance, how can the Board be positioned as a strategic partner with management

The framework offers an end-to-end view of corporate governance. It forms the basis that help Boards and executives identify opportunities to improve effectiveness and efficiency.



Our Governance Framework proposes that there are five critical elements of the organisation's governance programme, namely talent, performance, strategy, governance, and integrity, which the Board cannot simply delegate to management. In each of these respective elements, stakeholders expect that the Board is not solely serving as a monitor of management programmes. Our Board believes, they have a specific role to play.

Governance culture sits at the core of the framework, as everything the Board and management do to create and maintain effective governance programmes, is predicated on the existence of strong culture that supports 'doing the right thing'.

The Board has a set of key objectives and activities for each of these governance elements.

- **Governance:** L B's Board establishes structures and processes to fulfil Board responsibilities that consider the perspectives of all stakeholders.
- **Strategy:** The Board advises the management in the development of strategic priorities and plans that align with the mission of the organisation and the best interests of stakeholders, and that have an appropriate short-, mid-, and long-range focus. The Board also actively monitors the management's execution of approved strategic plans as well as the transparency and adequacy of internal and external communication of strategic plans.
- **Performance:** The Board reviews and approves Company strategy, annual operating plans, and financial plans. It

also monitors management execution against established budgets as well as alignment with strategic objectives of the organisation.

- **Integrity:** The Board sets the ethical tenor for the Company, while management adopts and implements policies and procedures designed to promote both legal compliance and appropriate standards of honesty, integrity, and ethics throughout the organisation.

- **Talent:** The Board selects, evaluates, and compensates the Key Management Personnel and oversees the talent programs of the organisation, particularly those related to executive leadership and potential successors to the KMPs. The Board communicates succession decisions in a clear manner.

- **Risk governance:** The Board understands and appropriately monitors the Company's strategic, operational, financial and regulatory risk exposures, and it collaborates with management in setting risk appetite, tolerances, and alignment with strategic priorities.

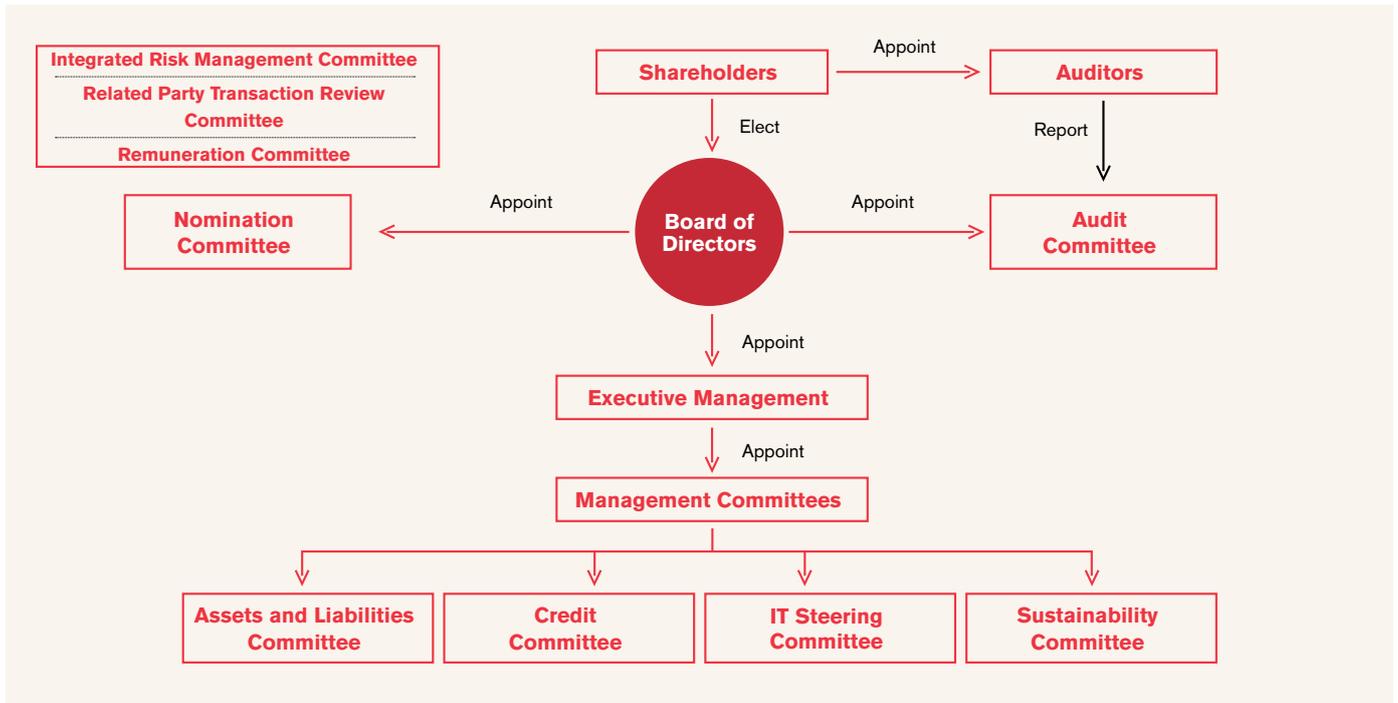
For Planning, Operation, Reporting and Compliance, L B Board's role is as one of active monitor, with the Board understanding the operating models that are in place, determining such models are adequately developed and resourced, monitoring the output and any issues identified in the process, and so forth.

CORPORATE GOVERNANCE PRINCIPLES



GOVERNANCE STRUCTURE

The fundamental relationship among the Board, management, shareholders and other stakeholders is established by our governance structure, illustrated below, through which, the ethical values and corporate objectives are set and plans for achieving those objectives and monitoring of performance are determined.



OUR BOARD ROOM

The Board is responsible for the overall stewardship of L B Finance PLC. The Directors are elected by the shareholders to supervise management of the business and affairs of the organisation with the goal of enhancing long-term shareholder value.





BOARD COMPOSITION

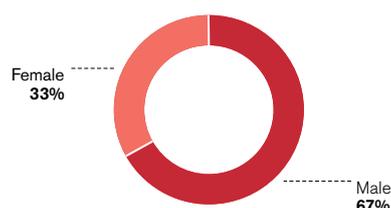
The Board consisted of 12 Directors as at 31st March 2017.

No.	Name of Director	Board composition	Date of appointment	Period of service
1.	Mrs. Kimarli Fernando	Acting Chairperson/ Non-Executive Director*	26.08.2008	8 years – 7 months
2.	Mrs. Shirani Jayasekara	Senior Director/Independent Non- Executive Director	25.08.2010	6 years – 7 months
3.	Mr. Dhammika Perera	Executive Deputy Chairman	22.10.2002 – Appointed Executive Deputy Chairman on 20.10.2011	9 years as a Non-Executive Director 5 years and 5 months as Executive Deputy Chairman
4.	Mr. T Hewage	Independent Non-Executive Director	23.04.2013	3 years – 11 months
5.	Mr. J A S S Adihetty	Managing Director	10.12.2003	13 years – 3 months
6.	Mr. L N de S Wijeyeratne	Non-Executive Director*	01.11.2008	8 years – 5 months
7.	Mr. W D N H Perera (Resigned on 30th April 2017)	Executive Director	02.09.2003 – Appointed Executive Director on 01.09.2012	9 years as a Non Executive Director 4 years and 7 months as an Executive Director
8.	Mr. Nirosan Udage	Executive Director	01.01.2007	10 years – 3 months
9.	Mr. B D A Perera	Executive Director	01.01.2007	10 years – 3 months
10.	Mr. Ravi S Yatawara	Executive Director	15.03.2016	1 year
11.	Mrs. Anandhiy K Gunawardhana	Independent Non-Executive Director	01.03.2013	4 years – 1 month
12.	Mrs. Yogadinusha Bhaskaran	Non-Executive Director	15.03.2016	1 year

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

With an equal number of Non-Executive and Executive Directors, the Company complied with the required balance between Executive and Non-Executive Directors (effective from 30th April 2017, the number of Executive Directors reduced to five, consequent to the resignation of Mr. W D N H Perera. Thus at present, the Executives and Non-Executives on the Directorate are five and six respectively).

Board of Directors



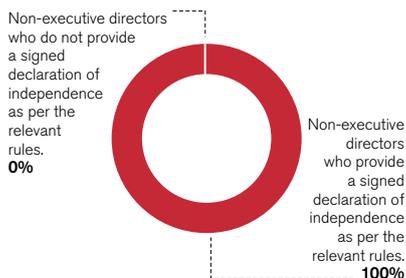
Four out of the twelve Directors (including the Acting Chairperson and the Senior Director) are eminent female professionals, who contribute sufficient diversity in terms of gender.

ASSESSMENT OF INDEPENDENCE

Based on Declarations submitted by the Non-Executive Directors, 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 significant shareholdings in the Company thus making the said Directors 'Non-independent' as they serve on Boards of companies which have a significant shareholdings 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'.

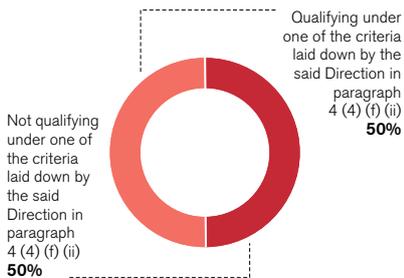
Compliance with providing a signed declaration of independence as per the relevant rules.



The Board has further determined that three out of the six Non-Executive 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, Mrs. Kimarli Fernando and Mr. L N de S Wijeyeratne, though not qualifying under one of the criteria laid down by the said Direction in Section 4 (4) (f) (ii), the Board upon consideration of all attendant circumstances, is of new view 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.

However, for the purposes of the said Direction No. 03 of 2008, the Board has determined that Mrs. Kimarli Fernando and Mr. L N de S Wijeyeratne shall be considered as 'Non-Independent'.

Compliance with the said Direction in paragraph 4 (4) (f) (ii)



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.

BOARD PROCESS

Board meetings are usually held on a monthly basis, unless the business exigencies demand the convening of additional meetings. Board meeting calendar is agreed by and circulated to the Directors during the preceding calendar year, providing sufficient notice to the Directors. During the year, there were 12 monthly scheduled meetings of the Board. In addition to the regular Board Meetings, a Special Board Meeting was held during the month of January 2017 to discuss and decide on a matter which necessitated an emergency meeting to be convened. The said meeting was convened under the authority granted by the Acting Chairperson, who was apprised of the exigency by the Company Secretary. On the instructions of the Acting Chairperson the Company Secretary communicated with all the Directors and facilitated the holding of the said Special Board Meeting whereat the Board deliberated on the matter at length and made its decision thereon.

There is a 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 Acting Chairperson, where necessary, in consultation with the Managing Director. 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 No. 03 of 2008. 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

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.



The following table sets out a detailed itemisation of functions of the respective roles:

Role	Chairman	Managing Director (MD)
Responsibility	<ul style="list-style-type: none"> Chairperson has the responsibility to guide the Board in its task of setting and helping to implement the Company's strategic objective. Chairperson closely coordinates with the MD in a 'bridge' role between the Board and the Executive Management team. 	<ul style="list-style-type: none"> MD has the responsibility of ensuring that the day-to-day running of the Company and its performance are in accordance with the strategic goals that the Board has determined.
Decision-Making	<ul style="list-style-type: none"> The Chairperson makes decisions on matters entrusted to her by the Board. However, the Chairperson ensures that the decision-making processes of the Board are effective and that the Board challenges sufficiently and effectively major proposals that are put forward by the Executive Management team as represented by the MD. The Chairperson encourages every Board member to engage in Board and Committee meetings by which strategic decisions are taken. 	<ul style="list-style-type: none"> The MD is tasked with achieving the strategic goals of the Company by directing human and material resources to the appropriate areas and monitoring the performance of those resources. Operational and financial decisions are made by MD with regard to the running of the Company in order to achieve the goals that the Board has determined.
Strategy	<ul style="list-style-type: none"> The Chairperson sets the agenda for the Board's deliberations. That agenda focusses on strategy, performance, accountability and the creation of value for shareholders. The issues relevant to these areas should be reserved for decision by the Board exclusively and reserved matters identified clearly and made known to the MD. 	<ul style="list-style-type: none"> MD is responsible for implementing Company's Board approved Strategic Plan. MD directs strategy towards the profitable growth and operation of the Company. Longer-term objectives and priorities which are established by the Board are developed. MD has a crucial role in ensuring that these strategies are in fact implemented and delivered. Frequently the MD contributes views to the Board through the Chairperson to assist the Board in devising Company strategy.
Communication	<ul style="list-style-type: none"> The Chairperson has the responsibility to ensure effective communication with shareholders and other stakeholders. In order to make informed decisions, Board members were given a timely flow of high-quality supporting information. 	<ul style="list-style-type: none"> MD on a timely basis, provides the Board with adequate impartial information to enable the Board to make decisions.
Ethics and Values	<ul style="list-style-type: none"> The Chairperson sets clear expectations concerning the Company's culture, values and behaviours and the style and tone of Board discussions. 	<ul style="list-style-type: none"> MD promotes the Company's culture, values and behaviours through both the MD own example and the day-to-day working environment of the organisation. MD ensures that the standards of performance are accepted and understood by management and the employees.
Risk Management	<ul style="list-style-type: none"> The Chairperson ensures that the Board determines the nature, and extent of the risks that the Company is willing to embrace in the implementation of its strategy, and to have in place an effective monitoring of compliance. 	<ul style="list-style-type: none"> The MD puts in place operational planning and financial control systems, consistent with the strategy determined by the Board, and ensure that there is adequate oversight of these areas.
Administration	<ul style="list-style-type: none"> The administration and running of the business is delegated to the Executive Management Team. 	<ul style="list-style-type: none"> MD is responsible for the day-to-day running of the Company's business.

Role	Chairman	Managing Director (MD)
Finance	<ul style="list-style-type: none"> The Chairperson ensures that strategic decisions of the Company are communicated upon consideration of the financial resources and constraints of the Company. 	<ul style="list-style-type: none"> MD monitors closely the operating and financial results of the Company against plans and budgets (as determined by the Board). It is a key role of the MD to deliver the strategic goals of the Company, within budget.
Staff	<ul style="list-style-type: none"> The Chairperson, on a regular basis, consider succession planning and the current and future composition of the Board and Executive Management team, based on the recommendations of the Nomination Committee. 	<ul style="list-style-type: none"> MD builds and maintains an effective Executive Team, effective management and effective management structures within the organisation. MD maintains an on-going dialogue with the Chairperson to impart information and as a source of advice to the MD.
Evaluation	<ul style="list-style-type: none"> The Chairperson acts on the results of any Board evaluation. She also provides constructive feedback for the MD from a Board perspective. 	<ul style="list-style-type: none"> MD ensures that effective reporting mechanisms exist within the organisation to provide feedback at all levels of management.

BOARD SUBCOMMITTEES/BOARD APPOINTED COMMITTEES

In accordance with the relevant rules, regulations and best practices, an Audit 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 page 175. In addition to the aforesaid Board Subcommittees, a Board appointed Integrated Risk Management Committee functions with two Non-Executive Directors, Managing Director, two Executive Directors, Chief Financial Officer, AGM – Treasury and Planning, CRO and the Compliance Officer.

The Reports of the Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and the Nomination Committee are on pages 180 to 187.

The composition of the aforesaid Committees appear in detail in the relevant Reports and the attendance of Directors at those Committee meetings are as follows:

Name of Director	Audit Committee		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	-	-	4/4	M	3/4	M	4/4	C	2/2	M
Mr. Dhammika Perera	-	-	-	-	-	-	-	-	-	-
Mrs. Shirani Jayasekara	12/13	M	4/4	C	-	-	4/4	M	-	-
Mr. Thosapala Hewage	-	-	-	-	-	-	-	-	2/2	C
Mr. Lalit N de S Wijeyeratne	13/13	C	-	-	3/4	M	3/4	M	-	-
Mr. J A S S Adihetty	-	-	4/4	M	-	-	-	-	2/2	M
Mr. W D N H Perera (resigned on 30.4.2017)	-	-	-	-	-	-	-	-	-	-
Mr. Niroshan Udage	-	-	4/4	M	-	-	-	-	-	-
Mr. B D A Perera	-	-	4/4	M	-	-	3/4	M	-	-
Mr. Ravindra S Yatawara	-	-	-	-	-	-	-	-	-	-
Mrs. Anandhiy K Gunawardhana	12/13	M	-	-	4/4	C	-	-	-	-
Mrs. Yogadinusha Bhaskaran	-	-	-	-	-	-	-	-	-	-

C - Chairman/Chairperson, M - Member

MANAGEMENT COMMITTEES

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

The management committees include Asset and Liability Committee, Credit Committee, IT Steering Committee and Sustainability Committee and their functions are described on pages 195 to 196.

THE MANAGEMENT

Day-to-day operations of the Company are entrusted to the 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.

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 the 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 2017, 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 213.

ETHICAL STANDARDS

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 interests of shareholders through empowering employees to positively contribute towards good Corporate Governance. The Company recognises the employees as the biggest asset. To assist and facilitate transparency, it is imperative to institutionalise processes across all functions and hierarchies which are accessible to all.

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

EMPLOYEE INVOLVEMENT AND EMPOWERMENT

Top management and other senior staff are mandated to involve, as appropriate, all levels of staff in formulating goals, strategies and plans. Decision-making rights are defined for each level in order to instill a sense of ownership, reduce bureaucracy and speed up the decision-making process. A bottom-up approach is taken in the preparation of annual and long-term plans and the Company also ensures employee involvement and empowerment in the process.

EMPLOYEE COMMUNICATION

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

The Company has a Board approved Communications Policy, which also deals communication with employees.

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 the CSE. All shares carry equal voting rights and the shareholders are informed of the Annual General Meeting, 15 working days prior to the date of the Annual General Meeting. 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 the 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 and compliance.

COMPLIANCE STATEMENT

We are happy to confirm that throughout the year ended 31st March 2017 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 153 to 165 depict the extent of adherence with the Code of Best Practice on Corporate Governance, issued jointly by the SEC and ICASL. Further, the Company has complied with the provisions of the Companies Act No. 07 of 2007 and other statutes as applicable to the Company.

All statutory payments due to Government, which have fallen due, have been made or where relevant provided for, except for certain assessments against which appeals have been lodged. Retirement gratuities have been provided for in accordance with LKAS 19 – 'Employee Benefits'.

By Order of the Board,
L B Finance PLC



P W Corporate Secretarial (Pvt) Ltd
Secretaries

31st May 2017

THE FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 03 OF 2008 AND AMENDMENTS THERETO APPLICABLE TO FINANCE COMPANIES LICENSED UNDER THE FINANCE BUSINESS ACT NO. 42 OF 2011

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.	Board provided leadership, set strategic aims and ensures that the necessary financial and human resources are in place for the Company to meet its objectives; Board set the Company's values and standards and ensure that obligations to shareholders and others are understood and met.	Complied
(b)	Approve the overall business strategy, including the overall risk policy and risk management.	Board approved the 'Strategic Plan' of the Company and established a framework of prudent and effective controls which enables risk to be assessed and managed; Board review Company management performance at monthly Board meetings. Risk Management Policy which includes, a well-developed risk appetite, well-defined responsibilities for risk management in particular and control functions in general were reviewed and recommended by the Integrated Risk Management Committee (IRMC) and approved by the Board.	Complied
(c)	Identifying and managing risk.	Board is responsible for overseeing a strong risk governance framework. Board takes an active role in defining the risk appetite and ensuring its alignment with the Company's strategic, capital and financial plans and compensation practices. The Risk Management Report on pages 184 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, borrowers and employees of the Company. Company discloses information on a timely basis. In disclosing information, Company ensures the descriptiveness, detailed and forthcoming as possible, and avoid boilerplate disclosures.	Complied
(e)	Adequacy and Integrity of the internal control system and management information system.	The Board-ensures that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the Company's assets. Internal controls are designed, among other things, to ensure that each key operation has a policy, process or other measures, as well as a control to ensure that such policy, process or other measure is being applied and works as intended. Board-approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System, Internal Control System and observations was monitored by the Board & confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over Financial Reporting.	Complied

Section	Rule	Compliance and Implementation	Compliance Status
	(f) Identifying and designating Key Management Personnel.	Board-identified Key Management Personnel according to the Sri Lanka Accounting Standard and as per the Direction issued by the Central Bank of Sri Lanka on Corporate Governance and the latter includes Board of Directors, Chief Financial Officer, Chief Risk Officer, Assistant General Managers Treasury & Legal, Compliance Officer and Senior Manager Finance as Key Management Personnel (KMP). The Directors have been identified as KMPs as per the Accounting Standards.	Complied
	(g) Authority and responsibilities of the Board and Key Management Personnel.	The Board sets out clearly the role, responsibilities, accountability and reporting relationships of Key Management Personnel, and have these properly documented. The delegation of authority from the Board to the Key Management Personnel is formal and clear.	Complied
	(h) Oversight of affairs of the Company by Key Management Personnel.	Oversight of the affairs of the Company by its Key Managerial Persons take place at the regular Board meetings and Subcommittee meetings and Key Management Personnel make regular presentations 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 to the Nomination Committee (NC). 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 abstains from voting at such meeting and he is not counted in the quorum. The Board appraises its own performance by submission of performance evaluation forms to be filled by each Director. A summary of these evaluation forms is submitted to the Board by the Company Secretaries for further recommendations.	Complied
	(j) Succession plan for Key Management Personnel.	Board engaged in succession plans for key positions, as appropriate, and ensure that appropriate succession plans are in place for Senior Management positions. Key Management Personnel succession plan was approved by the Board on 19th January 2016.	Complied
	(k) Regular meetings with the Key Management Personnel.	The Key Managerial Persons regularly make presentations and participate in discussions on their areas of responsibility at the Board and its Subcommittees and progress towards corporate objectives are regular agenda items for the Board where Key Management Personnel are involved regularly.	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 the Director's 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 & 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

Section	Rule	Compliance and Implementation	Compliance Status
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	The Chairman and the Managing Director of Company have been appointed by the Board to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.	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 the 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. The Company Secretaries obtained disclosure of interest from Directors at every Board meeting and conflict of interest (if any) is managed based on this statement. Directors abstain from voting in such a situation and they are not counted in the quorum.	Complied
2 (5)	Formal schedule of matters specifically reserved for the Board decision.	The Board has adopted a policy for a formal schedule of matters specifically reserved for the Board. Present agenda of 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 2016/17 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.	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. The Board met on 13 occasions during the year 2016/2017.	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.	Board meeting dates were agreed to by Board members in advance for the calendar year . Agenda and all Board papers are uploaded through a secure link to iPad for Directors to access seven days prior to the Board meetings.	Complied

Section	Rule	Compliance and Implementation	Compliance Status
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 2016/17. Directors' Attendance at Board and Subcommittee meetings, Refer page 178 to 179 for details of individual Director's attendance at Board meetings.	Complied
3 (5)	Appointment of a Company Secretary to handle the secretariat services to the Board.	P W Corporate Secretarial (Pvt) Ltd, a company registered with the Registrar General of Companies as a qualified secretary handles the secretarial services to the Board and shareholder meetings and carryout other functions specified in related laws and regulations.	Complied
3 (6)	Preparation of agenda for a Board meeting by the Company Secretary.	Preparation of the agenda is delegated to the Company Secretary and approved by the Chairperson.	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. Directors have separate and independent access to the Company Secretary.	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 Chairperson 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.	The Company's Board comprised of 12 Directors during the year 2016/17. The objective of the Company is to maintain the 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 tenures of service are given on page 135.	Complied
4 (3)	Board balance.	There were six Executive Directors including Managing Director 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.	There is a strong and independent element on the Board, with Independent Directors making up a one-fourth of the Board. The Board has three Independent Non-Executive Directors as per the definition of this Direction which is 1/4th of the Board. The Board evaluates, Independence of the Directors annually based on the Directors self-declarations.	Complied

Section	Rule	Compliance and Implementation	Compliance Status
4 (5)	Appointment of Alternate Director.	There were no alternate Directors during the year 2016/17.	Complied
4 (6)	Skills and experience of Non-Executive Directors.	Appointments are recommended by the Nomination Committee. The Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and their detailed profiles are on pages 125 and 127.	Complied
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings.	Company Secretaries strictly monitored that the all Board meetings held during the year were duly constituted with half of the number of Directors that constituted the quorum at such meetings were Non-Executive Directors.	Complied
4 (8)	Expressly identification of the Independent Non-Executive Directors in corporate communications and disclose the details of Directors.	The Independent Non-Executive Directors are expressly identified in all corporate communication that discloses the names of all Directors of the Company. Composition of the Board of Directors including the category of Directors has been disclosed on page 135 in addition to the disclosures on profiles of Directors on pages 125 and 127.	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 Nomination Committee and there is a procedure in place for the succession of appointments to the Board. After this procedure the names are referred to the CBSL for approval prior to appointment.	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 appointment and there were no casual vacancies during the year.	Complied
4 (11)	Communication of reasons for removal or resignation of Directors.	Resignation of Directors and their reasons are duly communicated to the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities. However, there were no resignations or removal of Directors during the year.	Complied

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

5 (1)	The age of a Director shall not exceed 70 years.	All the Directors are below the age of 70 years as at 31st March 2017.	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 inclusive of subsidiaries or associate companies of the Company are less than 20 .	Complied

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.	Chairperson is a Non-Independent Non-Executive Director. Mrs. S Jayasekara an Independent Non-Executive Director functions as the Senior Director in compliance with the direction.	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 Chairperson and the Managing Director and the other members of the Board as per the annual declarations updated regularly at monthly Board meetings.	Complied
7 (4)	Chairman to:		
	(a) provide leadership to the Board;	Board-approved list of functions and responsibilities of Chairperson includes, 'Providing Leadership to the Board' as a responsibility of the Chairperson.	Complied
	(b) ensure that the Board works effectively and discharges its responsibilities; and	The Board as a body worked effectively and discharged its responsibility as set out in the Annual Report.	Complied
	(c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	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.	Preparation of the agenda has been delegated to the Company Secretary who circulates a formal agenda prior to the Board meeting which is approved by the Chairperson.	Complied
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	The Chairperson ensures that all Directors are properly briefed on issues arising at Board meetings through submission of agenda and Board papers with sufficient time prior to meeting.	Complied

Section	Rule	Compliance and Implementation	Compliance Status
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interest of the Company.	All Directors actively participate in Board affairs.	Complied
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors.	Executive and Non-Executive Directors work together in the best interests of the Company. Non-Executive Directors participate in Board Subcommittees.	Complied
7 (9)	Refrain from direct supervision of Key Management Personnel or executive duties.	Chairperson 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 Committees have been appointed by the Board and each such Committee is required to report to the Board:</p> <ol style="list-style-type: none"> 1. Remuneration Committee 2. Integrated Risk Management Committee 3. Nomination Committee 4. Audit Committee 5. Related Party Transactions 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 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 126 of this Annual Report.	Complied
(b)	All members of the Committee to be Non-Executive Directors	All the 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 Board 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 (5) years, is met. The Audit Committee has the primary responsibility for making recommendations on the appointment, reappointment or removal of the External Auditor in line with professional standards and regulatory requirements.	Complied
(d)	Review and monitor the External Auditor's independence, objectivity and the effectiveness of the audit processes.	The External Auditor, has provided an independent confirmation in compliance with the guidelines for appointment of Auditors of Listed Companies. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations and guidelines.	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 focussed 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 being recommended for the Board 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 during the Financial year 2016/17.	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)	<p>Review of the Internal Audit function:</p> <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 & AGM Treasury and Planning, Information System (IS), Auditor and the Internal Auditors normally attend all meetings. Where it is deemed necessary, members of the corporate management may also attend meetings by invitation.</p>	Complied
(m)	Explicit authority, adequate resources, access to information; and obtain external professional advice where ever necessary.	<p>The Audit Committee is guided by a Board-approved terms of reference which sets out authority and responsibility of the said Committee.</p> <p>The Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.</p>	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 13 times during the year and the attendance at those meetings is set out on page 182 in Audit Committee Report.</p>	Complied
(o)	Disclosures in the Annual Report.	The Report of the Board Audit Committee is on pages 182 and 183 includes the detail activities, meeting held during the year and the Directors attendance at the Audit Committee Meetings.	Complied

Section	Rule	Compliance and Implementation	Compliance Status
(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-Blower Policy.	The Company has a Board-approved Whistle-Blowing Policy whereby employees of the Company are entitled to raise concerns in confidence about the malpractices in the Company.	Complied
8 (3)	Integrated Risk Management Committee		
(a)	The composition of IRMC.	Composition of the IRMC are: Two Non-Executive Directors, three Executive Directors including Managing Director and other Key Management Personnel, namely Chief Financial Officer, Head of Treasury and Planning, Chief Risk Officer and Compliance 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 submitted to the Board quarterly.	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 has been reviewed against the benchmark and prompt corrective actions are taken to mitigate the effects of such risks that are at level beyond the prudent levels decided by the Committee. Review of this process is minuted at the IRMC for their review and action if deemed necessary.	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 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.	An independent compliance function is established as second line of defence. This function is responsible for, among other things, ensuring that the Company operates with integrity and in compliance with applicable, laws, regulations and internal policies. Dedicated compliance officer appointed with sufficient authority, stature, independence, resources and access to the Board.	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 Transactions Policy is in place which describes the related parties, types of related party transactions and stipulate that no Director shall participate in any discussion of a proposed related party transaction for which he or she is a related party, provided however he or she may participate in discussion to express, propose and providing information concerning to Related Party Transaction to the committee. The Board appointed Related Party Transactions Review Committee ensures that the transactions with Related Parties are in accordance with best practices.</p> <p>A system for monitoring and reporting of data pertaining to such transactions has been established by the Company during the year & through that system Company ensures that no favourable transaction has been entered in to with such parties.</p> <p>Transactions carried out with Related Parties in the ordinary course of business (Recurrent transactions) are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 6.1 on page 282 in Financial Statements. The Company entered in to one Non-recurrent transaction with a related party during the year which too is disclosed in the said Note.</p>	Complied
9 (3)	Related party transactions.	Board-approved process is in place to identify the related party transactions and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis.	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 the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis. The Company has developed a separate system to monitor the Related Party Transaction through the IT Network, to ensure that related party transactions are not entered into on more favourable terms than those offered to others, and where applicable relevant approvals of the Related Party Transactions Review Committee/Board are obtained.	Complied
10. DISCLOSURES			
10 (1)	Preparation of Interim and Annual Financial Statements based on applicable accounting standards and publication in Sinhala, Tamil and English languages.	Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements are published in the newspapers, in all three languages	Complied
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:		

Section	Rule	Compliance and Implementation	Compliance Status						
	(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 "Statement of Directors' Responsibility for Financial Reporting" on page 213.	Complied						
	(b) A report by the Board on the Finance Company's internal control mechanism .	Directors' Statement on Internal Control Systems over financial reporting is given on page 212.	Complied						
	(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 and the transaction	<p>Details of Directors including names are disclosed under Director's profiles on pages 124 to 127.</p> <p>The transaction with the Directors aggregate fees and remuneration paid during the year amounted to Rs. 323 million and savings & fixed deposits held as at 31st March 2017 amounting to Rs. 396 million.</p>	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. 323 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.	<p>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:</p> <table border="1"> <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 family members</td> <td>0.003</td> <td>393</td> </tr> </tbody> </table>	Category of Related Party Transaction	%	Amount (Rs. '000)	Entities controlled by KMPs and their family members	0.003	393	Complied
Category of Related Party Transaction	%	Amount (Rs. '000)							
Entities controlled by KMPs and their family members	0.003	393							
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.	<p>Disclosed under the Related Party Transactions Note 6.1.1 to the Financial Statements as per defined by the LKAS 24 on Related Party Disclosure for Financial Reporting purpose. In addition to the above, remuneration paid to the KMPs defined for Corporate Governance Direction purpose is as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>Aggregate Amount (Rs. '000)</th> </tr> </thead> <tbody> <tr> <td>Remuneration Paid</td> <td>36,839</td> </tr> <tr> <td>Deposits</td> <td>13,414</td> </tr> </tbody> </table>		Aggregate Amount (Rs. '000)	Remuneration Paid	36,839	Deposits	13,414	Complied
	Aggregate Amount (Rs. '000)								
Remuneration Paid	36,839								
Deposits	13,414								
	(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls.	This has been disclosed on page 170.	Complied						

Section	Rule	Compliance and Implementation	Compliance Status
(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 Department of supervision of Non-Bank Financial Institutions and/or directed to be disclosed to the public by the Monetary Board.	Complied
(j)	The External Auditor's certification of the compliance with the corporate governance direction.	The Company has obtained a factual finding report from External Auditors' over the compliance with Corporate Governance Direction.	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

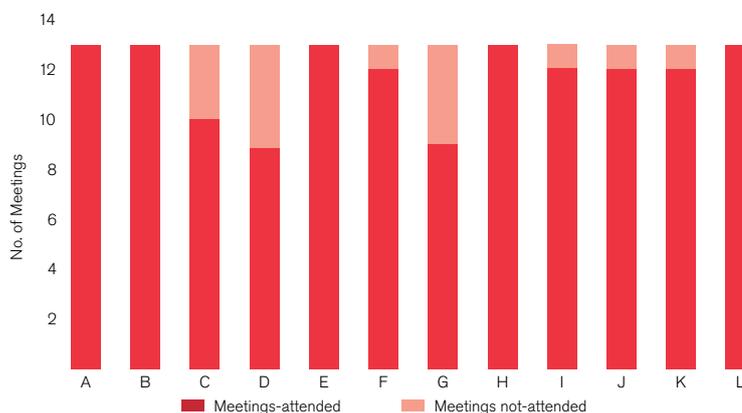
A.1 THE EFFECTIVE BOARD

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

The Board comprised 12 Directors as at 31st March 2017, six of whom functioned in Non-Executive capacity, having the required professional competence, skills and experience in the fields of entrepreneurship, banking, finance, legal and marketing to lead and control the Company. The Board gives leadership in setting the strategic direction and implement sound control environment for the successful functioning of the Company.

Corporate Governance Principle	Degree of Compliance	Compliance Status
A.1.1 Regular Board meetings	The Board usually meets at monthly intervals and special Board meetings are convened whenever necessary. The Board met thirteen (13) times during the year. The attendance at Board meetings held in 2016/17 is set out here.	Complied

Board meeting attendance of the Directors



A-Mrs. Kimarali Fernando
B-Mrs. Shirani Jayasekara
C-Mr. Dhammika Perera
D-Mr. T Hewage
E-Mr. J A S S Adhietty
F-Mr. L N de S Wijeyeratne
G-Mr. W D N H Perera
H-Mr. Niroshan Udage
I-Mr. B D A Perera
J-Mr. Ravi S Yatawara
K-Mrs. Anandhiy K Gunawardhana
L-Mrs. Yogadinusha Bhaskaran

Corporate Governance Principle	Degree of Compliance	Compliance Status
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 five years from 2017-2021 and was approved by the Board.	Complied
<ul style="list-style-type: none"> CEO, Executive Directors and Senior Management Team possess the skills, experience and knowledge 	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 129.	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, which is in place for the corporate management team.	Complied
<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 controls 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 a Board Paper on compliance 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 stakeholder interest are considered in corporate decisions. 	Stakeholders' interests which are identified through different stakeholder engagement methodologies are considered in decision-making. Refer pages 31 to 33 of the Annual Report.	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.</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 GRI Standards.</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 regulations.	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, recognise their duty to comply with laws of the country. The Board of Directors ensures that procedures and processes are in place to ensure that the Company complies with all applicable laws and regulations. In order to preserve the independence of the Board and to strengthen the decision-making, the Board seeks independent professional advice when deemed necessary.	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



Corporate Governance Principle	Degree of Compliance	Compliance Status
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 on 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 has dedicated adequate time and effort to the meetings of the Board and Subcommittee 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 presentations with regard to the business 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 Managing Director have a clear distinction of responsibilities and balance of 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 CEO and Chairman	The positions of Chairman and the Managing Director have been separated in line with best practices with a view to maintain the balance of power and authority. The Chairperson is an Independent Non-Executive Director (as per the Listing Rules and Code of Best Practice on Corporate Governance and a Non-Executive Director as per Finance companies (Corporate Governance Direction No. 03 of 2008) Managing Director is conferred with executive authority to manage the business.	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 Chairperson provides leadership to the Board, ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Complied

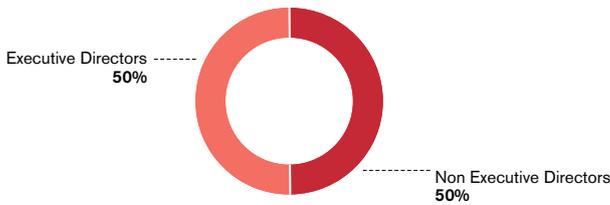
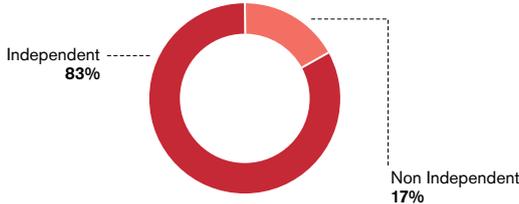
A.4 FINANCIAL ACUMEN

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 Audit Committee is a Fellow member of The Institute of Chartered Accountants of Sri Lanka and the Chairman of the Integrated Risk Management Committee also a Fellow member of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the CIMA-UK.</p> <p>A further Non-Executive Director and an Executive Director are qualified finance professionals with experience in finance and management. The remaining members of the Board also possess experience in finance and banking thus there is sufficient financial acumen and knowledge within the board to offer guidance on matters of finance.</p> <p>The profiles of the Board of Directors are given on page 125.</p>	Complied

A.5 BOARD BALANCE

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

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>During the financial year under reviews the Board comprised Six (6) Non-Executive Directors and Six (6) Executive Directors facilitating the required balance within the Board.</p> <p>Board composition</p>  <p>Executive Directors 50%</p> <p>Non Executive Directors 50%</p>	Complied
A.5.2 Two or one-third of Non-Executive Directors whichever is higher should be independent.	<p>The Board has determined five (5) out of six (6) Non-Executive Directors are Independent as per this Code.</p> <p>Board composition</p>  <p>Independent 83%</p> <p>Non Independent 17%</p>	Complied
A.5.3 Evaluation of independence of Non-Executive Directors.	<p>The Board evaluates the Independence yearly using annual declarations submitted by the Directors according to the Code criteria.</p>	Complied
A.5.4 Signed declaration of independence by the Non-Executive Directors.	<p>All Non-Executive Directors provided the signed declarations of independence for 2016/17 as per the Schedule H of the Code.</p>	Complied

Corporate Governance Principle	Degree of Compliance	Compliance Status
A.5.5 Determination of the independence and Non-Independence of each Non-Executive Directors annually.	The Board has reviewed the declarations submitted by the Non-Executive Directors, and determined their independence. The following Directors qualify to be Independent Directors: Mr. Thosapala Hewage Mrs. Shirani Jayasekara Mrs. Anandhiy K Gunawardhana The Board determined that Mrs. Kimarli Fernando and Mr. L N de S Wijeyeratne shall be considered as Independent Directors notwithstanding the criteria not met by them. A synopsis of such determination is on page 135 of this Report.	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 independent.	No alternate Directors were appointed during the year.	Complied
A.5.7 Senior Independent Director (SID). A.5.8 Confidential discussion with other Directors by the SID.	Although the requirement to appoint a Senior Independent Director does not arise according to the Code, in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, the Board appointed Mrs. S Jayasekara as Senior Independent Director and she functions in that capacity from May 2016 onwards and at certain prior meetings where a Non-Executive functioned as the Chairperson of the Board.	Complied
A.5.9 Meetings held by the Chairman with Non-Executive Directors.	The Chairperson 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 seven days prior to the Board meetings. The members of Corporate Management make presentations to the Directors on important issues relating to the financial performance, strategy, risk, systems and 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 iPad for the Directors to access to seven (7) days prior to 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. Thosapala Hewage (Chairman of the Committee) Mrs. Kimarli Fernando Mr. J A S S Adihetty The report of the Nomination Committee is given on page 181 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
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 Department of Supervision of Non-Bank Financial Institutions and notification is sent to Colombo Stock Exchange. All new appointments are reviewed by the Nomination Committee.	Complied

A.8 RE-ELECTION

All Non-executive 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	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. 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.	Complied

A.9. APPRAISAL OF BOARD PERFORMANCE

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

Corporate Governance Principle	Degree of Compliance	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 collates them and submits is to the Board for necessary action as appropriate as decided by the Board.	Complied



Corporate Governance Principle	Degree of Compliance	Compliance Status
A.9.2 Annual self-evaluation by the Board of its Sub-committees	The appraisal of the performance of Subcommittees is 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 page 125 to 126 including other directorships held by the Directors and memberships of Board Committees. Directors attendance is disclosed on page 178.	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 financial 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

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 has 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: Mrs. A K Gunawardana (Chairperson of the Committee) Mrs. Kimarli Fernando Mr. L N de S Wijeyeratne All are Independent Non-Executive Directors as per the Code and the Listing Rules of the CSE.	Complied

Corporate Governance Principle	Degree of Compliance	Compliance Status
B.1.3 Disclosure in the Annual Report about the Remuneration Committee members.	Remuneration Committee report is given on page 180 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 Subcommittees and their fee structure is decided by the Board.	Complied
B.1.5 Remuneration Committee consult of the Chairman/ MD on matters relating to Remuneration Committee Executive Directors and access to the professional advice.	Committee consults Managing Director when recommending the remuneration of other Executive Directors and also has access to professional advice when deemed necessary.	Complied

B.2 THE LEVEL AND MAKE UP OF REMUNERATION

Level of remuneration of both the Executive and the Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to cooperate 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 incentive payment to attract, retain & motivate them.	Complied
B.2.2 Remuneration packages in line with industry practices.	The Remuneration Committee reviews the information relating to competitors of the Company and the due care is taken to ensure that remuneration is on par with industry standards.	Complied
B.2.3 – Remuneration packages in line with Other Companies in the Group.	Size and scale of the Company's operations are not comparable with other Group Companies and therefore guidance could not be drawn from them.	Complied
B.2.4 Performance related payments to Executive Directors.	There are performance-related elements of remuneration for Executive Directors with the objective of providing appropriate incentives to those Directors to perform at the highest level.	Complied
B.2.5 Executive Share Option.	There are no Share Option schemes offered by the Company.	Complied
B.2.6 Designing schemes of performance related remuneration.	In deciding the remuneration of the Managing Director, Executive Directors and Senior Management, the Company takes note of the provisions set out in Schedule E.	Complied
B.2.7 – 2.8 Early termination of Service of Directors.	Consideration of termination of service of the Executive Directors will be in accordance with their contract of service.	Complied
B.2.9 Remuneration of the Non- Executive Directors.	Non-Executive Directors are remunerated by the Company considering the time commitment, responsibilities of the role and the market practices. The Company has not offered any Share Option Plans to either Executive Directors or Non-Executive Directors.	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 180 which sets out the details on the composition of Committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 6.1.1 to the Financial Statements on page 282.	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 each substantial matters that require approval of shareholders at the Annual General Meetings (AGM).	Complied
C.1.3 Arrangement made by the Chairman of the Board that all Chairmen of Subcommittees make themselves available at the AGM.	The Board includes the Chairmen of the Audit, Remuneration, Integrated Risk Management and Nomination Committees, and they are available at the AGM to answer any questions.	Complied
C.1.4 Adequate notice for the AGM to the shareholders.	The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders 15 working days prior to the date of the AGM as stipulated by the Companies Act.	Complied
C.1.5 Procedures of voting at general meetings.	Shareholders right to appoint a proxy for voting at AGM appears on Notice of Meeting and on the Form of Proxy. Voting procedures at general meetings appear on the Form of Proxy	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.	There are many channels of communication for engaging with shareholders. These include press releases and notices and required disclosures to the CSE which are published on the CSE website. The quarterly Interim Financial Statements are disseminated to the CSE within 45 days, the exception being for the last quarter of the financial year where the Company has 60 days to publish the those accounts. Half yearly Financial Statements are published in daily news papers in all three languages as per the Finance Companies Guidelines No 2 of 2006. Notice of Annual General Meeting is circulated together with the Annual Report and Accounts which includes any other special business (if any) to be transacted at the AGM. Where necessary Extra Ordinary General meetings are convened after giving statutory notice to all shareholders Annual General Meeting provides a platform for shareholders to discuss and seek clarification on the activities of the Company.	Complied

Corporate Governance Principle	Degree of Compliance	Compliance Status
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 Stakeholder engagement on page 31 in the Annual Report.	Complied
C.2.3 Implementation of the communication policy and methodology.	Shareholders receive the Annual Report from the Company either by way of a CD or in hardcopy 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 from the Directors or management of the Company.	Complied
C.2.5 Awareness of Directors on major issues and concerns of shareholders.	The Company Secretary maintains a record of all correspondence received and will deliver as soon as practicable such correspondence, which require Boards attention 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, 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 2017 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.	Board of Directors on the affairs of the Company is given on page 170 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 213 and Auditors responsibility given in the Auditors Report to the Financial Statements on page 214 and the Directors' Statement on Internal Control is given on page 212 respectively.	Complied

Corporate Governance Principle	Degree of Compliance	Compliance Status																		
D.1.4 Management discussions and analysis.	Management discussion and analysis is given on page 21.	Complied																		
	<table border="1"> <thead> <tr> <th>Information Required</th> <th>Page</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>39</td> </tr> <tr> <td>Opportunities and threats</td> <td>188</td> </tr> <tr> <td>Risks and concerns</td> <td>188</td> </tr> <tr> <td>Internal controls systems and their adequacy</td> <td>188</td> </tr> <tr> <td>Social and environmental protection activities carried out by the Company</td> <td>28</td> </tr> <tr> <td>Financial performance</td> <td>12</td> </tr> <tr> <td>Material developments in human resource/industrial relations and</td> <td>76</td> </tr> <tr> <td>Prospects for the future</td> <td>11</td> </tr> </tbody> </table>	Information Required	Page	Industry structure and developments	39	Opportunities and threats	188	Risks and concerns	188	Internal controls systems and their adequacy	188	Social and environmental protection activities carried out by the Company	28	Financial performance	12	Material developments in human resource/industrial relations and	76	Prospects for the future	11	
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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 170.	Complied																		
D.1.6 Serious loss of capital.	No any such circumstance occurred, and its likelihood of occurrence is also remote.	Not Applicable																		
D.1.7 Disclosure of Related Party Transactions.	<p>A detailed Board-approved documented process is available in the Company for monitoring and reporting of Related Party Transactions.</p> <p>The Company Secretary makes necessary disclosures of any Related Party Transactions which require disclosure as per the rules.</p> <p>All related party transactions as defined in Sri Lanka Accounting Standard – 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 6.1 to the Financial Statements on pages 282.</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 is reviewed by the 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' Statement on Internal Control on pages 212.	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 principals 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 Directors: 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 audit and its effectiveness. Further independence and the objectivity of the Auditors also reviewed periodically. The Committee would consider independence when providing non- audit engagements to the External Auditor. It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors.	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 182 of 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.	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 153 to 165 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 Company has 2,102 shareholders of whom 1,973 are individual investors. The Chairman facilitates that. 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 to seek independent advice in investing or divesting decisions. The Annual Report contains sufficient information for a potential investor to carry out his/her own analysis and quarterly Financial Statements would also assist investors to take investment decisions.	Complied

F.2 SHAREHOLDER VOTING

Corporate Governance Principle	Degree of Compliance	Compliance Status
F.2 Individual shareholder voting.	Individual shareholders are encouraged to participate at Annual General Meeting and to exercise their voting rights.	Complied

G. SUSTAINABILITY REPORTING

Corporate Governance Principle	Degree of Compliance	Compliance Status
G.1.1 Economic Sustainability.	Adopted sustainability practices and reporting based on G4 Core Guidelines issued by Global Reporting Initiatives. Please refer page 303.	Complied
G.1.2 The Environment.	Refer page 112 for details.	Complied
G.1.3 Labour Practice.	Refer page 76 for details.	Complied
G.1.4 Society.	Refer page 90 for details.	Complied
G.1.5 Product Responsibility.	Refer page 94 for details.	Complied
G.1.6 Stakeholder identification, engagement and effective communication.	Refer page 31 for details.	Complied
G.1.7 Sustainable reporting and disclosure should be formalised.	Reported based on Guidelines for Global Reporting Initiatives. Refer page 303 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 170.	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 170. Please refer Section 2 – Corporate Information to the Financial Reports on page 312.	Complied
7.6 (iii)	Top 20 shareholders with the number of Shares held and the percentage of such shares	Please refer 'Share Information' for the Twenty (20) largest holders of voting shares on page 62. The Company has not issued any non-voting shares.	Complied
7.6 (iv)	The Public Holding percentage	Please refer 'Financial Capital' on page 57.	Complied
7.6 (v)	Statement of each Directors and Chief Executive Officers shareholding of the Company at the beginning and end of the year.	Please refer 'Financial Capital' on page 61.	Complied
7.6 (vi)	Information relating to foreseeable risk factors of the Company	Please refer the 'Risk Management' section on page 188.	Complied
7.6 (vii)	Details of material issues relating to employees and industrial relations of the Company.	Please refer page 35.	Complied
7.6 (viii)	Extent, locations, valuations and number of buildings of the Company & the land holdings & investment properties.	Please refer Note 4.21.9 – Information on the freehold land and buildings of the Company in the Financial Reports on page 259.	Complied
7.6 (ix)	Number of shares representing the Company's stated capital	Please refer Note 4.31-Stated Capital in the Financial Reports on page 270.	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 'Financial Capital' on page 60.	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 'Financial Capital' on page 57.	Complied

Section	Rule	Compliance and Implementation	Compliance Status
	Debt 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	Please refer 'Ten year summary' on page 290.	
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 in the Financial Statements on page 255.	Complied
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement	There were no any share issues, rights issues 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. Please refer page 233.	Complied
7.6 (xv)	Disclosures pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules.	Please refer "Report on compliance with the Rules on the Content of the Annual Report on page 166.	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 Transactions 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 & 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.	As at 31st March 2017 The Board comprised six Non-Executive Directors out of total of 12 Directors which is 50 as a percentage.	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 continued as at 31st March 2017.	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
Independent Directors			
7.10.2 (a)	Two or one third of Non-Executive Directors, whichever is higher, should be independent.	The Board has determined that five Directors out of Six Non-Executive Directors are Independent.	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 submitted annual declarations in respect of the year under review.	Complied

Section	Rule	Compliance & Implementation	Compliance Status
Disclosure Relating to Directors			
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report.	Please refer page 135 of 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.	The determination made by the Board in respect of Ms. Kimarli Fernando and Mr. L N de S Wijeyeratna is referred to in Corporate Governance Report on page 135.	Complied
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Please refer page No.125 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.	No new Directors were appointed during the year.	Complied
Criteria for Defining Independence			
7.10.4 (a-h)	Requirements for meeting criteria to be independence of a non-executive director.	Three Independent Directors of the Company met the criteria for independency specified in this Rule and two others as referred to above though disqualified under one criteria were determined to be independent by the Board as permitted under the Rule 7.10.3.b.	Complied
Remuneration Committee			
7.10.5	A listed Company shall have a Remuneration Committee.	Board appointed Remuneration Committee is in place. Please refer page 180 of 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 in the Remuneration Committee comprised of independent Non-Executive Directors.	Complied
	One Non-Executive Director shall be appointed as Chairman of the Committee by the Board.	Mrs A K Gunawardhane is the Chairperson of the Committee who is an Independent Non-Executive Director.	Complied
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 180 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 180 of Remuneration Committee Report.	Complied
	A Statement of Remuneration Policy.	Please refer the 'Report of the Remuneration Committee' on page 180 of the Annual Report.	Complied
	Aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer Note No. 6.1.1 of page 282 of Financial Statements in the Annual Report.	Complied

Section	Rule	Compliance & Implementation	Compliance Status
Audit Committee			
7.10.6	A listed Company shall have an Audit Committee.	Please refer the 'Audit Committee Report' on pages 182 of 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 Independent 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 an Independent Non-Executive Director.	Complied
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Both the Managing Director and the Chief Financial Officer attend 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 The Institute of Charters Accountants of Sri Lanka. Please refer page 126 of Directors profiles and Mrs. S Jayasekara is also a Fellow Member of The Institute of Charters Accountants of Sri Lanka and CIMA-UK.	Complied
7.10.6 (b)	<p>Functions shall include:</p> <p>(1) Overseeing whether the Financial Statements of the Company in accordance with Sri Lanka Accounting Standards.</p> <p>(2) Overseeing the Company's compliance with financial reporting in accordance with the regulations.</p> <p>(3) Overseeing to ensure the adequacy of Company's internal control and risk management process.</p> <p>(4) Assessment of the independence and the performance of External Auditors.</p> <p>(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.</p>	Please refer 'Audit Committee Report' on page 182 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 182 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 182.	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 182.	Complied

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

The Directors of L B Finance PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2017 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.

GENERAL

L B Finance PLC (the Company) is a Licensed Finance Company registered in terms of the Finance Business Act No. 42 of 2011. It was incorporated under the Companies Ordinance No. 51 of 1938 as a private limited liability company on 30th May 1971, converted to a public limited liability company on 29th September 1982 and was admitted to the Official List of the Colombo Stock Exchange on 30th December 2017. The Company was re-registered as per the Companies Act No. 07 of 2007 on 6th June 2008 under Company Registration No. PQ 156.

The Company is a registered finance leasing establishment in terms of the Finance Leasing Act No. 56 of 2000.

The ordinary shares of the Company and 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-(lka) with a stable outlook by Fitch Rating Lanka limited.

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

As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report for the year under review.

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Level of compliance by the Company
The nature of the business of the Company	Section 168 (1) (a)	Page 221
Signed Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Page 217
Auditor's Report on Financial Statements of the Company	Section 168 (1) (c)	Page 214
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Page 223
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Page 174
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Page 282
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Page 176
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Page 135
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)	Page 230
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Page 176
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)	Page 170

VISION, MISSION AND CORPORATE CONDUCT

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

PRINCIPAL ACTIVITIES

The Company's principal activities during the year were acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, margin trading facilities, personal loans, factoring and trade finance facilities, microfinance, other credit facilities and value added services.

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

There were no significant changes in the nature of the principal activities of the Company during the year under review.

REVIEW OF OPERATIONS

A review of the business of the Company and its performance during the year with comments on financial results, future strategies and prospects are contained in the Managing Director's Review on pages 18 to 19 which form an integral part of this Report.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Acting Chairperson's Message on page 16, Managing Director's Review on page 18 and the Management Discussion and Analysis on page 21.

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 the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 23rd May 2017.

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 217, which form an integral part of the Annual Report of the Board of Directors on the affairs of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Directors are of the view that the Statement of Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements appearing on pages 216 to 282 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibilities for Financial Reporting is given on page 213 and forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company.

DIRECTORS' STATEMENTS ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 03 of 2008.

The said statement which forms an integral part of the Annual Report of the Board of Directors on the Affairs of the Company is given on pages 170 to 177.

The Board has obtained an Assurance Report from the External Auditors on the Directors' Statement on Internal Control Over Financial Reporting which is given on page 212.

AUDITORS' REPORT

The Report of the Independent Auditors on the Financial Statements of the Company is given on page 214.

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The accounting policies adopted in the preparation of the Financial Statements are given on pages 221 to 287 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 2017 was Rs. 19,363 million (in 2016 it was Rs. 15,646 million) An analysis of the Income is given in Note 4.1.1 to the Financial Statements.

FINANCIAL RESULTS AND APPROPRIATIONS

The Company has recorded a growth in profit before tax of 10 percent and a growth in profit after tax of 5 percent in the year ended 31st March 2017 in comparison to those of the preceding year.

The growth in total Comprehensive Income was 5 percent.

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

	2017 Rs.	2016 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 and tax on financial services.	5,874,843	5,324,616
Income tax expense	(1,956,639)	(1,606,823)
Profit after tax	3,918,204	3,717,793
Profit brought forward from previous year	6,970,499	5,164,137
Actuarial gains and losses on defined benefit plans	(3,182)	8,930
Super gain tax paid	-	(484,231)
Profit available for appropriation	10,885,521	8,406,629
Appropriations		
Dividend paid for previous financial year	(1,038,857)	(692,571)
Interim dividend paid for current financial year	(831,086)	-
Transfers During the Year	(756,499)	(743,559)
Total appropriation	(2,626,442)	(1,436,130)
Un-appropriated profit carried forward	8,259,079	6,970,499

RESERVES

The reserves of the Company with the movements during the year are given in Note 4.33 to the Financial Statements on page 270.

TAXATION

The Income Tax rate applicable to the Company's operations is 28 percent (28 percent in 2015/16)

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 15 percent (2015/16: 11 percent and Nation Building Tax (NBT) on Financial Services VAT at 2 percent (2015/16: 2 percent).

THE BOARD OF DIRECTORS

The Board of Directors of the Company as at 31st March 2017 consisted of 12 Directors with a balance of skills, wide knowledge and experience in entrepreneurship, banking, finance, legal and marketing which is appropriate for the business carried out by the Company. There were no changes in the Directorate during the year.

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 125 to 126.

EXECUTIVE DIRECTORS

Mr. Dhammika Perera –
Executive Deputy Chairman
Mr. J A S S Adhietty – *Managing Director*
Mr. Niroshan Udage
Mr. B D A Perera
Mr. R S Yatawara
Mr. Nimal Perera (*Resigned with effect from 30th April 2017*)

NON-EXECUTIVE DIRECTORS

Mrs. Kimarli Fernando – *Acting Chairperson**
Mrs. Shirani Jayasekara – *Senior Director*+*
Mr. Thosapala Hewage*+
Mr. L N de S Wijeyeratne*
Mrs. Anandhiy K. Gunawardhana*+
Mrs. Yogadinusha Bhaskaran

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

NEW APPOINTMENTS DURING THE YEAR

There were no new appointments during the year.

RESIGNATIONS DURING THE YEAR

There were no resignations during the year.

Following the year under review, Mr. Nimal Perera resigned on 30th April 2017. The relevant regulatory approval in terms of Finance Companies (Structural Changes) Direction No. 01 of 2013 was obtained in this regard.

OTHER STRUCTURAL CHANGES IN THE DIRECTORATE

With effect from 17th May 2016,

- Mr. Thosapala Hewage, who was the Chairman of the Board of Directors of the Company, relinquished the said office and continues as an Independent Non-Executive Director.
- Mrs. Kimarli Fernando was appointed the Acting Chairperson of the Company.

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

RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

The names of the Directors who are subject to retirement by rotation in terms of Articles 85 and 86 of the Articles of Association and the applicable provisions are set out in the undernoted Table.:

As there were no appointments since the previous Annual General Meeting held on 30th June 2016, no Directors retire in terms of Article 92 of the Articles of Association.

The Nomination Committee and the Board have recommended the re-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 Section 192 (1) and 192 (2) of the Companies Act. These interests are entered in the Interests Register which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

The particulars of the Directors Interests in Contracts with the Company are given in Note 6.1 to the Financial Statements on page 282 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 230.

The relevant interests of Directors in the shares of the Company as at 31st March 2017 as recorded in the Interests Register are given in this Report under Directors' shareholding.

DIRECTORS' INTEREST IN TRANSACTIONS WITH THE COMPANY

The Chairman and the Board of Directors of the Company have made declarations as per the requirement in Section 7 (3) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, that there is no financial, business, family or other material/relevant relationship(s) between the Chairman and the Managing Director and/or amongst the members of the Board.

Name of Director	Applicable Article of the Articles of Association	Other information
Mr. Thosapala Hewage	Articles 85 and 86	According to Articles 85 and 86, the Directors to retire by rotation at the Annual General meeting are those who (being subject to retirement by rotation) have been longest in office since their last election or appointment. If one-third of the Directors eligible for retirement by rotation is not a multiple of three, the number nearest to (but not greater than) one-third shall retire from office. As per the Articles, in calculating the said number, Executive Directors and Directors who were appointed to fill casual vacancies and as additional Directors are excluded.
Mrs. Anandhiy K Gunawardhana		The number of Directors subject to retirement by rotation are six and therefore, two Directors are due to retire at this Meeting. Mr. Thosapala Hewage and Mrs. Gunawardhana were last re-elected as Directors at the Annual General Meeting held in 2013.

RELATED PARTIES' TRANSACTIONS WITH THE COMPANY

The Directors have also disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24.

With effect from 1st January 2016, all proposed non-recurrent related party transactions have been placed before the Related Party Transactions Review Committee formed under the Listing Rules of the Colombo Stock Exchange, for its review and recommendations.

Transactions of related parties (as defined in LKAS 24 – 'Related Parties Disclosure') with the Company are set out in Note 6.1 to the Financial Statements.

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party 'more favourable treatment' than that accorded to other similar constituents of the Company.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2017.

DIRECTORS' REMUNERATION

The Directors' remuneration is disclosed under key management personnel compensation in Note 6.1.1 to the Financial Statements on page 282.

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 2017 and 31st March 2016 are as follows:

	Shareholding as at 31st March 2017	Shareholding as at 31st March 2016
Mrs. Kimarli Fernando	3,200	3,200
Mr. Dhammika Perera	-	-
Mrs. Shirani Jayasekara	-	-
Mr. Thosapala Hewage	-	-
Mr. L N de S Wijeyeratne	-	-
Mr. J A S S Adhihetty	106,120	106,120
Mr. W D N H Perera (<i>Resigned on 30th April 2017</i>)	-	-
Mr. N Udage	173,837	58,719
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 71,682,400 shares constituting 51.75 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 36,123,232 shares constituting 26.08 percent of the shares representing the stated capital of the Company.

Mrs. Kimarli Fernando, Mr. Dhammika Perera, Mr. J A S S Adhihetty and Mr. Nimal Perera were Directors of Vallibel One PLC, where they served as Independent Non-Executive Director, Chairman/Managing Director, Non-Executive Director and Deputy Chairman respectively. [Mr. Nimal Perera resigned from Vallibel One PLC with effect from 8th March 2017 and from the Company on 30th April 2017].

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 served as Directors of Royal Ceramics Lanka PLC in the capacities of Chairman, Managing Director and Independent Non-Executive Director respectively [Mr. Nimal Perera resigned from Royal Ceramics Lanka PLC with effect from 7th March 2017 and from the Company on 30th April 2017].

DIRECTORS' INTERESTS IN DEBENTURES

There were no debentures registered in the name of any Director at the beginning and at the end of the year under review.

BOARD SUBCOMMITTEES

The Board of Directors of the Company has formed five Committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and as per the recommended best practices on Corporate Governance. They are the Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and the Nomination Committee.

Integrated Risk Management Committee, was reconstituted in October 2016 following the appointment of the Compliance Officer.

The composition of the said Committees is as follows:

AUDIT COMMITTEE

Mr. L N de S Wijeyeratne – *Chairman*
Mrs. Shirani Jayasekara
Mrs. Anandhiy Gunawardhana

The Report of the Audit Committee appears on page 182.

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

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. Udul Chandrasena – *AGM Treasury & Planning*
Mr. Bimal Perera – *Chief Risk Officer*
Mrs. Zairaa Kaleel – *Compliance Officer*

The Report of the IRMC appears on page 184.

REMUNERATION COMMITTEE

Mrs. Anandhiy Gunawardhana – *Chairperson*
Mrs. Kimarli Fernando
Mr. L N de S Wijeyeratne

The Report of the Remuneration Committee appears on page 180.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE (RPTRC)

Mrs. Kimarli Fernando – *Chairperson*
Mr. L N de S Wijeyeratne
Mrs. Shirani Jayasekara
Mr. B D A Perera

The Report of the RPTRC Committee appears on page 186.

NOMINATION COMMITTEE

Mr. Thosapala Hewage – *Chairman*
Mrs. Kimarli Fernando
Mr. J A S S Adhihetty

The Report of the Nomination Committee appears on page 181.

STATED CAPITAL AND DEBENTURES

The stated capital of the Company as at 31st March 2017 was Rs. 838,282,159/- represented by 138,514,282 ordinary shares. There were no changes in the stated capital of the Company during the year.

The details of the debentures in issue as at 31st March 2017 are set out in Note 4.25 to the Financial Statements on page 264.

SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS

SHAREHOLDERS

There were 2,102 shareholders registered as at 31st March 2017 (2,096 shareholders as at 31st March 2016). The details of distribution are given on page 60 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 shareholding with the respective percentages, twenty largest shareholders, public holding and ratios and market price information are set out on pages 60 to 62 under Financial Capital.

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 167.

DIVIDENDS

Information on dividends paid by the Company is given in Note 4.9 to the Financial Statements.

The Company paid an interim dividend of Rs. 6/- per share for the year under review out of the profits of the Company, which was subjected to a 10 percent withholding tax.

The Directors recommended to pay a final dividend of Rs. 3/- 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 final dividend.

The said final dividend will, subject to approval by the shareholders, be payable on 11th July 2017.

PROPERTY PLANT & EQUIPMENT

The details of property, plant and equipment are given in Notes 4.21 to 4.22 to the Financial Statements.

The land and buildings owned by the Company are recorded at cost and details of those properties and their market values as at 31st March 2017 as per valuations conducted by an Independent Valuer are set out in Note 4.21.9 to the Financial Statements on page 259.

HUMAN RESOURCES

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

As at 31st March 2017, the Company had 3,221 employees (2,744 employees as at 31st March 2016).

MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS PERTAINING TO THE COMPANY

No material issues pertaining to employees or industrial relations of the Company occurred during the year under review which 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

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

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. 6,000,890/- is payable by the Company to the Auditors for the year under review comprising Rs. 2,750,000/- as Audit Fees, 2,461,000/- as audit related fees and expenses and Rs. 789,890/- for non-audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 8th February 2017 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 188 to 209.

Directors' statement on Internal Controls over Financial Reporting is on page 212.

MATERIAL FORESEEABLE RISK FACTORS

Material Foreseeable Risk Factors as applicable to the business operations of the Company are set out in Notes 5.1 to 5.5 to the Financial Statements on pages 271 to 281.

APPRAISAL OF BOARD PERFORMANCE

A scheme of self-assessment is undertaken annually by each Director in conformity with the Section 2 (8) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 by answering a self-assessment questionnaire. The responses are collated by the Company Secretary, which are submitted to the Board and discussed at the Board Meeting

The Board also carried out an annual self-evaluation of its own performance and that of the Subcommittees to ensure that they discharge their duties and responsibilities satisfactorily, in terms of the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and Best Practices on Corporate Governance.

Board evaluations for the year under review were discussed at the Board Meeting held in the month of April 2017.

CORPORATE GOVERNANCE

The Board of Directors is responsible for the governance of the Company. The Board has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all of Company's dealings and on making the best effort in achieving performance and quality profits. The Board has continuously refined the structure and systems to ensure governance on the lines as defined, being aware all the time that it is accountable to the stakeholders and to the general public.

The Report on Corporate Governance on pages 131 to 187 describes the application of the Corporate Governance practices within the Company during the year under review.

COMPLIANCE WITH LAWS AND REGULATIONS

The Compliance Officer independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Board and the Integrated Risk Management Committee.

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

STATUTORY PAYMENTS

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

ENVIRONMENTAL PROTECTION

The Company has not engaged in any activity that is harmful or hazardous to the environment. Measures taken by the Company on environmental protection are given in the report on Natural Capital on pages 112 to 121.

OUTSTANDING LITIGATION

In the opinion of the Directors and Company's lawyers, pending litigation by and against the Company will not have a material impact on the financial position of the Company or its future operations.

CONTINGENT LIABILITIES

Except as disclosed in Note 6.5 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

EVENTS AFTER THE REPORTING DATE

Except for the matters disclosed in Note 6.8 to the Financial Statements on page 257 there are no material events as at the date of the Auditor's Report which require adjustment to or disclosure in the Financial Statements.

GOING CONCERN

The Board of Directors has reviewed the Company's corporate/business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the going concern concept.

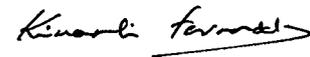
ANNUAL GENERAL MEETING

The Notice of the forty-fourth (44th) Annual General Meeting appears on page 313.

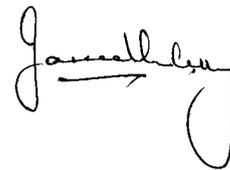
ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

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 31st May 2017 having acknowledged the contents of this Annual Report.

Signed on behalf of the Board by



Kimarli Fernando
Acting Chairperson



Sumith Adhithetty
Managing Director



P W Corporate Secretarial (Pvt) Ltd
Secretaries

31st May 2017

CONTINUOUS KNOWLEDGE ENHANCEMENT

The Board of Directors are exposed to continuous training and education about the Company, the business line segments, products, legal and regulatory changes impacting the operations. Below are some educational sessions, trainings and seminars attended by Directors.

- **Board Presentations**
 - Regular presentations are made to the Board of Directors by outside consultants, senior management on core business lines, economic updates and key legislative and regulatory changes
- **External Seminar**
 - Managing difficult conversations on the board – The Sri Lanka Institute of Directors
 - Building World Class Organisations – Sri Lanka Institute of Training and Development National Conference
 - Quarterly presentations organised by the Audit committee forum-Aegis of Sri Lanka Institute of Development
 - How to become an efficient Non-Executive Director Audit Committee – Ernst & Young Sri Lanka
 - Seminar on Key Audit matters & presentation on Audit Opinion – Sri Lanka Accounting and Auditing Standards Monitoring Board
 - Seminar on Non-Banking Institutions – Central Bank of Sri Lanka

SUMMARY OF ACTIVITIES

	Members and 2016/17 meeting attendance	Key roles, responsibilities and activities for 2016/17
Board of Directors	Mrs. Kimarli Fernando (Acting Chairperson)* 13/13	Board of Directors reviewed and recommended for approval (where relevant) the following items during the year <ul style="list-style-type: none"> ▪ Corporate strategy ▪ Annual budget ▪ Governance, risk and capital management processes ▪ Delegated relevant authority and reviewed the performance. ▪ Terms of Reference and procedures of all Board Committees. ▪ Monitored stakeholder relations and engaged with key stakeholders. ▪ Strategic direction, the organisational structure and succession planning of Senior Management ▪ All major transactions (Borrowings, new business venture, fixed asset purchases, etc) ▪ Actual operating and financial results of the Company against the Company's business objectives, business strategy and monthly/annual budget ▪ Integrity of the internal controls and management information systems
	Mrs. Shirani Jayasekara** 13/13	
	Mr. Dhammika Perera*** 10/13	
	Mr. T Hewage** 09/13	
	Mr. Lalit N de S Wijeyeratne* 12/13	
	Mrs. Anandhiy K Gunawardhana** 12/13	
	Mrs. Yogadinusha Bhaskaran* 13/13	
	Mr. J A S S Adhihetty*** 13/13	
	Mr. W D N H Perera***1 09/13	
	Mr. Niroschan Udage*** 13/13	
	Mr. B D St. A Perera*** 12/13	
Mr. Ravi S Yatawara*** 12/13		
*Non-Executive Director **Independent Non-Executive Director ***Executive Director 1 Resigned on 30th April 2017		
Audit Committee	Mr. Lalit N de S Wijeyeratne (Chairman)* 13/13	The Audit Committee reviewed and recommended for approval (where relevant) the following items during the year <ul style="list-style-type: none"> ▪ Quarterly Financial Statements ▪ Audited Financial Statements ▪ Internal Audit Plan ▪ Engagement Letter of the External Auditors ▪ External Audit Fees ▪ Internal Audit Reports ▪ Regulatory Examination Reports and Management Response ▪ Compliance Reports ▪ External Auditors' Management Letter ▪ External Auditors ▪ Reviewed of the IT governance framework and recommendation for way forward
	Mrs. Shirani Jayasekara** 12/13	
	Mrs. Anandhiy Gunawardhana** 12/13	
	*Non-Executive Director **Independent Non-Executive Director	

Members and 2016/17 meeting attendance

Key roles, responsibilities and activities for 2016/17

Integrated Risk Management Committee

Mrs. Shirani Jayasekara (Chairperson)**	4/4
Mrs. Kimarli Fernando*	4/4
Mr. J A S S Adhietty***	4/4
Mr. Niroshan Udage***	4/4
Mr. B D A Perera***	4/4
Mr. Hasitha Athapattu	4/4
Mr Palitha Abeyssekara ¹	4/4
Mr. Bimal Perera	4/4
Mrs. Zairaa Kaleel ²	2/4

* Non-Executive Director

**Independent Non-Executive Director

***Executive Director

¹ Resigned w.e.f. 28th February 2017 and replaced by Mr. Udul Chandrasena

² Appointed with effect from September 2016

Integrated Risk Management Committee reviewed and recommended for approval (where relevant) the following items during the year

- Activities of Credit Committee
- Adequacy and effectiveness of ALCO
- Funding mix of the Company
- Crisis Management Plan for liquidity squeeze caused by a run on deposits due to external factors
- Control environment of operational risks
- Cyber risks faced by the Company
- HR related risks faced by the Company
- Key Risk Indicators
- Risk Appetite Statement
- Established and assess the compliance function

Remuneration Committee

Mrs. Anandhiy Gunawardhana (Chairperson)**	4/4
Mrs. Kimarli Fernando*	3/4
Mr. Lalit N de S Wijeyeratne*	3/4

* Non-Executive Director

**Independent Non-Executive Director

***Executive Director

During the year, the Committee reviewed and recommended to the Board for approval, (where relevant), the following matters

- Budgetary Relief Allowance of Workers Act No. 4 of 2016
- Annual regular bonuses and performance bonuses
- Overall gratuity provision assumptions

Related Party Transactions Review Committee

Mrs. Kimarli Fernando (Chairperson)*	4/4
Mrs. Shirani Jayasekara**	4/4
Mr. Lalit N de S Wijeyeratne*	3/4
Mr. B D A Perera***	3/4

* Non-Executive Director

** Independent Non-Executive Director

***Executive Director

During the year, the Committee reviewed and recommended to the Board for approval, (where relevant), the following matters.

- Quarterly review of related party transaction list
- Non-recurring nature transaction

Nomination Committee

Mr. Thosapala Hewage (Chairman)**	2/2
Mrs. Kimarli Fernando*	2/2
Mr. J A S S Adhietty***	2/2

* Non-Executive Director

** Independent Non-Executive Director

***Executive Director

During the year, the Committee reviewed and recommended to the Board for approval, (where relevant), the following matters.

- Re-election of Directors
- Succession arrangements in respect of two Directors who are to retire during the year 2017/18 on completion of nine years

Remuneration committee report

The Remuneration Committee was formed by the Board in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange and its composition and functions are in conformity with the provisions of the Listing Rules.

COMPOSITION OF THE COMMITTEE

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

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

Mrs. Kimarli Fernando
Independent Non-Executive Director

Mr. L N de S Wijeyeratne
Independent Non-Executive Director

The Company Secretary functions as the Secretary to the Committee.

MEETINGS

The Committee meets as often as necessary to make recommendations on compensation structures, bonuses and increments of Executive Directors, and also on matters pertaining to the remuneration of the Senior Management and in instances where the Board refers specific matters for review by the Committee.

The Managing Director and the Executive Directors attend meetings of the Committee by invitation and provide relevant information and their views to the Committee for its deliberations, except when the Executive Directors' own remuneration packages and other matters relating to them are discussed.

The Committee met four times during the year.

FUNCTIONS

The functions of the Committee include making recommendations to the Board on the compensation and benefits of the Managing Director, Executive Directors and the Senior Management of the Company, and on specific matters referred to the Committee by the Board.

Pursuant to the authority granted by the Board, the Committee met during the year, to discuss the extent to which the provisions of the Budgetary Relief Allowance of Workers Act No. 04 of 2016 (the said Act) would apply to the Company.

In its deliberations, the Committee considered the said Act (both Sinhala and English texts), interpretation of the law by the Commissioner of Labour, Management's views on the matter and other views taken by experts from an industry perspective.

The Committee concluded that, as per the said Act, an employer is not entitled to take the benefit of annual or periodic increments given to an employee during the applicable period in calculating the budgetary relief allowance payable to an eligible employee under the said Act and that the Company should strictly follow the provisions of the Act. Accordingly, the Committee made its recommendations to the Board in that regard and the Board approved of the payment of the budgetary relief allowance to eligible employees in compliance with the provision of the said Act.

The arrears upto the month of payment was paid as a lump sum to the eligible employees in the month immediately following the said Board decision.

REMUNERATION POLICY

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

DIRECTORS' REMUNERATION

The total of Directors' remuneration paid during the year under review is set out in Note 6.1.1 to the Financial Statements.



Anandhiy Gunawardhana
Chairperson

Remuneration Committee

31st May 2017
Colombo



Nomination committee report

The Nomination Committee was formed in line with best practices on Corporate Governance.

COMPOSITION OF THE COMMITTEE

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

Mr. Thosapala Hewage

*Independent Non-Executive Director –
Chairman of the Committee*

Mrs. Kimarli Fernando

Independent Non-Executive Director

Mr. Sumith Adhihetty

Managing Director

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.

MEETINGS

During the year the Committee had two meetings.

ACTIVITIES DURING THE YEAR

The Committee recommended the re-election of Directors after considering their performance and contribution made by them as members of the Board and their areas of expertise and experience that would assist the Board in the discharge of its responsibilities.

The Committee also considered the requirement of additional expertise on the Board and the succession arrangements in respect of two Directors who are to retire during the year 2017/18 on completion of nine (9) years, as per the Finance Companies (Corporate Governance) Direction No 03 of 2008 and has made its recommendations to the Board of Directors in that regard.

Thosapala Hewage
Chairman

Nomination Committee

31st May 2017
Colombo

Audit committee report

COMPOSITION OF THE COMMITTEE

The Board-appointed Audit Committee comprises three Non-Executive Directors and is in line with the composition requirements specified in the CBSL direction No. 03 of 2008. The members of the Audit Committee are as follows:

Name of the Board Subcommittee Member	Directorship status	Membership status
Mr. L N de S Wijeyeratne	Non-Executive Director	Chairman
Mrs. Shirani Jayasekara	Independent/ Non-Executive Director	Member
Mrs. Anandhiy K Gunawardhana	Independent/ Non-Executive Director	Member

CHARTER OF THE AUDIT COMMITTEE

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is reviewed annually to ensure new developments to the Committee's functions and concerns, are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in January 2017.

The Audit Committee is setup primarily for the purpose of assisting the Board in carrying out its oversight functions in relation to the accuracy and integrity of the financial statements and compliance with Company policies, legal and regulatory requirements with a view to safeguarding the interests of shareholders, depositors and other stakeholders. The Committee is responsible for the oversight of the effectiveness of the system of internal controls, risk management and the independence and performance of the External Auditors.

MEETINGS

The Committee met on 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	13/13
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) Ltd acted as Secretaries to the Audit Committee. The proceedings of the Audit Committee were reported to the Board of Directors on a regular basis.

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 judgements underlying the financial statements.
- The systems and procedures in place to ensure that all transactions are accurately recorded in the books of accounts.

- The effectiveness in the financial reporting systems including the management accounts to ensure the reliability of information provided to the Board and other stakeholders of the Company.

REGULATORY COMPLIANCE

Process owners comply with regulations as part of their standard operating procedure on a day-to-day basis.

The Compliance Officer checks on new regulations and adds any relevant new areas of compliance to policies and procedure manuals. She also reviews and reports on any gaps or areas of non-compliance to the Audit Committee.

Thirdly, there is a review of regulatory compliance done by outsourced internal Auditors in selected areas, in line with their internal audit programs.

INTERNAL AUDIT

The internal audit function is outsourced to Chartered Accountants, Messrs KPMG Ford Rhodes Thornton & Company and BDO Partners and they report to the Audit 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 the 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 Committee also met the External Auditors, without the management, prior to the finalisation of the financial statements.

The Audit Committee together with management, reviewed and discussed the audit scope, approach and audit plan with Messrs Ernst & Young prior to the commencement of the 2016/17 audit.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be reappointed as the External Auditors for the financial year ending 31st March 2018, subject to the approval of the shareholders at the next Annual General Meeting.

WHISTLE-BLOWING POLICY

The whistle-blowing Policy of the Company was reviewed and recommended by the Audit Committee in February 2017. Senior Management of the Company conducts programmes to educate staff on the Whistle-blowing Policy, to encourage staff to raise genuine concerns.

AUDIT COMMITTEE EFFECTIVENESS

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



L N de S Wijeyeratne
Chairman

Audit Committee

31st May 2017
Colombo

Integrated risk management committee report

The Integrated Risk Management Committee (IRMC) is a Board appointed committee chaired by an Independent Non-Executive Director in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

COMPOSITION OF THE COMMITTEE

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

Mrs. Shirani Jayasekara – *Chairperson – Independent Non-Executive Director*

Mrs. Kimarli Fernando – *Non-Executive Director*

Mr. J A S S Adhihetty – *Managing Director*

Mr. Niroschan Udage – *Executive Director – Asset Finance*

Mr. B D A Perera – *Executive Director – Asset Management*

Mr. Hasitha Athapattu – *Chief Financial Officer*

Mr. Udul Chandrasena – *AGM – Treasury and Planning*

Mr. Bimal Perera – *Chief Risk Officer*

Mrs. Zairaa Kaleel – *Compliance Officer*

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

COMMITTEE MEETINGS

The Committee held four meetings, during the year under review to discuss the normal scope of work. Attendance of Directors at Committee Meetings is given on page 138 Key members of the staff participated at the meetings as appropriate.

TERMS OF REFERENCE

The responsibilities of the Integrated Risk Management Committee as mandated by the Board of Directors are as follows:

1. Assess all risks i.e. credit, market, liquidity, operational and strategic risk including business continuity plans of the Company on a quarterly basis through appropriate risk indicators and management information.
2. Review the adequacy and effectiveness of all management level committees such as Credit Committee and the Asset-Liability Committee to address specific risk and to manage those risks within quantitative and qualitative risk limits as specified by the Committee. The Committee shall:
 - a. Receive reports from management concerning capital adequacy, asset quality, credit, market, liquidity, operational, new and emerging risks etc. in order to oversee these risks and assess their effect on capital levels.
 - b. Receive reports from management concerning resolution of significant risk exposures and risk events, in order to monitor them and, if thought fit, approve them.
3. Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and 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 Board of Directors on Risk Management and Compliance-related matters seeking the Board's view, concurrence and/or specific directions.

ACTIVITIES IN FY 2016/17

CREDIT RISK

- Reviewed the credit quality of the loan book 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 collection ratio for different business lines and asset classes.
- Reviewed the activities of Credit Committee through the assessment of the loan performance of significant exposures and internal credit rating.

LIQUIDITY AND MARKET RISK

- Reviewed the adequacy and effectiveness of ALCO activities by assessing net/gross FD inflow, interest cost of new and renewed FDs, FD renewal ratio of the Company in terms of volume and number of FDs etc.
- Reviewed the changes proposed to revise the funding mix of the Company due to the fluctuations in Advances to Deposits Ratio (ADR).
- Reviewed the proposed Crisis Management Plan during a liquidity squeeze caused by a run on deposits due to external factors.
- 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) and liquidity buffer requirement.
- 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 AND HUMAN RESOURCES (HR) RISK

- Reviewed the control environment of operational risks with special focus on external frauds and workplace safety including;
 - Adequacy of cash in transit/cash in safe
 - Adequacy of firefighting equipment and fire training
 - Adequacy and effectiveness of CCTV network coverage and surveillance
 - Proposed mechanisms to strengthen the security arrangements at branches
- Assessed the cyber risks faced by the Company and the effectiveness of prevention actions in place.
- Reviewed the top HR related risks faced by the Company and assessed the adequacy and effectiveness of the proposed mitigation actions.

COMPLIANCE

- Assessed the Company's compliance with laws, regulations and regulatory guidelines, internal policies in all areas of business operations.

GENERAL

- Reviewed the KRIs used in FY 2015/16 for their appropriateness for FY 2016/17 in light of changing business, economic, industry and Company dynamics.
- Reviewed and recommended the Risk Appetite Statement of the Company for FY2016/17 for Board approval.

Shirani Jayasekara
Chairperson

Integrated Risk Management
Committee

31st May 2017
Colombo

Report of the related party transactions review committee

The Related Party Transactions Review Committee (RPTRC) of the Company was established by the Board on 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 RPTRC of the Company comprises the following Directors:

Mrs. Kimarli Fernando

Independent Non-Executive Director – Chairperson of the Committee

Mr. L N de S Wijeyeratne

Independent Non-Executive Director

Mrs. Shirani Jayasekara

(Independent Non-Executive Director)

Mr. B D A Perera

(Executive Director)

The Company Secretary functions as the Secretary to the RPTRC.

SCOPE OF THE COMMITTEE INCLUDES:

- To manage relationships with related parties to uphold good governance and the best interests of the Company.
- To provide an independent review, approval and oversight of Related Party Transactions (RPTs) (except those expressly exempted by the Charter) on terms set forth in greater detail in the Policy.
- To review the Charter and Policy at least annually and recommend amendments to the Charter and the Policy to the Board as and when determined to be appropriate by the Committee.
- Determining whether RPTs 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 RPTs, 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 RPT 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 RPT to the Committee.
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made of RPTs in a timely and detailed manner.

POLICIES AND PROCEDURES

- The Charter of the Committee was adopted by the Board on 22nd September 2015. It includes a RPT Policy whereby the categories of persons/entities who shall be considered as 'related parties' 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. The Company has developed a system (RPT System) that enables the Company to retrieve data on RPTs throughout the Company's network. Based on the information furnished in the declarations submitted by the Directors, the data base of related parties maintained in the RPT system is continuously updated and the system automatically generates a comprehensive report every quarter for Management's review, which is also tabled at RPTRC meetings and Board Meetings held after the completion of the relevant quarter. The said report reflects all types of transactions with related parties including general payments, creditors, debtors, savings, fixed deposits and lending.

- In its review of RPTs, RPTRC considers the terms and conditions of the RPT, value, and the aggregate value of transactions with the said related party during the financial year, in order to determine whether they are carried out on an arms length basis, the disclosure requirements as per the Listing Rules of the CSE and the level of approval required for the respective RPTs.
- The RPTRC ensures that all transactions with related parties are in the best interests of all shareholders, adequate transparency is maintained and are in compliance with the Listing Rules.
- The Committee has established guidelines in respect of Recurrent RPTs to be followed by the Management of the Company, in the Company's dealings with related parties.
- During the year, the Committee reviewed the Charter and the Policy.
- Reviewing and approval of RPTs are either at a meeting of a majority of the members who form the quorum or by circulation, approved by all the members.

RELATED PARTY TRANSACTIONS / DISCLOSURES DURING THE YEAR

1. Arising from the Committees deliberations during the 4th quarter of the year 2015/16, the Committee further reviewed a Non-Recurrent RPT at its first meeting in the year under review. During such review, the Committee evaluated the relevant information and competent independent advice obtained in respect of the asset that was the subject of the RPT under consideration and recommended for approval of the Board, the said Non-Recurrent RPT structured in such a manner that it was in the best interests of the Company.

The said RPT being a matter which required the approval of the Board of Directors, such approval was obtained prior to entering into the RPT.

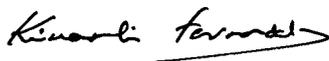
2. Information on all related parties, as extracted as at the end of each quarter, was presented to the RPTRC and the Board at their meetings held in the immediately following month.
3. All Directors made a monthly declaration, where any transactions entered/to be entered by the respective Directors and/or any related parties of the said Director were disclosed, which were tabled at the RPTRC.
4. There were no non-recurrent RPTs that required immediate disclosure in terms of Rule 9.3.1 of the Listing Rules or disclosure in the Annual Report as per Rule 9.3.2 (a) of the Listing Rules.
5. There were no recurrent Related Party Transactions that required disclosure in the Annual Report as per Rule 9.3.2(b) of the Listing Rules.
6. All RPTs during the year are disclosed in Note 6.1 to the Financial Statements in terms of LKAS 24 – Related Party Disclosures.

MEETINGS

The Committee had four (4) meetings during the year under review.

DECLARATION

A declaration by the Board of Directors as an affirmative statement of the compliance with the Listing Rules pertaining to related party transactions is given on page 292 of the Annual Report.



Kimarli Fernando
Chairperson

Related Party Transactions Review
Committee

31st May 2017
Colombo

Risk management

RISK ENVIRONMENT

GLOBAL LANDSCAPE

In a global perspective, risks have become more pronounced and economic prospects have weakened during the year 2016. Slow growth has eroded policy buffers to counteract shocks, leaving the global economy less prepared to confront downside risks. Global economy further tumbled with Britain's exit from the European Union. Europe is now in a period facing sensitive political and economic uncertainties as a result of the decision made by Great Britain. In addition, global economy has already felt the impact due to uncertainty in policies with the political changes in USA and it is likely that these changes will take some time to bring stability. In view of impending and probable uncertainties, we have identified risk drivers, which would pose challenges directly or indirectly to performance of the Company. Further, we have articulated possible impact to LB Finance and envisaged risk mitigant strategies to ensure the Company will not face unexpected volatilities.

LOCAL LANDSCAPE

The Sri Lankan economy grew by 4.4 percent in real terms during 2016 compared to the growth of 4.8 percent in 2015. Within this annual growth, industry related activities grew notably by 6.7 percent driven by construction-related activities, while services related activities grew by 4.2 percent mainly with the expansion of financial services, insurance and telecommunications. However, agriculture-related activities contracted by 4.2 percent in 2016, impacted by supply side disruptions on account of floods in the second quarter and drought conditions during the final quarter of 2016. In spite of challenging external factors such as adverse weather conditions and global developments, an acceleration of growth was observed towards end 2016 with the last quarter of 2016 recording a growth of 5.3 percent.

Consumer price inflation, which was maintained at mid-single digit during first half of 2016, was pushed upwards by domestic supply shortage due to bad weather conditions and adjustments to the tax structure.

A notable decline in international commodity prices and lower demand for exports resulted in a drop in external performance to modest levels, increasing the deficit in the trade account. However, the current account improved with higher inflows to the service sector. Net inflows to the financial account declined, mainly reflecting outflows in the government securities market and slowdown in foreign direct investments. These economic activities resulted in an overall deficit in the balance of payments during the year 2016. Consequently, several measures implemented by the government to

augment revenue including increase in tax rates, government revenue collections showed signs of improvement during the year. However, revenue collection remained below the target due to delays in implementing some of the recovery measures. Hence, achieving the 2016 budget deficit remained challenging.

Sri Lanka entered into a 3-year arrangement under the Extended Fund Facility (EFF) of US dollars 1.5 billion with the IMF to support its economic programme 2016-2019 with the intention of strengthening external and fiscal balances of the economy through the implementation of several reform programmes. Two tranches of the EFF were drawn down in the year 2016.

Whilst debt to GDP remained around 75 percent, government debt has increased notably during the year. Significant portion of government revenue is used for debt repayment. Both off-shore borrowings and local borrowings accounted for the increase. Sri Lanka experienced a sovereign rating downgrade from BB- to B+ during the early part of the year 2016 mainly in view of increasing refinancing risks. The Sri Lankan government faced increased refinancing risks on account of high external debt maturities. Rating downgrade coupled with change of outlook to 'Negative' by international rating agencies opened up severe challenges. Rupee depreciated against US dollar surpassing Rs. 150/- per US dollar by end December 2016. Nevertheless depreciation of rupee was not as sharp as in 2015.

GLOBAL AND LOCAL LANDSCAPE



Global events

	Impact on the Company	Risk mitigation strategies
US Federal Reserve's approach towards key policy rates to increase the volatility in US dollar/Rs. exchange rate	<p>Low risk</p> <ul style="list-style-type: none"> Limited due to insignificant exposure to US dollar denominated borrowings. 	<ul style="list-style-type: none"> Use dynamic risk mitigation techniques such as currency swaps to manage volatility.
Increasing trends in cyber attacks	<p>Moderate risk</p> <ul style="list-style-type: none"> Possibility of breaking down of critical information infrastructure and misuse of Company's customer database Possible reputational, legal and financial consequences and loss of customer confidence Heavy investments in software systems increasing the cost: to income ratio 	<ul style="list-style-type: none"> Development of a prevention mechanism by actively engaging with FINCERT. Engaging an external CERT for continuous assessment of cyber risk Increase awareness among employees Streamlining mechanism for early detection, response and recovery to mitigate and better manage consequences limiting the damage and ensuring business continuity.
Increase in rupee interest rates to match up the US interest rates	<p>Moderate risk</p> <ul style="list-style-type: none"> Increased cost of funds 	<ul style="list-style-type: none"> Diversify funding sources Regular review of rate sensitive assets and liabilities
Decline in precious metal (gold) prices	<p>Low risk</p> <ul style="list-style-type: none"> Increased defaults from gold loans 	<ul style="list-style-type: none"> 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.



Local events

Increase in government taxes and direction on lowering LTV	<p>Moderate risk</p> <ul style="list-style-type: none"> Increased corporate tax rates reduces the profitability of the Company and discourage investments Reduced volumes from key revenue generating products 	<ul style="list-style-type: none"> Maintaining diversified lending portfolio to mitigate impact on lost opportunities in leasing/vehicle financing
Tight liquidity	<p>Moderate risk</p> <ul style="list-style-type: none"> Increased cost of funds More reliance on external/ internal borrowings 	<ul style="list-style-type: none"> Regular review of rate sensitive assets and liabilities of the Company High interest rate offered to encourage savings
Low economic growth than expected	<p>Low risk</p> <ul style="list-style-type: none"> Lower disposable income resulting in low savings Increase in credit default risk 	<ul style="list-style-type: none"> Proactive credit risk management practices such as strengthening of pre/post sanctioning loan review mechanism

RISK MANAGEMENT AT L B

Risk is inherent in all business activities of a financial institution engaged in a varied offering of financial services. Sound risk management enables us to protect our depositors and investors whilst delivering an adequate risk adjusted return to our shareholders. At L B we believe in aligning Corporate Strategy closely with Risk Strategy. Risk management efforts are aimed at risk steering, as opposed to risk prevention or minimisation. The Company takes a comprehensive approach to risk management with a defined Risk Framework and a clearly articulated Risk Appetite Statement sanctioned by the Board of Directors. Company's risk management process is steered by the Board appointed Integrated Risk Management Committee (IRMC).

An appropriate and effective risk management system ensures that risks and their impacts are identified and evaluated at an early stage and 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 strives to achieve the following goals:

- Development of a risk culture that fosters awareness of risks and a common understanding of risks across functions and departments
- Capital protection, both for internal as well as regulatory purposes
- Limitation of earnings volatility
- Risk-based performance measurement and decision-making
- Ability to act proactively or to respond quickly and effectively to adverse events
- Better understanding of risks for competitive advantage
- Increase transparency and optimise information flows between business functions, control functions, the management committees and the Board of Directors

Key Initiatives in FY 2016/17

- Expansion of Key Risk Indicators (KRIs) universe to comprehensively cover all product lines
- Deployment of new resources for the early detection of internal fraud events through data analytics
- Setting up a structured IS audit function to independently assure information security and compliance
- Review of the Risk Appetite Statement and Risk Management Policy for appropriateness and relevance
- Introduction of a regular review mechanism at IRMC on the activities of key management level committees
- Deployment of new resources to strengthen the Compliance function
- Further strengthening of operational risk management function with focus on minimising physical security risk at branches
- Internal risk rating of significant exposures based on post sanctioning performance review

Priorities for FY 2017/18

- Further improve the independent portfolio quality review by sharing the learnings with the Credit Committee for making necessary policy revisions
- Development of a comprehensive liquidity policy covering strategic funding mix, liquidity limits, liquidity crisis management plan and contingency funding arrangements
- Conduct a 100 percent reliability testing of the enhanced Disaster Recovery (DR) site
- Centralise the customer complaints handling function to deliver a more efficient dispute/grievance management to minimise reputational risk

RISK MANAGEMENT PROCESS

Management of risks within the Company takes place in several steps. These apply in principle to all risk categories. The risk management process at its broadest level can be broken down into the following generic steps:



RISK IDENTIFICATION

In the context of risk identification, all existing risk categories, their sub-risks as well as their risk sources within the Company's business are determined and clearly distinguished from each other on an ongoing basis.

New risks can occur, given that the business environment is constantly changing and new products are being developed and brought into the market. Early and comprehensive identification of risks is an essential element for the early warning system.

Before commencing business with new products, types of businesses 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 management 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. 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.

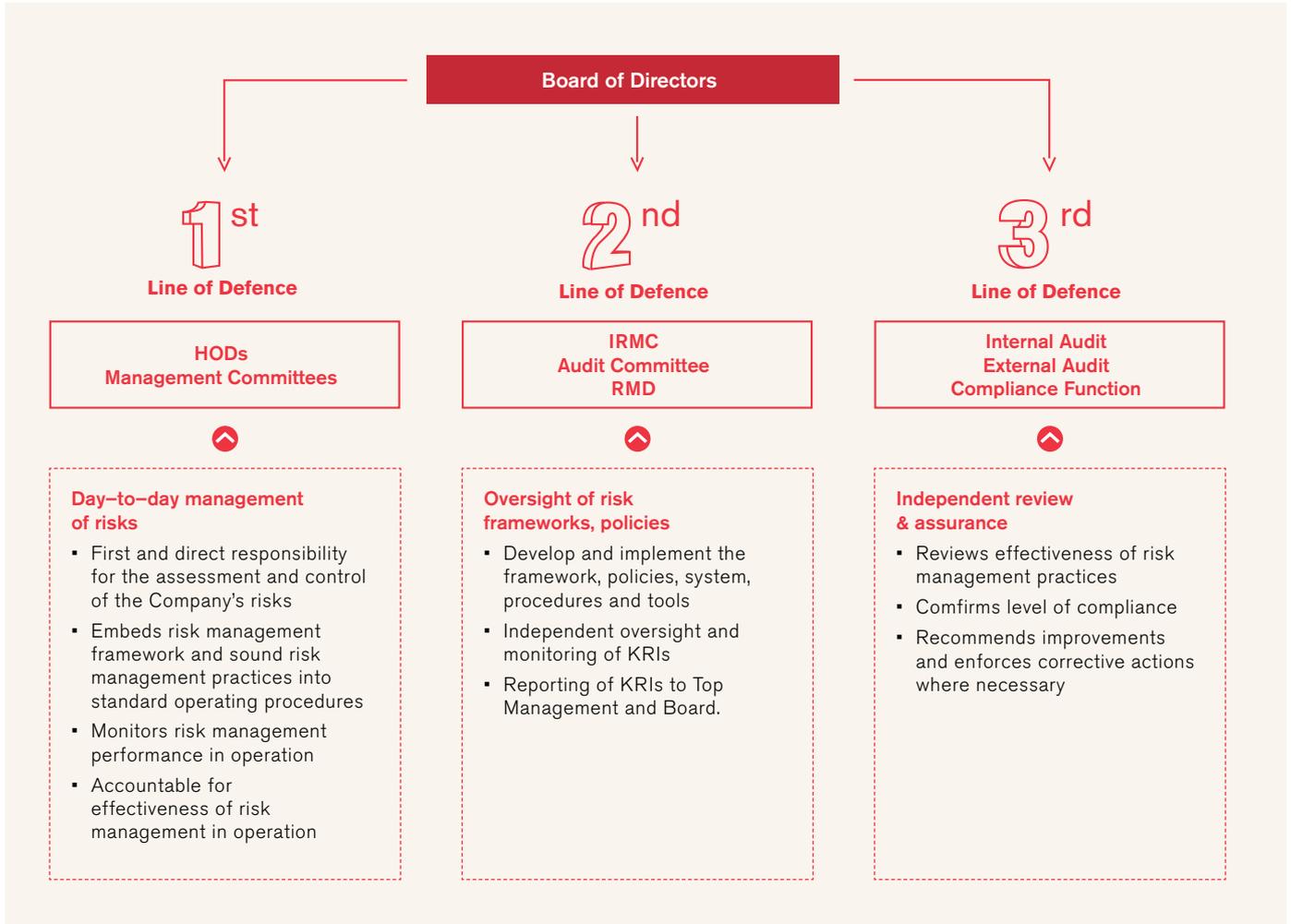


RISK APPETITE

Risk appetite criteria	Appetite	Regulatory limit	Actual as at 31st March 2017
Credit risk			
Loans and Advances			
Non-Performing loans ratio – Gross	< 4.0%		2.1%
Non-Performing loans ratio – Net	< 1.0%		-0.1%
Minimum safety margin for Gold loans	15.0%		22.3%
Maximum exposure to single borrower-Secured – Individual	5.0%	15% of capital funds	3.2%
Maximum exposure to single borrower-Secured – Group	10.0%	20% of capital funds	3.2%
Maximum exposure to aggregate unsecured financing	4.0%	5% of capital funds	3.9%
Maximum exposure to single borrower-Unsecured – Individual	0.5%	1% of core capital	0.3%
Liquidity risk			
Statutory liquid asset ratio	12.0%	10.2%	14.5%
Deposits renewal ratio	75.0%		73.7%
Maximum single depositor/group exposure	5.0% of total deposits		2.2%
Maximum exposure to bulk deposits (over Rs. 50 million)	20.0% of total deposits		16.7%
Capital adequacy			
Core capital ratio	8.0%	5.0%	16.1%
Total risk-weighted capital ratio	12.0%	10.0%	17.1%
Capital funds to deposits ratio	12.0%	10.0%	18.5%
Market risk			
% Impact on net interest income from 100 bps shock	5.0%		4.2%
% Impact on net interest income from 200 bps shock	10.0%		8.5%
% Impact on net interest income from 300 bps shock	15.0%		12.7%
% Impact on net interest income from 400 bps shock	20.0%		17.0%

RISK GOVERNANCE FRAMEWORK

The risk governance framework of the Company adopts the ‘three lines of defence’ approach in managing the risks within the defined framework. The three lines of defence operate as follows:





Line of defence

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.

Credit Committee

Credit Committee is consisted of Managing Director, Executive Directors, Chief Financial Officer and the Chief Risk Officer. Sanctioning of large exposures are primarily handled by the Credit Committee. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The Committee also periodically reviews Company's credit policy and lending guidelines to different business segments, in line with prevailing market conditions and industry dynamics.

Information Technology Steering Committee

Information Technology (IT) steering committee is headed by the 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 in to information security related matters on a regular basis.

Sustainability Committee

The Committee is responsible for the formulation and the review of the Company's CSR policy, and ensuring that CSR activities are integrated into the Company's operations. Keeping in line with the Company's triple bottom line focus, the Committee is tasked with the responsibility of steering the Company's CSR activities aimed at uplifting the communities we work with and preserving the environment. The Committee is headed by the Head of Marketing, reflecting the close links of our social and environmental initiatives and brand visibility which demonstrates how the CSR strategy will be integrated in to our business strategy.

2nd

Line of defence

Integrated Risk Management Committee (Board appointed Committee)

The Board has delegated its authority to Integrated Risk Management Committee which is responsible for developing and monitoring Company's risk management policies practiced. 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 Subcommittee)

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

Risk Management Department (RMD)

The Risk Management Department provides an independent oversight function, acting as a second line of defence within the organization. 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.

3rd

Line of defence

Internal Audit

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

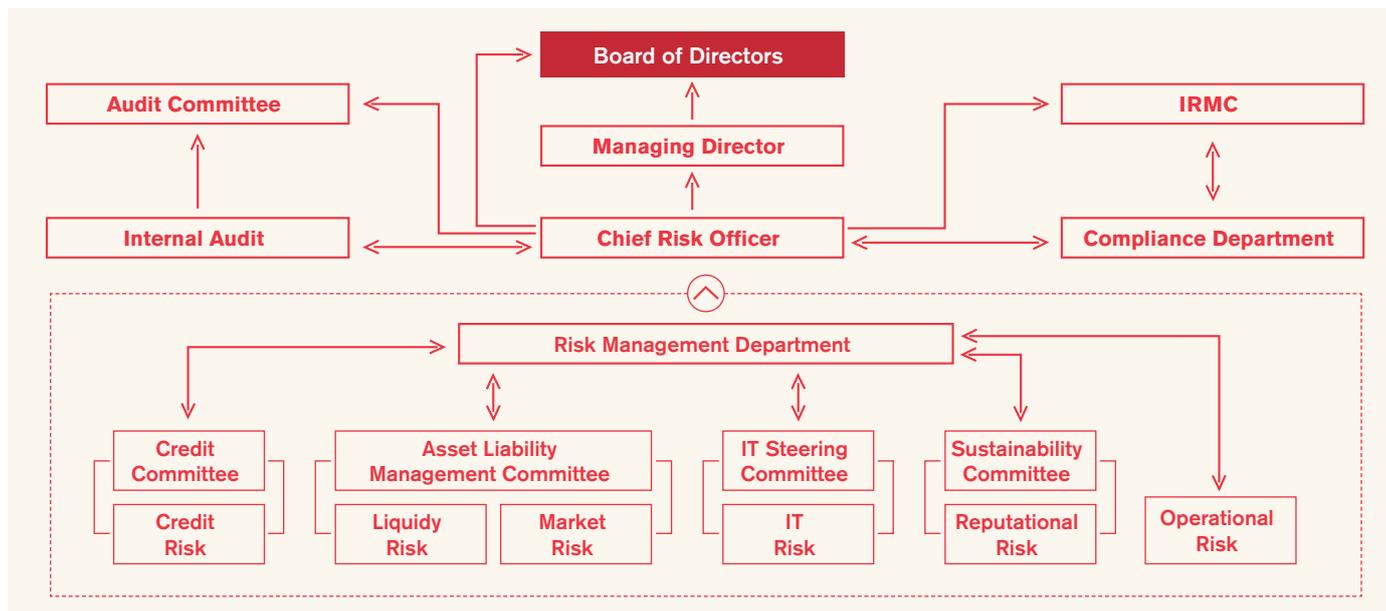
Compliance Function

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

External Audit

External Audit is responsible for adding credibility and reliability to Company's financial reports by giving an independent opinion on the report. In addition, as part of their annual audit exercise External Auditors also perform an audit on Company's adequacy of risk management controls, corporate governance and compliance.

RISK GOVERNANCE STRUCTURE



Risk grid

Credit risk

Concentration risk			■					
Default risk			●	-----	□			
Settlement risk	■							

Liquidity risk

Funding risk				□	-----	●		
Transaction risk	●			□	-----			

Market risk

Commodity price risk	■							
Interest rate risk					□	-----	●	
Currency risk	■							

Operational risk

Internal fraud				■				
External fraud				□	-----	●		
Workplace safety				■				
Business disruptions				■				
Process risk				■				
Damage to physical assets	■							

Other risk

Strategic risk				■				
Reputational risk				■				
Capital adequacy risk				■				
Information Security risk				□	-----	●		
Legal risk	■							
HR risk				■				

□ FY 2015/16 ● FY 2016/17



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. Company's default risk arises principally from loans to customers and fixed income investments with the counterparties.

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

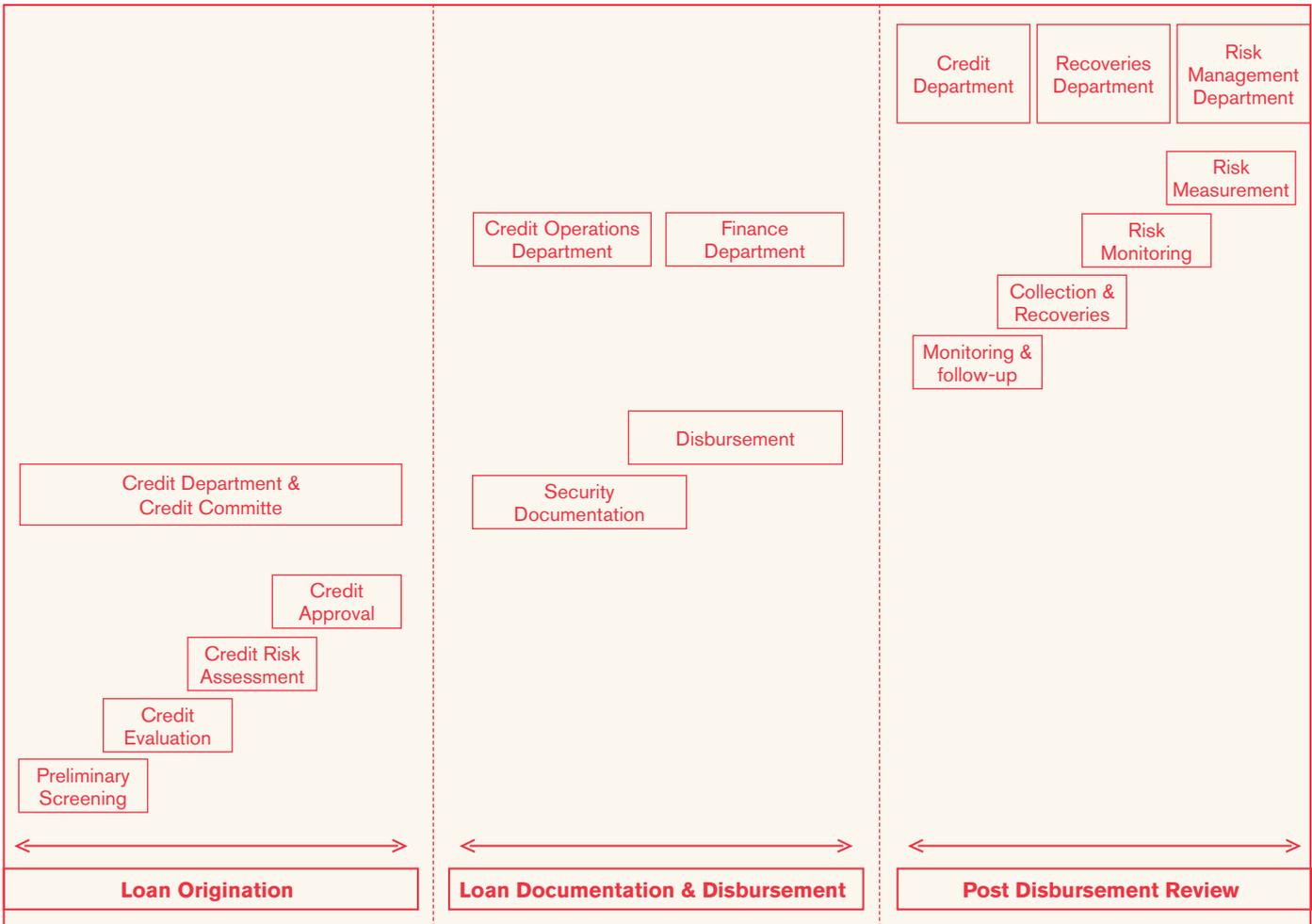
Settlement risk is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis.

The Company has a well-structured credit process that spells out the guidelines and parameters within which the Company's credit decision process takes place. For managing risks arising from counterparty investments, Company has formulated a comprehensive policy for treasury investments.

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



LOAN ORIGATION

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 the past payment history. This enables the Company to assess the default risk of the borrower.

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

LOAN DOCUMENTATION AND DISBURSEMENT

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

POST DISBURSEMENT REVIEW

Initial monitoring and follow up activities are carried out by the Credit Department. Once a loan is overdue for more than the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. RMD reviews asset quality performance regularly. Delinquencies are handled early with effective follow ups and reminders. Swift recovery actions are taken against critical exposures.

MANAGEMENT OF LARGE EXPOSURES

RMD takes an extra effort in closely monitoring large borrower exposures and aggregate exposure limits to manage the concentration risk whilst ensuring compliance to regulatory thresholds. RMD conducts an internal rating of significant exposures measured across five criteria listed below.

1. Individual/Group Exposure against capital funds
2. Loan to value (LTV) ratio
3. Repayment history and performance
4. Liquidity and recoverability of pledged collaterals
5. Length of relationship with the Company

CREDIT RISK MANAGEMENT

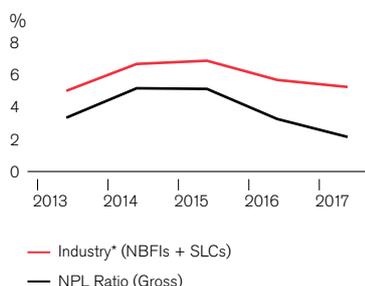
DEFAULT RISK – LOW

Risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Company's loans and advances to customers.

ASSESSMENT

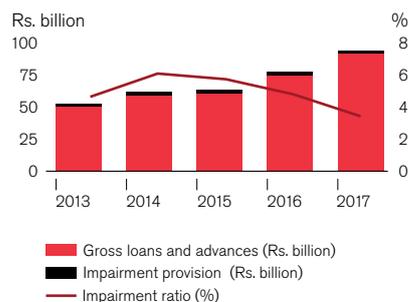
Non-performing loans ratio is monitored on a regular basis at Branch level, Regional level and Company-wide level under different product categories. Company's NPL ratio is also compared with similar sized peers and the industry for benchmarking.

NPL Ratio



*Industry NPL as at 31st December 2016 CBSL

Gross loans & impairment provision

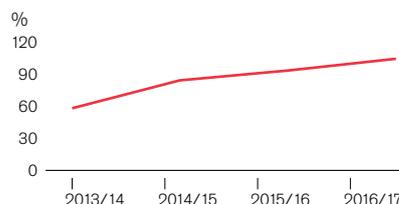


The provision for impairment as a percentage of gross loans and receivables has declined due to effective credit risk management, which is further evidenced from the lower NPL ratio of the Company.

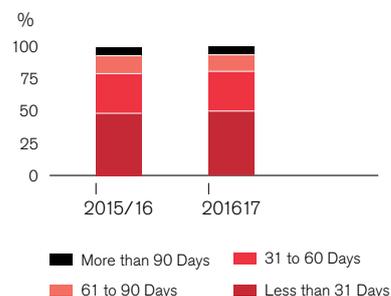
Impairment Charge



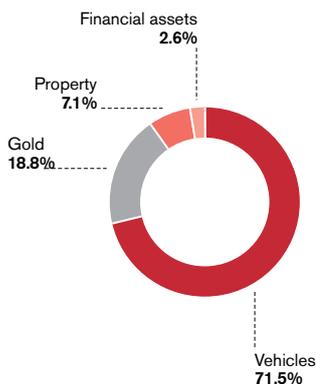
Provision coverage ratio



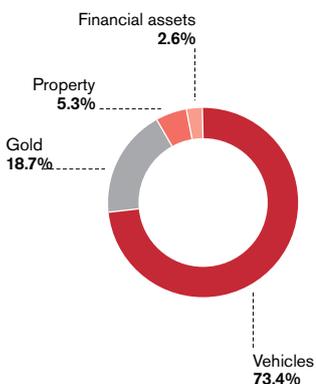
Age analysis of past due loans



Main types of collateral 2016/17



Main types of collateral 2015/16



From total loans and advances 97.3 percent are secured by either physical or financial collaterals as at 31st March 2017.

IMPAIRMENT STRESS TEST

Stressed scenario – Impairment charge increasing by stressed amounts impacting Company’s capital adequacy ratio.

CURRENT CAPITAL ADEQUACY RATIO – 17.1 PERCENT

Scenario	1	2	3
Magnitude of Shock	10.00%	25.00%	50.00%
Capital Adequacy Ratio	16.81%	16.43%	15.80%

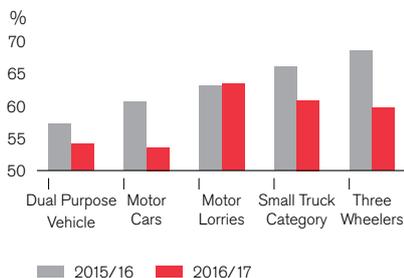
TOP 20 CUSTOMERS STRESS TEST

Stressed Scenario – Top 20 customers falling to NPL category impacting capital adequacy ratio.

CURRENT CAPITAL ADEQUACY RATIO – 17.1 PERCENT

Scenario	1	2	3
Magnitude of Shock	Top 5	Top 10	Top 20
Capital Adequacy Ratio	16.16%	15.71%	14.99%

LTV of main vehicle types



The above classes of equipment represent 87.3 percent of vehicle backed portfolio.

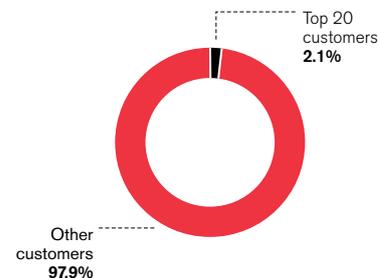
Risk Management Strategy	Risk Management Objective
Adherence to clearly defined credit procedures and guidelines	Prevention
Thorough investigation of the customers' background to assess creditworthiness	Prevention
Effective and timely recovery actions against delinquent borrowers	Reduction
Adherence to limits and guidelines defined in the Treasury Policy for Investments and Counterparty Limits	Prevention

CONCENTRATION RISK – LOW

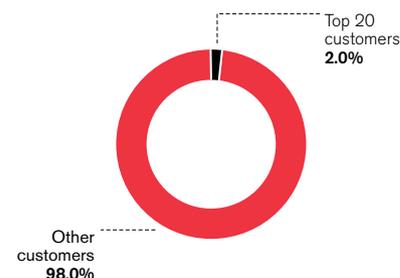
Arises from uneven distribution of counterparties, business sectors or geographical regions.

ASSESSMENT

Credit exposure to top 20 customers – 2016/17



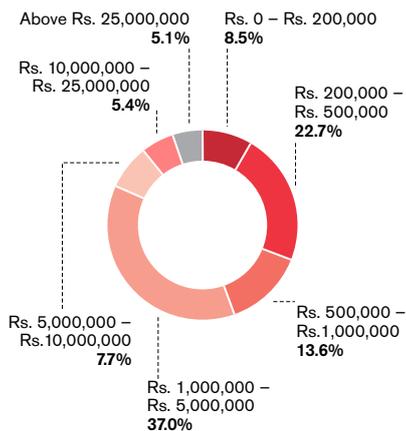
Credit exposure to top 20 customers – 2015/16



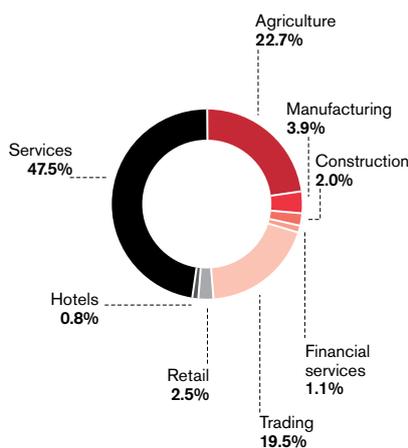
SIZE-WISE EXPOSURE

The graph below depicts an analysis of exposure by customer size (consolidated exposure) based on IFRS net outstanding. This excludes gold loans; represents 82.2 percent of the total portfolio.

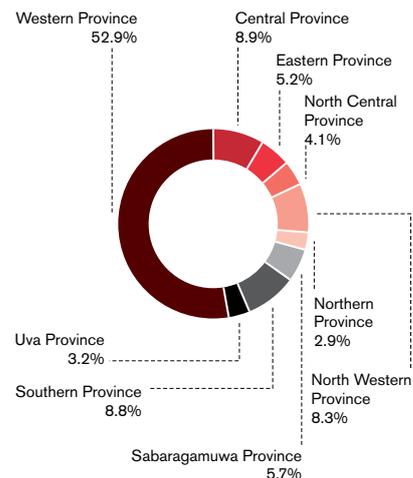
Exposure by customer size



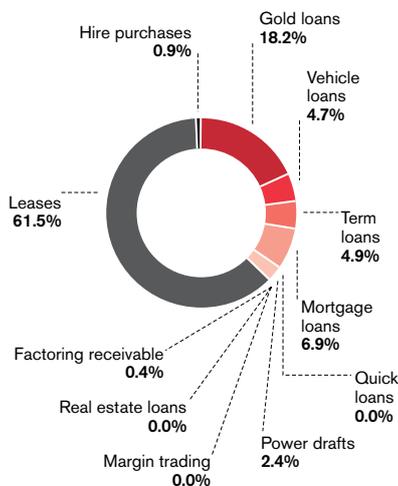
Industry concentration - 2016/17



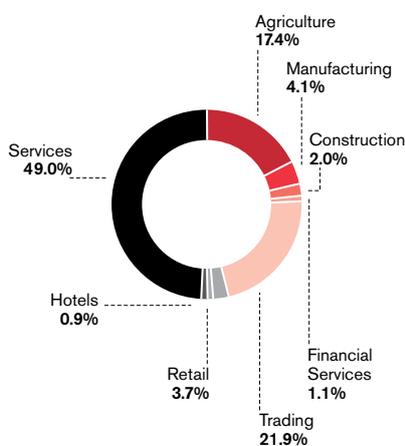
Geographical concentration - 2015/16



Product concentration - 2016/17

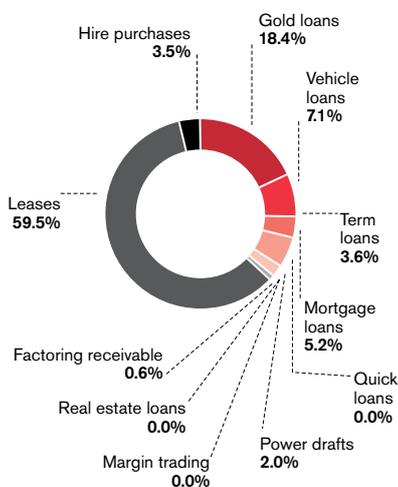


Industry concentration - 2015/16

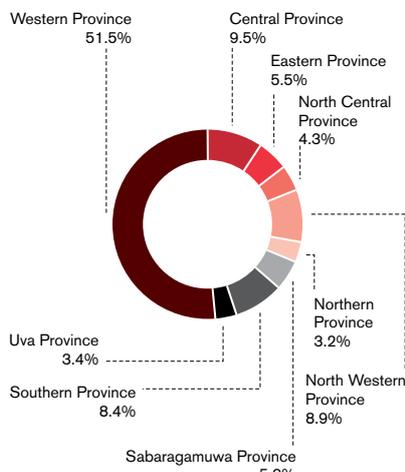


Risk Management Strategy	Risk Management Objective
Setting of prudential limits on maximum exposures which are reviewed periodically	Diversification
Strict adherence to single borrower limits defined by Finance Companies Direction No. 4 of 2006 issued by the Central Bank of Sri Lanka	Diversification
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

Product concentration - 2015/16



Geographical concentration - 2016/17



Liquidity risk - Low

Objective
Safeguard against funding constraints that prevent growth and meet demands of depositors/investors

Trend

In the context of a financial institution, liquidity risk arises primarily due to the mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; 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.

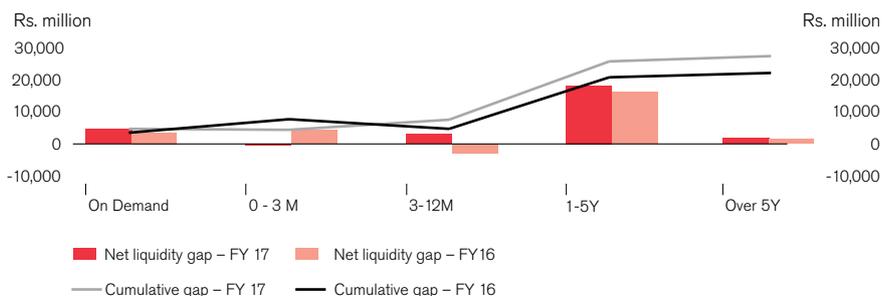
Funding liquidity risk means the Company's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality is, or at least perceived to be, deteriorating, but also 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.

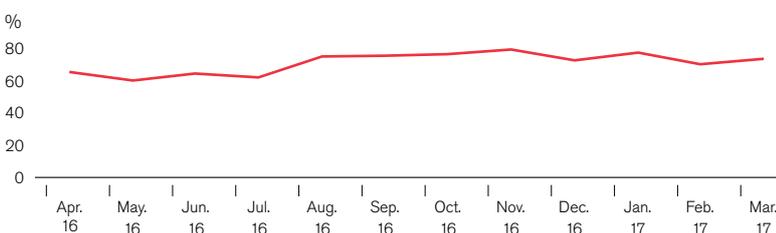
ASSESSMENT

As at 31st March 2017, based on the remaining contractual maturity of assets and liabilities, the Company maintains asset surpluses in all time brackets except '0-3 months' time bracket. As at 31st March 2016, Company maintained a similar asset liability position, asset surpluses were maintained for all time brackets except '3-12 months' time bracket.

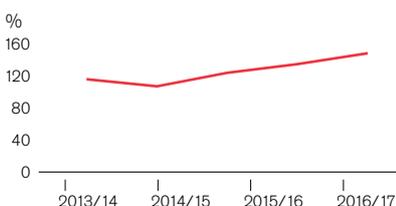
Net liquidity gap based on contractual maturities



Deposit renewal ratio



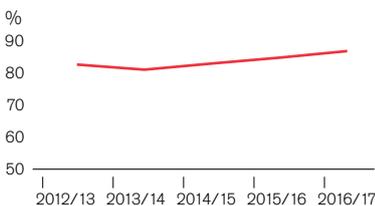
Loans to deposits ratio



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.

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



LIQUID ASSET 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.

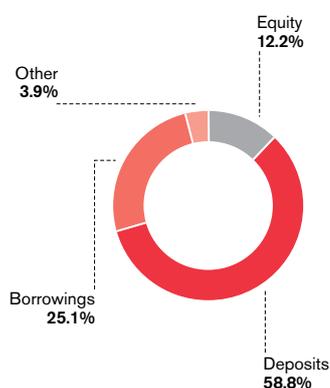
LIQUID ASSET STRESS TEST

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

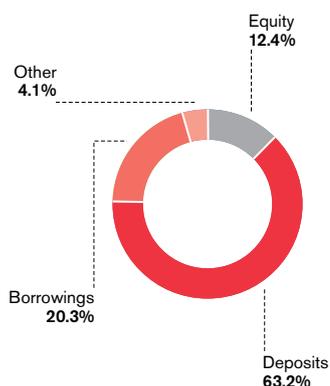
CURRENT STATUTORY LIQUID ASSET RATIO – 14.47%

Scenario	1	2	3
Magnitude of Shock	2.50%	5.00%	10.00%
New Liquid Asset Ratio	12.33%	10.07%	5.18%

Total Funding Mix 2016/17

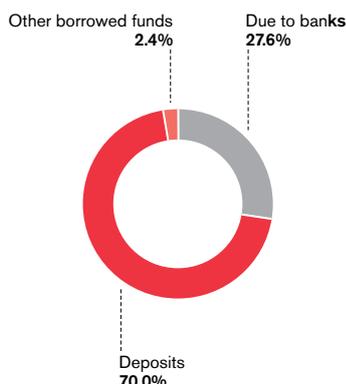


Total Funding Mix 2015/16

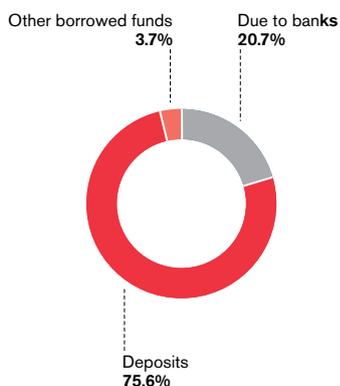


The above graph depicts as at 31st March 2017, 83.9 percent of Company's total assets are funded by either borrowings or public deposits as opposed to 83.5 percent as at 31st March 2016.

Interest bearing liabilities mix 2016/17

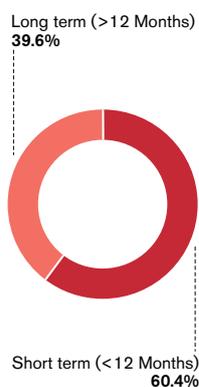


Interest bearing liabilities Mix 2015/16

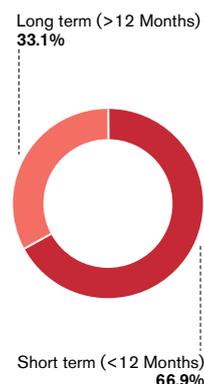


The above graph depicts the mix of interest-bearing borrowings deployed in the Company's balance sheet. During the year, Company has successfully managed to diversify the funding sources and reduce the dependency on public deposits.

Interest bearing borrowings tenure 2016/17



Interest bearing borrowings tenure 2015/16



Risk Management Strategy	Risk Management Objective
Proper coordination of funding activities between the treasury and the deposit mobilisation units for optimum liquidity management	Diversification
Strengthening the contingency funding arrangements using standby facilities	Mitigation
Increasing the exposure to shorter duration assets to minimise maturity mismatches. E.g. 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 - Moderate

Objective

Safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments and commodity prices.

Trend



Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk and commodity risk have been identified as the most critical risks given 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 – MODERATE

Interest rate risk is a key component of the market risk exposure of the Company arising from adverse and unanticipated movements in future interest rates that could impact core business activities; granting of credit facilities, accepting deposits and issuing debt instruments, leading to fluctuations in earnings.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios.

Excessive movements in market interest rate could bring severe volatility to

Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as:

- Re-pricing risk arising from a fixed rate borrowing portfolio where re-pricing frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

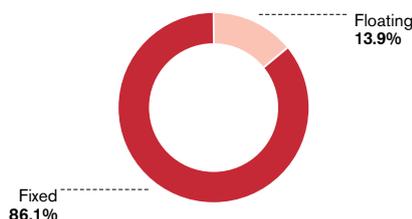
Interest rate risk is managed principally through minimising interest rate sensitive asset and liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

ASSESSMENT

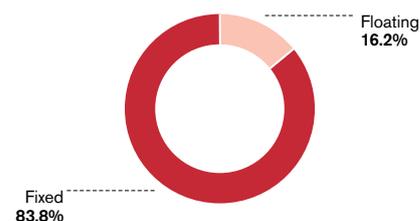
Impact on Company's net interest income due to fluctuations in market interest rates is closely monitored on an on-going basis. The Company uses the interest rate sensitivity of its assets and liabilities for modelling the financial impact. The table below illustrates the impact on net interest income from different interest rate scenarios.

Annual Impact on NII	2016/17		2015/16	
	Parallel Increase Rs. million	Parallel Decrease Rs. million	Parallel Increase Rs. million	Parallel Decrease Rs. million
1%	(8.7)	8.7	6.3	(6.3)
2%	(17.4)	17.4	12.7	(12.7)
3%	(26.1)	26.1	19.0	(19.0)

Borrowings – Fixed to floating mix March 2017



Borrowings – Fixed to floating mix March 2016



During the year under review, Company has successfully managed to reduce the rate sensitivity of the borrowings by introducing more fixed rate borrowings:

Risk Management Strategy	Risk Management Objective
ALCO closely monitors the interest rate movements and issues directions to lending and borrowing units on interest rate strategies	Prevention
Increasing the proportion of fixed rate borrowings in the funding mix	Diversification
Promoting lending products with shorter re-pricing cycle to reduce interest rate sensitive gaps	Mitigation
Exploring opportunities to hedge the interest rate risk synthetically using interest rate swaps	Transfer
Negotiating interest rate caps on new borrowings	Mitigation

COMMODITY PRICE RISK – LOW

Commodity price risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. Given the significance of gold-backed loans business to the Company's overall lending operation, fluctuations 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

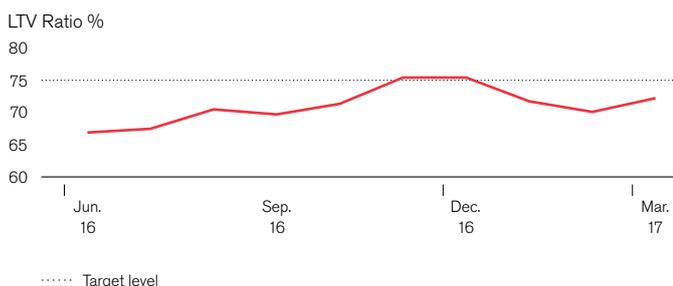
Company has adopted a dynamic lending strategy to determine the loan to value ratio based on the global gold prices. Advance offered per gold sovereign is constantly adjusted in line with the gold market prices.

Gold market price Vs. maximum advanced value



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

Loan to value ratio of gold backed loans-new disbursements



VALUE AT RISK ANALYSIS

The Company uses the VaR statistical model approach to estimate the potential loss/impairment provision arising from adverse price movements of gold under global market conditions. VaR is calculated based on Exponentially Weighted Moving Average (EWMA) method by assigning greater weight on the historical gold price data within a period of one year. This method is used to place greater weight on recent price changes while diminishing the weight on older price changes.

VaR arising from global gold price fluctuations is calculated for both 1 day and 1 month periods, at a 99 percent confidence level and the increase in impairment charge over and above current impairment is shown below.

EWMA VaR at Price USD 1247 (as at 31st March 2017)

Time Horizon	Confidence Level %	Price at 99% VaR	Impairment Rs. million	Impairment Increase Rs. million
Daily	99%	1,212	24.0	1.6
Monthly	99%	1,081	38.8	16.3

Risk Management Strategy	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 US dollar/Rs. exchange rate even as the global gold prices remain steady.

MITIGATION STRATEGIES

Risk Management Strategy	Risk Management Objective
Managing the risk arising from the US dollar/Rs. exchange rate volatility through maintaining an adequate safety margin on gold advances	Mitigation

Operational risk - Low

Objective
Improve the reliability and effectiveness of business operations and enhance organisational capability in ensuring safety of staff

Trend



Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (Basel II definition). Operational risk may result in a financial loss and a reputation risk to the Company. Company broadly identifies, assesses and aims to mitigate the following operational risk categories:

1. Internal fraud
2. External fraud
3. Work place safety
4. Business disruptions
5. Process risk
6. Damage to physical assets

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 event report
- Independent IT system audits on all core applications and system security.
- Analysing the number of system break downs, telecommunication failures, malfunctions and hacking events

Risk Management Strategy	Risk Management Objective
Segregation of duties, well-defined demarcated responsibilities for employees, use of procedural manuals and dual controls	Prevention
Periodic internal audits are conducted covering the entire branch network. The scope of the audit includes the review of adequacy and application of accounting, financial and operational controls	Prevention

Risk Management Strategy	Risk Management Objective
Transferring insurable risk by obtaining insurance policies	Transfer
Installing access control to identified high impact areas	Prevention
Staff training on technical aspects to comply with security regulations	Prevention
Conducting post completion audits after a successful implementation of system change/modification	Mitigation
Disaster recovery planning and business continuity planning	Mitigation
Obtaining ISO 27001 certification to ensure information system security	Prevention

OTHER RISKS

Strategic risk - Low

Objective

To minimise risks associated with Company's business strategy, strategic objectives and strategy execution

Trend



Strategic risk can be seen as the impact on the Company's earnings or capital, due to poor business policy decisions, improper implementation of business strategies or lack of responsiveness to industry changes. Hence, strategic risk could arise due to internal or external factors.

ASSESSMENT

Conducting reviews of pre and post-implementation financial performance for every product, project and investment.

Risk Management Strategy	Risk Management Objective
Quarterly budget reviews	Mitigation
Monthly variance analysis on key income and expense items	Mitigation

Reputational risk - Low

Objective

Safeguard the Company's brand value/goodwill against adverse internal and external events

Trend



Reputational risk arises from an event or behaviour that could adversely impact market 'perception' of the Company's goodwill. As reputation itself is a valuable business asset, Company takes great care in the management of reputation risk. As all other risks impact reputation risk, efficient management of other risks also forms part of our management of reputational risk.

ASSESSMENT

- Evaluation of the effectiveness of CSR projects.
- 43 CSR events were carried out during the year incurring a cost of Rs. 7.9 million.
- Evaluation of the number of complaints and types of complaints.

Risk Management Strategy	Risk Management Objective
Sustainability Committee to play a key role in conceptualising and monitoring CSR initiatives	Mitigation
Close monitoring of any events which could lead to reputation risk by adopting an early warning system including media reports, inputs from frontline staff and market survey results	Mitigation
Training employees on work place professionalism, behaviour and educate them on business ethics	Prevention

Capital Adequacy risk - Low

Objective

Maintain adequate capital buffers to withstand unexpected losses

Trend



For a financial institution capital is a buffer against insolvency. It is available to absorb unforeseen losses 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 2017, the Company reported a Tier 1 ratio of 16.1 percent and a total of Tier I & II of 17.1 percent which remain comfortably above the CBSL's minimum capital requirements.

Risk Management Strategy	Risk Management Objective
Periodic review of the impact from different lending products on the Risk-Weighted Assets and in turn on the capital adequacy ratio for necessary remedial actions using projected balance sheet	Mitigation

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.

Financial highlights	As at 31.03.2017 Rs. '000	As at 31.03.2016 Rs. '000
Credit Risk*		
RWA of On-Balance Sheet assets	77,569,897	61,982,684
RWA of Off-Balance Sheet assets	37,697	59,309
Total RWA for Credit Risk (a)	77,607,594	62,041,993
Market Risk**		
Capital Charge for Interest Rate Risk		-
Capital Charge for Equities		-
Capital Charge for Foreign Exchange and Gold	1,626,808	1,313,635
Total Capital Charge for Market Risk	1,626,808	1,313,635
Total RWA for Market Risk (Total Capital Charge for Market Risk x 10) (b)	16,268,075	13,136,351
Operational Risk**		
Gross Income		
Year 1	8,838,260	6,490,599
Year 2	9,843,854	8,838,260
Year 3	11,248,891	9,843,854
Average Gross Income	9,977,002	8,390,904
Total Capital Charge for Operational Risk – (Average Gross Income x 15%)	1,496,550	1,258,636
Total RWA for Operational Risk – (Total Capital Charge for Operational Risk x 10) (c)	14,965,503	12,586,357
Total Risk-Weighted Assets (a + b + c)	108,841,172	87,764,701
Total Eligible Core Capital (Tier I Capital)	12,509,679	10,449,822
Total Risk-Weighted Assets	108,841,172	87,764,701
Total Eligible Core Capital (Tier I Capital) (Minimum Requirement 5 percent) (%)	11.5	11.9
Total Capital Base	13,239,542	11,672,660
Total Risk-Weighted Assets	108,841,172	87,764,701
Total Capital Ratio (Minimum Requirement 10 percent) (%)	12.2	13.3

*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 security risk - Moderate

Objective

Safeguard information asset and ensure business continuity

Trend



Company has identified information as a vital business resource and a key asset to the organisation. Hence, 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. This includes but not limited to events such as cyber-attacks, breakdowns, failures or interruptions which result in a system down time, frauds and malpractices through errors and manipulations, technological obsolescence and insufficient or ineffective infrastructure to support business needs and volumes, falling behind the competitors in terms of the information technology.

Since every aspect of business relies heavily on Information Technology, it has emerged as the backbone of and the live wire of the organisations operations and innovations. As a result Information Security Risk is recognised as a significant portion of the potential operational risk.

In this context, Company has recognised information, information systems and technical infrastructure as assets of paramount importance and value to the Organisation. Therefore, with the objective of identifying and managing all IT-related risks effectively and efficiently in a consistent manner across the organisation, Company has rolled out a comprehensive Information Technology Risk Management Framework.

IT risk mitigation methodology involves prioritising, evaluating and implementing the appropriate risk treatment techniques such as technical, operational and management controls to prevent identified risks exploiting the vulnerabilities. This process is strengthened by the implementation of the Company's Information Security Management System (ISMS), which was established according to the ISO 27001:2013 standard. With the implementation of ISMS, following information security objectives have been identified:

ISMS OBJECTIVES

- Establish safeguards to protect Company's information/information systems from theft, abuse, misuse and any form of damages.
- Assess and evaluate the established control mechanism and implement corrective and preventive actions.
- Maintain the confidentiality, integrity and availability of information.

As part of IS risk assessment and mitigation methodology, IS Audit and Compliance Division conducts independent IS risk reviews and audits of new IS developments/amendments while carrying out regular system and security audits for each system related functions.

In the light of emerging cyber threats the Company introduced several initiatives to strengthen the IS risk management function. The Company obtained the service from an independent service provider to conduct cyber security related vulnerability assessments and surveys periodically. In addition, as a proactive measure to combat growing external threats, the Company obtained Information Security Operations Centre service from an external service provider with Online Monitoring System capability.

ASSESSMENT

- Conducting information security review meeting with key functional heads.
- Monitoring of system audit trails to identify patterns and anomalies.
- Performing systems audit for every system before deploying into production environment.
- Risk review on new or amended systems during requirement specification or procurement stage.
- Thorough post-implementation review following the changes to IT systems or technical infrastructure, to ensure no unintended repercussions have occurred.
- Analysis of information security related incidents to identify the gaps and loopholes in the information system and infrastructure.

Risk Management Strategy	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

Objective

To minimise the cost of non-compliance and litigation

Trend



Legal/regulatory Risk is the risk of loss caused by non-compliance with existing or new legislation or supervisory regulations, disadvantageous changes to existing laws or supervisory regulations. Furthermore, legal risk includes losses due to ambiguity of laws or unfavourable contract clauses and loose contracts.

The Company conducts its business in accordance with the Company's code of conduct, laws and regulations imposed by the regulatory authorities with zero tolerance for failure or breach of such obligations.

ASSESSMENT

- Internal audit reviews are carried out to assess the extent of compliance at branch and departmental level.
- Regular monitoring of compliance with the directions issued by the regulator.

Risk Management Strategy	Risk Management Objective
Compliance function regularly reviews the Company's compliance with rules, directions and determinations of regulatory bodies	Prevention

Human resource 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
- unexpected temporary leave
- management error/incompetence
- disability (temporary or permanent)/ 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

Risk Management Strategy	Risk Management Objective
Training and development to help employees to improve their skills to be better at their current job and prepare for future challenges	Mitigation
Strengthen the process for grievance handling and offer workplace counselling	Prevention

Human resource risk - Low

Objective

To ensure the availability of skilled and competent human resources to successfully conduct business operations

Trend



Financial reports

Financial calendar

2016/17

Publication of interim financial statements for the quarter ended 31st March 2016	6th May 2016
Authorisation for issue of audited financial statements for 2015/16	17th May 2016
Publication of annual report for the financial year ended 31st March 2016	8th June 2016
Held 43rd Annual General Meeting of the Company	30th June 2016
Obtained a term loan of Rs. 5 billion from Bank of Ceylon	8th July 2016
Payment of first and final dividend of Rs. 7.50 per share for the financial year ended 31st March 2016	12th July 2016
Publication of interim financial statements for the quarter ended 30th June 2016	26th July 2016
Obtained a term loan of Rs. 200 million from Public Bank	29th September 2016
Publication of interim financial statements for the quarter ended 30th September 2016	18th October 2016
Obtained a term loan of Rs. 1 billion from Nation Trust Bank	25th October 2016
Obtained a money market loan of Rs. 400 million from National Development Bank	24th November 2016
Obtained a money market loan of Rs. 300 million from National Development Bank	24th November 2016
Obtained a money market loan of Rs. 150 million from National Development Bank	5th December 2016
Obtained a term loan of Rs. 1 billion from Seylan Bank	8th December 2016
Obtained a term loan of Rs. 1.2 billion from Hatton National Bank	30th December 2016
Publication of interim financial statements for the quarter ended 31st December 2016	17th January 2017
Obtained a term loan of Rs. 2 billion from Commercial Bank	18th January 2017
Obtained a syndicated loan of Rs. 2.275 billion	31st January 2017
Obtained a money market loan of Rs. 300 million from Habib Bank	1st March 2017
Obtained a money market loan of Rs. 200 million from Standard Chartered Bank	21st March 2017
Obtained a term loan of Rs. 100 million from Public Bank	27th March 2017

2017/18

Publication of interim financial statements for the quarter ended 31st March 2017	25th April 2017
Publication of annual report for the financial year ended 31st March 2017	6th June 2017
44th Annual General Meeting of the Company	30th June 2017
Payment of final dividend of Rs. 3.00 per share for the financial year ended 31st March 2017	11th July 2017*

* Subject to confirmation by shareholders

Submission of the interim Financial statements in terms of the Rule 7.4 of the CSE	2016/17 submitted on	2017/18 to be submitted on or before
For the 3 months ended 30th June – (unaudited)	26th July 2016	15th August 2017
For the 3 and 6 months ended 30th September – (unaudited)	18th October 2016	15th November 2017
For the 3 and 9 months ended 31st December – (unaudited)	17th January 2017	15th February 2018
For the 3 months and year ended 31st March – (unaudited)	25th April 2017	30th May 2018

Publication of the six month financial statements as per requirements of the Central Bank of Sri Lanka	Published in news papers on			To be published on or before
	English	Sinhala	Tamil	
For the year ended 31st March 2016 – (audited)	30th June 2016	30th June 2016	30th June 2016	–
For the 6 months ended 30th September 2016 – (unaudited)	17th November 2016	17th November 2016	17th November 2016	–
For the year ended 31st March 2017 – (audited)	–	–	–	30th June 2017
For the 6 months ended 30th September 2017 – (unaudited)	–	–	–	30th November 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.

The Company adopts the improvements in Sri Lanka Accounting Standards and continuously improves the Financial Statement closure process, investments and borrowing procedures, disclosures with regard to financial risk management, fair value and management information.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting.

By order of the Board,



L N de S Wijeyeratne
Independent Non-Executive Director



Sumith Adhihetty
Managing Director

31st May 2017

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. 7 of 2007.

The responsibility of the Independent Auditor in relation to the financial statements is set out in the report of the Auditors given on page 214 of the Annual Report.

As per the provisions of sections 151 and 150 (1) of the Companies Act No. 7 of 2007, the Directors are required to prepare financial statements for each financial year, which should give a true and fair view of the state of affairs of the Company, as at the reporting date and its profit or loss for the financial year then ended, ensure that they are completed within six months or such extended period as may be determined by the Registrar General of Companies, certified by the person responsible for the preparation of the financial statements, that it is in compliance with the said Companies Act and dated and signed on behalf of the Board by two Directors of the Company.

In terms of section 166 (1) read together with sections 168 (1) (b) and (c) and section 167 (1) of the Companies Act, the Directors shall cause a copy of the aforesaid financial statements, together with the annual report of the Board of Directors of the Company prepared as per section 166 (1) of the Companies Act to be sent to every shareholder, not less than fifteen working days before the date fixed for holding the annual general meeting.

In preparing the financial statements, the Directors are responsible to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgements

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 reasonable 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) and are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year, which is primarily handled through the Audit Committee and the Integrated Risk Management Committee as set out in their Reports that appear on pages 182 and 184 respectively.

The Directors have taken appropriate steps to ensure that the Company maintains proper books of accounts and the financial reporting system is directly reviewed by the Directors at their regular meetings and also through the Board Audit Committee.

The Board of Directors also approves the interim financial statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the financial statements presented in this Annual Report.

The financial statements of the Company have been certified by the Chief Financial Officer of the Company, the officer responsible for their preparation as required by the section 151 (1) (b) and they have also been signed by two Directors of the Company as required by section 151 (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) Ltd
Company Secretaries

31st May 2017

Independent auditors' report



Building a better
working world

Ernst & Young
Chartered Accountants
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Sri Lanka

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HMAJ/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 2017, 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 221 to 287).

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 2017, 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.

23rd May 2017
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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SECTION 01

Statement of comprehensive income

Year ended 31st March	Notes	2017 Rs. '000	2016 Rs. '000	Change %
Income	4.1.1	19,363,428	15,646,468	24
Interest income	4.1.2	17,909,935	14,428,730	24
Interest expenses	4.1.6	(8,112,337)	(5,773,255)	(41)
Net interest income	4.1.8	9,797,598	8,655,475	13
Fee and commission income	4.2	1,209,340	1,168,682	3
Net trading income	4.3	(148)	968	(>100)
Other operating income	4.4	244,301	48,088	>100
Total operating income		11,251,091	9,873,213	14
Impairment (charge)/reversal for loans and other losses	4.5	42,265	(382,435)	>100
Gold loan auction losses		(2,200)	(29,358)	93
Net operating income		11,291,156	9,461,420	19
Operating expenses				
Personnel expenses	4.6	(2,332,899)	(1,837,554)	(27)
Depreciation of property, plant & equipment	4.21.2	(326,128)	(318,296)	(2)
Amortisation of intangible assets	4.22	(17,090)	(14,129)	(21)
Other operating expenses	4.7	(1,713,095)	(1,373,373)	(25)
Operating profit before tax on financial services		6,901,944	5,918,068	17
Tax on financial services		(1,027,101)	(593,452)	(73)
Profit before taxation		5,874,843	5,324,616	10
Income tax expense	4.8.1 (A)	(1,956,639)	(1,606,823)	(22)
Profit for the year		3,918,204	3,717,793	5
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss				
Gains and losses arising on re-measuring available for sale financial assets				
Equity securities		(20,391)	(2,321)	(>100)
Reclassification adjustments for impairment on equity securities		5,672	4,627	23
Net other comprehensive income to be reclassified to profit or loss		(14,719)	2,306	(>100)
Other comprehensive income not to be reclassified to profit or loss				
Actuarial gains and losses on defined benefit plans	4.30.3	(4,420)	12,403	(>100)
Deferred tax (charge)/reversal on above	4.8.1 (B)	1,238	(3,473)	>100
Net other comprehensive income not to be reclassified to profit or loss		(3,182)	8,930	(>100)
Other comprehensive income for the year, net of tax		(17,901)	11,236	(>100)
Total comprehensive income for the year, net of tax		3,900,303	3,729,029	5
Basic earnings per share* (Rs.)	4.9	28.29	26.84	5
Dividend per share**				
Dividend per share: Gross (Rs.)	4.10	9.00	7.50	20
Dividend per share: Net (Rs.)		8.10	6.75	20

* Calculated based on the profit for the year.

** Calculated based on interim dividend paid and proposed final dividend which is to be approved at the Annual General Meeting.

Figures in brackets indicate deductions.

Accounting policies and notes from pages 221 to 287 form an integral part of these financial statements.

Statement of financial position

As at 31st March	Notes	2017 Rs. '000	2016 Rs. '000	Change %
Assets				
Cash and cash equivalents	4.13	2,895,085	6,051,899	(52)
Financial investments – held for trading	4.14	10,068	10,646	(5)
Loans and receivables	4.15	33,488,779	26,449,169	27
Lease rentals receivable and stock out on hire	4.16	55,660,963	45,104,836	23
Financial investments – available for sale	4.18	118,021	138,411	(15)
Other financial assets	4.19	6,721,526	4,142,716	62
Other non-financial assets	4.20	305,048	538,899	(43)
Property, plant & equipment	4.21	3,514,356	2,045,295	72
Intangible assets	4.22	49,189	34,766	41
Total assets		102,763,035	84,516,637	22
Liabilities				
Due to banks	4.23	23,778,147	14,577,234	63
Due to customers	4.24	60,401,955	53,379,801	13
Debt instruments issued and other borrowed funds	4.25	2,044,216	2,601,283	(21)
Other financial liabilities	4.26	2,007,402	1,869,941	7
Other non-financial liabilities	4.27	673,436	597,807	13
Current tax liabilities	4.28	691,091	741,251	(7)
Deferred tax liabilities	4.29	503,488	143,142	> 100
Post-employment benefit liability	4.30	153,621	126,859	21
Total liabilities		90,253,356	74,037,318	22
Shareholders' funds				
Stated capital	4.31	838,282	838,282	–
Retained earnings	4.32	8,259,079	6,970,499	18
Reserves	4.33	3,412,318	2,670,538	28
Total shareholders' funds		12,509,679	10,479,319	19
Total liabilities and shareholders' funds		102,763,035	84,516,637	22
Net asset value per share (Rs.)		90.31	75.66	19
Commitments and contingencies	6.5	994,135	1,275,614	(22)

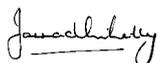
I certify that these financial statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



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 Adhihetty
Managing Director



L N de S Wijeyeratne
Director

Accounting policies and notes from pages 221 to 287 form an integral part of these financial statements.

23rd May 2017
Colombo

Statement of changes in equity

	Stated capital Rs. '000 (Note 4.31)	Retained earnings Rs. '000 (Note 4.32)	Statutory reserve Rs. '000 (Note 4.33)	Available for sale reserve Rs. '000 (Note 4.33)	Total Rs. '000
Balance as at 1st April 2015	838,282	5,164,137	1,897,483	27,190	7,927,092
Super gain tax paid (Refer Note 4.8.4)	-	(484,231)	-	-	(484,231)
Balance after super gain tax	838,282	4,679,906	1,897,483	27,190	7,442,861
Net profit for the year	-	3,717,793	-	-	3,717,793
Other comprehensive income net of tax	-	8,930	-	2,306	11,236
Total comprehensive income for the year, net of tax	-	3,726,723	-	2,306	3,729,029
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Transfer to statutory reserve	-	(743,559)	743,559	-	-
First and final dividend for 2014/15	-	(692,571)	-	-	(692,571)
Total transactions with equity holders	-	(1,436,130)	743,559	-	(692,571)
Balance as at 31st March 2016	838,282	6,970,499	2,641,042	29,496	10,479,319
Net profit for the year	-	3,918,204	-	-	3,918,204
Other comprehensive income net of tax	-	(3,182)	-	(14,719)	(17,901)
Total comprehensive income for the year, net of tax	-	3,915,022	-	(14,719)	3,900,303
Transactions with owners, recognised directly in equity, contributions and distributions to owners					
Transfers during the year	-	(756,499)	783,641	(27,142)	-
Final dividend for 2015/16	-	(1,038,857)	-	-	(1,038,857)
Interim dividend for 2016/17	-	(831,086)	-	-	(831,086)
Total transactions with equity holders	-	(2,626,442)	783,641	(27,142)	(1,869,943)
Balance as at 31st March 2017	838,282	8,259,079	3,424,683	(12,365)	12,509,679

Figures in brackets indicate deductions.

Accounting policies and notes from pages 221 to 287 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 of cash in hand, balances with banks, placements with banks, money at call and short notice.

Year ended 31st March	Notes	2017 Rs. '000	2016 Rs. '000
Cash flows from/(used in) operating activities:			
Profit and other comprehensive income/(expenses) before taxation		5,855,704	5,339,325
Adjustments for –			
Depreciation of property, plant & equipment	4.21.2	326,128	318,296
Amortisation of intangible assets	4.22	17,090	14,129
Impairment charges/(reversal) for loans and other losses	4.5	(42,265)	382,435
Gold loan auction losses		2,200	29,358
Interest cost on finance lease		–	134
Diminution/(appreciation) in value of investments		20,968	1,739
Loss/(profit) on disposal of property, plant & equipment	4.4	(11,191)	35,143
Provision/(reversal) for defined benefit plans	4.30.1	41,550	20,637
Dividend received		(3,666)	(8,075)
Interest income on investing activities		(637,386)	(457,706)
Notional tax credit on interest on Treasury Bills and Bonds	4.1.9	(50,263)	(39,556)
Withholding tax attributed to fixed deposits		(19,282)	(10,099)
Operating profit before working capital changes		5,499,588	5,625,760
(Increase)/decrease in loans and receivables		(7,040,802)	(4,265,228)
(Increase)/decrease in lease rentals receivable and stock out on hire		(10,523,719)	(11,678,796)
(Increase)/decrease in other financial assets		(2,510,968)	(1,969,173)
(Increase)/decrease in other non-financial assets		354,969	584,203
Increase/(decrease) in amounts due to customers		7,022,153	7,949,250
Increase/(decrease) in other financial liabilities		137,461	91,353
Increase/(decrease) in other non-financial liabilities		75,629	67,924
Cash generated from operations		(6,985,689)	(3,594,707)
Retirement benefit liabilities paid	4.30.1	(14,788)	(6,353)
Income tax and super gain tax paid		(1,687,940)	(1,736,696)
Net cash from/(used in) operating activities		(8,688,417)	(5,337,756)

Figures in brackets indicate deductions.

Accounting policies and notes from pages 221 to 287 form an integral part of these financial statements.

Year ended 31st March	Notes	2017 Rs. '000	2016 Rs. '000
Cash flows from/(used in) investing activities			
Acquisition of property, plant & equipment	4.21.1	(1,809,158)	(434,550)
Acquisition of intangible assets	4.22	(31,513)	(13,589)
Proceeds from sale of property, plant & equipment		25,159	84,882
Sale/(purchase) of financial investments – available for sale		-	(144)
Interest received		569,545	424,340
Dividend received		3,666	8,075
Net cash flows from/(used in) investing activities		(1,242,301)	69,014
Cash flows from/(used in) financing activities			
Payment under finance lease liabilities		-	(1,122)
Net cash flow from syndicated loans and other bank facilities		8,864,917	7,157,602
Net cash flow from debt issued and other borrowings		(557,066)	(928,294)
Dividends paid	4.10.1	(1,869,943)	(692,571)
Net cash flows from/(used in) financing activities		6,437,908	5,535,615
Net increase in cash and cash equivalents		(3,492,810)	266,873
Cash and cash equivalents at the beginning of the year		5,352,627	5,085,754
Cash and cash equivalents at the end of the year	4.13.3	1,859,817	5,352,627
Operational cash flows from interest			
Interest received		17,842,094	14,395,364
Interest paid		7,910,612	5,478,254

Figures in brackets indicate deductions.

Accounting policies and notes from pages 221 to 287 form an integral part of these financial statements.

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 07. The shares of the Company have a primary listing on the Colombo Stock Exchange. The staff strength of the Company as at 31st March 2017 was 3,221 (2016 : 2,744).

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, Vehicle Loans, Mortgage Loans, Gold Loans, Margin Trading Facilities, Personal 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 2017 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 23rd May 2017.

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 (SLFRSs/LKASs) adopted during the financial year and Sri Lanka Accounting Standards (SLFRSs/LKASs) 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 Rupees thousands, 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 2017

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 SLFRSs 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.

Compared to existing accounting requirements, Sri Lanka Accounting Standard SLFRS 9 – (Financial Instruments) is expected to require higher impairments earlier in a debt asset's life and the recognition of losses on off-balance sheet facilities. Together this will result in a higher overall balance sheet impairment requirement. This difference is expected, on transition to Sri Lanka Accounting Standard SLFRS 9 – (Financial Instruments), to be recognised at the time of the implementation. It is anticipated that the impact will be significant to the Company. We have calculated the potential impact of the new requirement based on 31st March 2017 figures. The increase in total balance sheet impairment provision is as follows:

As at 31st March 2017	Rs. '000
Total expected loss (SLFRS 9)	754,360
Less – Collective provision for unimpaired loans (LKAS 39)	568,159
Increase in total balance sheet impairment provision	186,201

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 15 – (Revenue from Contracts with Customers) is not expected to have an impact on the financial statements since majority of our revenue generating instruments meet the definition of financial instruments under Sri Lanka Accounting Standard SLFRS 9 – (Financial Instruments).

SRI LANKA ACCOUNTING STANDARD SLFRS 16 – (LEASES)

Sri Lanka Accounting Standard SLFRS 16 – (Leases) provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. Those currently classified as operating leases will create on balance sheet long-term asset and lease creditor. This supersedes: Sri Lanka Accounting Standard LKAS 17 – (Leases), IFRIC 4 determining whether an arrangement contains a Lease, SIC 27 Operating Leases - Incentives; and SIC 27 Evaluating the substance of Transactions Involving the legal form of a lease. Earlier application is permitted for entities that apply Sri Lanka Accounting Standard SLFRS 15 – (Revenue from Contracts with Customers).

Sri Lanka Accounting Standard SLFRS 16 – (Leases) is effective for annual reporting periods beginning on or after 1st January 2019.

Pending the completion of detailed review, the financial impact from Sri Lanka Accounting Standard SLFRS 16 – (Leases) is not reasonably estimable as of the reporting date. We expect to have the main impact from the properties which has taken (as a lessee) on long-term rent basis.

The following amendments and improvements are not expected to have a significant impact on the Company's financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SLFRS 10 and LKAS 28)
- Disclosure Initiative (Amendments to LKAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to LKAS 12)
- Classification and Measurement of Share-based Payment Transactions (Amendments to SLFRS 2)
- Applying SLFRS 9 Financial Instruments with SLFRS 4 Insurance Contracts (Amendments to SLFRS 4)

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 JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgements, 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 an impairment charge or reversal to the statement of comprehensive income.

Interest income on impaired financial instruments continues to be recognised at original EIR to the unadjusted carrying amount until the financial asset has been classified as fully impaired. Until such the accrued interest added to the unadjusted carrying amount has been impaired to the estimated Loss Given Default (LGD). Discontinuation of interest accrual is discussed in Note 4.17.5 to these financial statements. Interest from overdue rentals have been accounted for on a cash received basis.

	2017 Rs. '000	2016 Rs. '000
4.1.1 INCOME		
Interest income	17,909,935	14,428,730
Fee and commission income	1,209,340	1,168,682
Net trading income	(148)	968
Other operating income	244,301	48,088
	19,363,428	15,646,468
4.1.2 INTEREST INCOME		
Loans and receivables (Note 4.1.3)	6,349,685	5,179,323
Lease rentals receivable and stock out on hire (Note 4.1.4)	10,853,318	8,742,046
Other financial assets	706,932	507,361
	17,909,935	14,428,730

	2017 Rs. '000	2016 Rs. '000
4.1.3 INTEREST INCOME – LOANS AND RECEIVABLES		
Gold loans	3,365,389	2,708,230
Vehicle loans	966,816	1,344,798
Medium and short-term loans	639,946	268,246
Mortgage loans	952,613	585,630
Quick loans	7,620	3,131
Power drafts	349,279	178,500
Margin trading	3,490	1,770
Factoring receivable	64,440	88,305
Real estate loans	92	713
	6,349,685	5,179,323
4.1.4 INTEREST INCOME – LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE		
Lease rentals receivable	10,406,296	7,653,220
Stock out on hire	447,022	1,088,826
	10,853,318	8,742,046
4.1.5 INTEREST INCOME FROM SRI LANKA GOVERNMENT SECURITIES	502,635	395,561
4.1.6 INTEREST EXPENSES		
Due to banks	1,888,152	871,721
Due to customers	5,878,599	4,450,132
Debt issued and other borrowed funds	345,586	451,402
	8,112,337	5,773,255
4.1.7 INTEREST EXPENSES (PRODUCT-WISE BREAKDOWN)		
Bank overdrafts	4,532	1,314
Syndicated loans and other bank facilities	1,883,619	870,273
Finance lease	-	134
Fixed deposits	5,674,988	4,281,488
Certificates of deposit	15,373	14,858
Savings deposits	188,239	153,786
Securitised borrowings	-	87,769
Unsecured debentures	345,586	363,633
	8,112,337	5,773,255
4.1.8 NET INTEREST INCOME	9,797,598	8,655,475

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. 50,263,497/- (2016 – Rs. 39,556,119/-).

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.

	2017 Rs. '000	2016 Rs. '000
Credit-related fees and commissions	736,196	817,955
Service charge	473,144	350,727
	1,209,340	1,168,682

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.

	2017 Rs. '000	2016 Rs. '000
Dividend income from financial investments – held for trading	430	386
Appreciation/(depreciation) in market value of financial investments – held for trading	(578)	582
	(148)	968

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.

	2017 Rs. '000	2016 Rs. '000
Dividend income from financial investments – available for sale	3,236	7,689
Reclassification adjustments for impairment – available for sale financial assets	(5,672)	(4,627)
Profit/(loss) on disposal of property, plant & equipment	11,191	(35,143)
Real estate income (net of cost)	200,103	11,507
Income on operating lease	16,889	55,312
Sundry income	18,554	13,350
	244,301	48,088

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.

	2017 Rs. '000	2016 Rs. '000
Loans and receivables (Note 4.17.1)	6,290	61,449
Lease rentals receivable and stock out on hire (Note 4.17.1)	94,016	345,824
Other losses	(8,848)	63,497
Recovery of written off debts	(133,723)	(88,335)
	(42,265)	382,435

4.5.1. IMPAIRMENT CHARGE/(REVERSAL) FOR LOANS AND OTHER LOSSES (DETAILED BREAKDOWN)

	2017			Net amount Rs. '000
	Direct write-offs Rs. '000	Charge for the year Rs. '000	Reversal for the year Rs. '000	
Loans and receivables	12,090	194,234	(200,034)	6,290
Lease rentals receivable and stock out on hire	7,546	501,664	(415,194)	94,016
Other losses	–	–	(8,848)	(8,848)
	19,636	695,898	(624,076)	91,458
Recovery of written off debts				(133,723)
				(42,265)

	2016			Net amount Rs. '000
	Direct write-offs Rs. '000	Charge for the year Rs. '000	Reversal for the year Rs. '000	
Loans and receivables	7,109	196,964	(142,623)	61,449
Lease rentals receivable and stock out on hire	125,226	604,306	(383,708)	345,824
Other losses	–	70,811	(7,314)	63,497
	132,335	872,081	(533,645)	470,770
Recovery of written-off debts				(88,335)
				382,435

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.

	2017 Rs. '000	2016 Rs. '000
Salaries and other related expenses	2,021,252	1,573,919
Employer's contribution to Employees' Provident Fund	162,964	129,988
Employer's contribution to Employees' Trust Fund	32,593	25,998
Gratuity charge/(reversal) for the year	37,130	33,040
Staff training	8,046	11,181
Staff welfare expenses	68,624	61,722
Amortisation of staff loan day 01 difference	2,290	1,706
	2,332,899	1,837,554

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.

	2017 Rs. '000	2016 Rs. '000
Directors' emoluments	17,738	13,964
Auditors' remuneration	2,750	2,600
Audit-related expenses	2,461	2,409
Non-audit fees to auditors	790	703
Professional and legal expenses	48,057	55,287
Deposit insurance premium	74,336	66,182
General insurance expenses	118,501	78,189
Office administration and establishment expenses	916,371	750,223
Advertising and business promotional expenses	493,479	367,292
Crop insurance levy expenses	38,612	36,524
	1,713,095	1,373,373

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.

VAT rates applied during the financial year ended 31st March 2017 were as follows (2016 - 11%):

Period	Rate
1st April 2016 – 1st May 2016	11%
2nd May 2016 – 11th July 2016	15%
12th July 2016 – 30th October 2016	11%
1st November 2016 – 31st March 2017	15%

NATION BUILDING TAX (NBT) ON FINANCIAL SERVICES

As per provisions of the Nation Building Tax Act (NBT) Act No. 09 of 2009 and amendments thereto, NBT on financial services 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 subsequent amendments thereto, ESC was payable on Company's liable turnover at 0.5 percent and was deductible from income tax 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:

	2017 Rs. '000	2016 Rs. '000
4.8.1 (A) STATEMENT OF COMPREHENSIVE INCOME		
Current income tax		
Income tax for the year	1,563,183	1,420,071
Under/(over) provision of current taxes in respect of previous years	31,872	59,013
Deferred tax		
Deferred taxation charge/(reversal) (Refer Note 4.29)	361,584	127,739
	1,956,639	1,606,823
4.8.1 (B) OTHER COMPREHENSIVE INCOME		
Deferred tax		
Deferred taxation charge/(reversal) (Refer Note 4.29)	(1,238)	3,473
	(1,238)	3,473
4.8.1 (C) TOTAL TAX EXPENSE FOR THE FINANCIAL YEAR	1,955,401	1,610,296

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:

	2017 Rs. '000	2016 Rs. '000
Accounting profit before income taxation	5,874,843	5,324,616
Income tax expense at the statutory income tax rate of 28%	1,644,956	1,490,892
Tax effect of non-deductible expenses	434,068	307,761
Tax effect of lease capital generation	7,486,818	5,822,604
Tax effect of capital allowances and other allowable credits	(8,002,659)	(6,203,447)
Tax effect of exempt income	-	2,261
Adjustments of taxes in respect of prior years	31,872	59,013
Charge/(reversal) for deferred tax	361,584	127,739
	1,956,639	1,606,823
Effective tax rate (%)	33.31	30.18
Effective tax rate (excluding deferred tax) (%)	27.15	27.78
Accounting profit before tax on financial services	6,901,944	5,918,068
Effective tax rate (%)	28.35	27.15

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:

	2017 Rs. '000	2016 Rs. '000
Direct Taxes		
Income tax	1,687,940	1,252,465
Value added tax on financial services	803,195	465,058
Nation building tax on financial services	125,598	84,074
Crop insurance levy	40,681	30,557
Super gain tax (Refer Note 4.8.4)	-	484,231
Economic service charge	69,956	-
	2,727,370	2,316,385
Indirect taxes (collected and paid)		
Value added tax	413,938	489,370
Nation building tax	27,469	24,183
Stamp duty	291,797	237,947
Withholding tax on dividend and interest	261,726	176,059
PAYE tax	66,169	48,529
	1,061,099	976,088
Total taxes paid during the financial year	3,788,469	3,292,473

4.8.4 SUPER GAIN TAX

As per the provisions of the Part III of the Finance Act No. 10 of 2015, the Company was liable for super gain tax of Rs. 484.2 million and paid during the financial year ended 31st March 2016. Super gain tax was 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 the Sri Lanka Accounting Standard LKAS 33 – (Earnings per Share).

Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees. The Company does not have any potentially dilutive shares.

4.9.1 INCOME AND SHARES DETAILS USED IN THE BASIC EARNING PER SHARE COMPUTATION

	2017 Rs. '000	2016 Rs. '000
Amounts used as the numerators:		
Profit attributable to ordinary shareholders for basic earnings per share	3,918,204	3,717,793
Number of ordinary shares used as denominators for basic earnings per share		
Weighted average number of ordinary shares in issue	138,514,284	138,514,284
Basic earnings per ordinary share (Rs.)	28.29	26.84

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).

	2017 Rs. '000	2016 Rs. '000
4.10.1 DECLARED AND PAID DURING THE YEAR		
Dividends on ordinary shares:		
First and final dividend for 2016 – Rs. 7.50 per share (2015 – Rs. 10.00* per share)	1,038,857	692,571
Interim dividend for 2017 – Rs. 6.00 per share	831,086	–
	1,869,943	692,571
4.10.2 PROPOSED FOR APPROVAL AT ANNUAL GENERAL MEETING		
(not recognised as a liability as at 31st March)		
Dividends on ordinary shares:		
Final dividend for 2017 – Rs. 3.00 per share (First and final dividend for 2016 – Rs. 7.50 per share)	415,543	1,038,857

* Number of shares for 2015 was 69,257,142 which were subdivided into 138,514,284 in 2016 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 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 2017</i>	Gross amounts Rs. '000	Gross amounts set off on the statement of financial position Rs. '000	Net Amounts presented on the statement of financial position Rs. '000	Cash collateral Rs. '000	Financial instrument collateral Rs. '000	Net amount Rs. '000
Financial assets						
Lease rentals receivable and stock out on hire	55,660,963	–	55,660,963	–	28,007,463	27,653,500
Financial liabilities						
Due to customers	60,401,955	–	60,401,955	–	1,911,853	58,490,102

<i>As at 31st March 2016</i>	Gross amounts Rs. '000	Gross amounts set off on the statement of financial position Rs. '000	Net amounts presented on the statement of financial position Rs. '000	Cash collateral Rs. '000	Financial instrument collateral Rs. '000	Net amount Rs. '000
Financial assets						
Lease rentals receivable and stock out on hire	45,104,836	–	45,104,836	–	17,761,939	27,342,897
Financial liabilities						
Due to customers	53,379,801	–	53,379,801	–	1,389,833	51,989,968

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.

VALUATION FRAMEWORK

The Company has an established control framework for the measurement of fair values. Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated with in the Finance Department.

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 recognized 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	Notes	2017				2016			
		Fair value measurement using				Fair value measurement using			
		Quoted prices in active markets Level 1 Rs. '000	Significant observable inputs Level 2 Rs. '000	Significant unobservable inputs Level 3 Rs. '000	Total fair value Rs. '000	Quoted prices in active markets Level 1 Rs. '000	Significant observable inputs Level 2 Rs. '000	Significant unobservable inputs Level 3 Rs. '000	Total fair value Rs. '000
Financial investments held for trading	4.14								
Quoted equities		10,068	–	–	10,068	10,646	–	–	10,646
Financial investments available for sale	4.18								
Quoted equities		117,715	–	–	117,715	138,106	–	–	138,106
Unquoted equities		–	–	305	305	–	–	305	305
		117,715	–	305	118,020	138,106	–	305	138,411

There were no transfers into and transfers out of the hierarchy levels during 2016 and 2017.

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		2017				
		Fair value measurement using			Total fair value Rs. '000	Carrying value at amortised cost Rs. '000
Notes	Quoted prices in active markets Level 1 Rs. '000	Significant observable inputs Level 2 Rs. '000	Significant unobservable inputs Level 3 Rs. '000			
	Cash and bank balances					
	4.13					
		740,728	-	-	740,728	740,728
		1,091,593	-	-	1,091,593	1,091,593
		-	1,062,764	-	1,062,764	1,062,764
		1,832,321	1,062,764	-	2,895,085	2,895,085
Loans and receivables (Net of allowance for impairment losses)						
	4.15					
		-	-	16,267,505	16,267,505	16,267,505
		-	-	4,189,209	4,189,209	4,184,086
		-	-	4,309,221	4,309,221	4,343,401
		-	-	5,986,998	5,986,998	6,189,501
		-	-	17,714	17,714	17,706
		-	-	2,096,227	2,096,227	2,117,675
		-	-	31,934	31,934	31,934
		-	-	-	-	-
		-	-	326,388	326,388	336,971
		-	-	33,225,196	33,225,196	33,488,779
Lease rentals receivable and stock out on hire (Net of allowance for impairment losses)						
	4.16					
		-	-	55,318,502	55,318,502	54,815,791
		-	-	874,780	874,780	845,172
		-	-	56,193,282	56,193,282	55,660,963
Other financial assets						
	4.19					
		-	3,787,538	-	3,787,538	3,787,538
		-	2,680,300	-	2,680,300	2,680,300
		-	244,385	-	244,385	244,385
		-	9,303	-	9,303	9,303
		-	6,721,526	-	6,721,526	6,721,526

2016

Fair value measurement using

Quoted prices in active markets Level 1 Rs. '000	Significant observable inputs Level 2 Rs. '000	Significant unobservable inputs Level 3 Rs. '000	Total fair value Rs. '000	Carrying value at amortised cost Rs. '000
458,449	–	–	458,449	458,449
627,980	–	–	627,980	627,980
–	4,965,470	–	4,965,470	4,965,470
1,086,429	4,965,470	–	6,051,899	6,051,899
–	–	13,136,351	13,136,351	13,136,351
–	–	4,843,847	4,843,847	5,099,563
–	–	2,382,853	2,382,853	2,561,779
–	–	3,735,095	3,735,095	3,711,837
–	–	12,050	12,050	12,341
–	–	1,356,947	1,356,947	1,455,258
–	–	17,800	17,800	17,800
–	–	37	37	37
–	–	453,322	453,322	454,203
–	–	25,938,302	25,938,302	26,449,169
–	–	41,402,370	41,402,370	42,592,253
–	–	2,477,886	2,477,886	2,512,583
–	–	43,880,256	43,880,256	45,104,836
–	819,320	–	819,320	819,320
–	3,125,971	–	3,125,971	3,125,971
–	168,628	–	168,628	168,628
–	28,797	–	28,797	28,797
–	4,142,716	–	4,142,716	4,142,716

SENSITIVITY ANALYSIS OF FINANCIAL ASSETS MEASURED AT AMORTISED COST UNDER LEVEL 3 CATEGORY

	2017 Rs. '000	2016 Rs. '000
Increase/(decrease) in interest rate		
1bp Up	(7,651)	(5,917)
1bp Down	7,652	5,918

UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE UNDER LEVEL 3 CATEGORY

The following table sets out information about significant unobservable inputs used at 31st March 2017 and 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair values at 31st March 2017 Rs. '000	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
Loans and Receivables (Net of allowance for impairment losses)	33,225,196 (2016) 25,938,302	Discounted cash flow	Spread	2-11% (2016 : 2-11%)
			Probability of default	2-5% (2016 : 2-6%)
			Loss severity	25-100% (2016 : 25-100%)
			Expected prepayment rate	0.03-3.4% (2016 : 0.03-3.85%)
Lease rentals receivable and stock out on hire (Net of allowance for impairment losses)	56,193,282 (2016) 43,880,256	Discounted cash flow	Spread	7-9% (2016 : 11%)
			Probability of default	2-5% (2016 : 2-6%)
			Loss severity	25-100% (2016 : 25-100%)
			Expected prepayment rate	0.5-3.85% (2016: 0.5-3.85%)

There were no transfers into and transfers out of the hierarchy levels during 2016 and 2017.

Fair value measurement sensitivity to unobservable inputs

A significant increase in the spread would result in a lower fair value.

Significant increases in probability of default isolation would result in lower fair values.

A significant reduction would result in higher fair values.

Correlates with the current interest rates.

A significant increase in the spread would result in a lower fair value.

Significant increases in probability of default isolation would result in lower fair values.

A significant reduction would result in higher fair values.

Correlates with the current interest rates.

VALUATION METHODOLOGIES AND ASSUMPTIONS

CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as cash and cash equivalents. Time deposits, certificates of deposit and money market accounts that meet the above criteria are reported at par value on our statement of financial position.

FINANCE RECEIVABLES (LOANS, LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE)

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, pre-payment speed, and applicable spreads to approximate current rates. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. We use the fair value of collateral to determine the fair value of non-performing finance receivables. The collateral for finance receivable is the vehicle financed, real estate, gold or other property. The fair value of finance

receivables is 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.

4.12.2 (B) FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

As at 31st March		2017				
		Fair value measurement using			Total fair value Rs. '000	Carrying value at amortised cost Rs. '000
Notes	Quoted prices in active markets Level 1 Rs. '000	Significant observable inputs Level 2 Rs. '000	Significant unobservable inputs Level 3 Rs. '000			
Due to banks	4.23					
Bank overdrafts		-	1,035,268	-	1,035,268	1,035,268
Syndicated loans and other bank facilities		-	21,681,004	-	21,681,004	22,742,879
		-	22,716,272	-	22,716,272	23,778,147
Due to customers	4.24					
Fixed deposits		-	-	57,754,227	57,754,227	57,888,811
Certificates of deposit		-	-	153,987	153,987	153,987
Savings deposits		-	-	2,359,157	2,359,157	2,359,157
		-	-	60,267,371	60,267,371	60,401,955
Debt instruments issued and other borrowed funds	4.25					
Unsecured debentures		-	2,095,361	-	2,095,361	2,044,216
		-	2,095,361	-	2,095,361	2,044,216
Other financial liabilities	4.26					
Trade payables		-	743,139	-	743,139	743,139
Insurance premium payable		-	555,153	-	555,153	555,153
Unclaimed balances		-	549,243	-	549,243	549,243
Advances collected from customers		-	81,440	-	81,440	81,440
Sundry creditors		-	78,427	-	78,427	78,427
		-	2,007,402	-	2,007,402	2,007,402

SENSITIVITY ANALYSIS OF FINANCIAL LIABILITIES MEASURED AT AMORTISED COST UNDER LEVEL 3 CATEGORY

	2017 Rs. '000	2016 Rs. '000
Increase/(decrease) in interest rate		
1bp Up	(6,902)	(3,336)
1bp Down	6,903	3,337

UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE UNDER LEVEL 3 CATEGORY

The following table sets out information about significant unobservable inputs used at 31st March 2017 and 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair values at 31st March 2017 Rs. '000	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
Due to customers	60,267,371 (2016) 53,482,774	Discounted cash flow	Spread Expected premature rate	2.6-2.7% (2016 : 0-4.1%) 0.13-0.52% (2016 : 0.13-0.52%)

There were no financial liabilities recorded at fair value as at 31st March 2016 and 2017.

There were no transfers into and transfers out of the hierarchy levels during 2016 and 2017.

2016					
Fair value measurement using			Total fair value Rs. '000	Carrying value at amortised cost Rs. '000	
Quoted prices in active markets Level 1 Rs. '000	Significant observable inputs Level 2 Rs. '000	Significant unobservable inputs Level 3 Rs. '000			
-	699,272	-	699,272	699,272	
-	13,693,044	-	13,693,044	13,877,962	
-	14,392,316	-	14,392,316	14,577,234	
-	-	50,698,733	50,698,733	50,595,760	
-	-	185,248	185,248	185,248	
-	-	2,598,793	2,598,793	2,598,793	
-	-	53,482,774	53,482,774	53,379,801	
-	2,742,249	-	2,742,249	2,601,283	
-	2,742,249	-	2,742,249	2,601,283	
-	893,576	-	893,576	893,576	
-	414,292	-	414,292	414,292	
-	421,661	-	421,661	421,661	
-	91,828	-	91,828	91,828	
-	48,584	-	48,584	48,584	
-	1,869,941	-	1,869,941	1,869,941	

Fair value measurement sensitivity to unobservable inputs

A significant increase in the spread would result in a lower fair value.

Correlates with the current interest rates

VALUATION METHODOLOGIES AND ASSUMPTIONS

DUE TO CUSTOMERS

We measure the fair value using internal valuation models. These models project future cash flows of fixed deposits based on scheduled maturities (including principal and interest) and pre-maturities of deposits. The projected cash flows are discounted to present value based on applicable spreads to approximate current deposit rates for each tenor. Our assumptions regarding pre-maturity speed and spreads are based on historical performance. Certificate of deposits that have a maturity 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.

	2017 Rs. '000	2016 Rs. '000
Notes and coins held	740,728	458,449
Balances with banks	1,091,593	627,980
Treasury Bills repurchase agreements (less than 03 months)	1,062,764	4,965,470
	2,895,085	6,051,899
Fair value	2,895,085	6,051,899

4.13.1 The collateral value of repurchase agreements reflected on our statement of financial position under cash and cash equivalents as at 31st March 2017 and 31st March 2016 was Rs. 1,222,642,000/- and Rs. 5,607,024,315/-, 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:

	2017 Rs. '000	2016 Rs. '000
Cash and cash equivalents allocated for the liquidity requirement	-	1,524,566

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.

	2017 Rs. '000	2016 Rs. '000
Cash and cash equivalents	2,895,085	6,051,899
Bank overdrafts (Note 4.23)	(1,035,268)	(699,272)
Net cash and cash equivalents	1,859,817	5,352,627

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 recognized in 'Net trading income'. Interest and dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the payment has been established.

The 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.

	2017 Rs. '000	2016 Rs. '000
Equity securities – quoted (Note 4.14.1)	10,068	10,646

4.14.1 EQUITY SECURITIES – QUOTED

	Number of shares 2017	Cost as at 31st March 2017 Rs. '000	Market value as at 31st March 2017 Rs. '000	Number of shares 2016	Cost as at 31st March 2016 Rs. '000	Market value as at 31st March 2016 Rs. '000
Bank finance and insurance						
Seylan Bank PLC (Non-voting)	93,032	1,685	5,089	93,032	1,685	5,861
		1,685	5,089		1,685	5,861
Beverages, food and tobacco						
Bairaha Farms PLC	17,600	425	2,819	17,600	425	2,535
		425	2,819		425	2,535
Manufacturing						
Lanka Walltiles PLC*	19,740	790	1,836	19,740	790	1,950
		790	1,836		790	1,950
Trading						
Hayleys PLC*	1,222	207	324	1,222	207	300
		207	324		207	300
Total		3,107	10,068		3,107	10,646

* 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.

	2017 Rs. '000	2016 Rs. '000
Gold loans	16,289,996	13,164,982
Vehicle loans	4,391,058	5,348,695
Medium and short-term loans	4,393,290	2,578,815
Mortgage loans	6,410,140	3,928,143
Quick loans	18,015	12,558
Power drafts	2,139,041	1,509,409
Margin trading	31,934	69,864
Factoring receivable	338,455	558,514
Real estate loans	1,850	2,152
Gross loans and receivables	34,013,779	27,173,132
Allowance for impairment losses (Note 4.17)	(525,000)	(723,963)
Net loans and receivables subject to fair value (Note 4.15.2)	33,488,779	26,449,169
Fair value	33,225,196	25,938,302

4.15.1 LOANS AND RECEIVABLES INCLUDE LOANS GRANTED TO COMPANY OFFICERS, THE MOVEMENT OF WHICH IS AS FOLLOWS:

	2017 Rs. '000	2016 Rs. '000
As at the beginning of the year	278,028	81,282
Loans granted during the year	234,944	227,503
Repayments during the year	(188,497)	(30,757)
As at the end of the year	324,475	278,028

4.15.2 CONTRACTUAL MATURITY ANALYSIS OF LOANS AND RECEIVABLES

<i>As at 31st March 2017</i>	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Gold loans	16,289,996	–	–	16,289,996
Vehicle loans	1,958,357	2,390,736	41,965	4,391,058
Medium and short-term loans	3,477,833	915,457	–	4,393,290
Mortgage loans	1,537,482	3,717,090	1,155,568	6,410,140
Quick loans	17,355	660	–	18,015
Power drafts	1,252,114	886,927	–	2,139,041
Margin trading	31,934	–	–	31,934
Factoring receivable	318,247	20,208	–	338,455
Real estate loans	1,850	–	–	1,850
Gross loans and receivables	24,885,168	7,931,078	1,197,533	34,013,779
Allowance for impairment losses (Note 4.17)				(525,000)
Net loans and receivables				33,488,779

<i>As at 31st March 2016</i>	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Gold loans	13,164,982	–	–	13,164,982
Vehicle loans	2,379,618	2,927,877	41,200	5,348,695
Medium and short-term loans	1,999,942	578,873	–	2,578,815
Mortgage loans	894,720	2,112,151	921,272	3,928,143
Quick loans	12,299	259	–	12,558
Power drafts	1,084,601	424,808	–	1,509,409
Margin trading	69,864	–	–	69,864
Factoring receivable	554,450	4,064	–	558,514
Real estate loans	2,152	–	–	2,152
Gross loans and receivables	20,162,628	6,048,032	962,472	27,173,132
Allowance for impairment losses (Note 4.17)				(723,963)
Net loans and receivables				26,449,169

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.

	2017 Lease Rs. '000	2017 Hire purchase Rs. '000	2017 Total Rs. '000	2016 Lease Rs. '000	2016 Hire purchase Rs. '000	2016 Total Rs. '000
Gross rentals receivables	74,523,266	1,251,200	75,774,466	56,668,151	3,417,862	60,086,013
Unearned income	(18,177,121)	(124,155)	(18,301,276)	(12,514,891)	(540,034)	(13,054,925)
Net rentals receivables	56,346,145	1,127,045	57,473,190	44,153,260	2,877,828	47,031,088
Rentals received in advance	(6,925)	-	(6,925)	(8,457)	-	(8,457)
Allowance for impairment losses (Note 4.17)	(1,523,429)	(281,873)	(1,805,302)	(1,552,550)	(365,245)	(1,917,795)
Total net rentals receivable subject to fair value (Note 4.16.2)	54,815,791	845,172	55,660,963	42,592,253	2,512,583	45,104,836
Fair value			56,193,282			43,880,256

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:

	2017 Rs. '000	2016 Rs. '000
As at the beginning of the year	94,925	141,511
Lease and hire purchase facilities granted during the year	38,187	42,884
Repayments during the year	(62,279)	(89,470)
As at the end of the year	70,833	94,925

4.16.2 CONTRACTUAL MATURITY ANALYSIS OF LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

As at 31st March 2017	Lease				Hire purchase			
	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Gross rentals receivables	29,472,322	45,033,659	17,285	74,523,266	910,754	340,283	163	1,251,200
Unearned income	(8,820,103)	(9,355,719)	(1,299)	(18,177,121)	(93,574)	(30,580)	(1)	(124,155)
Net rentals receivables	20,652,219	35,677,940	15,986	56,346,145	817,180	309,703	162	1,127,045
Rentals received in advance				(6,925)				-
Allowance for impairment losses				(1,523,429)				(281,873)
Total net rentals receivable				54,815,791				845,172

As at 31st March 2016	Leases				Hire purchase			
	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Gross rentals receivables	22,975,144	33,684,662	8,345	56,668,151	1,914,035	1,499,514	4,313	3,417,862
Unearned income	(6,190,913)	(6,323,328)	(650)	(12,514,891)	(338,766)	(201,098)	(170)	(540,034)
Net rentals receivables	16,784,231	27,361,334	7,695	44,153,260	1,575,269	1,298,416	4,143	2,877,828
Rentals received in advance				(8,457)				–
Allowance for impairment losses				(1,552,550)				(365,245)
Total net rentals receivable				42,592,253				2,512,583

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	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
4.17.1 As at 1st April	723,963	676,939	1,917,795	1,990,694	2,641,758	2,667,633
Charge/(Reversal) for the year	6,290	61,449	94,016	345,824	100,306	407,273
Amounts written off	(205,253)	(14,425)	(206,509)	(418,723)	(411,762)	(433,148)
As at 31st March	525,000	723,963	1,805,302	1,917,795	2,330,302	2,641,758
4.17.2 Individual impairment	414,698	634,806	1,347,445	1,577,762	1,762,143	2,212,568
Collective impairment	110,302	89,157	457,857	340,033	568,159	429,190
Total	525,000	723,963	1,805,302	1,917,795	2,330,302	2,641,758
4.17.3 Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	711,404	977,154	1,771,225	2,063,714	2,482,629	3,040,868
Gross amount of loans collectively assessed for the impairment	33,302,376	26,195,978	55,701,965	44,967,374	89,004,341	71,163,352
Gross receivables	34,013,780	27,173,132	57,473,190	47,031,088	91,486,970	74,204,220

The recorded loans and receivables that were impaired at 31st March 2017 and 2016 were 2.09% of receivables, and 3.60% of receivables, respectively. Lease rentals receivable and stock out on hire that were impaired at 31st March 2017 and 2016 were 3.08% of receivables, and 4.39% of receivables, respectively.

4.17.4 PRODUCT-WISE ANALYSIS OF THE ALLOWANCE FOR IMPAIRMENT LOSSES

	2017 Rs. '000	2016 Rs. '000
Gold loans	22,490	28,631
Vehicle loans	206,972	249,131
Medium and short-term loans	51,741	19,152
Mortgage loans	220,639	216,306
Quick loans	309	218
Power drafts	21,366	54,151
Margin trading	-	52,064
Factoring receivable	1,483	104,310
Loans and receivables	525,000	723,963
Leases	1,523,429	1,552,550
Hire purchase	281,873	365,245
Lease rentals receivable and stock out on hire	1,805,302	1,917,795
Total allowance for impairment losses	2,330,302	2,641,758

4.17.5 NON-ACCRUAL RECEIVABLES

The accrual of revenue is discontinued at the time of receivable is determined to be fully impaired. Fully impairment point is 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. 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 debt and equity securities. Debt and equity securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The 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 record impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Company generally treats 'significant' as 20% or more and 'prolonged' as greater than six months. In addition the Company evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

	2017 Rs. '000	2016 Rs. '000
Equity securities – quoted (Note 4.18.1)	117,716	138,106
Equity securities – unquoted (Note 4.18.2)	305	305
	118,021	138,411

4.18.1 EQUITY SECURITIES – QUOTED

	Number of shares 2017	Cost as at 31st March 2017 Rs. '000	Market value as at 31st March 2017 Rs. '000	Number of shares 2016	Cost as at 31st March 2016 Rs. '000	Market value as at 31st March 2016 Rs. '000
Manufacturing						
Blue Diamonds Jewellery Worldwide PLC	74	1	0	74	1	0
Central Industries PLC	8,184	150	360	4,092	150	351
Ceylon Grain Elevators PLC	44	5	3	44	5	3
Dankotuwa Porcelain PLC	32,512	1,012	195	32,512	1,012	221
Royal Ceramics Lanka PLC*	31,320	843	3,727	31,320	843	3,135
Samson International PLC	5,899	930	583	5,899	930	619
		2,941	4,868		2,941	4,329
Hotels and travels						
The Fortress Resorts PLC*	4,051,100	81,990	46,993	4,051,100	81,990	52,664
Aitken Spence Hotel Holdings PLC	308	6	11	308	6	16
Hotel Sigiriya PLC	700	30	68	700	30	67
Palm Garden Hotels PLC	36	3	1	36	3	1
		82,029	47,073		82,029	52,748
Stores and supplies						
Hunters & Company PLC	10	3	4	10	3	4
		3	4		3	4
Banks, finance and insurance						
Commercial Bank of Ceylon PLC	275	15	36	272	15	34
Merchant Bank of Sri Lanka & Finance PLC	61	6	1	61	6	1
Seylan Bank PLC	2,538	155	221	2,538	155	218
Sampath Bank PLC	5	-	1	5	-	1
Softlogic Finance PLC	2,090,000	79,656	64,788	2,090,000	79,656	80,048
		79,832	65,047		79,832	80,302
Beverages, food and tobacco						
Keells Food Products PLC	500	21	73	500	21	85
Lanka Milk Foods PLC	5,500	250	644	5,500	250	630
Convenience Foods (Lanka) PLC	22	1	7	22	1	8
		272	724		272	723
Total		165,078	117,716		165,078	138,106

* Investments made in related parties.

4.18.2 EQUITY SECURITIES – UNQUOTED

	Number of shares		Cost as at		Market value as at	
	2017	31st March 2017	Rs. '000	31st March 2017	Rs. '000	Rs. '000
Credit Information Bureau of Sri Lanka	1,047		105		105	
Finance House Association of Sri Lanka	20,000		200		200	
Total			305		305	

Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

RECONCILIATION OF FAIR VALUE MEASUREMENT FOR UNQUOTED EQUITY SECURITIES UNDER LEVEL 3 HIERARCHY

	2017 Rs. '000	2016 Rs. '000
As at 1st April	305	305
Remeasurement recognised in OCI	-	-
Purchases	-	-
Sales	-	-
Transfers into or out of level 3 hierarchy	-	-
Remeasurement recognised in profit or loss	-	-
As at 31st March	305	305

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.

	2017 Rs. '000	2016 Rs. '000
Treasury bills repurchase agreements (Note No. 4.19.1)	3,787,538	819,320
Investment in fixed deposits (Note No. 4.19.2)	2,680,300	3,125,971
Insurance premium receivable	244,385	168,628
Sundry debtors	9,303	28,797
	6,721,526	4,142,716
Fair value	6,721,526	4,142,716

4.19.1 The collateral value of repurchase agreements reflected on our statement of financial position under other financial assets as at 31st March 2017 and 31st March 2016 was Rs. 4,571,900,000/- and Rs. 955,500,000/-, respectively.

4.19.2 INVESTMENT IN FIXED DEPOSITS

Counterparty External Credit Rating*	2017 Rs. '000	2016 Rs. '000
AA+	200,065	-
AA	201,923	-
AA-	1,135,635	2,328,600
A+	535,935	-
BBB	444,791	644,426
BB+	161,951	152,945
	2,680,300	3,125,971

*Fitch Ratings Lanka Ltd.

4.20 OTHER NON-FINANCIAL ASSETS

ACCOUNTING POLICY

Company classifies all other non-financial assets other than intangible assets and property, plant & equipment under other non-financial assets. Other non-financial assets include real estate stock, vehicle stock, gold stock, deposits, advances and prepayments, etc. These assets are non-interest earning and recorded at the amounts that are expected to be received.

	2017 Rs. '000	2016 Rs. '000
Real estate stock	581	161,182
Vehicle stock	-	118,632
Deposits, advances and pre-payments	263,663	223,882
Gold stock	5,805	5,564
Stationery stock	9,145	10,244
Withholding tax receivable	7,589	11,897
Sundry debtors	6,069	4,001
Pre-paid staff cost (Note 4.20.1)	12,196	3,497
	305,048	538,899

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 PREPAID STAFF COST

	2017 Rs. '000	2016 Rs. '000
As at the beginning of the year	3,497	6,084
Adjustment for new grants and settlements	10,989	(881)
Charge to personnel expenses	(2,290)	(1,706)
As at the end of the year	12,196	3,497

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 and equipment are charged to the statement of comprehensive income as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

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 & 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 1st April 2016 Rs. '000	Additions Rs. '000	Transfers Rs. '000	Disposals/ write-offs Rs. '000	Balance as at 31st March 2017 Rs. '000
Cost					
Freehold assets					
Land	495,226	1,238,073	-	-	1,733,299
Building	630,627	147,900	-	-	778,527
Furniture and fittings	228,568	36,617	-	(955)	264,230
Equipment	349,694	58,510	-	(109)	408,095
Motor vehicles and accessories	309,015	94,047	-	(33,616)	369,446
Computer hardware	335,018	47,745	-	-	382,763
Air conditioning equipment	169,559	54,281	-	(1,297)	222,543
Telephone system	75,641	3,006	-	-	78,647
Fire protection equipment	15,978	1,469	-	-	17,447
Leasehold improvements	727,540	113,482	-	(2,338)	838,684
Fixtures and fittings	33,269	14,028	-	-	47,297
	3,370,135	1,809,158	-	(38,315)	5,140,978

4.21.2 DEPRECIATION

	Balance as at 1st April 2016 Rs. '000	Charge for the year Rs. '000	Transfers Rs. '000	Disposals/ write-offs Rs. '000	Balance as at 31st March 2017 Rs. '000
Depreciation					
Freehold assets					
Building	53,723	13,352	-	-	67,075
Furniture and fittings	120,733	31,724	-	(808)	151,649
Equipment	243,578	47,738	-	-	291,316
Motor vehicles and accessories	121,579	41,264	-	(22,551)	140,292
Computer hardware	230,404	44,045	-	-	274,449
Air conditioning equipment	100,793	32,055	-	(988)	131,860
Telephone system	64,707	8,009	-	-	72,716
Fire protection equipment	11,588	2,641	-	-	14,229
Leasehold improvements	351,475	100,463	-	-	451,938
Fixtures and fittings	26,261	4,837	-	-	31,098
	1,324,841	326,128	-	(24,347)	1,626,622

4.21.3 NET BOOK VALUES

	2017 Rs. '000	2016 Rs. '000
At cost		
Land	1,733,299	495,226
Building	711,452	576,904
Furniture and fittings	112,581	107,835
Equipment	116,779	106,116
Motor vehicles and accessories	229,154	187,436
Computer hardware	108,314	104,615
Air conditioning equipment	90,683	68,766
Telephone system	5,931	10,934
Fire protection equipment	3,218	4,390
Leasehold improvements	386,746	376,065
Fixtures and fittings	16,199	7,008
Total carrying amount of property, plant & equipment	3,514,356	2,045,295

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. 1,809,158,235/- (2016 – Rs. 434,550,459/-). Cash payments amounting to Rs. 1,809,158,235/- (2016 – Rs. 434,550,459/-) 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 2017, the net carrying value amount of those assets was Rs. 2,136,680/- (2016 – Rs. 4,289,507/-), on which the accumulated depreciation as at 31st March 2017 was Rs. 2,794,120/- (2016 – Rs. 10,641,293/-).

Summary of future operating lease receivable was as follows:

	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
<i>As at 31st March 2017</i>				
Future operating lease receivable	2,822	3,292	–	6,114
<i>As at 31st March 2016</i>				
Future operating lease receivable	5,165	5,317	–	10,482

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. 663,751,092/- (2016 – Rs. 432,766,414/-).

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. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
<i>As at 31st March 2017</i>				
Minimum operating lease commitments	188,404	650,787	393,572	1,232,763
<i>As at 31st March 2016</i>				
Minimum operating lease commitments	136,020	472,976	185,917	794,913

Operating lease expense for the years ended 31st March was as follows:

	2017 Rs. '000	2016 Rs. '000
Operating lease expense	192,102	149,219

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 2017) Rs. '000	Net book value (As at 31st March 2017) Rs. '000	Revalued amount as a % of net book value (As at 31st March 2017)	Net book value (As at 31st March 2016) Rs. '000
Kollupitiya No. 20, Dharmapala Mawatha, Colombo 03.	52.82	65,000	1,400,000	919,496	152	932,049
Kollupitiya No. 676, Galle Road, Colombo 03.	109.20	51,410	1,310,000	1,351,260	97	N/A*
Kandy No. 226, D S Senanayaka Street, Kandy.	7.05	3,674	59,000	10,527	560	10,587
Kandy Moragaspitiyawatta Road, Balagolla, Kengalla.	110.00	–	33,000	21,544	153	21,544
Kandy No. 47/10 A, Luwiss Pieris Mawatha, Buwelikada, Kandy.	42.40	–	34,000	33,974	100	N/A*
Maradana No. 104/1, Vipulasena Mawatha, Colombo 10.	50.60	–	278,300	43,044	647	43,044
Nuwara-Eliya No. 35/4, Upper Lake Road, Nuwara-Eliya.	359.00	–	212,350	64,906	327	64,906

Valuation of freehold land and buildings of the Company was carried out as at 31st March 2017 by H B Manjula Basnayaka. AIV (Sri Lanka), N.C.T., QS, (COT), incorporated valuer. Investment method, Contractor's Test method and Comparison method have been used for the valuation.

Freehold land and buildings of the Company are considered under level 3 of fair value hierarchy.

*Freehold land and buildings purchased during the financial year ended 31st March 2017.

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 derecognition of an item of intangible asset is included in the statement of comprehensive income 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	
	2017 Rs. '000	2016 Rs. '000
Cost		
Cost as at the beginning of the year	115,134	101,545
Additions and improvements	31,513	13,589
Cost as at the end of the year	146,647	115,134
Amortisation and impairment		
Amortisation as at the beginning of the year	80,368	66,239
Charge for the year	17,090	14,129
Accumulated amortisation as at the end of the year	97,458	80,368
Net book value as at 31st March	49,189	34,766

Amortisation for intangible assets is forecasted to be Rs. 20.3 million in 2018 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.

	2017 Rs. '000	2016 Rs. '000
Bank overdrafts	1,035,268	699,272
Syndicated loans and other bank facilities (Note 4.23.1)	22,742,879	13,877,962
	23,778,147	14,577,234
Fair value	22,716,272	14,392,316

4.23.1 (A) SYNDICATED LOANS AND OTHER BANK FACILITIES

	As at 1st	Loans obtained*	Interest recognised	Repayments		As at 31st March 2017 Rs. '000	Period	Security
	April 2016 Rs. '000			Rs. '000	Rs. '000			
Syndicated loans								
Syndication 1	271,284	-	28,778	(70,313)	(28,437)	201,312	96 months	Mortgage over land and building
Syndication 2	2,255,953	-	208,393	(225,000)	(204,259)	2,035,087	48 months	Mortgage over lease receivables
Syndication 3	3,322,731	-	326,714	(442,200)	(324,044)	2,883,201	48 months	Mortgage over lease receivables
Syndication 4	-	2,258,872	52,397	-	(50,525)	2,260,744	47 months	Mortgage over lease receivables
	5,849,968	2,258,872	616,282	(737,513)	(607,265)	7,380,344		
Term loans								
Bank of Ceylon 1	1,370,052	-	101,599	(500,000)	(97,702)	873,949	48 months	Mortgage over lease receivables
Bank of Ceylon 2		4,949,217	370,047	(833,333)	(324,561)	4,161,370	48 months	Mortgage over lease, hire purchase receivables
Commercial Bank 1	2,001,179	-	173,509	(222,000)	(172,645)	1,780,043	60 months	Mortgage over lease, hire purchase receivables
Commercial Bank 2	1,001,002	-	100,346	(187,500)	(100,127)	813,721	60 months	Mortgage over lease, hire purchase receivables
Commercial Bank 3		1,997,500	60,166	-	(54,247)	2,003,419	60 months	Mortgage over lease receivables
Nations Trust Bank 1	402,202	-	31,021	-	(30,930)	402,293	36 months	Mortgage over lease receivables
Nations Trust Bank 2		998,140	61,151	-	(58,140)	1,001,151	36 months	Mortgage over lease, hire purchase receivables
Hatton National Bank 1	1,576,026	-	115,555	(399,960)	(117,410)	1,174,211	60 months	Mortgage over lease receivables
Hatton National Bank 2		1,197,970	42,422	(75,000)	(41,303)	1,124,089	48 months	Mortgage over lease receivables
NDB Bank 1	465,507	-	28,489	(450,000)	(43,996)	-	12 months	Mortgage over lease, hire purchase receivables
NDB Bank 2	154,808	-	10,053	(150,000)	(14,861)	-	12 months	Mortgage over lease, hire purchase receivables
NDB Bank 3	329,815	-	16,307	(325,000)	(21,122)	-	12 months	Mortgage over lease, hire purchase receivables
NDB Bank 4		400,000	15,856	(400,000)	(15,856)	-	03 months	Mortgage over lease, hire purchase receivables
NDB Bank 5		300,000	11,892	(300,000)	(11,892)	-	03 months	Mortgage over lease, hire purchase receivables
NDB Bank 6		150,000	5,750	(150,000)	(5,750)	-	03 months	Mortgage over lease, hire purchase receivables
Union Bank	426,717	-	35,981	(125,000)	(35,719)	301,979	48 months	Mortgage over lease, hire purchase receivables
Habib Bank 1	300,686	-	25,775	(300,000)	(26,461)	-	12 months	Mortgage over lease, hire purchase receivables
Habib Bank 2		300,000	3,322	-	(3,215)	300,107	12 months	Mortgage over lease, hire purchase receivables
Public Bank 1		200,000	11,294	(20,000)	(11,008)	180,286	60 months	Mortgage over lease, hire purchase receivables
Public Bank 2		99,781	169	-	-	99,950	60 months	Mortgage over lease, hire purchase receivables
Seylan Bank		998,800	45,603	(62,502)	(36,215)	945,686	48 months	Mortgage over lease receivables
Standard Chartered Bank		199,250	1,031	-	-	200,281	03 months	Mortgage over lease receivables
	8,027,994	11,790,658	1,267,338	(4,500,295)	(1,223,160)	15,362,535		
	13,877,962	14,049,530	1,883,620	(5,237,808)	(1,830,425)	22,742,879		

The Company has unutilised borrowing facilities of Rs. 2,194,629,312/- as at 31st March 2017 (2016 Rs. 1,382,608,615/-).

* Net of transaction cost.

4.23.1 (B) CONTRACTUAL MATURITY ANALYSIS OF SYNDICATED LOANS AND OTHER BANK FACILITIES

	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
<i>As at 31st March 2017</i>				
Syndicated loans	1,787,033	5,593,311	–	7,380,344
Term loans	5,285,015	10,077,520	–	15,362,535
	7,072,048	15,670,831	–	22,742,879
<i>As at 31st March 2016</i>				
Syndicated loans	784,661	5,065,307	–	5,849,968
Term loans	2,699,817	5,328,177	–	8,027,994
	3,484,478	10,393,484	–	13,877,962

We do not have pre-termination options for syndicated loans and other bank facilities.

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.

	2017 Rs. '000	2016 Rs. '000
Fixed deposits	57,888,811	50,595,760
Certificates of deposit	153,987	185,248
Savings deposits	2,359,157	2,598,793
	60,401,955	53,379,801
Fair value	60,267,371	53,482,774

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. 74,336,024/- as the premium of the said insurance scheme during the current financial year (2016 – Rs. 66,181,779/-).

4.24.2 CONTRACTUAL MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
<i>As at 31st March 2017</i>				
Fixed deposits	42,553,415	15,335,396	-	57,888,811
Certificates of deposit	153,987	-	-	153,987
Savings deposits	2,359,157	-	-	2,359,157
	45,066,559	15,335,396	-	60,401,955

	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
<i>As at 31st March 2016</i>				
Fixed deposits	39,553,741	11,042,019	-	50,595,760
Certificates of deposit	182,085	3,163	-	185,248
Savings deposits	2,598,793	-	-	2,598,793
	42,334,619	11,045,182	-	53,379,801

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.

	2017 Rs. '000	2016 Rs. '000
Unsecured debentures (Note 4.25.1)	2,044,216	2,601,283
Fair value	2,095,361	2,742,249

4.25.1 UNSECURED DEBENTURES

The terms and features of unsecured subordinated redeemable debentures are as follows:

Category	Interest payable	Features	Amortised cost Rs. '000	Face value Rs. '000	Interest rate	Issued date	Redemption date
Type A	Monthly	Listed	638,532	640,140	14.00% p.a	29-Nov-13	29-Nov-18
Type B	Biannually	Listed	782,107	757,010	14.50% p.a	29-Nov-13	29-Nov-18
Type C	Annually	Listed	623,577	602,850	15.00% p.a	29-Nov-13	29-Nov-18
			2,044,216	2,000,000			

4.25.2 CONTRACTUAL MATURITY ANALYSIS OF DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

	Within one year Rs. '000	1 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
<i>As at 31st March 2017</i>				
Unsecured debentures	46,275	1,997,941	–	2,044,216
<i>As at 31st March 2016</i>				
Unsecured debentures	606,430	1,994,853	–	2,601,283

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.

	2017 Rs. '000	2016 Rs. '000
Trade payables	743,139	893,576
Insurance premium payable	555,153	414,292
Unclaimed balances	549,243	421,661
Advances collected from customers	81,440	91,828
Sundry creditors	78,427	48,584
	2,007,402	1,869,941
Fair value	2,007,402	1,869,941

4.27 OTHER NON-FINANCIAL LIABILITIES

ACCOUNTING POLICY

Company classifies all non-financial liabilities other than post-employment benefit liability, deferred tax liabilities and current tax liabilities under other non-financial liabilities. Other non-financial liabilities include accruals, advances and provisions. These liabilities are non-interest bearing and recorded at the amounts that are expected to be paid.

PROVISIONS

Provisions are recognised when the 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 statement of comprehensive income net of any reimbursement.

	2017 Rs. '000	2016 Rs. '000
Accrued expenses	516,348	473,738
Stamp duty payable	75,317	57,837
EPF/ETF payable	33,468	23,441
Withholding tax payable	15,360	7,256
Crop insurance levy payable	9,667	11,736
Sundry creditors	23,276	23,799
	673,436	597,807

4.28 CURRENT TAX LIABILITIES

	2017 Rs. '000	2016 Rs. '000
Income tax	508,963	656,908
Value added tax (VAT)	167,529	73,465
Nation building tax (NBT)	14,599	10,878
	691,091	741,251

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	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Deferred tax liability						
Depreciation of leased assets	354,983	13,729	341,254	113,925		
Depreciation of property, plant & equipment	191,519	164,933	26,586	21,286		
	546,502	178,662	367,840	135,211	-	-
Deferred tax assets						
Defined benefit obligation – comprehensive income	(38,891)	(32,635)	(6,256)	(7,472)		
Defined benefit obligation – other comprehensive income (OCI)	(4,123)	(2,885)			(1,238)	3,473
	(43,014)	(35,520)	(6,256)	(7,472)	(1,238)	3,473
Deferred income tax charge/ (reversal)			361,584	127,739	(1,238)	3,473
Net deferred tax liability/(asset)	503,488	143,142				

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

	2017 Rs. '000	2016 Rs. '000
Balance at the beginning of the year	126,859	112,575
Amount charged/(reversed) for the year	41,550	20,637
Payments made during the year	(14,788)	(6,353)
Balance at the end of the year	153,621	126,859

4.30.2 AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2017 Rs. '000	2016 Rs. '000
Current service cost for the year	21,907	20,656
Interest cost on the net defined benefit liability for the year	15,223	12,384
	37,130	33,040

4.30.3 AMOUNTS RECOGNISED IN THE OTHER COMPREHENSIVE INCOME (OCI)

	2017 Rs. '000	2016 Rs. '000
Liability (gains)/losses due to changes in assumptions	7,889	(14,773)
Liability experience (gains)/losses arising during the year	(3,469)	2,370
	4,420	(12,403)

4.30.4 DEFINED BENEFIT OBLIGATION RECONCILIATION

	2017 Rs. '000	2016 Rs. '000
Benefit obligation at end of prior year	126,859	112,575
Current service cost for the year	21,907	20,656
Net interest cost on the net defined benefit liability for the year	15,223	12,383
Liability (gains)/losses due to changes in assumptions	7,889	(14,773)
Liability experience (gains)/losses arising during the year	(3,469)	2,371
Payments made during the year	(14,788)	(6,353)
	153,621	126,859

4.30.5 Average future working life time as per the assumptions made is 14.6 years as of 31st March 2017 (14.6 years as of 31st March 2016).

4.30.6 ASSUMPTIONS

	2017 %	2016 %
Discount rate	12.21	12.00
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 2017 by Piyal S. Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the 'Projected Unit Credit Method', recommended by the Sri Lanka Accounting Standard LKAS 19 – (Employee Benefits).

4.30.7 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	2017		2016	
		Sensitivity effect on statement of comprehensive income – increase/(reduction) in results for the year Rs. '000	Sensitivity effect on retirement benefit obligation – increase/ (reduction) in the liability Rs. '000	Sensitivity effect on statement of comprehensive Income – increase/(reduction) in results for the year Rs. '000	Sensitivity effect on retirement benefit obligation – increase/ (reduction) in the liability Rs. '000
1%		14,886	(14,886)	12,383	(12,383)
-1%		(17,744)	17,744	(14,773)	14,773
	1%	(17,498)	17,498	(14,530)	14,530
	-1%	14,931	(14,931)	12,391	(12,391)

4.30.8 THE EXPECTED BENEFIT PAYOUT IN THE FUTURE YEARS FOR RETIREMENT GRATUITY

	2017 Rs. '000	2016 Rs. '000
Within the next 12 months	7,674	5,414
Between 2 and 5 years	100,490	56,780
Beyond 5 years	188,341	191,344
	296,505	253,538

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

	2017		2016	
	No. of shares	Rs. '000	No. of shares	Rs. '000
At the beginning of the year	138,514,284	838,282	69,257,142	838,282
Issued during the year	-	-	-	-
Subdivision of shares (Note 4.31.3)	-	-	69,257,142	-
At the end of the year	138,514,284	838,282	138,514,284	838,282

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.

4.32 RETAINED EARNINGS

	2017 Rs. '000	2016 Rs. '000
Balance as at 1st April	6,970,499	5,164,137
Super gain tax paid	-	(484,231)
Balance after super gain tax	6,970,499	4,679,906
Dividend paid	(1,869,943)	(692,571)
Profit for the year	3,918,204	3,717,793
Other comprehensive income not to be reclassified to profit or loss	(3,182)	8,930
Transfers during the year (Note 4.33)	(756,499)	(743,559)
Balance as at 31st March	8,259,079	6,970,499

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. '000	Available for sale reserve Rs. '000	Total Rs. '000
As at 31st March 2016	2,641,042	29,496	2,670,538
Transfers during the year	783,641	(27,142)	756,499
Net fair value gain/(loss) on available for sale assets	-	(14,719)	(14,719)
As at 31st March 2017	3,424,683	(12,365)	3,412,318

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.

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 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.

Company manages credit risk by focusing on following steps:

The loan origination stage comprises preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. The Company has clearly defined guidelines for credit approvals where the limits have been set taking into consideration the factors such as maximum counterparty exposures, loan to value ratio and forced sale value. These steps enables the Company in assessing the default risk of the borrower.

A comprehensive set of credit risk indicators are monitored monthly to review credit concentrations, status of loan recoveries and compliance with regulatory and prudent exposure limits.

POST-DISBURSEMENT REVIEW

Initial monitoring and follow up activities are carried out by the Credit Department. Once a loan is overdue for more than the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. RMD reviews asset quality performance regularly. Delinquencies are handled early with effective follow ups and reminders. Swift recovery actions are taken against critical exposures.

MANAGEMENT OF LARGE EXPOSURES

CREDIT COMMITTEE

The Credit Committee consists of the Managing Director, Executive Directors, Chief Financial Officer and Chief Risk Officer. Sanctioning of large exposures are primarily handled by the Credit Committee. RMD independently monitors post-sanctioning performance of large exposures. RMD conducts an internal rating of significant exposures measured across five criteria listed below.

1. Individual/Group exposure against capital funds
2. Loan to value (LTV) ratio
3. Repayment history and performance
4. Liquidity and recoverability of pledged collaterals
5. Relationship period with the Company

IMPAIRMENT ASSESSMENT

The methodology of the impairment assessment has explained in the Note 4.17 to these financial statements.

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The Company uses collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, letters of guarantees, real estate, receivables, inventories and other non-financial assets .The fair value of collateral is generally assessed at the inception based on the guidelines issued by the Central Bank of Sri Lanka.

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.

5.2.1 ANALYSIS OF CREDIT RISK EXPOSURE

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the net exposure to credit risk:

As at 31st March	2017		2016	
	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
Cash and cash equivalents	2,895,085	–	6,051,899	–
Financial investments – held for trading	10,068	10,068	10,646	10,646
Loans and receivables (gross) *	34,013,780	3,482,632	27,173,132	3,707,365
Lease rentals receivable and stock out on hire (gross)	57,473,190	2,487,179	47,031,088	2,454,317
Financial investments – available for sale	118,021	118,021	138,411	138,411
Other financial assets **	6,721,526	2,933,988	4,142,716	3,323,396
Total financial assets	101,231,670	9,031,888	84,547,892	9,634,135

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 2017, the net credit risk exposure of Gold loans was Rs. 26,755,013/- (2016 – Rs. 49,181,355/-).

** Net exposure of the other financial assets mainly includes investment in fixed deposits in banks and other financial institutions. At 31st March 2017, the net carrying value amount of those investments was Rs. 2,680,299,656/- (2016 – Rs. 3,125,971,014/-).

5.2.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31st March 2017	Neither past due nor impaired* Rs. '000	Past due but not impaired* Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Cash and bank balances	2,895,085	–	–	2,895,085
Financial investments – held for trading	10,068	–	–	10,068
Loans and receivables (gross)	24,488,771	8,813,605	711,404	34,013,780
Lease rentals receivable and stock out on hire (gross)	28,097,326	27,604,638	1,771,226	57,473,190
Financial investments – available for sale	71,028	–	46,993	118,021
Other financial assets	6,721,526	–	–	6,721,526
Total financial assets	62,283,804	36,418,243	2,529,623	101,231,670

*Collectively assessed for the impairment.

Aging analysis of past due (i.e., facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets

	Past due but not impaired				Total Rs. '000
	Less than 31 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	
Loans and receivables	4,909,714	2,281,769	907,507	714,615	8,813,605
Lease rentals receivable and stock out on hire	13,255,637	9,031,058	3,790,098	1,527,845	27,604,638
	18,165,351	11,312,827	4,697,605	2,242,460	36,418,243
	49.88%	31.06%	12.90%	6.16%	100.00%

PAST DUE BUT NOT IMPAIRED LOANS

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Company's assessment do not need to be individually impaired.

As at 31st March 2016	Neither past due nor impaired* Rs. '000	Past due but not impaired* Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Cash and bank balances	6,051,899	–	–	6,051,899
Financial investments – held for trading	10,646	–	–	10,646
Loans and receivables (gross)	18,371,626	7,824,352	977,154	27,173,132
Lease rentals receivable and stock out on hire (gross)	23,293,163	21,674,211	2,063,714	47,031,088
Financial investments – available for sale	85,747	–	52,664	138,411
Other financial assets	4,142,716	–	–	4,142,716
Total financial assets	51,955,797	29,498,563	3,093,532	84,547,892

*Collectively assessed for the impairment.

Aging analysis of past due (i.e., facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets

	Past due but not impaired				Total Rs. '000
	Less than 31 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	More than 90 days Rs. '000	
Loans and receivables	4,200,232	2,058,794	963,442	601,884	7,824,352
Lease rentals receivable and stock out on hire	10,052,746	7,048,792	3,092,261	1,480,412	21,674,211
	14,252,978	9,107,586	4,055,703	2,082,296	29,498,563
	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, however as per the Company's assessment do not need to be individually impaired.

5.2.3 ANALYSIS OF RISK CONCENTRATION

By setting various concentration limits under different criteria within the established risk appetite framework, the Company ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are monitored and reviewed by the Credit Committee, Risk Management Department and Integrated Risk Management Committee on a regular basis to capture the developments in market, regulatory and economic environment to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

INDUSTRY ANALYSIS

The following table shows the risk concentration by industry for the components of the statement of financial position:

As at 31st March 2017

Sector-wise breakdown	Cash and bank balances Rs. '000	Financial investments – held for trading Rs. '000	Loans and receivables** Rs. '000	Lease rentals receivable and stock out on hire** Rs. '000	Financial investments – available for sale Rs. '000	Other financial assets Rs. '000	Total financial assets Rs. '000
Agriculture	-	-	9,925,535	10,331,041	-	-	20,256,576
Manufacturing	-	-	1,796,166	1,666,701	-	-	3,462,867
Construction	-	-	557,711	1,190,251	-	-	1,747,962
Financial services	2,895,085	-	653,822	355,608	-	6,721,526	10,626,041
Trading	-	10,068	5,684,954	11,669,019	118,021	-	17,482,062
Retail	-	-	2,191,593	-	-	-	2,191,593
Government	-	-	-	-	-	-	-
Hotels	-	-	251,975	491,977	-	-	743,952
Services	-	-	12,427,023	29,956,366	-	-	42,383,389
Total	2,895,085	10,068	33,488,779	55,660,963	118,021	6,721,526	98,894,442

PROVINCE-WISE 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 2017

Province	Loans and receivables Rs. '000	Lease rentals receivable and stock out on hire Rs. '000	Total Rs. '000
Central	2,665,387	5,807,452	8,472,839
Eastern	1,765,429	3,123,383	4,888,812
North Central	713,031	3,110,343	3,823,374
North Western	2,172,545	5,726,921	7,899,466
Northern	2,379,071	493,903	2,872,974
Sabaragamuwa	946,872	3,806,386	4,753,258
Southern	1,636,204	5,842,761	7,478,965
Uva	537,616	2,512,212	3,049,828
Western	20,672,624	25,237,602	45,910,226
Total	33,488,779	55,660,963	89,149,742

INDUSTRY 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. '000	Financial investments – held for trading Rs. '000	Loans and receivables** Rs. '000	Lease rentals receivable and stock out on hire** Rs. '000	Financial investments – available for sale Rs. '000	Other financial assets Rs. '000	Total financial assets Rs. '000
Agriculture	–	–	6,386,729	6,039,677	–	–	12,426,406
Manufacturing	–	–	1,601,323	1,304,020	–	–	2,905,343
Construction	–	–	584,522	849,224	–	–	1,433,746
Financial services	6,051,899	–	441,230	325,490	–	4,142,716	10,961,335
Trading	–	10,646	4,845,621	10,810,201	138,411	–	15,804,879
Retail	–	–	2,661,849	–	–	–	2,661,849
Government	–	–	–	–	–	–	–
Hotels	–	–	191,299	452,458	–	–	643,757
Services	–	–	9,736,596	25,323,766	–	–	35,060,362
Total	6,051,899	10,646	26,449,169	45,104,836	138,411	4,142,716	81,897,677

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. '000	Lease rentals receivable and stock out on hire Rs. '000	Total Rs. '000
Central	2,160,807	4,216,798	6,377,605
Eastern	1,546,467	2,207,179	3,753,646
North Central	502,735	2,419,052	2,921,787
North Western	1,726,230	4,204,318	5,930,548
Northern	1,707,570	361,308	2,068,878
Sabaragamuwa	652,268	3,407,947	4,060,215
Southern	1,201,823	5,087,286	6,289,109
Uva	367,636	1,929,515	2,297,151
Western	16,583,633	21,271,433	37,855,066
Total	26,449,169	45,104,836	71,554,005

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 monitors liquidity position and maintain an adequate margin of safety in liquid assets. Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management.

ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

ALCO is chaired by the Managing Director and comprises Executive Directors, representatives from Treasury Department, Fixed Deposits, the Chief Financial Officer and the Chief Risk Officer. The Committee meets regularly and make all policy decisions with regard to funding matters, duration 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 2017:

<i>As at 31st March 2017</i>	On demand	Less than 03 months	03-12 months	01-05 years	Over 05 years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets						
Cash and bank balances	1,832,321	1,068,480	-	-	-	2,900,801
Financial investments – held for trading	10,068	-	-	-	-	10,068
Loans and receivables	5,181,951	12,278,167	10,179,661	11,291,205	1,672,490	40,603,474
Lease rentals receivable and stock out on hire	2,747,306	7,368,090	20,393,168	45,372,840	17,450	75,898,854
Financial investments – available for sale	118,021	-	-	-	-	118,021
Other financial assets	253,688	1,271,163	5,539,367	-	-	7,064,218
Total financial assets	10,143,355	21,985,900	36,112,196	56,664,045	1,689,940	126,595,436
Financial liabilities						
Due to banks	1,035,268	2,014,722	7,261,927	18,159,846	-	28,471,763
Due to customers	2,364,447	20,222,029	25,526,034	18,152,979	-	66,265,489
Debt instruments issued and other borrowed funds	-	77,288	212,525	2,259,940	-	2,549,753
Other financial liabilities	2,007,402	-	-	-	-	2,007,402
Total financial liabilities	5,407,117	22,314,039	33,000,486	38,572,765	-	99,294,407
Total net financial assets/(liabilities)	4,736,238	(328,139)	3,111,710	18,091,280	1,689,940	27,301,029

INTERPRETATION

As at 31st March 2017, based on the remaining contractual maturity of assets & liabilities, the Company maintains asset surpluses in all time brackets except 'Less than 3 months' time bracket. As at 31st March 2016, Company maintained asset surpluses 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 2016:

As at 31st March 2016	On demand Rs. '000	Less than 03 months Rs. '000	03-12 months Rs. '000	01-05 years Rs. '000	Over 05 years Rs. '000	Total Rs. '000
Financial assets						
Cash and bank balances	1,086,429	4,989,109	-	-	-	6,075,538
Financial investments – held for trading	10,646	-	-	-	-	10,646
Loans and receivables	4,578,658	10,224,120	7,077,009	7,945,439	1,354,543	31,179,769
Lease rentals receivable and stock out on hire	2,640,833	6,020,751	16,296,902	35,179,069	12,677	60,150,232
Financial investments – available for sale	138,411	-	-	-	-	138,411
Other financial assets	197,425	1,920,906	2,152,432	-	-	4,270,763
Total financial assets	8,652,402	23,154,886	25,526,343	43,124,508	1,367,220	101,825,359
Financial liabilities						
Due to banks	699,272	575,308	4,019,824	11,925,243	-	17,219,647
Due to customers	2,598,795	18,260,503	23,701,589	12,636,035	-	57,196,922
Debt instruments issued and other borrowed funds	-	83,438	819,227	2,549,754	-	3,452,419
Other financial liabilities	1,869,941	-	-	-	-	1,869,941
Total financial liabilities	5,168,008	18,919,249	28,540,640	27,111,032	-	79,738,929
Total net financial assets/(liabilities)	3,484,394	4,235,637	(3,014,297)	16,013,476	1,367,220	22,086,430

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 2017	On demand Rs. '000	Less than 03 months Rs. '000	03-12 months Rs. '000	01-05 years Rs. '000	Over 05 years Rs. '000	Total Rs. '000
Contingent liabilities						
Guarantees issued to banks and other institutions	-	4,460	13,000	-	-	17,460
Import LC and ordinary guarantees	58,370	-	-	-	-	58,370
Total contingent liabilities	58,370	4,460	13,000	-	-	75,830
Commitments						
Commitment for unutilised facilities	918,305	-	-	-	-	918,305
Total commitments	918,305	-	-	-	-	918,305
Total commitments and contingencies	976,675	4,460	13,000	-	-	994,135

As at 31st March 2016	On demand Rs. '000	Less than 03 months Rs. '000	03-12 months Rs. '000	01-05 years Rs. '000	Over 05 years Rs. '000	Total Rs. '000
Contingent liabilities						
Guarantees issued to banks and other institutions	–	2,460	20,200	–	–	22,660
Import LC and ordinary guarantees	182,361	–	–	–	–	182,361
Total contingent liabilities	182,361	2,460	20,200	–	–	205,021
Commitments						
Commitment for unutilised facilities	1,070,593	–	–	–	–	1,070,593
Total commitments	1,070,593	–	–	–	–	1,070,593
Total commitments and contingencies	1,252,954	2,460	20,200	–	–	1,275,614

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, exchange rates, equity prices and commodity 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)*	2017		2016	
	+ / - 100 bps	+ / - 200 bps	+ / - 100 bps	+ / - 200 bps
Impact on NII (Rs.)				
Quarterly impact	(+ / -) 743,103	(+ / -) 1,486,206	(+ / -) 6,342,007	(+ / -) 12,684,014
Annual impact	(+ / -) 8,696,490	(+ / -) 17,392,980	(+ / -) 21,494,156	(+ / -) 42,988,312

*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 2017, the impact on NII from market rate increase has reduced significantly.

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 reprising or maturity dates.

As at 31st March 2017	Up to 03 months Rs. '000	03-12 months Rs. '000	01-03 years Rs. '000	03-05 years Rs. '000	Over 05 years Rs. '000	Non-interest bearing Rs. '000	Total Rs. '000
Financial assets							
Cash and bank balances	2,154,357	-	-	-	-	740,728	2,895,085
Financial investments – held for trading	-	-	-	-	-	10,068	10,068
Loans and receivables	19,394,409	7,849,872	4,449,085	1,754,476	40,937	-	33,488,779
Lease rentals receivable and stock out on hire	7,454,751	13,327,015	26,974,534	7,889,024	15,639	-	55,660,963
Financial investments – available for sale	-	-	-	-	-	118,021	118,021
Other financial assets	1,253,721	5,214,117	-	-	-	253,688	6,721,526
	30,257,238	26,391,004	31,423,619	9,643,500	56,576	1,122,505	98,894,442
Financial liabilities							
Due to banks	8,912,848	4,113,681	9,081,695	1,669,923	-	-	23,778,147
Due to customers	21,912,580	23,153,979	12,630,928	2,704,468	-	-	60,401,955
Debt instruments issued and other borrowed funds	26,294	19,981	1,997,941	-	-	-	2,044,216
Other financial liabilities	-	-	-	-	-	2,007,402	2,007,402
	30,851,722	27,287,641	23,710,564	4,374,391	-	2,007,402	88,231,720
Interest sensitivity gap	(594,484)	(896,637)	7,713,055	5,269,109	56,576	(884,897)	10,662,722

INTERPRETATION

As at 31st March 2017 Company's rate sensitive asset and liability gap has increased to Rs. 1,491 million compared to Rs. 1,129 million in 31st March 2016, for the less than one year period.

5.4.4.(B) The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates:

As at 31st March 2016	Up to 03 months Rs. '000	03-12 months Rs. '000	01-03 years Rs. '000	03-05 years Rs. '000	Over 05 years Rs. '000	Non-interest bearing Rs. '000	Total Rs. '000
Financial assets							
Cash and bank balances	5,593,450	-	-	-	-	458,449	6,051,899
Financial investments – held for trading	-	-	-	-	-	10,646	10,646
Loans and receivables	16,032,093	5,545,640	3,941,155	886,664	43,617	-	26,449,169
Lease rentals receivable and stock out on hire	6,629,067	11,020,234	21,003,758	6,440,836	10,941	-	45,104,836
Financial investments – available for sale	-	-	-	-	-	138,411	138,411
Other financial assets	1,897,398	2,047,893	-	-	-	197,425	4,142,716
	30,152,008	18,613,767	24,944,913	7,327,500	54,558	804,931	81,897,677
Financial liabilities							
Due to banks	4,652,200	2,301,579	5,619,254	2,004,201	-	-	14,577,234
Due to customers	20,395,854	21,938,765	10,274,972	770,210	-	-	53,379,801
Debt instruments issued and other borrowed funds	30,350	576,080	1,994,853	-	-	-	2,601,283
Other financial liabilities	-	-	-	-	-	1,869,941	1,869,941
	25,078,404	24,816,424	17,889,079	2,774,411	-	1,869,941	72,428,259
Interest sensitivity gap	5,073,604	(6,202,657)	7,055,834	4,553,089	54,558	(1,065,010)	9,469,418

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% and a Core Capital Ratio (Tier 1) of at least 5%.

As of 31st March 2017, 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 arms length basis at commercial rates except that the key management have availed facilities under the loan schemes uniformly applicable to all the staff.

Details of related party transactions during the year are as follows:

6.1.1 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMPS)

Related party includes KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities 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.

	2017 Rs. '000	2016 Rs. '000
Short-term employment benefits	305,271	179,593
Directors' fees and expenses	17,738	13,964
Post-employment benefits	-	-
	323,009	193,557

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.

		2017 Rs. '000	2016 Rs. '000
Statement of financial position	Reported under		
Liabilities			
Fixed deposits	Due to customers	637,021	152,170
Savings deposits	Due to customers	8,046	9,746
		645,067	161,916
Statement of comprehensive income			
Interest expense on customer deposits	Interest expenses	46,475	14,851
Vehicle hiring charges	Other operating expenses	-	15
		46,475	14,866
Other transactions			
Deposits accepted during the year		518,401	20,022
Dividend paid on shareholdings		4,024	824
		522,425	20,846

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	2017 Rs. '000	2016 Rs. '000
Assets			
Investment in equity securities	Financial investments – held for trading	324	300
Lease rentals receivable	Lease rentals receivable and stock out on hire	393	953
		717	1,253
Liabilities			
Fixed deposits	Due to customers	1,814	159,230
Statement of comprehensive income			
Interest income on lease and vehicle loans	Interest income	-	-
Income on operating lease	Other operating income	4,212	10,073
Interest expense on customer deposits	Interest expenses	23,911	11,102
Dividend Income	Other operating income	-	7
		28,123	21,182
Other transactions			
Deposits accepted during the year		800	100,000
		800	100,000

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	2017 Rs. '000	2016 Rs. '000
Liabilities			
Fixed deposits	Due to customers	-	658,069
Statement of comprehensive income			
Interest expense on customer deposits	Interest expense	13,317	46,598
Other transactions			
Deposits accepted during the year		-	113,000
Dividend paid on shareholdings		967,712	353,212
		967,712	466,212

TRANSACTIONS WITH FELLOW SUBSIDIARIES AND ASSOCIATE COMPANIES OF THE PARENT

Statement of financial position	Reported under	2017 Rs. '000	2016 Rs. '000
Assets			
Balances with banks	Cash and cash equivalents	-	61,475
Leasehold improvements	Property, plant & equipment	3,308	2,632
Investment in equity securities	Financial investments – held for trading	1,836	1,950
Investment in equity securities	Financial investments – available for sale	50,720	55,801
		55,864	121,858
Liabilities			
Fixed deposits	Due to customers	87,709	86,896
Bank overdrafts	Due to banks	-	1,384
		87,709	88,280
Statement of comprehensive income			
Interest income on lease and saving deposits	Interest income	888	2,261
Dividend income	Other operating income	356	4,329
Real estate income (Net of cost)	Other operating income	184,629	-
Interest expense on customer deposits	Interest expenses	5,455	14,608
Advertising and business promotional expenses	Other operating expenses	-	-
Bank charges	Other operating expenses	228	310
		191,556	21,508
Other transactions			
Deposits accepted during the year		65,000	10,000
Dividend paid on shareholdings		219,991	180,616
Sale of real estate land		345,800	-
		630,791	190,616

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:

	2017			2016		
	Within 12 months Rs. '000	After 12 months Rs. '000	Total as at 31st March 2017 Rs. '000	Within 12 months Rs. '000	After 12 months Rs. '000	Total as at 31st March 2016 Rs. '000
Assets						
Cash and bank balances	2,895,085	–	2,895,085	6,051,899	–	6,051,899
Financial investments – held for trading	10,068	–	10,068	10,646	–	10,646
Loans and receivables	24,673,547	8,815,232	33,488,779	19,779,517	6,669,652	26,449,169
Lease rentals receivable and stock out on hire	20,781,767	34,879,196	55,660,963	17,649,279	27,455,557	45,104,836
Financial investments – available for sale	118,021	–	118,021	138,411	–	138,411
Other financial assets	6,721,526	–	6,721,526	4,142,716	–	4,142,716
Other non-financial assets	262,973	42,075	305,048	481,271	57,628	538,899
Property, plant & equipment	–	3,514,356	3,514,356	–	2,045,295	2,045,295
Intangible assets	–	49,189	49,189	–	34,766	34,766
Total assets	55,462,987	47,300,048	102,763,035	48,253,739	36,262,898	84,516,637
Liabilities						
Due to banks	8,107,315	15,670,832	23,778,147	4,183,750	10,393,484	14,577,234
Due to customers	45,066,559	15,335,396	60,401,955	42,334,619	11,045,182	53,379,801
Debt instruments issued and other borrowed funds	46,275	1,997,941	2,044,216	606,430	1,994,853	2,601,283
Other financial liabilities	2,007,402	–	2,007,402	1,869,941	–	1,869,941
Other non-financial liabilities	673,436	–	673,436	597,807	–	597,807
Current tax liabilities	691,091	–	691,091	741,251	–	741,251
Deferred tax liabilities	–	503,488	503,488	–	143,142	143,142
Retirement benefit liability	–	153,621	153,621	–	126,859	126,859
Total liabilities	56,592,078	33,661,278	90,253,356	50,333,798	23,703,520	74,037,318
Net	(1,129,091)	13,638,770	12,509,679	(2,080,059)	12,559,378	10,479,319

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% or more of the Company's total revenue in 2016 or 2017.

	Leasing and stock out on hire		Loans and receivables		Others		Total	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Interest income	10,852,921	8,742,046	6,349,685	5,179,323	707,329	507,361	17,909,935	14,428,730
Interest expenses	(4,520,043)	(3,126,391)	(2,704,706)	(1,949,973)	(887,588)	(696,891)	(8,112,337)	(5,773,255)
Net interest income/(expenses)	6,332,878	5,615,655	3,644,979	3,229,350	(180,259)	(189,530)	9,797,598	8,655,475
Fee and commission income	312,817	485,646	529,260	401,238	367,263	281,798	1,209,340	1,168,682
Net trading income and other operating income	21,955	2,460	632	471	221,566	46,125	244,153	49,056
Impairment (charge)/reversal on loans and other losses	32,411	(304,286)	1,009	(70,084)	8,845	(8,065)	42,265	(382,435)
Gold loan auction losses	-	-	(2,200)	(29,358)	-	-	(2,200)	(29,358)
Net operating income	6,700,061	5,799,475	4,173,680	3,531,617	417,415	130,328	11,291,156	9,461,420
Other costs	(2,285,180)	(1,781,674)	(1,687,008)	(1,385,023)	(73,806)	(44,230)	(4,045,994)	(3,210,927)
Depreciation	(179,733)	(185,527)	(156,265)	(140,315)	(7,220)	(6,583)	(343,218)	(332,425)
Operating profits before taxes	4,235,148	3,832,274	2,330,407	2,006,279	336,389	79,515	6,901,944	5,918,068
Taxes							(2,983,740)	(2,200,275)
Profits for the year							3,918,204	3,717,793
Segmental assets	57,838,331	46,547,218	34,798,806	27,294,972	10,125,898	10,674,447	102,763,035	84,516,637
Segmental liabilities	50,797,482	40,775,772	30,562,635	23,910,637	8,893,239	9,350,909	90,253,356	74,037,318

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

	2017 Rs. '000	2016 Rs. '000
Guarantees issued to banks and other institutions	17,460	22,660
Import LC and ordinary guarantees	58,370	182,361
Total contingent liabilities	75,830	205,021

6.5.2 COMMITMENTS

	2017 Rs. '000	2016 Rs. '000
Commitment for unutilised facilities	918,305	1,070,593
Total commitments	918,305	1,070,593
Total commitments and contingencies	994,135	1,275,614

6.5.3 LITIGATION AGAINST THE COMPANY

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. Based on the information currently available, the Board of Directors is of the opinion that the ultimate resolution of the litigations would not likely to have a material impact on the Company.

	2017 Rs. '000	2016 Rs. '000
Cases pending against the Company (values claimed)	139,324	119,605

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
		2017 Rs. '000	2016 Rs. '000	
Lease rentals receivable and stock out on hire*	Bank loans, overdrafts and syndicated loans	28,007,463	17,761,939	Lease rentals receivable and stock out on hire
Real estate stock	Overdraft	-	65,000	Other non-financial assets
Freehold land and building	Syndicated loans	201,312	271,284	Property, plant & equipment
		28,208,775	18,098,223	

* The receivables and cash flows that have been included in bank loans, overdrafts and syndicated loans are only available for payment of the debt and other obligations issued or arising in such transactions. However, the Company hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of such transactions. Gross amount of lease rentals receivable and stock out on hire which have been pledged as at reporting date is Rs. 36,631,551,282/- (2016 – Rs. 21,961,125,947/-).

6.7 COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to confirm with 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 final dividend of Rs. 3.00 per share for the year ended 31st March 2017. 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

Ten year summary

KEY RATIOS

		2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Operating results											
Net interest margin	%	9.38	10.31	11.60	12.87	11.43	10.22	10.38	12.67	12.17	10.91
Cost to income	%	55.56	51.72	42.87	41.27	41.75	42.30	41.29	35.88	35.89	39.01
Interest spread	%	8.12	7.92	9.32	11.77	10.84	9.49	9.45	11.55	11.09	9.59
Financial position											
Total assets to shareholders' funds	No. of times	11.02	10.38	9.79	10.81	10.75	10.18	9.80	8.52	8.07	8.21
Debt to equity	No. of times	9.30	8.54	7.97	9.64	9.48	8.89	8.54	7.15	6.73	6.89
Equity to deposits	%	13.34	14.12	14.06	13.32	14.60	13.75	13.46	17.45	19.63	20.71
Investor information											
Return on equity (ROE)	%	26.35	30.93	32.20	47.45	52.64	36.62	23.23	30.88	40.40	34.09
Return on average assets (ROA)	%	2.32	2.91	3.21	4.51	4.85	3.51	2.33	3.40	4.89	4.18
Equity to assets	%	9.07	9.64	10.21	9.08	9.31	9.83	10.21	11.74	12.40	12.17
Net assets per share	Rs.	32.18	38.99	25.36	36.74	57.30	76.94	89.62	114.46	75.66	90.31
Earnings per share (EPS)	Rs.	6.79	10.38	7.22	14.73	24.75	24.58	19.35	31.51	26.84	28.29
Dividend per share (DPS)	Rs.	2.25	3.00	5.00	3.50	5.00	6.50	6.50	10.00	7.50	9.00*
Dividend cover	No. of times	3.02	3.46	1.44	4.21	4.95	3.78	2.98	3.15	3.58	3.14
Dividend yield	%	7.79	13.33	26.32	11.29	2.86	4.82	4.90	9.99	9.99	8.48
Dividend payout	%	33.12	28.89	34.62	23.76	20.20	26.45	33.59	31.74	27.94	31.82
Price earning ratio (PE)	No. of times	3.31	1.83	8.59	11.89	5.45	5.40	5.17	4.77	3.95	4.19
Price to book value (PBV)	No. of times	0.70	0.49	2.44	4.77	2.35	1.72	1.12	1.31	1.40	1.31
Market price per share	Rs.	22.50	19.00	62.00	175.10	134.90	132.70	100.10	150.20	106.10	118.40
Market capitalisation	Rs. million	682	624	2,147	12,127	9,343	9,190	6,933	10,402	14,696	16,400
Interest cover	No. of times	1.27	1.25	1.39	1.69	1.66	1.42	1.26	1.56	1.92	1.72
Growth											
Gross income	%	112.00	28.84	15.39	33.19	44.26	43.23	19.88	8.51	5.81	23.76
Interest income	%	69.38	64.81	15.18	29.99	42.01	44.25	20.78	7.65	5.42	24.13
Interest expense	%	101.04	69.86	0.49	7.5	46.87	67.39	20.05	(16.65)	(2.96)	40.52
Net interest income	%	33.21	56.09	42.76	59.71	37.69	22.31	21.72	38.76	11.86	13.20
Profit before tax	%	25.78	56.33	58.16	89.89	46.19	3.63	(26.05)	78.33	59.81	10.33
Profit after tax	%	15.13	74.71	39.09	104.01	67.98	(0.69)	(21.27)	62.84	70.37	5.39
Total assets	%	53.70	30.39	22.77	62.93	52.15	27.17	12.16	11.06	25.13	21.59
Lending portfolio	%	57.83	30.67	23.58	61.46	55.03	22.09	9.99	13.75	27.87	24.59
Deposit base	%	60.24	30.77	30.67	62.23	34.10	42.58	18.98	(1.44)	17.50	13.16
Shareholders' funds	%	65.98	38.47	30.1	44.85	55.97	34.29	16.48	27.72	32.20	19.37
Employee											
Profit before tax per employee	Rs. '000	683	802	986	1,319	1,541	1,229	875	1,387	1,940	1,823
Profit after tax per employee	Rs. '000	395	519	561	807	1,020	828	627	908	1,354	1,216
Total assets per employee	Rs. '000	20,661	20,244	19,325	22,359	25,395	26,385	28,497	28,131	30,800	31,904
No. of branches		15	21	27	34	65	89	97	100	110	118
No. of gold loan centres		25	36	48	58	47	37	37	35	36	36
Total no. of outlets		40	57	75	92	112	126	134	135	146	154
No. of employees		520	692	890	1,264	1,679	2,055	2,134	2,401	2,744	3,221
Employees per outlet		13	12	12	14	15	16	16	18	19	21

*Includes proposed final dividend of Rs. 3.00 per share.

FINANCIAL STATEMENTS PREPARED UNDER SLAS

	2007/08 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2010/11 Rs. '000
Income statement				
Gross income	2,778,862	3,580,173	4,130,993	5,501,885
Interest income	2,082,418	3,431,950	3,953,032	5,138,718
Interest expenditure	1,318,058	2,238,847	2,249,805	2,418,480
Net interest income	764,361	1,193,103	1,703,227	2,720,239
Other operating income	165,682	122,326	174,285	353,647
Operating expenditure	509,225	647,561	839,479	1,171,025
Profits before taxation	355,214	555,315	878,290	1,667,820
Tax on financial services	65,604	112,552	159,744	235,040
Provision for taxation	149,381	195,707	378,129	647,452
Net profits	205,833	359,608	500,161	1,020,368
Balance sheet				
Assets				
Cash and amounts due from banks	152,581	217,642	277,083	347,446
Placements with other banks	415,918	550,496	364,918	302,584
Treasury bills and other bills eligible for re-discounting with Central Bank	476,877	799,698	1,165,157	1,622,158
Amounts due from Department of Inland Revenue	8,377	-	-	-
Real estate stock	218,198	211,241	246,928	237,520
Loans and advances	1,805,471	2,834,414	4,193,815	7,543,231
Lease rentals receivable and stock out on hire	7,256,655	9,006,955	10,440,329	16,332,007
Investment securities	9,032	6,226	5,994	28,594
Trading portfolio	-	-	-	211,818
Other debtors, deposits and prepayments	142,570	141,619	104,271	675,235
Deferred taxation	-	-	-	-
Vehicle stock	118,686	41,939	156,502	519,706
Intangible assets	9,959	9,311	7,333	9,682
Property, plant & equipment	129,775	189,920	237,613	432,359
Total assets	10,744,099	14,009,461	17,199,943	28,262,340
Liabilities				
Deposits from customers	7,309,101	9,558,370	12,489,789	19,619,681
Borrowings	1,658,593	1,527,997	1,065,377	3,526,374
Debentures	100,000	450,000	450,000	450,000
Trade payables and accrued charges	559,993	846,978	916,729	1,529,035
Tax payable	-	67,751	352,626	396,413
Deferred taxation	114,615	186,703	141,728	93,249
Dividends payable	-	-	-	-
Provision and other liabilities	26,778	21,565	27,262	33,870
Total liabilities	9,769,080	12,659,364	15,443,511	25,648,622
Shareholders' funds				
Share capital	418,411	491,996	491,996	838,282
Reserves	556,608	858,101	1,264,436	1,775,436
Total shareholders' funds	975,019	1,350,097	1,756,433	2,613,718
Total liabilities and funds employed	10,744,099	14,009,461	17,199,944	28,262,340

FINANCIAL STATEMENTS PREPARED UNDER SLFRS

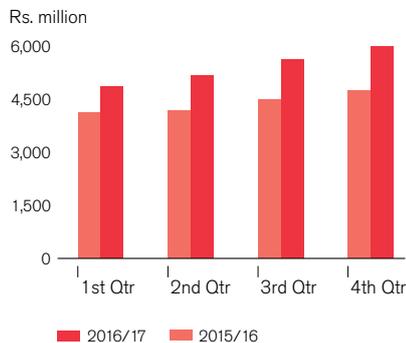
	2011/12 Rs. '000	2012/13 Rs. '000	2013/14 Rs. '000	2014/15 Rs. '000	2015/16 Rs. '000	2016/17 Rs. '000
Statement of comprehensive income						
Gross income	7,937,072	11,368,252	13,628,497	14,787,757	15,646,468	19,363,429
Interest income	7,297,591	10,526,829	12,714,089	13,687,070	14,428,730	17,909,935
Interest expenses	3,551,986	5,945,707	7,137,897	5,949,496	5,773,255	8,112,337
Net interest income	3,745,605	4,581,122	5,576,191	7,737,574	8,655,475	9,797,599
Other operating income	639,481	841,422	914,408	1,100,686	1,217,738	1,453,493
Total operating income	4,385,086	5,422,544	6,490,600	8,838,260	9,873,213	11,251,092
Impairment charges/(reversal) for loans and other losses	116,023	400,307	570,332	1,804,838	382,435	(42,265)
Gold loan auction losses	-	201,802	1,371,959	214,928	29,358	2,200
Operating expenses	1,680,998	2,117,628	2,559,981	3,171,408	3,543,352	4,389,212
Profit before tax	2,588,065	2,526,559	1,868,390	3,331,853	5,324,616	5,874,843
Tax on financial services	149,952	176,249	119,936	315,232	593,452	1,027,101
Income tax	874,071	824,443	528,361	1,149,727	1,606,823	1,956,639
Profit for the year	1,713,994	1,702,116	1,340,029	2,182,126	3,717,792	3,918,204
Statement of financial position						
Assets						
Cash and cash equivalents	1,954,237	4,019,673	1,865,100	6,067,670	6,051,899	2,895,085
Financial investments – held for trading	6,740	7,323	7,595	10,063	10,646	10,068
Loans and receivables	12,771,108	16,452,987	18,893,238	22,262,761	26,449,169	33,488,779
Lease rentals receivable and stock out on hire	23,686,392	28,271,347	30,299,455	33,695,516	45,104,836	55,660,963
Financial investments – available for sale	128,068	473,739	1,468,602	140,587	138,411	118,021
Other financial assets	1,019,834	1,487,399	5,186,548	2,140,178	4,142,716	6,721,526
Other non-financial assets	1,066,622	1,205,230	817,629	1,206,275	538,899	305,048
Property, plant & equipment	1,868,286	2,100,939	2,067,928	1,984,160	2,045,295	3,514,356
Intangible assets	19,340	23,669	36,425	35,305	34,766	49,189
Deferred tax assets	117,779	180,551	171,857	-	-	-
Total assets	42,638,405	54,222,859	60,814,380	67,542,519	84,516,637	102,763,035
Liabilities						
Due to banks	8,910,255	6,366,217	1,423,642	7,703,265	14,577,234	23,778,147
Due to customers	27,172,161	38,742,700	46,095,205	45,430,551	53,379,801	60,401,955
Debt instruments issued and other borrowed funds	1,541,555	2,244,210	5,475,903	3,529,575	2,601,283	2,044,216
Other financial liabilities	-	638,011	1,165,526	1,776,066	1,869,941	2,007,402
Other non-financial liabilities	757,275	694,933	250,496	516,719	597,807	673,436
Current tax liabilities	244,831	147,956	103,717	534,744	741,251	691,091
Deferred tax liabilities	-	-	-	11,930	143,142	503,488
Retirement benefit liability	44,231	60,230	93,198	112,574	126,859	153,621
Total liabilities	38,670,307	48,894,257	54,607,691	59,615,427	74,037,318	90,253,356
Shareholders' funds						
Stated capital	838,282	838,282	838,282	838,282	838,282	838,282
Retained earnings	2,075,561	2,852,402	3,265,273	5,180,485	6,970,499	8,259,079
Reserves	1,054,254	1,637,917	2,103,132	1,908,324	2,670,538	3,412,318
Total shareholders' funds	3,968,097	5,328,601	6,206,688	7,927,091	10,479,319	12,509,679
Total liabilities and shareholders' funds	42,638,405	54,222,859	60,814,380	67,542,519	84,516,637	102,763,035

Quarterly financial statements 2016/17

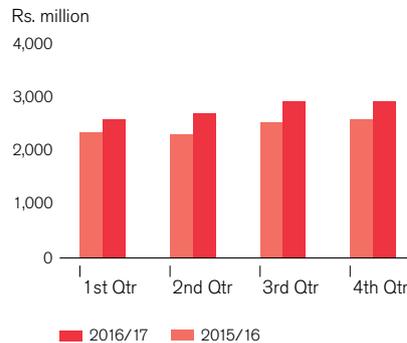
STATEMENT OF COMPREHENSIVE INCOME

For the 3 months ended	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2016 Rs. '000	30.06.2015 Rs. '000	30.09.2016 Rs. '000	30.09.2015 Rs. '000	31.12.2016 Rs. '000	31.12.2015 Rs. '000	31.03.2017 Rs. '000	31.03.2016 Rs. '000
Income	4,315,838	3,670,666	4,628,282	3,726,265	5,051,635	4,022,914	5,367,674	4,226,622
Interest income	4,040,714	3,374,244	4,312,261	3,459,444	4,580,983	3,681,228	4,975,977	3,913,814
Interest expenses	(1,709,411)	(1,304,646)	(1,894,195)	(1,390,237)	(2,102,448)	(1,459,054)	(2,406,282)	(1,619,318)
Net interest income	2,331,303	2,069,598	2,418,066	2,069,207	2,478,534	2,222,174	2,569,695	2,294,495
Fee and commission income	265,166	270,177	303,387	276,664	291,769	322,543	349,017	299,297
Net trading income	786	1,861	752	1,432	(811)	(166)	(876)	(2,159)
Other operating income	9,171	24,384	11,881	(11,276)	179,694	19,309	43,555	15,670
Total operating income	2,606,426	2,366,021	2,734,087	2,336,028	2,949,187	2,563,860	2,961,392	2,607,303
Impairment (charges)/reversal for loans and other losses	(22,462)	(233,081)	7,453	(113,817)	(51,309)	(42,673)	108,583	7,136
Gold loan auction losses	(2,122)	(9,127)	272	(9,213)	(302)	(7,256)	(48)	(3,762)
Net operating income	2,581,843	2,123,813	2,741,812	2,212,998	2,897,575	2,513,931	3,069,927	2,610,676
Operating expenses								
Personnel expenses	(517,332)	(411,380)	(552,593)	(467,517)	(589,205)	(476,647)	(673,769)	(482,009)
Depreciation of property, plant & equipment	(81,315)	(84,782)	(81,064)	(81,192)	(82,243)	(74,707)	(81,506)	(77,614)
Amortisation of intangible assets	(3,914)	(3,243)	(4,166)	(3,608)	(4,495)	(3,623)	(4,515)	(3,656)
Other operating expenses	(371,318)	(324,175)	(443,980)	(327,287)	(427,024)	(357,076)	(470,772)	(364,834)
Operating profit before tax on financial services	1,607,964	1,300,232	1,660,008	1,333,394	1,794,607	1,601,878	1,839,366	1,682,563
Tax on financial services	(227,304)	(116,283)	(206,408)	(132,899)	(244,494)	(163,604)	(348,895)	(180,665)
Profit before taxation	1,380,660	1,183,949	1,453,600	1,200,495	1,550,113	1,438,274	1,490,470	1,501,898
Income tax expense	(468,952)	(408,126)	(505,493)	(411,246)	(525,664)	(499,108)	(456,530)	(288,343)
Profit after taxation	911,708	775,823	948,107	789,249	1,024,449	939,166	1,033,940	1,213,555

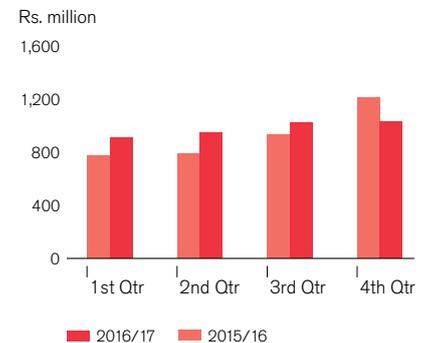
Income



Operating income



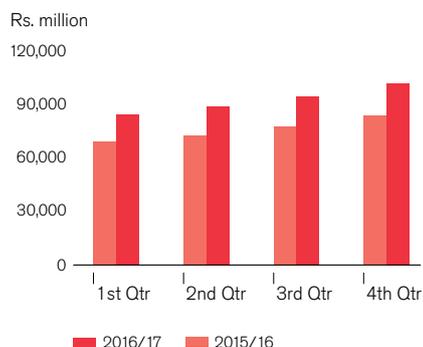
Profit after tax



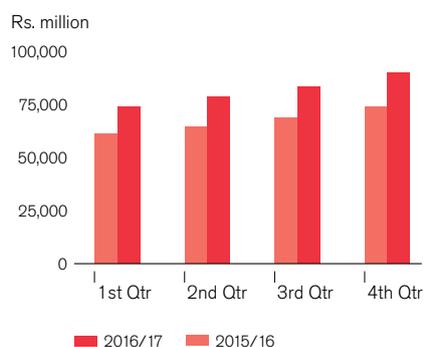
STATEMENT OF FINANCIAL POSITION

As at	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2016 Rs. '000	30.06.2015 Rs. '000	30.09.2016 Rs. '000	30.09.2015 Rs. '000	31.12.2016 Rs. '000	31.12.2015 Rs. '000	31.03.2017 Rs. '000	31.03.2016 Rs. '000
Assets								
Cash and cash equivalents	4,444,893	5,567,110	3,948,940	5,263,420	4,146,304	4,397,588	2,895,085	6,051,899
Financial investments – held for trading	11,039	11,624	11,792	13,050	10,981	12,849	10,068	10,647
Loans and receivables	27,250,245	22,281,249	29,231,097	22,905,786	31,738,491	24,685,515	33,488,779	26,449,169
Lease rentals receivable & stock out on hire	47,536,011	36,549,058	49,814,379	40,086,351	53,663,953	43,381,548	55,660,963	45,104,836
Financial investments – available for sale	145,956	185,927	154,588	178,056	132,354	175,659	118,021	138,411
Other financial assets	3,344,681	2,324,073	3,929,722	1,829,728	3,413,322	2,762,972	6,721,526	4,142,716
Other non-financial assets	703,526	1,033,406	746,989	950,001	399,535	772,288	305,047	538,898
Property, plant and equipment	2,056,096	2,034,836	2,071,008	1,986,208	2,126,963	1,998,558	3,514,356	2,045,295
Intangible assets	49,785	32,338	46,319	37,179	51,298	35,386	49,189	34,766
Total assets	85,542,232	70,019,621	89,954,833	73,249,778	95,683,201	78,222,362	102,763,035	84,516,637
Liabilities								
Due to banks	15,404,312	8,370,769	19,285,942	11,134,990	21,358,100	11,671,177	23,778,147	14,577,234
Due to customers	52,456,537	46,639,313	53,081,542	47,093,374	55,617,980	51,190,281	60,401,955	53,379,800
Debt issued and other borrowed funds	2,608,089	3,089,341	2,662,155	3,030,992	2,233,511	2,718,479	2,044,216	2,601,283
Other financial liabilities	1,858,478	1,772,547	2,074,938	1,878,690	2,423,439	1,877,646	2,007,402	1,869,941
Other non-financial liabilities	713,554	518,508	645,292	527,386	574,915	478,893	673,436	597,807
Current tax liabilities	826,210	748,992	608,068	608,238	867,951	850,046	691,091	741,252
Deferred tax liabilities	143,142	11,930	143,142	11,930	143,142	11,930	503,488	143,142
Post employment benefit liability	133,338	119,966	137,300	127,116	145,494	134,457	153,621	126,859
Total liabilities	74,143,660	61,271,366	78,638,379	64,412,716	83,364,532	68,932,908	90,253,356	74,037,318
Shareholders' funds								
Stated capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Retained earnings	7,707,256	5,801,144	7,426,884	5,739,972	8,246,444	6,007,074	8,231,937	6,970,499
Reserves	2,853,034	2,108,828	3,051,287	2,258,808	3,233,943	2,444,098	3,439,460	2,670,538
Total shareholders' funds	11,398,572	8,748,254	11,316,454	8,837,062	12,318,668	9,289,454	12,509,680	10,479,319
Total liabilities and shareholders' funds	85,542,232	70,019,621	89,954,833	73,249,778	95,683,201	78,222,362	102,763,035	84,516,637
Quarterly NPL Information								
NPL Ratio – gross	3.14%	5.29%	2.64%	4.88%	2.43%	4.07%	2.14%	3.28%
NPL Ratio – net	0.06%	0.94%	-0.06%	0.65%	-0.13%	0.37%	-0.11%	0.09%

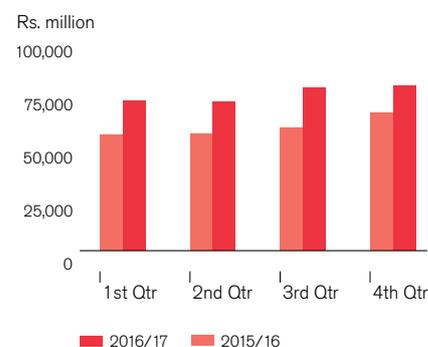
Total assets



Total liabilities



Shareholder's funds



Branches

Branch	Contact number	Fax number	Address	E-mail
Western province				
Aluthgama	034-2271161/2	034-2271155	No. 185, Galle Road, Aluthgama.	aluthgama@lbfinance.lk
Avissawella	036-2222155/036-2233833/5233	036-2234222	No. 25, Yatiyantota Road, Avissawella.	avissawella@lbfinance.lk
Battaramulla	011-2885331/011-2887565/6/7/ 011-2879021/2/3	011-2885332	No. 755/1, Pannipitiya Road, Battaramulla.	battaramulla@lbfinance.lk
Borelesgamuwa	011-2509159/011-2545504/ 011-4381033	011-2518389	No. 28, Dehiwala Road, Borelesgamuwa.	borelesgamuwa@lbfinance.lk
Corporate Office	011-2155000		No. 20, Dharmapala Mawatha, Colombo 03.	NULL
Dehiwala (Branch)	011-2732802/3/011-2722446	011-2722446	No. 84/A, Galle Road, Dehiwala.	dehiwala@lbfinance.lk
Delgoda	011-2403556/7	011-2403629	No. 350/16, Colombo Road, Delgoda.	delgoda@lbfinance.lk
Delkanda	011-2802333/011-2802828/ 011-4347118	011-2804343	No. 595, High Level Road, Gangodawila, Nugegoda.	delkanda@lbfinance.lk
Divulapitiya	031-2248073/83	031-2248043	No. 69, Giriulla Road, Divulapitiya	divulapitiya@lbfinance.lk
Gampaha	033-2234810/033-2225380/ 033-2225608/033-2225587	033-4670464	No. 01, B, Bauddhaloka Mawatha, Gampaha.	gampaha@lbfinance.lk
Head Office	011-2200000	011-2508507	No. 275/75, Pro.Stanley Wijesundara Mw, Colombo 07.	NULL
Homagama	011-2748155/011-2182220/1/	011-2894380	No. 76, High Level Road, Homagama.	homagama@lbfinance.lk
Horana	034-2265297/034-2265223	034-2265316	No. 103, Panadura Road, Horana.	horana@lbfinance.lk
Ja-ela	011-2229820/011-2229613/ 011-2229602	011-2244155	No. 6\1\1, Old Negombo Road, Ja-ela.	jaela@lbfinance.lk
Kadawatha	011-2926713/4	011-2926917	No. 139/6, Kandy Road, Kadawatha.	kadawatha@lbfinance.lk
Kaduwela	011-2548955	-	No. 484, Avissawella Road, Kaduwela.	kaduwela@lbfinance.lk
Kaluthara	034-2222217/90/96	034-2223343	No. 334, Main Street, Kalutara	kaluthara@lbfinance.lk
Kandana	011-2240171/011-2231925	011-2239155	No. 06, Station Road, Kandana.	kandana@lbfinance.lk
Kiribathgoda	011-2911788/011-2906440/ 011-3009978	011-2906155	No. 02, Kandy Road, Kiribathgoda.	kiribathgoda@lbfinance.lk
Kochchikade	031-2272774/031-2274555	031-2274205	No. 03, Chilaw Road, Kochchikade.	kochchikade@lbfinance.lk
Kotahena	011-2382155/011-2335808	011-2424795	No. 03, St. Lucias Street, Kotahena.	kotahena@lbfinance.lk
Kottawa	011-2745488/011-2745722	011-2745449	No. 365, High Level Road, Kottawa.	kottawa@lbfinance.lk
Kotte	011-2818011/011-2818155	011-2820967	No. 429, Kotte Road, Pittakotte.	pitakotte@lbfinance.lk
Maharagama (Wattegedara)	011-2838311/011-2841100	011-2848222	No. 227/A, High Level Road, Maharagama.	maharagama@lbfinance.lk
Malabe	011-2561815/011-2156855	011-2742970	No. 834/7, Kaduwela Road, Malabe.	malabe@lbfinance.lk
Maradana	011-2670155/011-2685425	011-2685359	No. 538, Maradana Road, Colombo 10.	maradana@lbfinance.lk
Mathugama	034-4947764/765	034-2249343	No. 34, Aluthgama Road, Mathugama.	mathugama@lbfinance.lk
Moratumulla	011-2654154/011-2654380	011-2653365	No. 227, De Soyza Road, Moratumulla, Moratuwa.	moratumulla@lbfinance.lk
Moratuwa	011-2648120/011-2642288/ 011-3010052	011-2642255	No. 10, Station Road, Moratuwa.	moratuwa@lbfinance.lk
Mount Lavinia	011-2710124/5	011-2710126	No. 66, Galle Road, Mt. Lavinia.	mountlavinia@lbfinance.lk
Negombo	031-2231265/031-2228616/ 031-2239155	031-2231266	No. 80, Greens Road, Negombo.	negombo@lbfinance.lk
Negombo 2	031-2235155/031-2224048	-	No. 356, Main Street, Negombo	negombo2@lbfinance.lk
Nugegoda	011-2890680/1/2/3/4/5/6	011-2814335	No. 92, Stanley Thilakarathne Mawatha, Nugegoda.	nugegoda@lbfinance.lk

Branch	Contact number	Fax number	Address	E-mail
Panadura	038-2238371/038-4282500	038-2243525	No. 508, Galle Road, Panadura.	panadura@lbfinance.lk
Piliyandala	011-2609013/4/ 0112-618816	011-2608895	No. 68, Horana Road, Piliyandala.	piliyandala@lbfinance.lk
Rajagiriya	011-2885378/9	011-2885551	No. 347/A, Kotte Road, Rajagiriya.	rajagiriya@lbfinance.lk
Sea Street	011-2385155/011-2334404	011-2434597	No. 197, Sea Street, Colombo 11.	seastreet@lbfinance.lk
Wattala	011-2982264/5/ 011-2933198	011-2933218	No. 17, Station Road, Hendala Junction, Wattala.	wattala@lbfinance.lk
Central province				
Dambulla	066-2285740/066-2283155	066-2284990	No. 38, Kurunegala Junction, Dambulla.	dambulla@lbfinance.lk
Gampola	081-4486444/081-2075655	-	No. 22, Nuwaraeliya Road, Gampola.	gampola@lbfinance.lk
Gampola City	081-2353610/09	-	No. 46/1, Nuwaraeliya Road, Gampola.	gampola@lbfinance.lk
Geliyaya	081-2067242/ 081-2067740	081-2067241	No. 13/A, Kandy Road, Geliyaya	geliyaya@lbfinance.lk
Hatton	051-2225355/051-2224725/26	-	No. 52 , Dunbar Road, Hatton.	hatton@lbfinance.lk
Kandy	081-2238932/1/ 081-2225765/081-2232226	081-2200155	'Milton House', Kotugodella Weediya, Kandy.	kandy@lbfinance.lk
Kandy City	081-2225910/1/2/081-2204155	-	No. 226, D.S. Senanayaka Street, Kandy.	kandy2@lbfinance.lk
Katugasthota	081-2064868	081-2500562	No. 19, Madawala Road, Katugasthota.	katugastota@lbfinance.lk
Katugasthota City	081-2213886/8	081-2213887	No. 179, Katugastota Road, Mahanuwara.	No email address
Maskeliya	052-2277032/051-4924366/7	522-277088	No. 175, Main Street, Maskeliya.	maskeliya@lbfinance.lk
Mathale	066-223-1902/066-2223740	066-2222266	No. 251, Main Street, Matale.	matale@lbfinance.lk
Nawalapitiya	054-2223850/054-2223110	054-2224050	No. 3A, Urban Council Road, Nawalapitiya.	nawalapitiya@lbfinance.lk
Nuwara Eliya	052-3050332/3/4/052-4924864	052-2234155	No. 71, City Light Building, Queen Elizabeth Drive, Nuwara Eliya.	nuwaraeliya@lbfinance.lk
Pilimathalawa	081-2579940 /1/ 081-4951271/2	081-2579942	No. 298, Colombo Road, Pilimathalawa.	pilimathalawa@lbfinance.lk
Pussallawa	081-2478128/38	081-2478148	No. 473, Nuwara Eliya Road, Pussellawa.	pussellawa@lbfinance.lk
Southern province				
Akuressa	041-2283559/041-2283388	041-2283560	No. 83, Deniyaya Road, Akuressa.	akuressa@lbfinance.lk
Ambalangoda	091-2256107/091-2255722/ 091-2256680/091-2256080	091-2256650	No. 96/2, Galle Road, Ambalangoda.	ambalangoda@lbfinance.lk
Deniyaya	041-2273196/7/8	041-2273195	No. 149, Main Street, Deniyaya.	deniyaya@lbfinance.lk
Elpitiya	091-2291980/091-2291990	912-291958	No. 14, Main Street, Elpitiya.	elpitiya@lbfinance.lk
Galle	091-2232347/8/9	091-2233155	No. 150, Main Street , Galle.	galle@lbfinance.lk
Mathara	041-2225454/3/2/ 041-2232710	041-2231155	No. 13, Station Road, Matara.	matara@lbfinance.lk
Mathara City	041-2224496/7	041-2228666	No. 282, Anagarika Dharmapala Mawatha, Matara.	mataracity@lbfinance.lk
Neluwa	091-3096960/091-4946085	-	No. 02, HV Building Dellawa Road, Neluwa.	neluwa@lbfinance.lk
Pitigala	091-2291155/091-2291851	091-2291941	No. 87, Main Street, Pitigala.	pitigala@lbfinance.lk
Tangalle	047-2241750/047-2244501/2	047-2241751	No. 66, Thissa Road, Tangalle.	tangalle@lbfinance.lk
Thissamaharamaya	0472237942/047-4931676/7/ 047-2238842	047-2237360	No. 34, Main street, Thissamaharamaya	tissamaharama@lbfinance.lk

Branch	Contact number	Fax number	Address	E-mail
Northern province				
Atchuvvely	021-2232215/021-2232216	021-2232217	No. 69, Main Street, Atchuvvely.	achchuvveli@lbfinance.lk
Chawakachcheri	021-2271545/565	021-2270623	No. 136, Kandy Road, Chawakachchery.	chawakachcheri@lbfinance.lk
Chunnakam	021-2242055/021-4920339	021-2241334	No. 55, K.K.S. Road, Chunnakkam.	chunnakam@lbfinance.lk
Jaffna	021-2215959/	212-220249	No. 440, Hospital Road, Jaffna.	jaffna@lbfinance.lk
Jaffna City	021-2217911/2/3/4	021-2217910	No. 111, 113 Stanly Road, Jaffna.	jaffnacity@lbfinance
Jaffna Premier	021-2217810/2/3	021-2217811	No. 406, Hospital Road, Jaffna.	jaffnapremier@lbfinance.lk
Kilinochchi	021-2283955/ 021-4923362/63	021-2285349	Opposite Kandasami Kovil, A9 Road, Kilinochchi.	kilinochchi@lbfinance.lk
Manipay	021-2255955/021-4923356/7	-	No. 110, Jaffna Road, Manipai.	manipay@lbfinance.lk
Nelliyadi	021-2264655/021-2263111	021-2262923	No. 10, Main Street, Nelliyadi.	nelliady@lbfinance.lk
Puthukkudiyiruppu	021-2290411/2	021-2290413	Ward No. 01, Paranthan Road, Puthukkudiyiruppu.	puthukkudiyiruppu@lbfinance.lk
Vavuniya	024-2228175/6/024-4928327	024-2226955	No. 32/B, 2nd Cross Street, Vavuniya.	vavuniya@lbfinance.lk
Eastern province				
Akkaraipattu	067-2279155/067-2057536	067-2279655	No. 20, Sagama Road, Akkaraipattu.	akkraipattu@lbfinance.lk
Ampara	063-2224254/063-4925110/1	063-2223504	No. 04, Opposite Clock Tower, Ampara.	ampara@lbfinance.lk
Batticaloa	065-2229270/80	065-2229280	No. 175A, Trinco Road, Batticaloa.	batticaloa@lbfinance.lk
Chenkalady	065-2054263/4	065-2054264	Opposite Market Complex, Main Road, Chenkalady.	chenkalady@lbfinance.lk
Dehiattakandiya	027-2250071	027-2250073	No. 10/2, Opposite BOC, New Town, Dehiattakandiya.	dehiaththakandiya@lbfinance.lk
Kalawanchakudy	065-2251626/36	065-2251646	Opposite Hospital, Hospital Road, Kalawanchikudi.	kaluvanchikudy@lbfinance.lk
Kalmunai	067-2225355/067-4924040/ 067-2056436	067-2220418	Main Street, Batticaloa Road, Kalmunai.	kalmunai@lbfinance.lk
Kaththankudy	065-2247007/065-4926494/92	652-248655	No. 801, Mohomad Aiya Building, Main Street, Kaththankudi.	kaththankudy@lbfinance.lk
Kinniya	026-2237443/4	026-2237445	No. 50/2, Main Street, Kinniya	kinniya@lbfinance.lk
Kokkadicholai	065-2056900/1	065-2056915	Main Street, Division 10, Kokkadicholai.	kokkadicholai@lbfinance.lk
Pothuvil	063-2248149/8	063-2050855	Main Street, Pothuvil.	pothuvil@lbfinance.lk
Saindamarthu	067-2221655/067-4923744	067-4923744	MPCS Building, Main Street, Sainthamaruthu 09	saindamarudu@lbfinance.lk
Samanthurai	067-2260955/067-4923976/7/ 067-2058394	-	Hidira Juma Mosk, Ampara Road, Samanthurai.	samanthure@lbfinance.lk
Trincomalee	026-2060010/1/026-2222155	026-2226737	No. 275, Central Road, Trincomalee.	trincomalee@lbfinance.lk
Valachchenai	065-2059626/8	065-2059627	Opposite Market, Main Street, Valachchenai.	valachchenai@lbfinance.lk

Branch	Contact number	Fax number	Address	E-mail
North western province				
Anamaduwa	032-2263090/1	032-2263092	No. 24, Chilaw Road, Anamaduwa	anamaduwa@lbfinance.lk
Chilaw	032-2224231/229/235	032-2224725	No. 40/1, Colombo Road, Chilaw.	chilaw@lbfinance.lk
Kuliyapitiya	037-2283808/2/3	037-2284625	No. 12, Main Street, Kuliyapitiya.	kuliyapitiya@lbfinance.lk
Kurunegala	037-2226155/037-2231172	037-2231175	No. 21, Dambulla Road, Kurunegala.	kurunegala@lbfinance.lk
Kurunegala City	037-2227155/037-2231171	037-2233550	No. 118A, Kadurugas Junction, Colombo Road, Kurunegala.	kurunegala2@lbfinance.lk
Kurunegala PC	037-2222411/3411/ 037-2231822/3/4	037-2229696	No. 103 A, Colombo Road, Kurunegala.	kurunegalap@lbfinance.lk
Medawachchiya	0252245302/4	025-2245303	No. 26, Kandy Road, Medawachchiya.	medawachchiya@lbfinance.lk
Narammala	0373978242/0372249313/2	037-2249314	No. 35, Sarasavi Building, Main Street, Narammala	narammala@lbfinance.lk
Puttalam	032-2267755/032-2267051/50	032-2266939	No. 10, Kurunegala Road, Puttalam.	puttalam@lbfinance.lk
Wennappuwa	031-2245155/ 031-2252130	031-2253553	No. 134, Colombo Puttalam Road, Wennappuwa.	wennappuwa@lbfinance.lk
North central province				
Anuradhapura	025-2234885/025-4926029/ 025-2225524/26	025-2237155	No. 137, Main Street, Anuradhapura.	anuradhapura@lbfinance.lk
Anuradhapura City	025-2234455/025-4927367	025-2226759	No. 514/A, New Town, Anuradhapura.	anuradhapura2@lbfinance.lk
Kekirawa	025-2265245/6	025-2265248	No. 15, Thalawa Road, Kekirawa	kekirawa@lbfinance.lk
Medirigiriya	027-2248858/9	027-2248860	Main Street, Medirigiriya.	No email address
Polonnaruwa	027-2052080/1/2	027-2052083	Rajarata Building, Main Street, Kaduruwela, Polonnaruwa.	polonnaruwa@lbfinance.lk
Thambuttegama	025-2275146/7	025-2275567	No. 256, New Town, Thambuttegama.	thambuttegama@lbfinance.lk
Uva province				
Badulla	055-2231965/055-2228055/ 055-2223343	055-2231964	No. 26, Anagarika Dharmapala Mawatha, Badulla.	badulla@lbfinance.lk
Badulla 2	055-2224255/055-2222125	-	No. 55, Lower Street, Badulla.	badullapc@lbfinance.lk
Bandarawela	057-2221235/057-2231155	057-2225424	No. 167, Main Street, Bandarawela.	bandarawela@lbfinance.lk
Mahiyanganaya	055-4927701	552-258455	No. 56, Edwin Wickramarathna Shopping Complex, New Town, Mahiyanganaya.	mahiyanganaya@lbfinance.lk
Monaragala	055-2055445/6/055-2277464	055-2276905	No. 44, New Bus Stand Road, Monaragala.	monaragala@lbfinance.lk
Welimada	057-2246455/057-2244504	057-2244828	No. 51/A, Nuwaraeliya Road, Welimada.	welimada@lbfinance.lk
Sabaragamuwa province				
Balangoda	045-2288374/045-2289255/ 045-2288668	045-2288216	No. 19, Rest House Approach Road, Balangoda.	balangoda@lbfinance.lk
Eheliyagoda	036-2256142/3	036-2256141	No. 25/A, Main Street, Eheliyagoda	eheliyagoda@lbfinance.lk
Embilipitiya	047-2262767/6/5	047-2261990	No. 43, Main Street, Embilipitiya.	embilipitiya@lbfinance.lk
Kegalle	035-2223633/4/5	035-2221755	No. 19, Main Street, Kegalle.	kegalle@lbfinance.lk
Rathnapura	045-2233871	045-2225864	No. 49, Senanayaka Mawatha, Rathnapura	rathnapura@lbfinance.lk
Warakapola	035-2267267/035-2268268	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	011-2528472	011-2528471	No. 367/1, Aluthmawatha, Colombo 15.	aluthmawatha@lbfinance.lk
Attidiya	011-2732905/6	011-2736625	No. 269, Main Road, Attidiya.	attidiya@lbfinance.lk
Baduraliya	034-2240851/2	034-2240853	No. 48, Rathnapura Road, Baduraliya.	baduraliya@lbfinance.lk
Bandaragama	038-2289425/6	038-2289427	No. 04, Panadura Road, Bandaragama.	bandaragama@lbfinance.lk
Beruwala	034-2298024/124	034-2298126	No. 175/A, Galle Road, Beruwala.	beruwala@lbfinance.lk
Borella	011-2669155/011-2678129	-	No. 54, D S Senenayake Mawatha, Colombo 08.	borella@lbfinance.lk
Dam Street	011-2335445/011-2335979	011-2435259	No. 371/1, Dam Street, Colombo 12.	damstreet@lbfinance.lk
Deans Road	011-2694295/011-2682155	-	No. 133, Deans Road, Maradana.	deans@lbfinance.lk
Dehiwala 2 (Centre)	011-2726078/011-2715448	011-2710156	No. 124, Galle Road, Dehiwala.	dehiwala2@lbfinance.lk
Dematagoda	011-2675194/3/011-4345354/ 011-4610963	-	No. 551, Sri Wajiragnana Mawatha, Colombo 09.	dematagoda@lbfinance.lk
Elakanda	011-2941166/011-2940243	-	No. 18, Elakanda Road, Handala, Wattala.	elakanda@lbfinance.lk
Ganemulla	033-2265866/033-2260042/ 033-2265766	-	No. 229/ 1, Kadawatha Road, Ganemulla.	ganemulla@lbfinance.lk
Grandpass-Kosgashandiya	011-2334416/011-4345368	011-2333892	No. 21, St. Joseph's Street, Grandpass, Colombo 14.	grandpass@lbfinance.lk;
Grandpass-Stadium	011-2391155/011-2422610	-	No. 395, Grandpass Road, Colombo 14.	stadium@lbfinance.lk
Grandpass-Sulaiman	011-2390155/011-2473522/ 011-4619866	-	No. 47, Grandpass Road, Colombo 14.	grandpassnew@lbfinance.lk
Hanwella	036-2252080	036-2252047	Tharaka Mahal, No. 24, Main Street, Hanwella.	hanwella@lbfinance.lk
IDH (Gothatuwa)	011-2411990/1	-	No. 52/17, Gothatuwa, New Town.	gothatuwa@lbfinance.lk
Jampattah	011-2388155/011-2437270	-	No. 66, Jampattah Street, Colombo 13.	jampatah@lbfinance.lk
Kelaniya	011-2911781/011-2908155	-	No. 722, Waragoda Road, Vihara Junction, Kelaniya.	kelaniya@lbfinance.lk
Keselwatta	038-2299210/038-4281885	038-2297849	No. 18, Keselwatta, Panadura.	keselwatta@lbfinance.lk
Kiribathgoda (Makola)	011-2914955/011-2991370	011-2914838	No. 44, Makola Road, Kiribathgoda.	kiribathgoda2@lbfinance.lk
Kirulapone	011-2512088/011-2512099	-	No. 91, High Level Road, Colombo 06.	kirulapana@lbfinance.lk
Kolonnawa	011-2026750/011-2572355	-	No. 141 A, Kolonnawa Road, Kolonnawa.	kolonnawa@lbfinance.lk
Maharagama 2 (Centre)	011-2841455/011-2840137/ 011-3009758	011-2840136	No. 69, Dehiwala Road, Maharagama.	maharagama2@lbfinance.lk
Maligawatta	011-2698913/011-3075689	-	No. 157/D, New Pradeepa Rd, Maligawatta, Colombo 10.	maligawatte@lbfinance.lk
Mattakkuliya	011-2527155/011-2520930	-	No. 7D/2, Sri Wickrama Mawatha, Mattakkuliya, Colombo 15.	mattakkuliya@lbfinance.lk
Modara	011-2526155/011-2520940/ 011-4615670	-	No. 81, Modera Street, Colombo 15.	modara@lbfinance.lk
Narahenpita	011-2369108/011-2369327/ 011-2369328	011-2369107	No. 239, Kirula Rd, Narahenpita, Colombo 05.	narahenpita@lbfinance.lk
Nittambuwa	033-2294355	033-2297971	No. 594/3, Kandy Road, Nittambuwa.	nittambuwa@lbfinance.lk
Ragama	011-2953155/011-4967388	-	No. 640, Tewatte Road, Ragama.	ragama@lbfinance.lk
Rathmalana (Golumadama)	011-2623999/011-3010944	011-2637155	No. 05, Kaldemulla Road, Rathmalana.	golumadama@lbfinance.lk
Sangaraja Mawatha	011-2334592/011-2334078/ 011-4380288	-	No. 259, Sri Sangaraja Mawatha, Colombo 10.	sangaraja@lbfinance.lk
Slave Island	011-2300530/011-2303155	-	No. 135, Malay Street, Colombo 02.	slaveisland@lbfinance.lk
Thihariya	033-4678082/033-2298189	033-2293655	No. 61/2, Kandy Road, Thihariya.	thihariya@lbfinance.lk
Thotalanga	011-2540155/011-2520885	-	No. 282, Nagalagam Street, Colombo 14.	thotalanga@lbfinance.lk
Wellawatta	011-2506951/011-2362115	011-2362745	No. 224, Galle Road, Wellawatta, Colombo 6.	wellawatta@lbfinance.lk

List of abbreviations

AFS	Available for Sale	ETF	Employees' Trust Fund		Monthly Risk Management and Reporting
AGM	Annual General Meeting		Exponentially Weighted Moving Average	MRMR	
	Assets and Liabilities Management Committee	EWMA		NBFI	Non-Bank Financial Institutions
ALCO		FOB	Free on Board	NBT	Nation Building Tax
AML	Anti-Money Laundering	FVtPL	Fair Value through Profit or Loss		Non-Conventional Renewable Energy
APSP	Average Petroleum Spot Price	GDP	Gross Domestic Product	NCRE	
ASPI	All Share Price Index	GRI	Global Reporting Initiative	NDA	Non-Disclosure Agreement
ATL	Above the Line	HFT	Held for Trading	NPA	Non-Performing Advances
ATM	Automated Teller Machine	HODs	Head of Departments	NII	Net Interest Income
AWDR	Average-Weighted Deposit Rate	HP	Hire Purchase	NIM	Net Interest Margin
	Average-Weighted Fixed Deposit Rate	HTM	Held to Maturity	NPL	Non-Performing Loans
AWFDR			The Institute of Chartered Accountants of Sri Lanka	OCI	Other Comprehensive Income
AWPLR	Average Weighted Prime Lending Rate	ICASL		PAT	Profit after Tax
BCP	Business Continuity Plan	IFA	Investment Fund Account	PAYE	Pay As You Earn
BFI	Banking Finance Insurance		International Financial Reporting Standard	PD	Profitability of Default
BN	Billion	IFRS		PDC	Product Development Committee
BOD	Board of Directors		International Integrated Reporting Council	PER	Price Earnings Ratio
BPO	Business Process Outsource	IIRC		PLC	Public Limited Company
BPS	Basis Points	IMF	International Monetary Fund	RMD	Risk Management Department
	Brazil, Russia, India, China, South Africa		Integrated Risk Management Committee	ROA	Return on Assets
BRICS		IRMC		ROCE	Return on Capital Employed
BTL	Below the Line	IRMU	Integrated Risk Management Unit	ROE	Return on Equity
CAGR	Compounded Annual Growth Rate	IS	Information Systems	RWA	Risk-Weighted Assets
CAR	Capital Adequacy Ratio	ISMS	Information Security Management System	SBU	Strategic Business Units
CBSL	Central Bank of Sri Lanka		International Standard Organisation	SDG	Sustainable Development Goals
CDS	Central Depository System	ISO			Securities and Exchange Commission
	Common Electronic Fund Transferring System	IT	Information Technology	SEC	
CEFT		JCE	Jointly Controlled Entity	SLC	Specialised Leasing Company
CEO	Chief Executive Officer	KMP	Key Management Personnel	SLA	Statutory Liquid Assets
CFO	Chief Financial Officer	KPIs	Key Performance Indicators	SLAR	Statutory Liquid Asset Ratio
CGU	Cash Generating Unit	KRIs	Key Risk Indicators	SLAS	Sri Lanka Accounting Standard
CM	Cohort Method	LC	Letter of Credit	SLCF	Sri Lanka Carbon Fund
CMU	Complaint Management Unit	L&R	Loans and Receivables		Sri Lanka Financial Reporting Standard
	Customer Relationship Management System	LRA	Lanka Rating Agency	SLFRS	
CRM		LBF	L B Finance PLC		Sri Lanka Inter-Bank Payment System
CRO	Chief Risk Officer	LCB	Licensed Commercial Bank	SLIPS	
CSE	Colombo Stock Exchange	LGD	Loss Given Default	S&PSL 20	Standard & Poor's Sri Lanka 20
CSR	Corporate Social Responsibility	LFC	Licensed Finance Company	SME	Small and Medium Enterprises
DR	Disaster Recovery	LKAS	Lanka Accounting Standards	UN	United Nations
EAD	Exposure at Default	LKR	Sri Lankan Rupees	UOM	Unit of Measurement
ECL	Expected Credit Loss	LSB	Licensed Specialised Bank	USD	US Dollar
EIR	Effective Interest Rate	LTV	Loan to Value	VAR	Value at Risk
EMS	Environment Management System	MMU	Marketing Monitoring Unit	VAT	Value Added Tax
EPF	Employees' Provident Fund	MN	Million	VPN	Virtual Private Network
EPS	Earnings per Share	M ³	Cubic Meter	WHT	Withholding Tax
ESC	Economic Service Charge	MOU	Memorandum of Understanding	YoY	Year on Year
				YTM	Yield to Maturity

Independent assurance report on sustainability



EY

Building a better
working world

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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 2016-17

Introduction and scope of the engagement
The management of LB Finance PLC (“the Company”) engaged us to provide an independent assurance on the following elements of the sustainability reporting indicators in the annual report- 2016/17 (“the Report”).

- Reasonable assurance on the information on financial performance as specified on page 54 of the Report.
- Limited assurance on other information presented in the Report (General Standard Disclosures and Specific Standard Disclosures of the Global Reporting Initiatives (GRI) content Index pages 303 to 308), prepared in accordance with the requirements of the GRI Standards ‘In accordance’ - Comprehensive guidelines.

Basis of our work and level of assurance
We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’, issued by the Institute of Chartered Accountants of Sri Lanka (“CASL”).

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines (“GRI Guidelines”) and related information in particular, the requirements to achieve GRI Standards ‘In accordance’ - Comprehensive guideline publication, publicly available at GRI’s global website at “www.globalreporting.org”.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

MANAGEMENT OF THE COMPANY’S RESPONSIBILITY FOR THE REPORT

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report,

and for maintaining adequate records and internal controls that are designed to support the 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- GRI Standards ‘In accordance’ - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 21 February 2017. 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.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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 31st March 2017.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative GRI Standards 'In accordance' - Comprehensive guidelines.

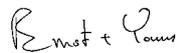
Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations
Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

CONCLUSION

Based on the procedures performed, as described above, we conclude that:

- The information on financial performance as specified on page 54 of the Report is properly derived from the audited financial statements of the Company for the year ended 31st March 2017.
- 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 Bank's sustainability practices and policies some of which are derived from GRI Standards 'In accordance' – Comprehensive, Sustainability Reporting Guidelines.



Chartered Accountants

23rd May 2017
Colombo

Consolidated set of GRI Sustainability Reporting Standards

GRI CONTENT INDEX – 'IN ACCORDANCE' – COMPREHENSIVE

GENERAL DISCLOSURES

GRI Standard	Disclosure	External Assurance Provided	Page Number	Remarks
Organisational profiles				
102-1	Name of the organisation	✓	312	
102-2	Activities, brands, products and services	✓	94-95,104	
102-3	Location of headquarters	✓	312	
102-4	Location of operations	✓	05	
102-5	Ownership and legal form	✓	06, 312	
102-6	Markets served	✓	73, 94-95	
102-7	Scale of the organisation	✓	12,14	
102-8	Information on employees and other workers	✓	79	
102-9	Supply chain	✓	106	
102-10	Significant changes to the organisation and its supply chain	✓	106	
102-11	Precautionary principle or approach	✓	104	
102-12	External initiatives	✓	05	
102-13	Membership of associations	✓	312	
Strategy				
102-14	Statement from senior decision-maker	✓	16-17	
102-15	Key impacts, risks, and opportunities	✓	188-209	
Ethics and integrity				
102-16	Values, principles, standards and norms of behaviour	✓	03, 69	
102-17	Mechanisms for advice and concerns about ethics	✓	88	
Governance				
102-18	Governance structure	✓	07, 30, 134	
102-19	Delegating authority	✓	30	
102-20	Executive-level responsibility for economic, environmental and social topics	✓	30	
102-21	Consulting stakeholders on economic, environmental and social topics	✓	30	
102-22	Composition of the highest governance body and its committees	✓	124-127, 175	
102-23	Chair of the highest governance body	✓	172	
102-24	Nominating and selecting the highest governance body	✓	158, 181	
102-25	Conflicts of interest	Partially	143	
102-26	Role of highest governance body in setting purpose, values and strategy	Partially	137	
102-27	Collective knowledge of highest governance body	✓	154	
102-28	Evaluating the highest governance body's performance	✓	158	
102-29	Identifying and managing economic, environmental and social impacts	Partially	30	
102-30	Effectiveness of risk management processes	✓	184	
102-31	Review of economic, environmental and social topics	✓	30	
102-32	Highest governance body's role in sustainability reporting	✓	30	
102-33	Communicating critical concerns	✓	30	

GRI Standard	Disclosure	External Assurance Provided	Page Number	Remarks
102-34	Nature and total number of critical concerns	✓	30	
102-35	Remuneration policies	✓	*	
102-36	Process for determining remuneration	✓	*	
102-37	Stakeholders' involvement in remuneration	✓	*	
102-38	Annual total compensation ratio	✓	*	
102-39	Percentage increase in annual total compensation ratio	✓	*	
Stakeholder engagement				
102-40	List of stakeholder groups	✓	31	
102-41	Collective bargaining agreements	✓	87	
102-42	Identifying and selecting stakeholders	✓	31	
102-43	Approach to stakeholder engagement	✓	33	
102-44	Key topics and concerns raised	✓	32	
Reporting practice				
102-45	Entities included in the consolidated financial statements	✓	05	
102-46	Defining report content and topic boundaries	✓	35	
102-47	List of material topics	✓	35	
102-48	Restatements of information	✓	05	
102-49	Changes in reporting	✓	222-223	
102-50	Reporting period	✓	04	
102-51	Date of most recent report	✓	05	
102-52	Reporting cycle	✓	04	
102-53	Contact point for questions regarding the report	✓	05	
102-54	Claims of reporting in accordance with the GRI Standards	✓	05	
102-55	GRI content index	✓	303	
102-56	External assurance	✓	05	

SPECIFIC STANDARDS

GRI Standard	Disclosure	External Assurance Provided	Page Number	Remarks
GRI 201: Economic Performance				
103-1	MANAGEMENT APPROACH Wealth creation for all stakeholders of LB finance PLC by implementing forward looking corporate strategies , while assessing the risk of the market			
103-2	Implementation	✓	42	
103-3	Performance	✓	43-55	
201-1	Direct economic value generated and distributed	✓	55	
201-2	Financial implications and other risks and opportunities due to climate change	✓	-	Considering nature of the business, we are not reporting on climate changes
201-3	Defined benefit plan obligations and other retirement plans	✓	266-267	
201-4	Financial assistance received from government	✓	-	There is no direct or indirect financial assistance received from the government
GRI 202: Market Presence				
103-1	MANAGEMENT APPROACH Create a stable and progressive financial environment, which renders high quality solutions, backed by superior technology and a customer-friendly service platform			
103-2	Implementation	✓	70	
103-3	Performance	✓	70-75	
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	✓	84	
202-2	Proportion of senior management hired from the local community	✓	-	Senior Management refers designated authority in charge of a key business departments and supportive departments. All senior managers of the Company are local hires
GRI 203: Indirect Economic Impacts				
103-1	MANAGEMENT APPROACH Initiate responsible stewardship and strategies that would transmit change through the social and economic parameters of the business operations			
103-2	Implementation	✓	54	
103-3	Performance	✓	55	
203-1	Infrastructure investments and services supported	✓	26	
203-2	Significant indirect economic impacts	✓	73,111	
GRI 204: Procurement Practices				
103-1	MANAGEMENT APPROACH Strike the right balance between cost and quality and promoting ethical and transparent sourcing practices			
103-2	Implementation	✓	106	
103-3	Performance	✓	107	

GRI Standard	Disclosure	External Assurance Provided	Page Number	Remarks
204-1	Proportion of spending on local suppliers	✓	106	
GRI 300 : Environment				
GRI 301: Materials				
103-1	MANAGEMENT APPROACH Manage and control the organisational impact on the environment through the use of modern technology, use of lean consumption and eco-friendly practices			
103-2	Implementation	✓	112	
103-3	Performance	✓	112-121	
301-1	Materials used by weight or volume	✓	117	
301-2	Recycled input materials used	✓	-	Considering nature of the business, we are not using recycle materials to manufacture the organisation's primary products and services
301-3	Reclaimed products and their packaging materials	✓	-	Considering nature of the business, this is not relevant for the organisation
GRI 302: Energy				
103-1	MANAGEMENT APPROACH Adopt lean resource consumption practices across our operations, to reduce the use of paper, energy, non-bio-degradable material, greater degree of renewable energy project financing and energy saving projects			
103-2	Implementation	✓	115	
103-3	Performance	✓	115-119	
302-1	Energy consumption within the organisation	✓	115	
302-2	Energy consumption outside of the organisation	✓	-	We are not consuming energy outside of the organisation
302-3	Energy intensity	✓	115	
302-4	Reduction of energy consumption	✓	115	
302-5	Reductions in energy requirements of products and services	✓	-	Considering the nature of the business, this is not relevant for the organisation
GRI 305: Emissions				
103-1	MANAGEMENT APPROACH Ensure proactive steps to mitigate the impact on the emission caused by day-to-day business and adhere to all mandatory environmental parameters applicable to business operations and transactions			
103-2	Implementation	✓	118	
103-3	Performance	✓	118-119	
305-1	Direct (Scope 1) GHG emissions	✓	119	
305-2	Energy indirect (Scope 2) GHG emissions	✓	119	
305-3	Other indirect (Scope 3) GHG emissions	✓	119	
305-4	GHG emissions intensity	✓	113	

GRI Standard	Disclosure	External Assurance Provided	Page Number	Remarks
305-5	Reduction of GHG emissions	✓	119	
305-6	Emissions of ozone-depleting substances (ODS)	✓	118	
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX) and other significant air emissions	✓	119	
GRI 400 : Social				
GRI 401: Employment				
103-1	MANAGEMENT APPROACH Commitment to create an environment conducive for employee to develop and reach their full potential, both professionally and personally			
103-2	Implementation	✓	76	
103-3	Performance	✓	76-89	
401-1	New employee hires and employee turnover		79	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	✓	84	
401-3	Parental leave	✓	80	
GRI 403: Occupational Health and Safety				
103-1	MANAGEMENT APPROACH Seeking to create a hazard free environment and have introduced policies and procedures to secure all premises. Moreover, a business continuity plan is in place, as a contingency control measure and health and safety are considered as priority area under the Business Continuity Plan			
103-2	Implementation	✓	87	
103-3	Performance	✓	87-89	
403-1	Workers representation in formal joint management – worker health and safety committees	✓	87	
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	✓	87	
403-3	Workers with high incidence or high risk of diseases related to their occupation	✓	87	
403-4	Health and safety topics covered in formal agreements with trade unions	✓	87	
GRI 404: Training and Education				
103-1	MANAGEMENT APPROACH Develop a culture where people can make a difference both as individuals and as a team and ensure employee's readiness to take-up responsibilities and challenges in our growth process			
103-2	Implementation	✓	81	
103-3	Performance	✓	81-83	
404-1	Average hours of training per year per employee	✓	82, 84	
404-2	Programmes for upgrading employee skills and transition assistance programmes	✓	82	
404-3	Percentage of employees receiving regular performance and career development reviews	✓	81	

GRI Standard	Disclosure	External Assurance Provided	Page Number	Remarks
GRI 405: Diversity and Equal Opportunity				
103-1	MANAGEMENT APPROACH Striving to achieve HR excellence in our business, we continue to pursue an inclusive strategy to develop a work place where equality and diversity feature prominently in the people development agenda			
103-2	Implementation	✓	83	
103-3	Performance	✓	83-84	
405-1	Diversity of governance bodies and employees	✓	80, 83	
405-2	Ratio of basic salary and remuneration of women to men	✓	84	
GRI 413: Local Communities				
103-1	MANAGEMENT APPROACH Working in tandem with global and local mandates that safeguard the social responsibility and uphold community empowerment			
103-2	Implementation	✓	109	
103-3	Performance	✓	109-111	
413-1	Operations with local community engagement, impact assessments and development programmes	✓	26, 32, 115	
413-2	Operations with significant actual and potential negative impacts on local communities	✓	–	There are none of operations with significant actual and potential negative impact on local communities
GRI 416: Customer Health and Safety				
103-1	MANAGEMENT APPROACH Determination to ensure customer well-being has led us to formulate products and services that do not in any way impair or harm the health and safety of our customers			
103-2	Implementation	✓	104	
103-3	Performance	✓	104	
416-1	Assessment of the health and safety impacts of product and service categories	✓	–	A health and safety assessment of our products & services was not carried out during the reporting period
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	✓	105	
GRI 418: Customer Privacy				
103 -1	MANAGEMENT APPROACH Seeking to demonstrate accountability and responsible stewardship towards all customers, which provides unwavering commitment to safeguard customer privacy			
103 -2	Implementation	✓	105	
103 -3	Performance	✓	105	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	✓	105	

* Information cannot be disclosed.

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 hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage point: Used in quoting movements in interest rates or yields on securities.

Brexit

The United Kingdom's withdrawal from the European Union.

C

Capital adequacy ratio

The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Flows

Cash equivalents are short-term, highly liquid investment that are readily convertible to known 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.

Cohort Method

A study design where one or more samples (called Cohorts) are followed prospectively and subsequent status evaluation with or outcome are conducted to determine which initial participants exposure characteristics (risk factors) are associated with it.

Cost to income ratio

Operating expenses excluding impairment charge/gold loan auction losses as a percentage of total operating income (net of interest expenses).

Credit rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit risk

Risk of financial loss, if a customer or counterparty fails to meet an obligation under a contract.

Credit risk mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

D

Deferred taxation

Sum set aside for income tax in the financial statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognised financial asset or liability from an entity's statement of financial position.

Discount rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend cover

Profit attributable to ordinary shareholders as a percentage of gross dividends; indicates number of times dividend is covered by current year's distributable profits.

Dividend pay-out ratio

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend yield

Dividend expressed as a percentage of market value of a share. In absence of any capital gains, this shows the return on investing on a share relative to its market price.

E**Earnings per share (EPS)**

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's earnings attributable to an ordinary share in issue.

Economic value added (EVA)

A measure of performance considering cost of total invested equity.

Effective interest rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

Effective tax rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Equity method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

Events after the reporting period

Transactions that are not recognised as assets or liabilities in the statement of financial position, but which give rise to the contingencies and commitments.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

F**Fair value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit or loss

A financial asset or financial liability that is held-for-trading or upon initial recognition designated by the entity as fair value through profit or loss.

Finance lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all risks and rewards of ownership to the lessee.

Financial assets

Any asset that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial liabilities

A contractual obligation to deliver cash or other financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

G**Global reporting initiative (GRI)**

GRI is a leading organisation in the sustainability filed. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

Going Concern

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

Gross dividend

The proportion of profit distributed to shareholders including the tax withheld.

Guarantees

An assurance made by a third party (Guarantor) who is not a party to contract between two others, that the guarantor will be liable if the Guarantee fails to fulfil the contractual obligation.

H**Held for trading**

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Hire purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I**Impaired loans**

Impaired loans are loans where the company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment

This occurs when the recoverable amount of an asset is less than its carrying amount.

Impairment charge/(reversal)

An increase/(decrease) of the difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset compared to the previous reporting date.

Individual impairment

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

Individual significant loans

Exposures which are above a certain threshold decided by the management which should be assessed for objective evidence, measurement and recognition of impairment on an individual basis.

Intangible asset

An identifiable non-monetary asset without physical substance.

Integrated reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

Interest cover

Earnings before interest and taxes divided by interest cost. This indicates the number of times interest expenses is covered by earnings before interest and tax; ability to cover interest expenses.

Interest spread

Represents the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

K**Key management personnel (KMP)**

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

L

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Letter of credit (LC)

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily.

Loss given default (LGD)

The percentage of an exposure that a lender expects to lose in the event of obligor default.

Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

Market capitalisation

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

Materiality

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

Millennials

Demographic cohort following generation X, also known as generation Y.

N

Net assets value per share (NAV)

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net interest income

The difference between interest income earned from interest earning assets and interest expenses incurred on interest-bearing liabilities.

Net interest margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non-performing loans/advances (NPL)

The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.

Non-Performing Loans Cover

Cumulative loan provision as a percentage of total non-performing loans (net of interest in suspense)

NPL ratio

Total non-performing loans as a percentage of the total lending portfolio.

Non-recurring profit

A one time or highly infrequent profit.

O

Off-balance sheet transactions

Transactions that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Price earnings ratio (P/E ratio)

Market price of a share divided by earnings per share; reflects number of years that would be taken to recoup shareholders' capital outlay in the form of earnings.

Probability of default (PD)

An internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

R

Related party

Parties have the ability to control or exert a significant influence over the company's financial and operating decisions.

Return on assets (ROA)

Net profit for the year expressed as a percentage of average total assets; indicates overall effectiveness in generating profits with available assets.

Return on equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average shareholders' funds/equity.

Repurchase agreement (Repo)

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

Risk-weighted assets

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

S

Shareholders' funds

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

T

Tier I capital

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

Tier II capital

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

Total shareholder return

Combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

U

Useful life

The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value added

Wealth created by providing banking and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Y

Yield to maturity

Discount rate at which the present value of future cash flows would equals the security's current price.



Corporate information

NAME OF COMPANY

L B Finance PLC

LEGAL FORM

Public Limited Liability Company Incorporated in Sri Lanka under the provisions of the Companies Ordinance No. 51 of 1938 (Cap 145) and re-registered as per the Companies Act No. 07 of 2007 on 6th June 2008.

A Licensed Finance Company under the Finance Business Act No. 42 of 2011.

A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

STOCK EXCHANGE LISTING

The Company was admitted to the official List of the Colombo Stock Exchange on 30th December 1997. The ordinary shares and unsecured subordinated redeemable debentures of the Company are listed on the Colombo Stock Exchange.

DATE OF INCORPORATION

30th May 1971

COMPANY REGISTRATION NUMBER

PQ 156

TAX PAYER IDENTIFICATION NUMBER

104033431

VAT REGISTRATION NUMBER

104033431 7000

CENTRAL BANK REGISTRATION NUMBER

RFC 1003

PRINCIPAL ACTIVITIES

Acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, margin trading facilities, factoring and trade finance facilities, micro finance, other credit facilities and value added services.

REGISTERED OFFICE

No. 275/75, OPA Building,
Prof. Stanley Wijesundara Mawatha, Colombo 07.
Tel: 011-2200000
Fax: 011-5345327

CORPORATE OFFICE

No. 20, Dharmapala Mawatha, Colombo 03
Tel: 011-2155000
Fax: 011-2575098

OUTLETS

Branches - 118
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 (*Chairperson*)
Mrs. Shirani Jayasekara (*Senior Director*)
Mr. Dhammika Perera
(*Executive Deputy Chairman*)
Mr. J A S Sumith Adhihetty (*Managing Director*)
Mr. Thosapala Hewage
(*Independent Non-Executive Director*)
Mr. Lalit N de S Wijeyeratne
(*Independent Non-Executive Director*)
Mr. Niroschan Udage (*Executive Director*)
Mr. B D A Perera (*Executive Director*)
Mr. Ravindra Shanaka Yatawara (*Executive Director*)
Mrs. Anandhiy K. Gunawardhana
(*Independent Non-Executive Director*)
Mrs. Yogadinusha Bhaskaran
(*Independent Non-Executive Director*)

AUDIT COMMITTEE

Mr. Lalit N de S Wijeyeratne (*Chairman*)
Mrs. Shirani Jayasekara
Mrs. Anandhiy K Gunawardhana

REMUNERATION COMMITTEE

Mrs. Anandhiy K Gunawardhana (*Chairperson*)
Mrs. Kimarli Fernando
Mr. L N de S Wijeyeratne

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. Niroschan Udage
Mr. B D A Perera
Mr. Hasitha Athapattu
Mr. Udul Chandrasena
Mr. Bimal Perera
Ms. Zairaa Kaleel

SECRETARIES

P W Corporate Secretarial (Pvt) Ltd.
No. 3/17, Kynsey Road, Colombo 08
Tel: 011- 4640360-3
Fax: 011- 4740588
Email: pwcs@pwcs.lk

EXTERNAL AUDITORS

Ernst & Young

INTERNAL AUDITORS

BDO Partners
KPMG

BANKERS

Bank of Ceylon
Commercial Bank of Ceylon PLC
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

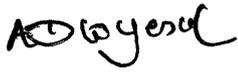
The Finance Houses Association of Sri Lanka
Leasing Association of Sri Lanka
CSR Lanka (Guarantee) Limited
Lanka Business Coalition on HIV and Aids
Sri Lanka Business and Biodiversity
The ombudsman Sri Lanka (Guarantee) Limited
Mercantile Cricket Association
Mercantile Football Association

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty-Fourth (44th) 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 2017 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 2017 and the Report of the Auditors thereon.
2. To declare a Dividend as recommended by the Directors.
3. To re-elect Mr. Thosapala Hewage as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.
4. To re-elect Mrs. Anandhiy Krisnajina Gunawardhana as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.
5. To reappoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants, as the Company's Auditors and authorise the Directors to determine their remuneration.
6. To authorise the Directors to determine donations for the year ending 31st March 2018 and up to the date of the next Annual General Meeting.

By Order of the Board,
L B Finance PLC



P W Corporate Secretarial (Pvt) Ltd

Director/Secretaries

31st May 2017
Colombo

Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf.
2. A Proxy need not be a shareholder of the Company.
3. A Form of Proxy accompanies this Notice.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 275/75, Professor Stanley Wijesundara Mawatha, Colombo 7, by 8.30 a.m. on 28th June 2017.

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 John Anthony Sunil Sumith Adhihetty	or failing her*
Mr. Lalit Nihal de Silva Wijeyeratne	or failing him*
Mr. Thosapala Hewage	or failing him*
Mr. Niroschan Udage	or failing him*
Mr. Biyanwalage Dudley Auburn Perera	or failing him*
Mr. Ravindra Shanaka Yatawara	or failing him*
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-Fourth (44th) Annual General Meeting of the Company to be held on 30th June 2017 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. Thosapala Hewage 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 re-elect Mrs. Anandhiy K Gunawardhana as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To reappoint 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"/>
5. To authorise the Directors to determine donations for the year ending 31st March 2018 up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our* hand/s this day of Two Thousand and Seventeen.

.....
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 Registered Office of the Company, No. 275/75, Professor Stanley Wijesundera Mawatha, Colombo 7, by 8.30 a.m. on 28th June 2017.
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.
5. Articles 59 to 62 of the Articles of Association of the Company dealing with voting are quoted below for information of the shareholders:

“59. METHOD OF VOTING

At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by –

- i. the Chairman of the meeting; or
- ii. not less than three persons present in person or by Attorney or representative or by proxy and entitled to vote; or
- iii. a Member or Members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the Members having the right to vote at the meeting; or
- iv. a Member or Members present in person or by attorney or representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

A demand for a poll may be withdrawn, unless a poll be demanded (and the demand be not withdrawn) a declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

60. HOW A POLL IS TO BE TAKEN

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may direct, and the results of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman may (and if so requested shall) appoint scrutiners and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

61. CHAIRMAN'S CASTING VOTE

In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

62. TIME FOR TAKING A POLL

A poll demanded on the election of a Chairman of the meeting or on a question of an adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately.”

Feedback form – Annual Report 2016/17

We would like to hear your thoughts, concerns or problems with anything so we can improve

Please mention your relationship with LB Finance – Please tick **(x)** the appropriate box

Shareholder	<input type="checkbox"/>	Employee	<input type="checkbox"/>	Customer	<input type="checkbox"/>
Business Partner	<input type="checkbox"/>	Regulators/Government	<input type="checkbox"/>	Society	<input type="checkbox"/>

Select the preferred communication method to contact you – Please tick **(x)** the appropriate box

Phone	<input type="checkbox"/>	Website	<input type="checkbox"/>	Letter	<input type="checkbox"/>
Email	<input type="checkbox"/>	Other	<input type="checkbox"/>		

Your views on Annual Report 2016/17 – Please tick **(x)** the appropriate box

Indicator	Excellent	Good	Bad	Poor
Design and Layout				
Content and Disclosures				
Theme and Focus				

Please write details of your feedback here:

.....
.....
.....

Comments/Suggestions

.....
.....
.....

Please provide your contact details

Name :

Tel :

Email :

Thanking you for taking the time to tell us what you think you can post or Email your feedback to :

Assistant Manager – Integrated Reporting and Sustainability
LB Finance PLC
Corporate Office
No. 20, Dharmapala Mawataha
Colombo 3
Email : thusithaw@lbfinance.lk
Tel : 011 2151504



This Annual Report is Carbon Neutral

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Prof. Stanley Wijesundara Mawatha, Colombo 07
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