



# REINFORCED RESILIENT RELIABLE



**L B Finance PLC**

Annual Report 2019/20

# CONTENTS

About this Report .....	2	<b>Corporate Governance</b>		<b>Supplementary Information</b>	
Our Business Model .....	3	Corporate Governance Report .....	56	Decade at a Glance .....	271
About Us .....	4	Annual Report of the Board of Directors on the Affairs of the Company .....	98	Quarterly Financial Statements.....	274
Financial Highlights .....	6	Remuneration Committee Report.....	108	Income Statement (US Dollars).....	276
Non-Financial Highlights .....	8	Nomination Committee Report .....	109	Statement of Comprehensive Income (US Dollars) .....	277
Awards and Accolades .....	9	Audit Committee Report.....	110	Statement of Financial Position (US Dollars).....	278
Letter from the Chairperson.....	10	Integrated Risk Management Committee Report.....	112	Glossary of Terms.....	279
Managing Director's Reviews .....	12	Report of the Related Party Transactions Review Committee .....	114	Corporate information .....	284
Board of Directors.....	14	Integrated Risk Management Report ...	116	Notice of Annual General Meeting.....	286
Senior Management .....	20			Form of Proxy .....	287
				Feedback form – Annual Report 2019/20 .....	289
<b>Management Discussion and Analysis</b>		<b>Financial Reports</b>			
Our Operating Environment.....	24	Financial Calendar .....	138		
Stakeholder Engagement .....	26	Independent Assurance Report to the Board of Directors .....	139		
Operational Performance.....	27	Directors' Responsibility Statement on Internal Control Over Financial Reporting .....	140		
Business Development Activities.....	30	Directors' Responsibility for Financial Reporting .....	141		
		Independent Auditors' Report.....	142		
<b>Summarised Capital Reports</b>		Income Statement.....	146		
Financial Capital .....	34	Statement of Comprehensive Income .	147		
Manufactured Capital.....	35	Statement of Financial Position .....	148		
Human Capital.....	36	Statement of Changes in Equity Company .....	149		
Intellectual Capital.....	37	Group .....	150		
Social and Relationship Capital .....	38	Statement of Cash Flows .....	151		
Natural Capital.....	39	Notes to the Financial Statements.....	153		
<b>Financial Review</b>					
Overview of Financial Results .....	40				
Investor .....	48				

# REINFORCED RESILIENT RELIABLE

L B Finance is recognised as a steady, dependable force in the financial services industry, providing a wide range of diversified services and solutions to individuals and businesses across Sri Lanka.

Over the years, we have strengthened and fortified ourselves to face the impact of unforeseen challenges, with the ultimate goal to support, secure and improve the lives of our valued stakeholders and customers.

Our workforce is led by our long-term vision of creating solid, enduring stakeholder partnerships through all we do, crafting exceptional service and relying on our inherent expertise and skill to perform within a competitive industry.

Today, our consistency and determination has positioned us to grow and prosper into the future – reinforcing our strengths to remain resilient and reliable in the years to come.

**L B FINANCE. REINFORCED. RESILIENT. RELIABLE.**

# ABOUT THIS REPORT

## OUR 8TH INTEGRATED REPORT

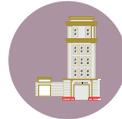
Our integrated report provides a holistic and material assessment of the group's ability to create value in the short, medium and long term. This report is prepared in accordance with the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and provides our stakeholders with a concise and transparent assessment of our ability to use our financial expertise to do well and create sustainable value.

## <IR> International Framework

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



Financial Capital



Manufactured Capital



Human Capital



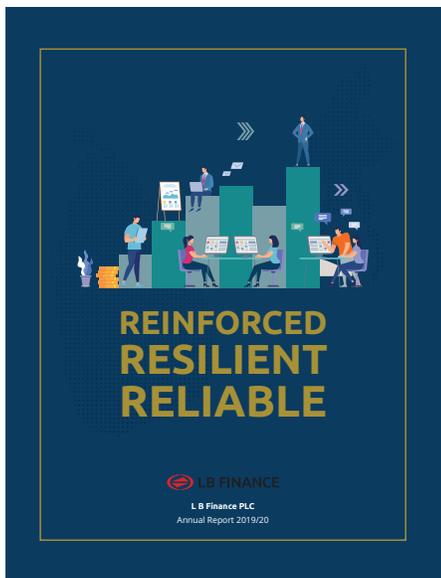
Intellectual Capital



Social and Relationship Capital



Natural Capital



## REPORTING PERIOD

The L B Finance PLC (LBF) Integrated report is produced and published annually. This report provides material information relating to our strategy and business model, operating context, material risks, stakeholder interests, performance, prospects, risk and governance, covering the year 01 April 2019 to 31 March 2020.

## TARGET READERS

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

## FEEDBACK AND FURTHER INFORMATION AND SUGGESTIONS

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

Assistant General Manager - Finance/  
Assistant Manager – Integrated Reporting and Sustainability

### L B Finance PLC

Corporate office  
No. 20, Dharmapala Mawatha  
Colombo 03  
Tel: 011 2155 000 Fax: 011 2564 488

## STATEMENT BY THE BOARD

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

Anandhiy Gunawardhana  
Chairperson

On behalf of the Board of Directors

Sumith Adhihetty  
Managing Director

## HOW TO READ THIS REPORT

### Visit our website

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



L B Finance PLC  
Integrated Annual Report  
2019/20. Scan QR Code  
to read this report online

# OUR BUSINESS MODEL

## Key Output and Outcomes

### SCOREBOARD OF OUR SIX CAPITALS

#### Key Output

##### FINANCIAL CAPITAL

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

- Rs. 16.69 billion market capitalisation
- Rs. 22.99 billion equity
- Rs. 89.25 billion deposits

##### MANUFACTURED CAPITAL

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

- 165 outlets
- Rs. 552.32 million expenditure on advertising and business promotions
- Rs. 97.81 million investment of IT hardware and equipment

##### HUMAN CAPITAL

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

- 3,606 employees
- 854 internal employee promotions
- 1,243 new employee opportunities

##### INTELLECTUAL CAPITAL

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

- 25th most valuable consumer brand by Brand Finance
- Rs. 17.84 million investment on IT software and service
- Skilled, experienced and technically qualified employees

##### SOCIAL AND RELATIONSHIP CAPITAL

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

- 600,000 plus customer base
- The sustained confidence of investors
- Rs. 22.52 million invested on CSR activities

##### NATURAL CAPITAL

We require natural resources to operate our business and drive environment friendly practices through green initiatives.

- Rs. 9.5 million investment on environment based CSR
- Total carbon footprint 4,484 tCO<sub>2</sub>e

#### Outcomes

Financial Capital	2019/20	2018/19
Profit after tax (Rs. million)	5,187.05	5,054.66
Income generated by operating activities (Rs. million)	17,607.46	16,326.70
Earnings per share (Rs.)	37.45	36.49
<b>Actions to enhance outcomes</b>		
Continue to develop sustainable revenue streams while exercising prudent risk management		
Structural cost transformation to cost optimisation		

Manufactured Capital	2019/20	2018/19
New outlets opened	2	4
Investment on freehold land and buildings (Rs. million)	230.13	1,894.80
Strategic relocations	5	13
<b>Actions to enhance outcomes</b>		
Modern, equipped, latest look and feel branch exteriors		
Identifying and capturing untouched, opportunities available in markets		

Human Capital	2019/20	2018/19
Amount paid in wages and benefits (Rs. million)	2,907.35	2,616.96
Cost incurred in employee training (Rs. million)	18.56	10.95
Investment on employee welfare facilities (Rs. million)	79.26	65.65
<b>Actions to enhance outcomes</b>		
Focused talent sourcing and succession planning		
Refreshed our action-orientated values to improve our diverse and inclusive workforce		
Encounter time constraints to develop soft skills		

Intellectual Capital	2019/20	2018/19
Brand value (Rs. million)	6,327	5,133
No. of CIM users	22,867	-
<b>Actions to enhance outcomes</b>		
Conducting continuous market research internally and through business experts		
Invest in digital information systems		

Social and Relationship Capital	2019/20	2018/19
Spending on corporate social responsibility (Rs. million)	22.52	26.95
Interest paid to the depositors (Rs. million)	10,106.09	9,565.40
Taxes (direct and indirect) paid to the Government (Rs. million)	6,824.68	4,911.63
<b>Actions to enhance outcomes</b>		
Investing in numerous social welfare activities to benefit the community		
Continuous assessment of customer complaints and successfully handling them		
Supporting entrepreneur development		

Natural Capital	2019/20	2018/19
No. of trees planted	34,853	20,194
Amount of paper recycling (Kg)	5,501	5,432
Green initiatives	5	6
<b>Actions to enhance outcomes</b>		
Setting targets for energy management		
Committing to promote sustainable e-management practices		
Working on environment conservation and natural resources management projects		



# ABOUT US

## WHO WE ARE

Incorporated in May 1971 as a private limited liability Company and later converted into a public limited liability Company in 1982, L B Finance PLC (LBF) was listed on the Colombo Stock Exchange in 1997 and re-registered in June 2008 under the new Companies Act No. 07 of 2007.

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

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

## LBF IN CONTEXT

Backed by a strong financial tradition of over 49 years coupled with our local experience. LBF offers a portfolio of financial solutions trusted widely by corporates, SMEs and individuals alike. These offerings are delivered to the market through a network of 129 branches and 36 gold loan centres. LBF has strategically expanded its operations beyond the shores of Sri Lanka to Myanmar. Company has setup seven branches in Bago and Migway regions aimed at bringing prosperity to the people of that country as well.

## OUR VISION, MISSION AND VALUES

### Vision

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

### Mission

- To mobilise public funds by innovating investment products that will enhance the value delivered to our depositors.
- To engage in prudent lending to entrepreneurs to assist them in the creation of wealth.
- To embark on investments in which results can be clearly assessed and seize new opportunities in the market.

- To offer a caring and personalised service that will form the foundation for developing lasting partnerships with our stakeholders, employees and the general public.
- To use training and career development to create an empowered and committed group of employees who will drive the Company to high levels of achievement.

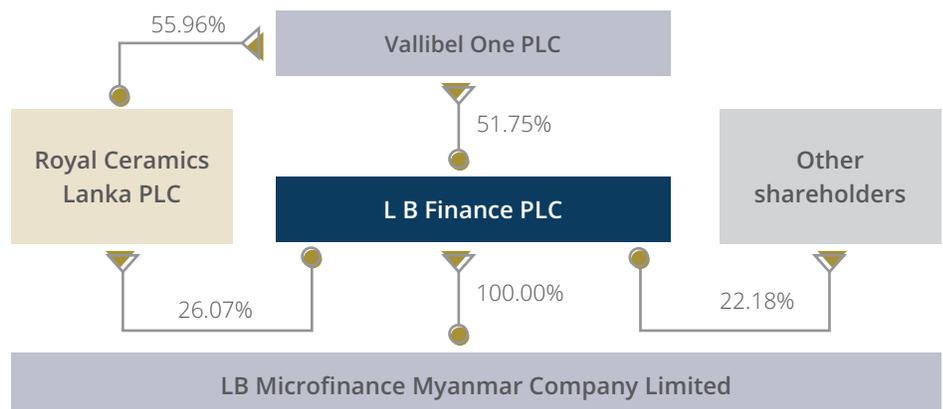
### Values

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

### Goal

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

## OUR SHAREHOLDING STRUCTURE



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

## SUSTAINABLE BUSINESS PRACTICES

We want our brand to reflect our commitment to sustainability. Hence everything we do centres on making every aspect of our business more sustainable. Our strong focus on asset growth is underpinned by a solid business strategy that ensures our operations are managed safely, reliably and optimally.

At the same time, we are committed to improving the resilience of our business model to ensure a strong balance sheet position even amidst the volatile macro-economic environment. Meanwhile we strive to become a competitive market player through continuous and ongoing investment in systems, processes and governance mechanism to create a solid foundation to improve performance and the quality of service we provide to our

customers. To achieve these aspirations, we aim to build a pool value-driven, high-performing employees who are a true embodiment of LBF's vision "to contribute to the quality of life experienced by our depositors, customers, employees and the general public through partnerships that fuel the growth of our Company and to create shareholder value both in the short and long-term".

## OUR PRODUCTS AND SERVICES

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

Business clusters	Our product and services	Our areas of strength and differentiation
Investing		Customer confidence and financial stability
Financing		Market leader with strong expertise and relationships
Value-added services		Innovative customised digital solutions

## BUSINESS EXPANSION FOR FUTURE

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

- Leveraging on digital solutions to drive cost competitiveness and deliver a superior customer experience
- Equally importantly we will focus on delivering superior returns to shareholders and stakeholders by;

- Striving to increase our return on invested capital by continuously reviewing the effectiveness of our existing investments and seeking out new investment opportunities within LBF's risk tolerance limits
- Voluntarily adopting quality standards and industry benchmarks to maintain leadership in compliance

- Transforming our people as agents of change with the capacity to deliver economic value to our stakeholders
- Continuously assessing the efficiency and effectiveness of our operations against best in class benchmarks

# FINANCIAL HIGHLIGHTS

**Rs. 5,187 Mn**

Profit after tax

**Rs. 143,963 Mn**

Total assets

**Rs. 37.45**

Earnings per share (EPS)

**20.75%**

Total risk weighted capital ratio

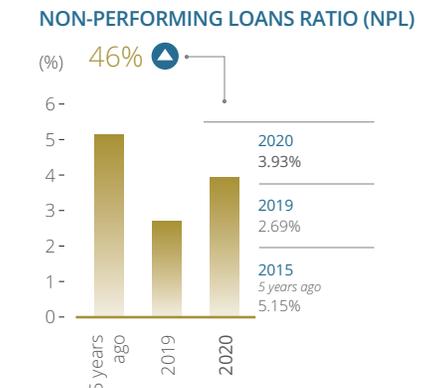
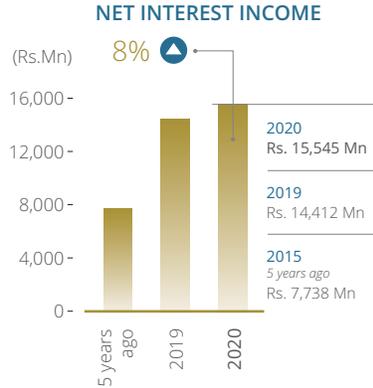
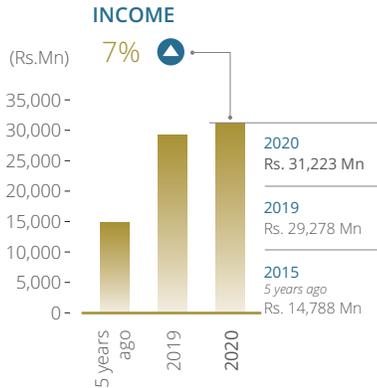
**25.04%**

Return on equity (ROE)

**3.93%**

NPL

Indicator		2019/20	2018/19	Change (%)
<b>Operating results</b>				
Income	Rs. million	31,222.86	29,278.02	6.64
Interest income	Rs. million	29,160.29	27,363.76	6.57
Net interest income	Rs. million	15,544.90	14,412.44	7.86
Profit before taxation (PBT)	Rs. million	7,610.28	7,740.64	(1.68)
Profit after taxation (PAT)	Rs. million	5,187.05	5,054.66	2.62
<b>Financial position</b>				
Total assets	Rs. million	143,963.71	136,390.71	5.55
Lending portfolio	Rs. million	118,865.92	113,445.45	4.78
Deposits	Rs. million	89,256.43	83,214.94	7.26
Borrowings	Rs. million	25,882.27	27,741.29	(6.70)
Shareholders' funds	Rs. million	22,999.54	18,427.15	24.81
<b>Share information</b>				
Market price per share	Rs.	120.50	120.10	0.33
Market capitalisation	Rs. million	16,690.97	16,635.56	0.33
Net asset value per share	Rs.	166.04	133.03	24.81
Earnings per share (EPS)	Rs.	37.45	36.49	2.62
Price earning ratio (PE)	Times	3.22	3.29	(2.23)
<b>Statutory ratios</b>				
Core capital to risk weighted assets ratio (Tier 1)	%	19.04	15.53	22.60
Total risk weighted capital ratio (Tier I & II)	%	20.75	17.67	17.43
Equity to deposits	%	25.77	22.14	16.37
Liquidity ratio	%	15.65	15.49	1.03
<b>Other ratios</b>				
Return on assets (ROA)	%	3.70	3.93	(5.85)
Return on equity (ROE)	%	25.04	29.93	(16.33)
Net interest margin (NIM)	%	11.96	11.87	0.70
Loan to Deposits	Times	1.33	1.36	(2.31)
Gross non-performing loans ratio (Gross NPL)	%	3.93	2.69	46.10
Net non-performing loans ratio (Net NPL)	%	(0.12)	(0.21)	(42.86)



# NON FINANCIAL HIGHLIGHTS

## 34,853

Trees planted/  
distributed

## 165

Total outlets

## Rs. 18.56 mn

Investment in training  
and development

## 52,788

Total training hours

## Rs. 6,327 mn

Brand value  
(Brand Finance)

## A- (Ika)

Credit rating (Fitch  
Ratings)

Indicator	Measurement	2019/20	2018/19
<b>Economic wellbeing</b>			
Economic value added	Rs. million	4,330.14	3,716.34
Economic value distributed to:			
Depositors and lenders	Rs. million	13,218.85	12,361.66
Employees	Rs. million	2,986.63	2,682.61
Government	Rs. million	5,014.32	4,508.35
Shareholders	Rs. million	-	1,662.17
<b>Social wellbeing</b>			
Community development programmes	Number	12	28
Staff volunteered hours	Hours	20,131	14,195
<b>Environment and landscape</b>			
Environment related projects	Number	5	6
Investment on green initiatives	Rs. million	9.54	16.49
Paper recycled	Kg	5,501	5,432
Total carbon footprint	tCO <sub>2</sub> e	4,484	3,997
Trees planted/distributed	Number	34,853	20,194
<b>Business sophistication</b>			
Total outlets	Number	165	163
Total branches	Number	129	127
CDM machines	Number	23	23
Gold loan centres	Number	36	36
Investment on ICT	Rs. million	115.65	150.52
<b>Employee wellbeing</b>			
Total workforce	Number	3,606	3,618
Employees hired	Number	1,243	1,407
Training programs carried out	Number	137	195
Investment in training and development	Rs. million	18.56	10.95
Total training hours	Hours	52,788	38,832
Average hours of training per employee	Hours	14.73	10.73
Staff remuneration and benefits	Rs. million	3,005.18	2,693.56
<b>Reputation</b>			
Brand value (Brand Finance)	Rs. million	6,327	5,133
Brand Finance Sri Lanka top 100	Rank	25	29
Credit rating (Fitch Ratings)	Rating	A- (Ika)	A- (Ika)

# AWARDS AND ACCOLADES

We at L B Finance PLC are proud of the awards and accolades that we have continued to receive over the years. We see these as major accomplishments that reflect the pursuit of excellence in every aspect of our business.

Once again gaining recognition on multiple fronts, L B Finance PLC became one of the most awarded entities in the NBFi sector in 2019/20.

## Integrated Annual Report Awards – Presented by CA Sri Lanka



## CMA Integrated Reporting Awards – Presented by CMA Sri Lanka



**Peoples Awards**  
Presented by SLIM Nielsen  
PEOPLE'S FINANCIAL SERVICE PROVIDER OF THE YEAR

## Purpose-led business

We play a vital role in society to safeguard depositors' money, facilitating economic growth.

## A digital world without boundaries

LB CIM (digital wallet) improves our position in the growing digital finance environment.

## A culture of transparency

We have further refined the Company's governance framework to enable LBF to operate as a lean, nimble and ethical organisation.



Anandhiy  
Gunawardhana  
Chairperson

# CHAIRPERSON'S STATEMENT

**It is my pleasure to present the Annual Report and Financial Statements of L B Finance PLC for the year ending 31st March 2020.**

Let me start by providing some context to help our stakeholders appreciate the significance of LBF's performance in 2019/20. The negative impact on economic activity which lasted for several months following the Easter Sunday attacks in April 2019 and the uncertainty in the lead-up to the November 2019 Presidential Elections were responsible for the muted appetite for credit for the most part of the year. Against this backdrop, the country's imports declined by 10.3% and tourist arrivals dropped by over 17%, while the rupee continued to depreciate and GDP grew only by a mere 2.3% in 2019, considerably lower than the 3.3% recorded the previous year.

While tax concessions and other stimulus initiatives introduced by the new administration in a bid to boost economic activity did appear to support an economic recovery in the months of January and February 2020, any potential progress was abruptly forestalled by the nationwide lockdown declared in March 2020 to combat the spread of COVID-19.

### **BUILDING TRUST**

While it is true that fast adaptation is the key to staying ahead, especially in a dynamic global environment, we at LBF believe it is vital that we do so in a manner that retains and builds upon the trust of our stakeholders.

The trust of our customers is central to LBF's survival and long-term growth prospects. We aim to offer the right products to the right market at the right time and at the right price. In addition, we continue to listen attentively to our customers and use their feedback to further improve our products and services and also fuel further innovation. We remain committed to broadening and strengthening our customer base across the island.

To maintain the trust of our shareholders, we aim to consistently improve on LBF's profitability indicators. This means projecting LBF's profile as that of a prudent risk-taker with an eye for the next profitable trend – the primary driver of LBF. Our operating performance for 2019/20 no doubt proves this. Despite the relatively unstable macro-environment and the external and internal impacts, LBF performed admirably well to record an unprecedented profit result of Rs. 5.18 billion. LBF's ability to deliver consistent results while safeguarding stakeholders' interests even in these challenging times, points to solid fundamentals and a robust strategy as well as the tenacity with which we continue to manage our day to day business.

As to our employees, we strive to position LBF as a learning organisation that promotes development, upskilling and innovation at every level. Over the years, we have increased our investment in training and developing our workforce – based on the belief that a loyal and contented team is the best guarantee of success. This past year, LBF invested approximately Rs. 18.56 million on training to enhance the skills and knowledge of more than 1,400 employees at various levels across the Company. I am confident that each one will apply this new knowledge for the benefit of the organisation as well as the achievement of personal goals.

Meanwhile, having understood how technology can contribute in multiple ways towards the trust equation, LBF has accelerated its investment in IT-based solutions aimed at strengthening core infrastructure, streamlining internal workflow systems and augmenting the decision making processes. Simplification of our operating model in this manner, no doubt, improves our ability to identify and respond to risks and opportunities as they emerge. By modernising our technology, we aim to make our systems more resilient and create a more robust framework to address risk, while reducing the threat of cyber-attacks and data loss. We are now increasingly leveraging technology to provide "smart tools" that have the capability to support the financial wellbeing of LBF's customers. The launch of the LB-CIM mobile wallet application in November 2019 is one such example.

As a responsible corporate citizen LBF remains a firm champion of the national sustainability agenda. To reiterate its commitment, LBF launched the "Thuru Wawamu" initiative, with the intention of planting a total of 50,000 trees across the country by 2021. The project which was first launched in 2018 has since made steady progress with a total of 34,853 trees planted by end March 2020. Every tree planted is geo tagged and monitored to track its progress.

### **STRENGTHENING FOUNDATIONS**

Having assumed this mantle a mere two quarters ago, I have since been heavily involved with my fellow Directors in overseeing the ongoing transformation of LBF into one of the most versatile financial services institutions in the country. As part of this process, we have further refined the Company's governance framework by reviewing the system of existing policies and procedures to enable LBF to operate as a lean, nimble, and ethical organisation. This model of governance reflects our culture of performance, compliance and accountability. It supports LBF's core strategic drivers of growth, innovation, efficiency, and people.

I must admit, the fiscal and regulatory policy over the period under review has placed significant challenges before the Board in its efforts to realise our corporate/institutional goals. We acknowledge the need for official scrutiny and oversight of the non-banking financial sector and, at Board level, remain diligent about strict adherence to applicable compliance requirements. That said, innovation and entrepreneurship can only flourish in a conducive atmosphere and we welcome ongoing dialogue with regulatory authorities to further enhance our sector's contribution to national economic growth and prosperity.

### **MOVING AHEAD WITH CAUTION**

As LBF encounters the uncertain times that lie ahead, it is imperative that we remain fully focused on striking the right balance between risk and return. Meanwhile limited as we are by policy and fiscal structures, going forward, we must and will find new ways to grow our business, expand our customer base by reaching out to potential customers. In this regard, the Board is

committed to implementing a strategy of sustainable growth that will show the value of consistent and coherent organisational orientation over time.

Furthermore, there is no denying the impact on our business due to the economic fallout from the COVID-19 outbreak. With no precedent to help us prepare for what lies ahead, we expect to rely on our strong fundamentals and our dynamic yet prudent approach to business to underpin our journey over the forthcoming financial year.

I believe these efforts will be instrumental in helping us to address difficult times and it is crucially important to support LBF's efforts to repurpose its business model into a more resilient and future-ready format.

### **APPRECIATIONS**

Kudos to the management team and our staff at every level who put our plans, strategies and goals into operation through the day-to-day performance of their responsibilities. Their loyalty, perseverance and dedication to our common purpose has resulted in those outcomes which we are able to present to you in this review. Their ability and willingness to adopt and adapt to the changes we decide to bring about and those we are compelled to is an immeasurable source of strength.

Finally, let me offer my sincere appreciation to my immediate predecessor Ms. Shirani Jayasekera and Board colleagues past and present. It is their sagacity, width of knowledge and experience, patience and contribution that place us in the position we are in today. It then devolves on us, the present custodians of stakeholders' trust, to learn, to build, to thrive and to further advance on this collective journey. I have the privilege to invite your continued participation in that endeavour.



Anandhiy Gunawardhana  
Chairperson

22 June 2020

# MANAGING DIRECTOR'S REVIEW

## Strategic direction for business transformation

The Company's total assets grew from Rs. 136 billion at the end of March 2019 to Rs. 144 billion as at 31st March 2020. Might I add that over 90% of our asset base consists of income generating assets which are backed by solid securities.

Sumith Adhietty  
Managing Director



Let me begin my statement by providing the operating context that would offer greater clarity regarding LB Finance PLC's strategy and performance for the year ending 31st March 2020.

### OPERATING ENVIRONMENT

It is safe to say that 2019 was a difficult year for Sri Lanka. First the Easter Sunday terror attacks in April 2019 caused incalculable damage to human life and threatened Sri Lanka's hard-won socioeconomic progress, leaving the economy stagnating for much of the year while causing investor confidence to plummet to an all-time low. Thereafter, the uncertainty surrounding the November 2019 elections further dampened business sentiments. And just as it appeared that the economy was set for a rebound in early 2020, the COVID-19 outbreak brought the country to a virtual standstill amidst a nationwide curfew that lasted several weeks. Given the severity of these negative headwinds, a general weakening in the credit appetite was only to be expected. Moreover, as underlying economic weakness began to affect the prospects of individuals and businesses alike, the entire non-bank financial services sector was seen bracing for a sudden spike in non-performing loans. Therefore, it comes as no surprise that the sector performance

deteriorated during the year, marked by negative credit growth, declining profitability and increase in NPLs.

### BUSINESS STRATEGY

Although subdued market conditions and weak credit appetite did have a bearing on LBF's operations in 2019/20, the preemptive tactical measures employed throughout the year enabled us to minimise the negative impact as much as possible. Apprehensive about lending in an uncertain environment, we maintained a selective lending approach for our core auto financing business. We coupled this with strict risk discipline and tighter pre-credit customer screening to limit our exposure to certain industries that were badly hit following the Easter Sunday attacks. We further strengthened the post-credit monitoring programme to increase our vigilance and enhance our ability to take swift action based on early warning signals. In parallel, stronger emphasis was placed on recovery management with stricter supervisory oversight to reduce the likelihood of bad loans. These measures proved instrumental in consolidating our lending portfolio as well as improving our risk profile as suggested by below average non-performing loans. At 3.93% LBF's NPL ratio for 2019/20 remains lower than peers

and well below the industry average of 10.6% as at 31st December 2019.

It was however quite clear that the underlying market weaknesses did not have a significant impact on the demand for gold loans. Acting quickly to tap into what appeared to a robust demand for gold loans, we expanded our islandwide reach in the year under review. We also launched two new product propositions - the 'Vanitha Ran Naya' scheme specifically for women and the 'Premier VIP' product which offers a higher advance percentage for high net worth customers.

I must admit our deposit mobilisation activities slowed down significantly in 2019/20 mainly as a reactionary response to the low interest rate environment. Amidst this backdrop, we decided the best course of action would be to rationalise LBF's existing deposit portfolio. Meanwhile, as part of a broader strategy to pursue low cost funding sources, our new customer acquisition strategies were focused on mobilising term deposits with a longer tenure.

## FINANCIAL RESULTS

Our profitability has been increasing every year for the past decade, often surpassing many of our peer groups. In the current financial year too LBF continued with this trend, as proven by our robust results for the 12 months ending 31st March 2020.

At a time when the industry was stagnating, LBF's income increased by 6.64% year-on-year to reach Rs. 31.22 billion at the end of the financial year under review, while net interest income hit Rs. 15.54 billion, denoting an 8% increase in comparison to the previous year. Consequently total operating income for 2019/20 increased to Rs. 17.66 billion, up by 8% over the figure reported in the previous financial year. Furthermore, I am pleased to see that the strong emphasis on cost control has ensured our cost-to-income ratio has remained within the 33.44%, which was instrumental in safeguarding margins and enabling LBF to post an operating profit before tax of Rs. 9.88 billion for the year. Buttressed by these strong results, LBF reported profit after tax of Rs. 5.18 billion for 2019/20, a phenomenal achievement in trying times.

The Company's total assets grew from Rs. 136.39 billion at the end of March 2019 to Rs. 143.96 billion as at 31st March 2020. Might I add that over 90% of our asset base consists of income generating assets which are backed by solid securities.

Meanwhile LBF is known for having the lowest Non-Performing Loan (NPL) ratio in the industry, a status that we successfully maintained in the current financial year as well. In 2019/20 LBF recorded the industry's lowest NPL ratio of 3.93%, which no doubt is a reflection of our prudent lending strategies and the efficiency of our recovery methods.

In acknowledgment of our excellent financial performance, LBF was reaffirmed its A-(lka) credit rating with a stable outlook by Fitch Ratings Lanka Ltd. 2020 marks the fifth consecutive year in which Company has succeeded in maintaining its A-(lka) rating.

## OTHER KEY PRIORITIES

Undeterred by the negative headwinds in our immediate operating environment, we went ahead with planned initiatives to firm up LBF's core foundations. Signalling our intention to increase our bandwidth in the mainstream market, we continued with our branch expansion programme and

proceeded to open two new LBF branches within the 12 months period ending 31st March 2020. The year also saw the unveiling of LBF's premier centre at Colombo 07, while another branch in Negombo was also converted into a premier centre. The increase in our premier centres marks a turning point in our customer service journey for it underscores our desire to make in roads into new and emerging market segments.

Eager to expedite LBF's transformation toward becoming a fully-fledged digital financial institution, we set up the Digital Finance Unit (DFU) to focus exclusively on developing unique front-end digital channels that will add value to our customers. This is part of a bold new approach symbolic of our willingness to try out promising ideas. The launch of LB CIM (Cash in Mobile), our industry leading digital wallet experience in October 2019 was a proud moment for us as it is an idea conceptualised, developed and brought to life entirely by the DFU.

Based on the belief that technology is central to improving the efficiencies of LBF's physical infrastructure and our internal workflow systems, we further accelerated our technology investment agenda which led to the achievement of several important milestones. Among them is the LBF innovation centre which was set up with a dedicated team to focus on strengthening network support systems. Under the supervision of the innovation centre the data warehousing project was completed, in principle bringing all transactional data to a central data-base to give business units the ability to directly access analytical data. We also invested in sophisticated new software equipped with advanced machine learning tools to augment our management information systems. In yet another major development, we took the first steps towards systematically enhancing our existing ORACLE Fusion backend ERP system through a series of new add-on modules to streamline the workload of various internal departments.

With the economic fallout due to the COVID-19 pandemic yet to be ascertained, one thing we can all agree on is that the year ahead will be unpredictable. At the very least economic activity will be muted for a better part of 2020 as most sectors struggle to regain a semblance of normalcy after months in lock-down.

For LBF too the upcoming financial year would likely be a very trying one. With the COVID-19 situation still evolving the full impact remains to be seen. While it is difficult to make any concrete plans as it stands now, we have taken some early action to review various different scenarios and strategise on what the new normal would look like for LBF over the coming months. In this regard we are relying on the good work we have put in over the years to hold us in good stead and help us face the challenges that lie ahead. All in all, I am quite confident that stability that comes with our credit rating and our leading position in the local non-bank financial sector, along with the scale and the agility of our business model, will provide the impetus for LBF to target organic growth even during the most challenging economic cycle.

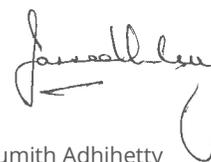
## APPRECIATIONS

I would like to end by thanking the LBF team for the commitment, energy and dedication they have shown over the years. Your loyalty and commitment has been a source of tremendous strength to the Company especially this past year. I wish to express my sincere appreciation to our chairperson and my colleagues on the Board for their support and counsel at all times.

Let me take this opportunity to extend a special word of thanks to our former chairperson Mrs. Shirani Jayasekara, for her leadership of the Company over the past two years. It has indeed been a pleasure working with her during this time and I wish her well in her future endeavours.

Let me also take this opportunity to thank the Governor of the Central Bank of Sri Lanka and the officials at the department of Supervision of Non-Bank Financial Institutions, for their support extended.

I conclude by thanking the shareholders and all other stakeholders of LBF for their invaluable support. I urge you to be a part of LBF's onward journey for I believe that together we can continue to make steady progress and achieve our goals for the next years.



Sumith Adihetty  
Managing Director

22 June 2020

# BOARD OF DIRECTORS

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



**Mr. Dharmadasa Rangalle**  
Non-Executive Director

**Mr. Ravindra Yatawara**  
Executive Director

**Mr. Ashane Jayasekara**  
Independent Non-Executive Director

**Mrs. Yogadinusha Bhaskaran**  
Non-Executive Director

**Mrs. Ashwini Natesan**  
Independent Non-Executive Director



**Mr. Dhammika Perera**  
Executive Deputy Chairman

**Mr. Niroshan Udage**  
Executive Director

**Mrs. Anandhiy Gunawardhana**  
Chairperson/Independent  
Non-Executive Director

**Mr. Sumith Adhihetty**  
Managing Director

**Mr. B D A Perera**  
Executive Director

# BOARD OF DIRECTORS

## **MRS. ANANDHIY GUNAWARDHANA**

**Chairperson/Independent  
Non-Executive Director**

### **Skills and experience**

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

### **Appointed to the Board**

On 1st March 2013.

### **Membership of Board Sub-Committees**

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

### **Current appointments**

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

### **Former appointments**

Director of the The Colombo Fort Land and Building PLC.

## **MR. DHAMMIKA PERERA**

**Executive Deputy Chairman**

### **Skills and experience**

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

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

### **Appointed to the Board**

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

### **Membership of Board Sub-Committees**

None

### **Current appointments**

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

### **Former appointments**

Chairman of Sampath Bank PLC.

## **MR. SUMITH ADHIHETTY**

**Managing Director**

### **Skills and experience**

A well-known professional in the marketing field, counts over 42 years of experience in the finance sector.

### **Appointed to the Board**

On 10th December 2003.

### **Membership of Board Sub-Committees**

Member of the Nomination Committee and Integrated Risk Management Committee.

### **Current appointments**

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

### **Former appointments**

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

Also served as the Managing Director of The Fortress Resorts PLC.

## **MR. NIROSHAN UDAGE**

Executive Director

### **Skills and experience**

Bachelor's Degree in Science from the University of Colombo and possesses 29 years of experience in the field of leasing and finance, including 10 years at Lanka Orix Leasing Company PLC and three years at Mercantile Investments Limited prior to joining L B Finance PLC in 2004. He followed a course in 2007 conducted by Intentional Development Ireland Ltd. in Dublin and London on Strategy and Management in Banking and also successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA.

### **Appointed to the Board**

On 1st January 2007.

### **Membership of Board Sub-Committees**

Member of the Integrated Risk Management Committee.

### **Current appointments**

Director of L B Microfinance Myanmar Company Limited.

### **Former appointments**

Director of Hayleys Fibre PLC.

## **MR. B D A PERERA**

Executive Director

### **Skills and experience**

An Associate Member of the Chartered Institute of Management Accountants ACMA, CGMA (UK) and holds a BSc (Business Administration) Special Degree from the University of Sri Jayewardenapura, successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA. Counts over 22 years of experience in the leasing industry that includes positions at Commercial Leasing Company Limited, Lanka Orix Leasing Company PLC and a Merchant Bank in Bangladesh.

### **Appointed to the Board**

On 1st January 2007.

### **Membership of Board Sub-Committees**

Member of the Integrated Risk Management Committee.

### **Current appointments**

Director of L B Microfinance Myanmar Company Limited.

### **Former appointments**

Director of Hayleys Fibre PLC.

## **MR. RAVINDRA YATAWARA**

Executive Director

### **Skills and experience**

Holds a BSc. Degree in Business Administration from the Oklahoma State University, USA. Counts over 25 years' experience in the Finance Industry, including both Managerial and Senior Managerial positions in the LOLC Group, Hatton National Bank PLC and AMW Capital Leasing PLC.

### **Appointed to the Board**

On 15th March 2016.

### **Membership of Board Sub-Committees**

Member of the Integrated Risk Management Committee.

### **Current appointments**

Director of L B Microfinance Myanmar Company Limited.

### **Former appointments**

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

## BOARD OF DIRECTORS

### **MRS. YOGADINUSHA BHASKARAN**

**Non-Executive Director**

#### **Skills and experience**

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

#### **Appointed to the Board**

On 15th March 2016.

#### **Membership of Board Sub-Committees**

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

#### **Current appointments**

Chief Executive Officer of Vallibel One PLC. Director of Vallibel Power Erathna PLC and Alternate Director to Mr. Dhammika Perera on the Boards of Dipped Products PLC, Hayleys Fabric PLC and Haycarb PLC.

Director of Delmege Limited, Delmege Air Line Services (Private) Limited, Delmege Aero Services (Private) Limited and Country Energy (Private) Limited.

#### **Former appointments**

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

### **MR. ASHANE JAYASEKARA**

**Independent Non-Executive Director**

#### **Skills and experience**

He is the Deputy Managing Partner of BDO in Sri Lanka & the Managing Partner for BDO in the Maldives. He heads the Risk, Cyber Security and the Fraud & Forensic Service Practice in the firm. As the IT Director he oversees the IS security strategy and privacy function in the Firm.

He has over 17 years of experience in overseeing corporate governance reviews, risk assessments and compliance audits in private, publicly listed, multinational and government enterprises across a range of sectors. He has also managed fraud & forensic investigations and has prepared Forensic Audit reports for cases ranging from arbitration hearings to Magistrates and High Court cases.

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

At CA Sri Lanka he currently serves as a Member of the Governing Council, Corporate Governance Committee, Forensic Accounting Faculty and a Board Member of the Board of Management of the School of Accounting & Business. He is a visiting faculty member at leading state and private sector universities and has played a pioneering role in the introduction and delivery of Fraud & Forensic Accounting as a subject in undergraduate and postgraduate programs in Sri Lanka.

#### **Appointed to the Board**

On 30th October 2017.

#### **Membership of Board Sub-Committees**

Chairman of the Integrated Risk Management Committee, Nominations Committee and Remuneration Committee.

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

#### **Current appointments**

Member of the Governing Council – Institute of Chartered Accountants of Sri Lanka.

Member of the Governing Council – Open University of Sri Lanka.

Director of the Information Systems Audit and Control Association (USA) Sri Lanka.

#### **Former appointments**

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

## **MRS. ASHWINI NATESAN**

**Independent Non-Executive Director**

### **Skills and experience**

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

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

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

### **Appointed to the Board**

1st September 2018.

### **Membership of Board Sub-Committees**

Chairperson Related Party Transactions Review Committee.

Member of Integrated Risk Management Committee.

### **Current appointments**

None

### **Former appointments**

None

## **MR. DHARMADASA RANGALLE**

**Non-Executive Director**

### **Skills and experience**

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

### **Appointed to the Board**

10th April 2019.

### **Membership of Board Sub-Committees**

Member of the Related Party Transactions Review Committee.

### **Current appointments**

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

### **Former appointments**

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

# SENIOR MANAGEMENT



**Mr. Marlon Perera**  
*Senior Deputy General  
Manager – Deposits*

Joined LBF in 1986

Over 33 years of experience in the finance industry and has held many managerial positions



**Mr. Bimal Perera**  
*Deputy General Manager  
– Strategy and Digital Finance*

CFA Charterholder, Certified FRM

Joined LBF in 2013

Over 17 years in the fields of corporate treasury, strategic planning, investment finance and risk management both locally and overseas



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

MBA (Aus.), MABE (UK)

Joined LBF in 2013

Over 29 years of experience in the fields of banking, leasing and finance industry



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

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

Joined LBF in 2010

Over 21 years of experience in the fields of information technology, information security, project management, software development, business intelligence, infrastructure and data communications predominantly in finance sector



**Mr. Roshan Jayawardena**  
*Senior Assistant General  
Manager – Microfinance*

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

Joined LBF in 2007

Over 30 years of experience in the fields of banking, leasing, finance, marketing and business development



**Mr. Prasanna Kalinga**  
*Assistant General Manager  
– Human Resources*

BA (MGM), KDA, IPMA certified  
professional

Joined LBF in 2016

Over 21 years of industry experience both locally and overseas



**Mr. Wickrama Punchihewa**  
*Assistant General Manager – Legal*

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

Joined LBF in 2017

Over 18 years as an Attorney-at-Law and experience in non-banking finance sector and commercial law sector



**Mr. Kalpa Sanjeewa**  
Assistant General  
Manager – Credit and  
Branch Operations

MBA (UK).

Joined LBF in 2005

Over 19 years of  
experience in the areas  
of credit, marketing,  
recovery and branch  
operations



**Mr. Malith Hewage**  
Assistant General Manager  
– Finance

BSc Accounting (Sp) (University of  
Sri Jayewardenepura), ACA (SL),  
AIB (SL)

Joined LBF in 2013

More than 10 years of  
experience in the fields  
of financial reporting,  
accounting and auditing



**Mr. Suneth Dabarera**  
Chief Internal Auditor

MBA (University of Sri  
Jayewardenepura), FCA (SL), ACMA  
(SL), MAAT (SL)

Joined LBF in 2019

Over 17 years of experience  
in the fields of auditing and  
finance in banking and finance  
sectors



**Mr. Chintaka  
Chandrasena**  
Chief Manager – Credit  
and Branch Operations

MBA (UK).

Joined LBF in 1996

Over 24 years of  
experience in the areas  
of credit, marketing,  
recovery and branch  
operations



**Mr. Hirantha  
Jayasinghe**  
Chief Manager – Credit  
and Branch Operations

MBA (UK)

Joined LBF in 1999

Over 21 years of  
experience in the areas  
of credit, marketing,  
recovery and branch  
operations



**Mr. Kenneth Daniel**  
Chief Manager – Credit  
and Branch Operations

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

Joined LBF in 2011

Over 25 years of  
experience in the leasing,  
finance and banking  
industry



**Mr. Gayan Ayuwardane**  
Chief Manager  
– Central Region

MBA (UK)

Joined LBF in 2015

Over 18 years of  
experience in the leasing,  
finance and banking  
industry

## SENIOR MANAGEMENT



**Ms. Nirosha Amanulla**  
*Senior Manager*  
– Kandy Branch

Joined LBF in 1985

Over 34 years of experience in the financial industry and her career features many managerial positions



**Mr. Shanaka Perera**  
*Senior Manager*  
– Administration

Joined LBF in 1998

Over 22 years of experience in the fields of administration and procurement



**Mr. Suraj Karunanayaka**  
*Senior Manager – Gold Loan*

BSc. Physical Science (University of Kelaniya)

Joined LBF in 2016

Over 11 years of experience in the banking and finance industry



**Mr. Gihan De Silva**  
*Senior Manager - Recoveries*

AMDP (PIM University of Sri Jayewardenepura)

Joined LBF in 2004

Over 18 years of experience in the finance industry



**Ms. Deshika Yatawara**  
*Senior Manager – Treasury*

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

Joined LBF in 2008

Over 11 years of experience in the field of finance



**Mr. Dinusha Mudunkotuwa**  
*Senior Manager*  
– Business Analysis

BICT (University of Colombo), ACMA(UK), CGMA, PMP (PMI USA).

Joined LBF in 2017

Over 10 years of experience in the fields of information technology, accounting and auditing, specializing in banking and finance sector



**Mr. Sudeep Perera**  
*Head of Marketing*

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

Joined LBF in 2017

Over 16 years of marketing experience in the fields of travel, automobile, consumer trade, banking and finance



**Mr. Dayan Prasanna**  
*Senior Manager - Finance*

ACMA, CGMA, MBA (PIM-USJ)

Joined LBF in 2020

Over 10 years of experience in the fields of finance reporting, accounting and auditing



**Mr. Dinudaya Abeywardena**

*Senior Manager  
– Corporate Lending*

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

Joined LBF in 2016

Over 15 years of experience  
in the banking and finance  
industry



**Mr. Anil Bandara**

*Senior Manager  
– IS Audit and Compliance*

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

Joined LBF in 2016

Over 28 years of experience  
in information system and  
general audits experiences  
both locally and overseas



**Mr. Waruna Perera**

*Country Manager  
– Myanmar*

Joined LBF in 2019

Over 16 years of experience  
in the areas of microfinance  
and recovery in both locally  
and overseas



**Ms. Zairaa Kaleel**

*Compliance Officer*

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

Joined LBF in 2016

Over 13 years of experience  
in the fields of banking,  
finance and capital markets



**Ms. Waruni Perera**

*National Manager  
– Risk Management*

ACMA (UK), CGMA, MA in Financial  
Economics (University of Colombo), B.Sc  
(Hons) in Accounting (Sp) (University of  
Sri Jayewardenepura)

Joined LBF in 2013

More than 10 years of experience  
in the fields of risk management,  
corporate planning and equity  
research



# MANAGEMENT DISCUSSION AND ANALYSIS

## Our Operating Environment

Amidst this backdrop, the Sri Lankan economy managed to record muted growth of only 2.3% in 2019, compared to growth of 3.3% in 2018.

### SRI LANKAN ECONOMY

It is a fact that 2019 was one of the toughest years in Sri Lanka's recent history. The Easter Sunday terror attacks in April 2019 had far-reaching consequences on the country's economic progress. In the aftermath of the attacks, the slump in economic activity worsened. Several key industries were left crippled while business confidence took a tumble.

Given the impact of the Easter Sunday attacks on tourism related activities, the growth of the services sector decelerated significantly in 2019. The agriculture sector meanwhile, which continued to be plagued by erratic weather, failed to register any notable growth. It is noteworthy however that the performance of the industry sector showed a slight improvement in 2019 compared to the previous year. This was supported largely by export oriented industries that benefited from external factors such as the restoration of the GSP+ programme and shifting global trade patterns caused by US-China trade tensions.

Against this backdrop, the Sri Lankan economy managed to record muted growth of only 2.3% in 2019, compared to growth of 3.3% in 2018. Subdued economic growth, coupled with the sharp depreciation of the Sri Lankan Rupee towards end 2018, resulted in a substantially depreciated average exchange rate in 2019.

Inflation remained largely under control, thanks to subdued demand conditions and well-anchored inflation expectations that saw both headline and core inflation move broadly in the desired mid single digit range throughout 2019. Moreover, tighter fiscal controls aimed at curtailing import expenditure resulted in a notable improvement in the country's trade and current account balances, which, along with significant inflows to the financial account, helped strengthen gross official reserves. The improvement in the trade balance was mainly due to lower import expenditure the result of ongoing fiscal policy measures to curtail imports. A modest growth of export earnings also contributed towards lowering of the trade deficit in 2019.

Interestingly Sri Lanka managed to achieve an important milestone in its economic journey by graduating to the upper middle income country status, in terms of per capita Gross National Income (GNI), as per the World Bank's country classification in 2019.

Meanwhile just as domestic economic activity appeared to be showing early responses to the policy measures taken to revive the economy and improve business sentiments, the COVID-19 pandemic in March 2020 put an end to what little progress was made in the first two months of 2020. Steps taken by the Government to curb the spread of the virus including a nationwide lockdown starting mid-March 2020 pushed the country to the brink of a crisis as economic activity came to a complete standstill for several weeks thereafter.

*Source: CBSL Annual Report 2019*

### Outlook for 2020

It is quite likely that the COVID-19 containment measures adopted by all countries including Sri Lanka will paralyse global supply chains and dampen global trade prospects in 2020. However, with the situation still evolving, it is impossible to gain a measure of the challenges that Sri Lanka would encounter in the months ahead. However as it stand now, one thing remains clear: the country's economic performance in 2020 will be severely handicapped in terms of its growth as the Government makes necessary adjustments to safeguard the fiscal and external sector and maintain the stability of the country's financial system.

The sector posted a profit after tax of Rs. 14.5 billion, a decline of 31.9% year-on-year from the profit recorded in year 2018. Consequently a steep decline in both ROA and ROE was only to be expected.

### **NON-BANK FINANCIAL INSTITUTIONS (NBFI) SECTOR**

It was a tough year for the local NBFI sector amidst a notable slowdown in lending activities. This was due to several factors, but mainly weak economic and commercial activity in the months following the Easter Sunday terror attacks and thereafter due to political uncertainty ahead of the Presidential Election in November 2019. Government efforts to curtail imports through strict macro prudential policy measures, such the LTV ratios to control credit facilities granted in respect of motor vehicles, also continued to dampen the credit appetite from businesses and individuals alike.

A culmination of these factors saw the volume of credit provided by the NBFI sector in 2019 decline by 3.0% year-on-year, compared to growth of 7.6% reported in 2018. Within the lending portfolio, the demand for finance leases, secured loans and advances and hire purchases, all contracted in 2019, while gold loan advances increased significantly compared to the previous year.

#### **Asset Base**

As a result of the slowdown in lending activities, the NBFI sector asset base did not expand in 2019. The general composition of the asset base however remained unchanged from the previous year, with loans and advances accounting for the majority of the total.

#### **Asset Quality**

A significant deterioration was seen in sector-wide asset quality in 2019, mainly as a result of the economic slowdown following the Easter Sunday attacks, as well as the deceleration of lending activities and the spillover effects of the Debt Relief Programme announced by the Government in 2018. Reflecting the stress on asset quality, sector-wide gross Non-Performing Advances (NPA) ratio jumped to 10.6% by end December 2019, from 7.7% reported at end December 2018. Stemming from this, the sector reported higher impairment charges for 2019.

#### **Profitability**

Challenged by higher impairment charges, the NBFI sector profitability fell sharply in 2019. The sector posted a profit after tax of Rs. 14.5 billion, a decline of 31.9% year-on-year from the profit recorded in year 2018. Consequently a steep decline in both ROA and ROE was only to be expected.

#### **Funding and Liquidity**

Despite being challenged on other fronts, the sector as a whole succeeded in maintaining its capital and liquidity buffers well above the regulatory minimum levels. All NBFI were seen taking keen action to enhance their minimum core capital to comply with the CBSL mandated Rs. 2.0 billion requirements by 1st January 2020. Hence the sector's core capital and total Risk Weighted Capital Adequacy Ratio (RWCAR) stood at 11.1% and 12.5%, respectively, by end December 2019, compared to 9.8% and 11.1% respectively reported in 2018.

Furthermore, the sector continued to maintain adequate liquidity buffers well above the regulatory minimum levels, with the overall regulatory liquid assets available as at end December 2019 indicating a surplus against the stipulated minimum requirement. The sector-wide liquidity ratio (liquid assets on deposits and borrowings) increased to 11.3% at end December 2019, from 9.6% recorded at end December 2018.

Deposit mobilisation activities continued to remain the primary source of funding for the NBFI sector. Deposit growth accelerated in 2019, while borrowings declined.

*Source: CBSL Annual Report 2019*

#### **Sector Outlook for 2020**

The year ahead is expected to bring several challenges for the NBFI sector. The end of the debt moratorium granted to the tourism and Small and Medium Enterprises (SMEs) sectors in 2019 is likely to further push up non-performing loans across the NBFI sector. Moreover the adverse economic impacts of the COVID-19 pandemic would also be a key determinant of sector prospects for 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Stakeholder Management

### ADDRESSING STAKEHOLDER INTERESTS

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

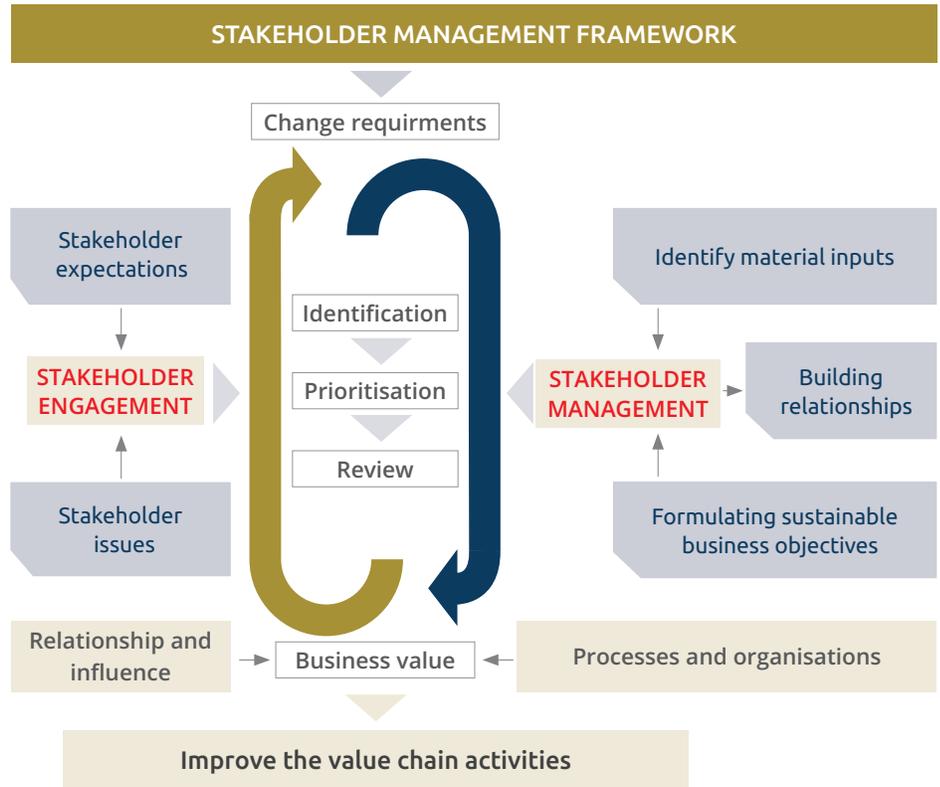
#### Identifying Our Priority Stakeholders

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

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

#### Responding to Our Stakeholders

Our stakeholders are those individuals or groups that have an interest in our success or failure and whose opinions and actions can impact on our ability to execute our strategy and conduct our business activities.



### PRINCIPLES OF ENGAGEMENT

#### Purposeful

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

#### Relevant

Selecting the most suitable engagement methods to engage with stakeholders.

#### Open and honest

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

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

#### Inclusive

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

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

#### Responsive

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

Visit web page for more information on the stakeholder engagement framework

	<b>Stakeholder Engagement</b>	<b>Materiality Analysis</b>

<https://bit.ly/lb-stakeholder>

<https://bit.ly/lb-materiality>

# Operational Performance



## INVESTING

### Fixed Deposits

It was quite a challenging year for deposit mobilisation activities. A significant deterioration in the investment climate was observed after the Easter Sunday terror attacks in April 2019. And as economic activity weakened considerably in the months following the attack, the business community and individuals alike were seen moving out their investments in order to prioritise their debt servicing obligations. Moreover, the CBSL's decision to revise downward the policy rates on three separate occasions during the latter half of 2019, also had a bearing on the ability to mobilise deposits from the market.

Amidst this backdrop, LBF made a strategic decision to rationalise its fixed deposit base while aggressive Island-wide promotional activities continued in order to focus the smaller ticket retail deposits.

With regard to new customer acquisitions, the focus was on mobilising term deposits with a longer tenure. As such island-wide promotional activities were directed mainly towards capturing 12 and 24 month retail deposits. Moreover, as an effort to support customers to manage their liquidity requirements in the uncertain economic times, LBF began accepting retail deposits for any tenure specified by the customer. A special initiative to reach out lost customers was also undertaken by the call center, while corporate deposits were pursued on a selective basis. Bolstered by these efforts, LBF's fixed deposit base grew by 6.87% year-on-year, compared to 14.83% in 2018/19. The customer base too grew marginally, albeit at a much lower pace over the previous year.

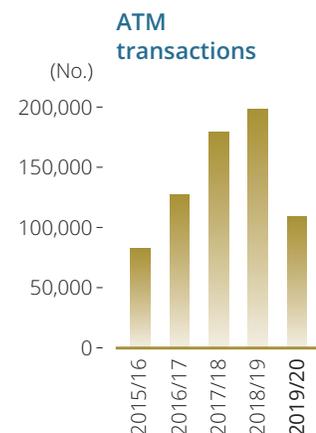
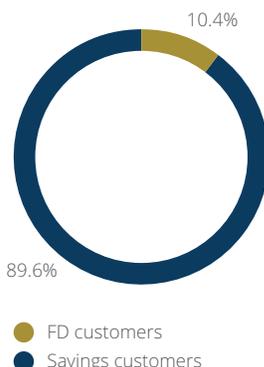
## Savings

The general propensity to save was affected by the low interest rates and other economic challenges, making it quite difficult for LBF to promote its savings proposition in the market. In response, year round promotional activities for the senior citizens savings product continued under LBF's iconic "Yasaisuru" campaign, while cross selling activities were intensified specifically to promote the general and children's savings products. To complement these efforts several improvements were made to enhance the existing savings propositions. The children's savings product was revamped and relaunched in mid 2019, while Visa PayWave enabled debit cards were issued to all general savings and senior citizen savings account holders.

A culmination of these efforts led to a 21.14% year-on-year increase in LBF's savings base, with notable increases seen in the senior citizens and children's savings portfolios.



### Deposit customer composition



Total deposit customer base grew by

**13.48%**

FD customer base grew by

**2.16%**

FD base grew by

**6.87%**



Watch video

[https://bit.ly/lb-yasa\\_isuru](https://bit.ly/lb-yasa_isuru)

### Operational Performance



**LBF's financing strategy is aligned to the Company strategy. The consistent execution of our strategy is moving us closer to our long term, medium term and short term aspiration to be the leading lending solutions provider in Sri Lanka.**

#### FINANCING

##### Leasing

Leasing and Auto Finance – the mainstay of LBF's lending operation – came under pressure in the year under review due to multiple challenges in the immediate operating environment. Ongoing challenges include: the declining appetite for unregistered vehicles due to price increases driven by higher import duties and the depreciation of the rupee. Furthermore, the Government imposed loan-to-value restrictions also remains severe deterrent for customers, especially individuals considering vehicle leasing. As per LBF's customary strategy for managing these challenges, renewed focus was placed on developing the registered vehicle market in the current financial year.

However, dealing with the economic fallout following the Easter Sunday terror attacks required a much broader response. In light of the economic stagnation following the attacks and their crippling effect on the demand for leasing and auto finance, the Company revisited its overall lending approach. Accordingly, a selective lending approach together with stricter pre-credit screening was applied to limit the exposure to certain industries that were badly hit following the Easter Sunday attacks.

Meanwhile, as the uncertainty surrounding the Presidential Election in November 2019 began to impact on general business sentiments, LBF redirected its lending focus to specific sectors that appeared to have been less affected by these changes. Nonetheless LBF's leasing and auto finance volumes remained flat in 2019/20, showing little or no growth compared to the previous year.

Further extending the cautious approach, tighter controls were implemented to minimise the escalation of Non-Performing Loans especially from high risk industries. These efforts enabled LBF to restrict NPLs to 3.93% in 2019/20, considerably lower than the industry average of 10.6% as at 31st December 2019.

##### Gold Loans

LBF's gold loan operation continued to grow in the current financial year, enabling the Company to cement its position as the market leader for gold loans (within the NBF sector). The focus for 2019/20 was to leverage on the growing demand for gold loans in the market, especially with more and more customers using gold loan advances as a solution to support their working capital requirements and business expansion activities. Accordingly, a number of new products were added to LBF's gold loan portfolio, among them the 'Vanitha Ran Naya', a special scheme targeting small scale women entrepreneurs. Value enhancements such as the customer loyalty card were also introduced to differentiate LBF's offering from that of peers, while focused promotional activities continued throughout the year to drive growth of all products. Meanwhile to ensure LBF's gold loan proposition is accessible to a wider audience across the country, new gold loan centres were opened at the newly-set-up Marawila branch and at the newly-commissioned premier centre at Colombo 07.

Focused efforts to keep NPLs to a minimum saw two new channels being made available for customers to settle dues. Accordingly, gold loan payments can now be made through the Deposit Kiosk Machines located at branches as well as through the newly-launched LB CIM mobile wallet platform.

##### Micro Leasing

It was a tough year for LBF's micro leasing unit, which specialises in leasing of both unregistered and registered three wheelers. As was the case since 2016, the demand for unregistered three wheelers remained low in the year under review as well, primarily due to the Government imposed loan-to-value rules in place. To add to this the price of unregistered continued to increase further, driven by higher duties and the ongoing Rupee depreciation, making it increasingly less affordable for customers to purchase brand new three wheelers. This scenario has given rise to a strong demand for registered three wheelers in the recent past.

In 2019 the demand for unregistered three wheelers declined noticeably on account of the weak economic conditions in the country. Given this limited market, competitive pressures also intensified significantly in the year under review.

In this environment, LBF redoubled its direct promotional efforts in order to deepen the penetration into the registered three wheeler market across the island. Growing refinance volumes was another key priority in the year.

It is also noteworthy that micro leasing NPLs were contained below the industry average. This was largely due to the stricter procedural controls put in place to strengthen pre-credit evaluation, tighten post-credit monitoring and follow up as well as streamlined recoveries.

### Mortgage Loans

In light of the weak economic conditions in 2019, a strategic decision was made to scale back on several of the products offered under the mortgage loan portfolio. Consequently, the focus for 2019/20 was predominantly on housing loans. In this regard, specific BTL activities were carried out across the country along with targeted initiatives to tap into the Sri Lankan expatriate communities in Europe, Middle East and East Asia. Supported by these strategies LBF's housing loan portfolio grew steadily throughout the financial year. Housing loan portfolio grew by 78.30% year-on-year from the figure reported in the previous year.

### Personal Loans

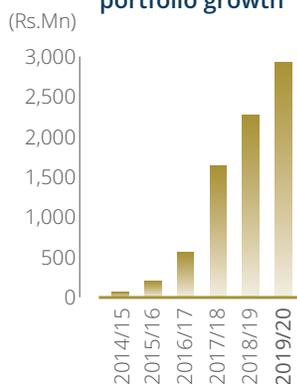
As poor economic conditions began to cause a deterioration in disposable incomes, LBF decided to scale back on granting of salaried personal loans and instead redirect its focus towards promoting mainly pension loans on the basis that the pension is assigned to the Company. A number of additional safeguards were also implemented to maintain strict control over recoveries.

Extensive country-wide promotional activities to tap into the right target groups was largely responsible for sizeable growth in the pension loans portfolio for 2019/20.

### OUR PRODUCT OFFERINGS



### Personal loans portfolio growth

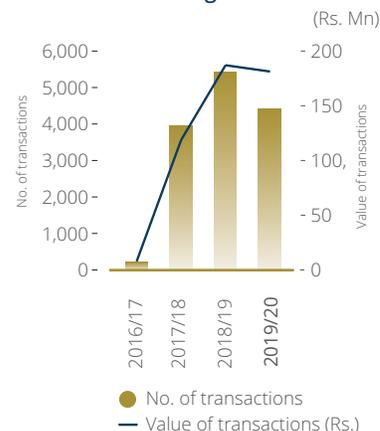


### VALUE ADDED SERVICES

#### Foreign Currency Operation

It was a challenging year for LBF's foreign currency operation, which is largely dependent on the country's tourism industry. As the tourism industry came to a virtual standstill in the aftermath of the Easter Sunday attacks, the movement of foreign currency within the country also dropped sharply. LBF's foreign currency operation too was directly affected by this. However, in bid to counteract this drop in volumes, LBF began pursuing strategic B2B partnerships in an effort to meet volume targets.

### Foreign currency volume growth



### Western Union

Given the highly competitive nature of the inward remittances business, LBF initiated an aggressive BTL campaign coupled with targeted promotional activities through its island-wide branch network. Backed by these efforts, LBF was able to achieve volume targets for the year. In an important development, LBF received approval to commence repatriation activities (outward remittances).

### Pay Hub

LBF's pay hub is a utility bill settlement platform offered to both customers and non-customers. In 2019/20 pay hub was integrated with the LB CIM mobile wallet platform, which has been responsible for doubling the volumes in the current financial year compared to the previous year.

### Rent-a-Car

With the economic downturn affecting most sectors of the economy, the demand for the rent-a-car facilities noticeably declined, prompting an internal decision to cut back on aggressive promotional activities in this regard.

### OUR PRODUCT OFFERINGS



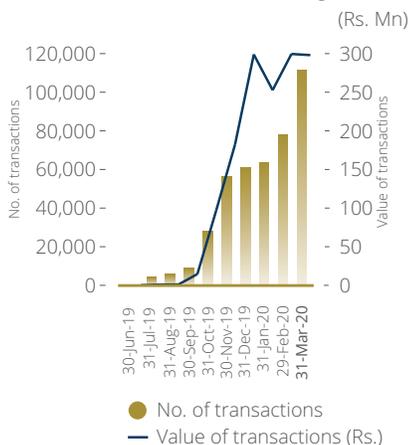
## Business Development Activities

### DIGITAL FINANCIAL SERVICES UNIT (LB DFS)

The DFS unit was set up in March 2019 as part of a focused effort to support LBF's migration towards becoming a fully-fledged digital financial institution. In this context, the DFS unit has been assigned a clear mandate to focus on enhancing end-to-end customers experience by:

1. Developing unique front-end digital channels that will add value to the customer. The launch of the LB CIM digital wallet is the first milestone in the DFS unit's journey.
2. Recommending improvements to back-end customer support systems that will improve the service delivery to the customer.
3. Provide a secure and convenient mobile platform to mobilise digital savings.

#### LB CIM transaction growth



### INFRASTRUCTURE INVESTMENT

#### Branch Network

LBF's branch network plays a vital role in delivering the Company's value proposition to the mainstream market. LBF's network of 129 branches and 36 dedicated gold loan centres across the Sri Lanka serve over 600,000 customers around the country.

Taking steps to expand the island-wide branch footprint, two new branches

opened within the 12 months ending 31st March 2020. This included LBF's third premier centre which was opened in Colombo 07. The decision to expand the number of premier centres is in response to the expectation of a highly personalised experience by our high net worth depositors. Working along these lines, the second branch of LBF in Negombo was also converted into a premier centre. With this, LBF now maintains premier centres in four locations - Kurunegala, Mount Lavinia, Colombo 07 and Negombo.

Also during the year, Matugama, Kilinochchi, Negombo, Slave Island and Kotte outlets were relocated to more central locations to make them easily accessible by customers in the immediate vicinity and surrounding areas.

### IT SYSTEMS

LBF's IT systems provide business critical support to ensure the smooth functioning of day-to-day operations. In the year under review, the following initiatives were implemented to further strengthen the Company's IT infrastructure;

- The data warehousing project was completed to bring all transactional data to a common platform enabling business units to directly access analytical data. This was also facilitated by introducing an analytical platform, which works to enhance the visualisation and analytical capability of information with the use of multiple dashboards. The first phase of this initiative was rolled out to fixed deposits business. With the tabular interactive analytics and external scenario analysis, the dashboard gives the management a robust set of indicators to forecast business performance over time.
- ORACLE Fusion cloud based ERP system was expanded with two new modules added on to support planning and budgeting as well as profitability management. This has enabled the management to be more proactive in

scenario analysis and also implement rolling budgets that are more realistic.

- Established a dedicated centre for technology and innovation, to overcome the challenges in the dynamic business environment.
- Business continuity is vital when you manage the critical business operations. To facilitate this L B Finance shifted its Disaster Recovery Data Centre to Sri Lanka Telecom, the national telecommunication service provider dedicated 'Data Centre' in Pitipana, Sri Lanka. This facility is one of the best tier-3 design build data centres in Sri Lanka.
- LBF carried out an external Disaster Recovery drill over one month period to prove its capabilities. Business continuity process was carried out for both Head Office and its branch operations.

Meanwhile, ongoing efforts to leverage on technology in order to streamline internal processes, saw the following initiatives being implemented during the year; ATM switch which was hosted at Sampath Bank, shifted to LBF's own data centre from which it enabled LBF to join Lanka Clear common ATM sharing facility. This enabled LBF debit card holders to access their cash from all 'Lanka Pay' enabled ATMs around the country at a nominal fee. By introduction of common cashier Interface, combining all business systems, the customer experience 'over the counter' transaction was streamlined and reduced customer waiting at the counter significantly.

Improved the third party bill payment facility to provide more efficient online real time payment settlements. L B Finance enhanced its branch connectivity with the latest technology from the national telecommunication service provider - Sri Lanka Telecom, to serve better service to its customers. This also include SDWAN (Software Defined Wide Area Network) solution which replaced the low bandwidth VPN in large/super grade branches.

## LB CIM DIGITAL WALLET

The LB 'CIM' (Cash in Mobile) is essentially a smartphone app that functions as a digital wallet and serves as an alternative to cash used for day-to-day transactions. CIM offers two distinct apps – the CIM customer app that is geared to support customer needs and the CIM business app which is a merchant interface offering back-end support to service providers.

The CIM customer app serves as an interest-earning savings account, that sits inside the users smart phone and functions as a wallet that can be used at any time to make payments to CIM-registered merchants simply by scanning the relevant merchant's QR code. In order to enable interbank QR payments, the app has been developed in compliance with Lanka QR- the guidelines of the national QR code system. Customers can also use the CIM app to service their loans and leases with LBF, transfer money instantly to any bank, pay their utility bills, mobile reloads, etc, thus eliminating the need to go in search of ATMs to withdraw money for daily purchases.

The CIM business app acts as a platform for retail merchants to develop their businesses by managing their cash flows more efficiently and securely, while earning interest on the savings balance stored in the mobile wallets.

Since its launch in October 2019, the CIM Wallets have channelled over Rs. 1.5 billion, performing close to 500,000 transactions successfully. In the six months ending 31st March 2020, a total of 23,000 registered app users were recorded.



129

Branches



36

Gold Loan Centres



3,606

Employees

165

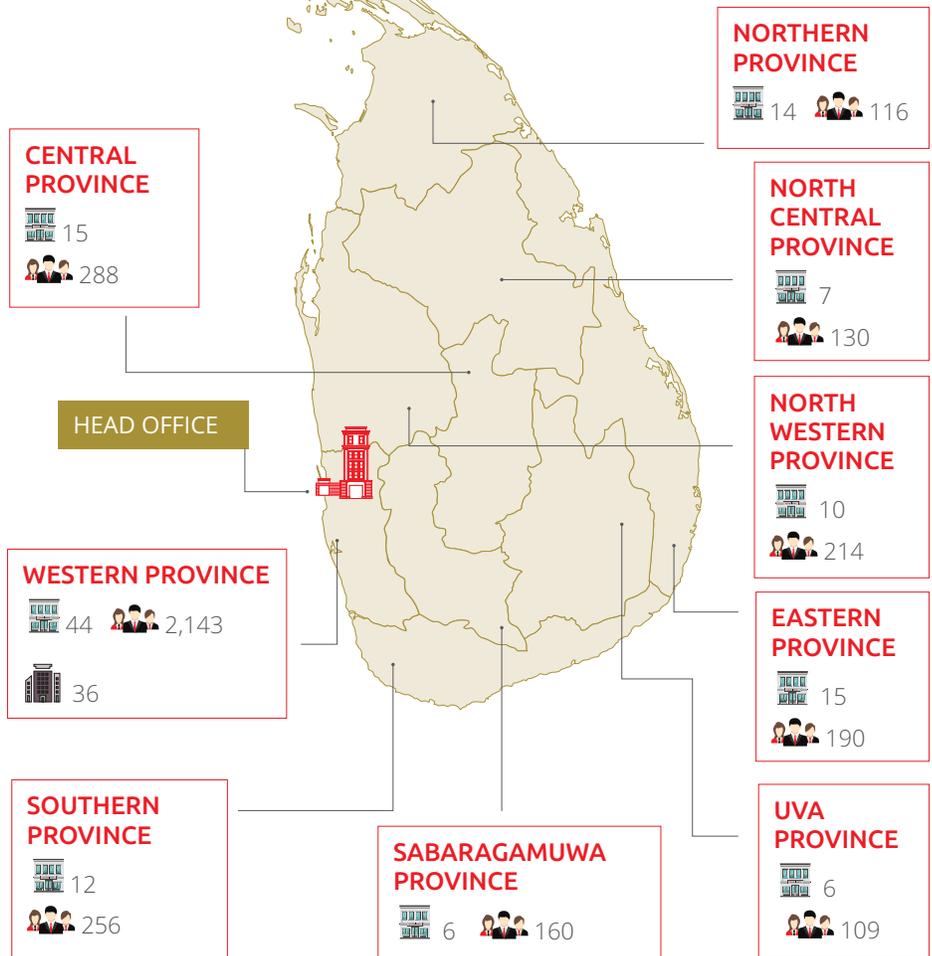
Locations



LB Microfinance  
Myanmar  
Company  
Limited

07

Locations



Branches



Gold Loan Centres



Employees



Visit web page for more information on list of branches

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

## BUSINESS DEVELOPMENT ACTIVITIES

The Company's Performance Management System (PMS) was further strengthened with the inclusion of several behavioural competency indicators to help assess the behavioral performance of each employee.

Rs. 18.56 million in training activities focused on several areas: finance, risk, technology, motivational and information security and compliance.

### HUMAN RESOURCES DEVELOPMENT

LBF's people development programme for 2019/20 was focused on developing the workforce based on a 'Think Forward' strategy. The main aim here is to empower people to stay a step ahead in both in business and in life. Key highlights for the year include;

- Rs. 18.56 million in training activities focused on several areas: finance, risk, technology, motivational and information security and compliance.
- A new partnership between LBF and the Sri Lanka Credit Management Institute (SLCI), was established to launch a certified professional course for the Company's credit officers.

- Improvements were made to the e-learning platform where key aspects of the orientation programme such as the Company's IT Policy and Compliance Policy were migrated to the e-learning platform. A basic career guidance series was also added on to the e-learning platform to help new recruits to understand LBF's corporate culture and future prospects.
- The Company's Performance Management System (PMS) was further strengthened with the inclusion of several behavioural competency indicators to help assess the behavioral performance of each employee.



## CSR ACTIVITIES

Project	Cost incurred (Rs.)	No. of beneficiaries	No. of volunteers	Total volunteers hours
Pre-School Development Project	7,312,291	Unlimited	354	7,783
Installing Direction Boards inside Dehiwala Zoological Garden	2,400,000	Unlimited	6	36
Art Competition for kids	1,425,000	Above 5,000	459	4,590
Sponsoring Inter University Talent Competition	600,000	Above 5,000	25	136
Tree Planting Programme	7,770,000	Unlimited	453	4,569
O/L Seminar Programme	1,500,000	1,180	18	186
Donation of Stationery Items	200,000	780	200	1,200
Sponsoring Commando Basketball Team	158,000	15	8	53
Advanced Level Seminar Programme	100,500	300	25	159
Helping Ruth Children's Home	209,600	30	5	87
Carbon footprint Calculation	300,000	Unlimited	15	96
Energy Saving Competition	30,000	Unlimited	6	93
Readers Club Project	100,000	Above 400	12	69
Annual Blood Donation Campaign	130,000	Unlimited	62	496
Beach Cleaninig Programme	15,000	Unlimited	46	496
Early Childhood Development Centre	10,000	Above 50	3	42
International Mathematics Competetion	268,650	4	4	40
<b>Total</b>	<b>22,529,041</b>	<b>-</b>	<b>1,701</b>	<b>20,131</b>



'Hada Ulpatha' Stationary donation programme



Sponsoring Inter University Talent Competition



L B Finance Little Heros Art Battle



LB Sisu Saviya Advanced Level seminar programme



Pre-School Renovation Programme



Sponsoring Commando Basketball team

# SUMMARISED CAPITAL REPORTS



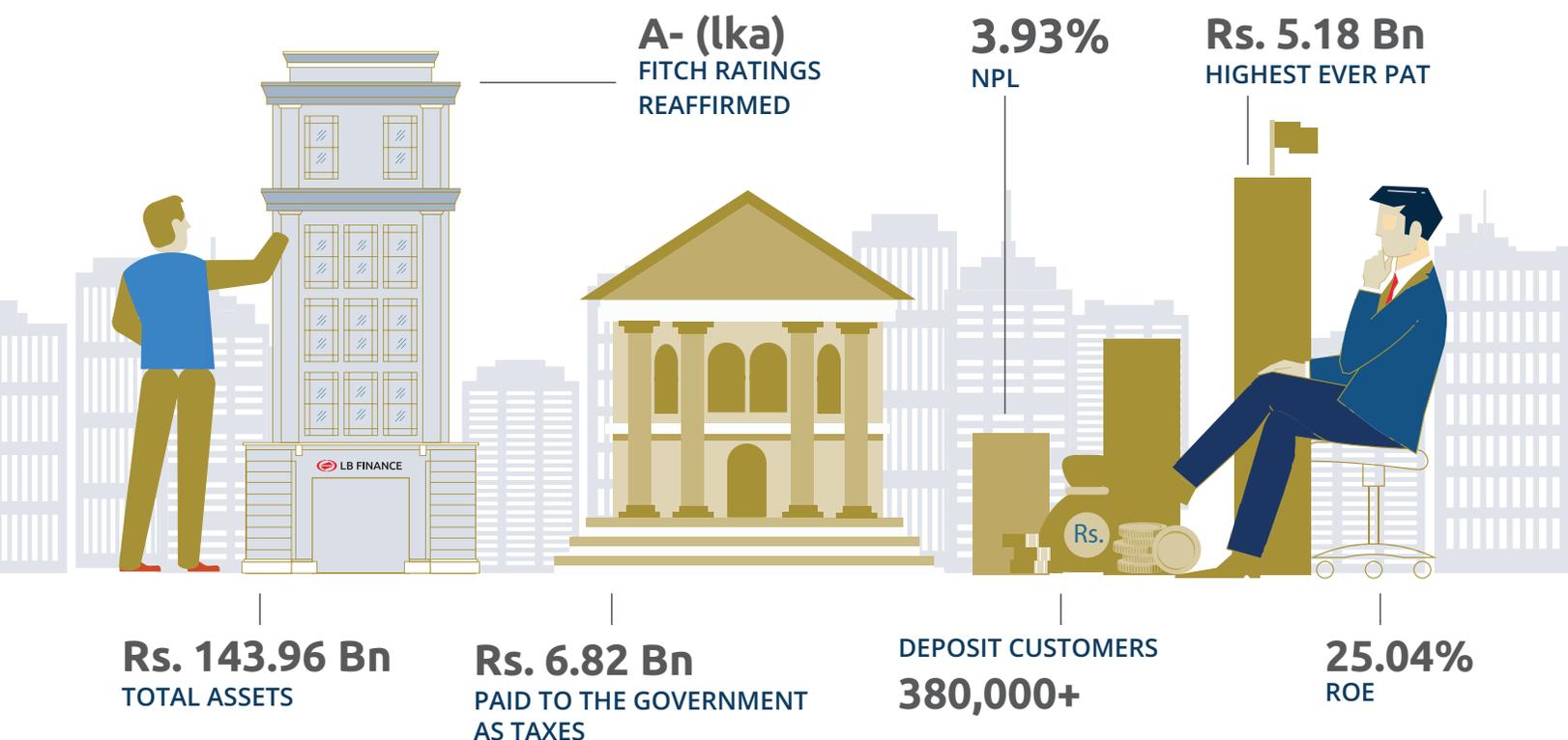
## In-Depth review of our Financial Capital

### WHAT IT INCLUDES

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

### HOW IT ADDS VALUES

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

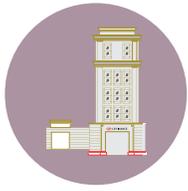


### STRATEGIC RESPONSES FOR 2019/20

- Maintained Non-performing loan ratio below the industry average
- Maintained NIM at same levels as previous years by re-pricing assets and liabilities throughout the financial year
- Accelerated technology investment developing unique front end digital channels that will add value to customers

### REFLECTING 2019/20

Key indicator	Our performance 2019/20	Priorities 2020/21
Maintain the industry's lowest Non-performing loan ratio	Achieved the industry's lowest NPL ratio of 3.93%	Withstand the same level
Invest in high yielding lending assets and securities while maintaining optimum risk-return trade-off	NIM recorded at 11.96%	Improved NIM through effective fund management strategies
Forefront in technological transformation	Launched of LB CIM (Cash in Mobile), an industry leading digital wallet experience	Implementation of ORACLE planning/ budgeting module and profitability module



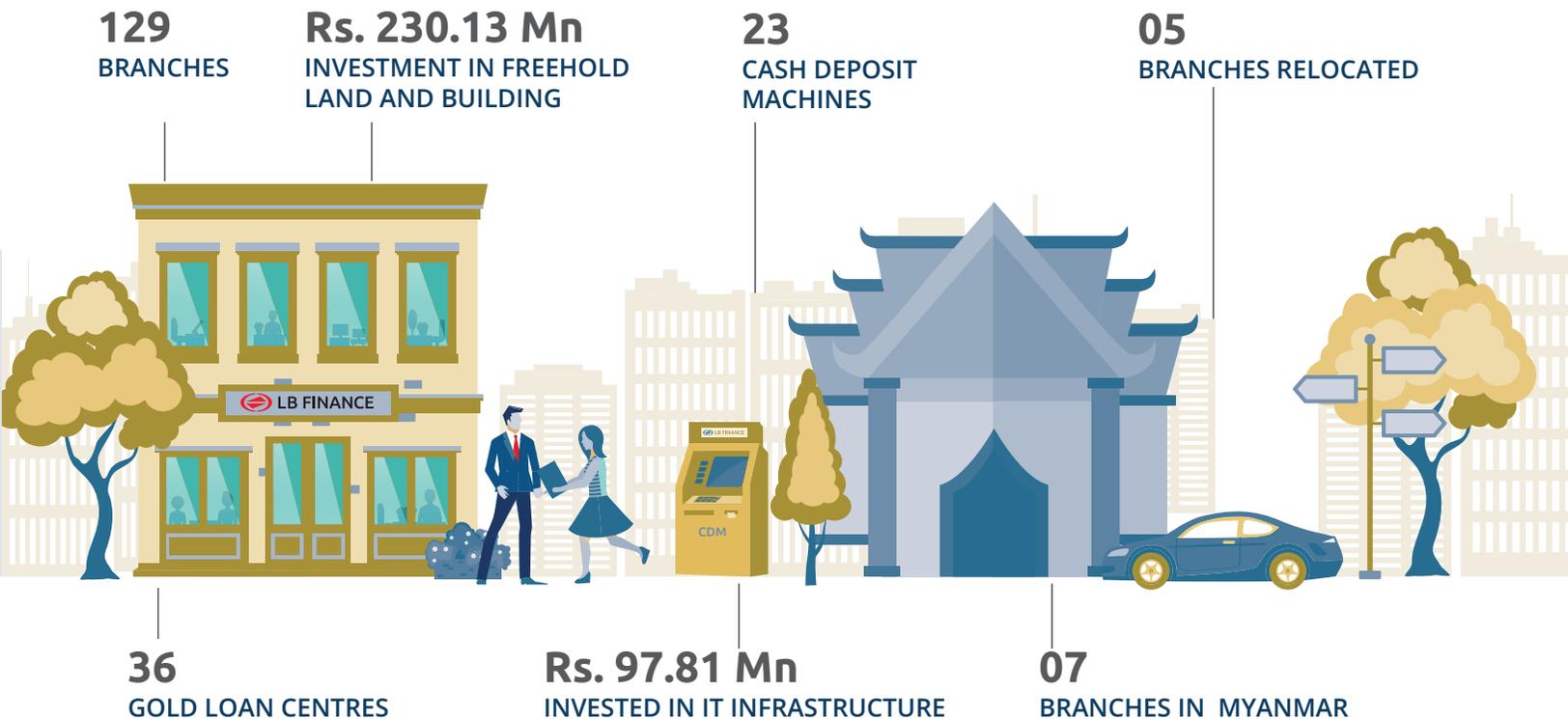
## Utilisation of our Manufactured Capital

### WHAT IT INCLUDES

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

### HOW IT ADDS VALUE

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



### STRATEGIC RESPONSES FOR 2019/20

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

### REFLECTING 2019/20

Key indicator	Our performance 2019/20	Priorities 2020/21
Upgraded outlets	5 outlets relocated	Plan to relocate 04 outlets
Regional outlets	Opened 6 new branches in Myanmar	Expand branches up to 20
CDM transactions	Commissioned 23 CDMs	Improve operational sustainability by installing CDMs in every branch
Investment in freehold land and building	Rs. 230.13 million	Establish more premier branches

## SUMMARISED CAPITAL REPORTS



### Managing our Human Capital

#### WHAT IT INCLUDES

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

#### HOW IT ADDS VALUE

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

**3,606**  
TOTAL NO. OF  
EMPLOYEES

**38.9%**  
FEMALE  
EMPLOYEES

**Rs. 18.56 Mn**  
INVESTMENT IN  
TRAINING

**1,243**  
NEW EMPLOYEES



**854**  
EMPLOYEES WERE  
PROMOTED

**52,788**  
TRAINING HOURS

#### STRATEGIC RESPONSES FOR 2019/20

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

#### REFLECTING 2019/20

Key indicator	Our performance 2019/20	Priorities 2020/21
Focusing on further utilising our human capital to advance our business objectives to enhance stakeholder value	1,243 new recruitments made during the year	• Prioritise, monitor and implement key engagement initiatives to support the business
Enrich employee engagement practices	17 employee engagement CSR activities during the year	• Focus on implementing a structured succession planning programme
Promote a values-driven culture and energise a culture of reward and recognition	11% increment of benefit provided	• Improve employee communication, information and knowledge-sharing through effective utilisation of technology
Ensure employee demographics are relevant	39% recruited out of the Western Province	• Improving HR service delivery through appropriate policies and procedures, and establishing solid labour relationships



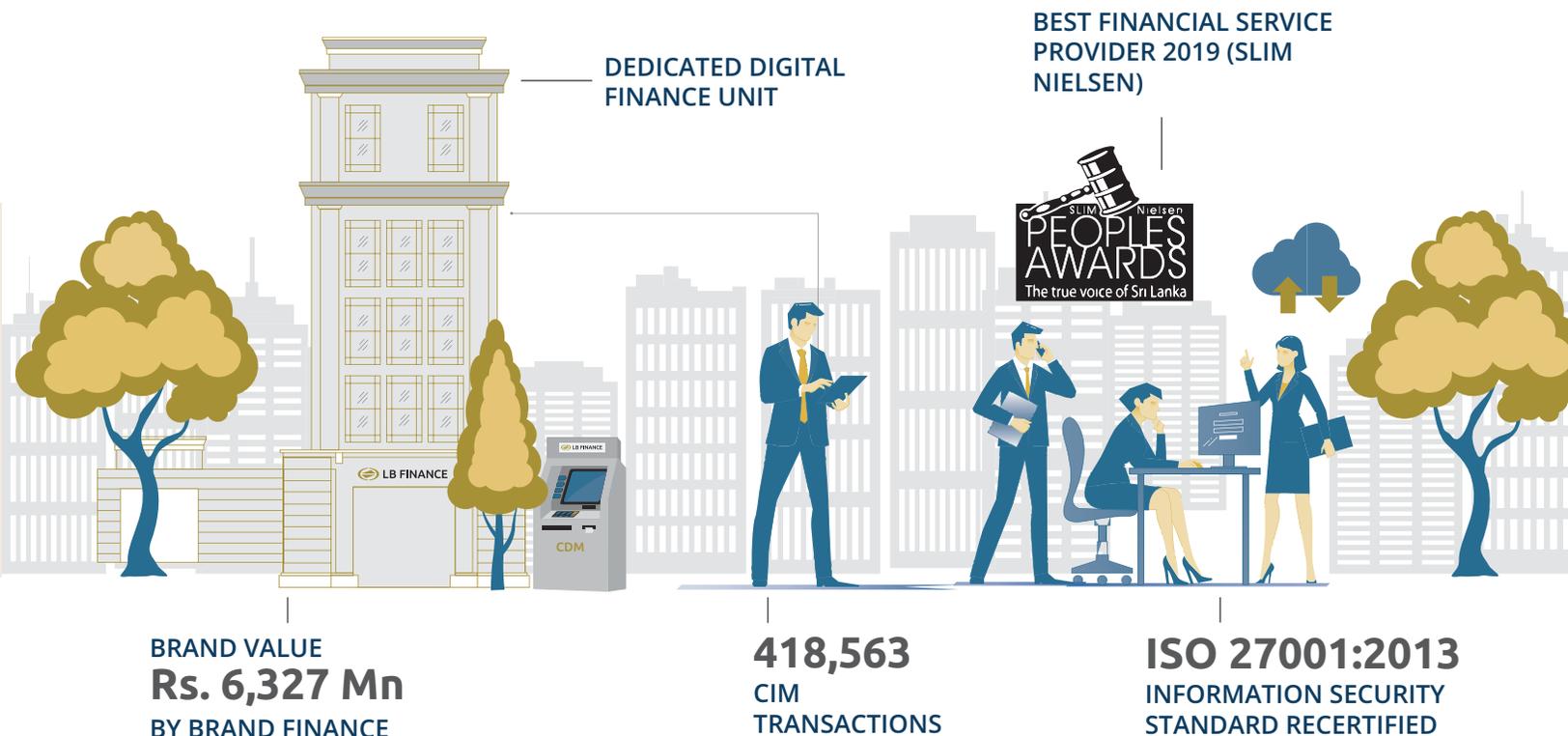
## Mastering our Intellectual Capital

### WHAT IT INCLUDES

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

### HOW IT ADDS VALUE

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



### STRATEGIC RESPONSES FOR 2019/20

- Strengthen Digital Finance Service Unit
- Replaced manual processes via system automation
- Introduced unified customer data base for efficient customer services
- Introduced an IT innovation centre
- Enhanced the existing support system for the business efficiency

### REFLECTING 2019/20

Key indicator	Our performance 2019/20	Priorities 2020/21
Brand value	Rs. 6,327 million	Increase the brand value by 5%
Gold loan transaction processing time	Waiting time reduce by 60%	Reduce the customer waiting time up to 80%
LB CIM transactions	Rs. 1,445 million worth transactions	Increase by 20%

## SUMMARISED CAPITAL REPORTS



Expanding on our

# Social and Relationship Capital

### WHAT IT INCLUDES

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

### HOW IT ADDS VALUE

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

**600,000+**  
CUSTOMER BASE

**29**  
COMPREHENSIVE  
FINANCIAL SOLUTIONS

**Rs. 12.9 Mn**  
INVESTED IN COMMUNITY  
DEVELOPMENT PROJECTS



**Rs. 6.82 Bn**  
PAID TO THE  
GOVERNMENT AS TAXES

**20,131**  
EMPLOYEE  
VOLUNTEER HOURS

### STRATEGIC RESPONSES FOR 2019/20

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

### REFLECTING 2019/20

Key indicator	Our performance 2019/20	Priorities 2020/21
Customer loyalty	<ul style="list-style-type: none"> <li>• Increased customer base by 8.58%</li> </ul>	<ul style="list-style-type: none"> <li>• Offering tailor-made financial solutions for untapped markets within and beyond the country</li> </ul>
Community development	<ul style="list-style-type: none"> <li>• Investment in community development projects Rs. 12.9 million</li> <li>• Appointed CSR ambassadors in various regions of the country to execute CSR vision of LBF</li> </ul>	<ul style="list-style-type: none"> <li>• Providing training and guidance programmes in different regions of the country to develop youth and women entrepreneurs</li> <li>• Establishing a five-year community development strategy and a policy for the organisation</li> </ul>
Enhanced business partnerships	<ul style="list-style-type: none"> <li>• 900 key business partners</li> </ul>	<ul style="list-style-type: none"> <li>• Attracting high quality business partners to ensure uninterrupted supply chain activities</li> </ul>



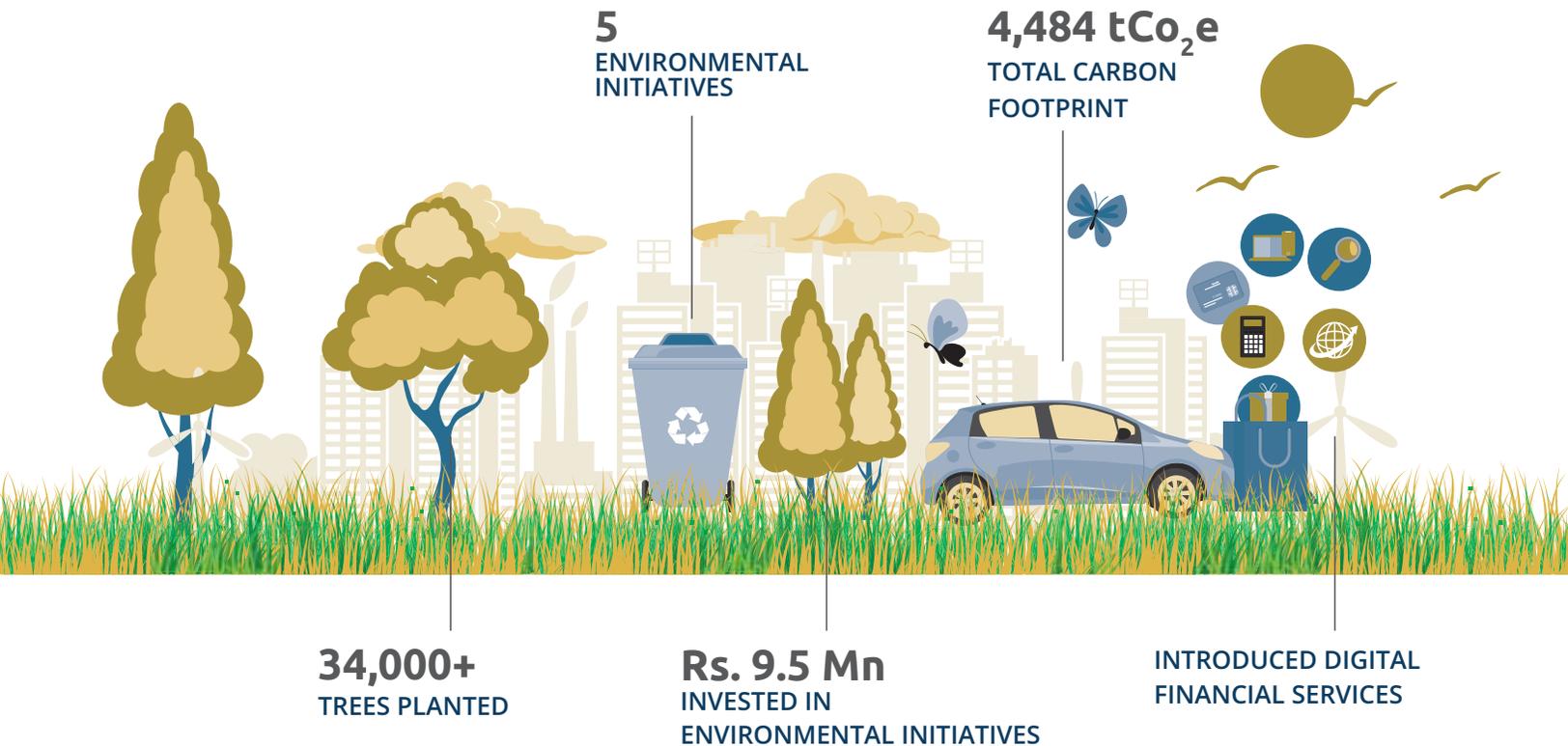
## Our conservation for **Natural Capital**

### WHAT IT INCLUDES

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

### HOW IT ADDS VALUE

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



### STRATEGIC RESPONSES FOR 2019/20

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

### REFLECTING 2019/20

Key indicator	Our performance 2019/20	Priorities 2020/21
Reduction of carbon footprint	Carbon footprint of the Company 4,484 tCO <sub>2</sub> e	Reduce carbon footprint by 5%
Green lending	Credit facilities for hybrid vehicles and electric vehicles	7% increase in green lending facilities
Digital services	Introduced CIM app for digital financial services	Plan to introduce 2 digital products
Invest on environmental initiatives	5 projects and Rs. 9.5 million invested in environmental CSR initiatives	Implement 12 massive projects for environmental management

# FINANCIAL REVIEW

## OVERVIEW OF FINANCIAL RESULTS

L B recorded 2.62% year-on-year (YoY) increase in its net profit attributable to common shareholders to Rs. 5.18 billion in 2019/20. Net interest income reported a YoY growth of 7.86% to Rs. 15.54 billion in the period due to decreased cost on servicing deposits at the latter part of the financial year. The Company continued to maximise shareholder wealth during the year with earnings per share improving to Rs. 37.45 recording the highest EPS in the L B history.

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) improved from 34.22% in 2018/19 to 33.44% in 2019/20 due to higher net interest margins and growth in operating income at a faster rate than operating expenses. Operating expenses grew by 5.37% YoY to Rs. 5.88 billion and total operating income grew by 7.84% YoY to Rs. 17.60 billion in 2019/20.

We are one of the largest non-banking financial institution in Sri Lanka with a total asset base of Rs. 143.96 billion. Our total liabilities increased by Rs. 3.00 billion to Rs. 120.96 billion and customer deposits increased by Rs. 6.04 billion to Rs.89.25 billion in 2019/20. Total loan portfolio increased from Rs. 113.44 billion to Rs. 118.86 billion, recording a growth of 4.78%. Loan growth was mainly derived from gold loan and vehicle loans. Gross Non-Performing Loan ratio increased slightly from 2.69% in 2018/19 to 3.93% in 2019/20. However, L B Finance consistently maintains one of the lowest Non-Performing Loan (NPL) ratios in the NBFi sector which shows the superiority of its asset quality through strong risk management process and efficient recovery methods. In addition the company succeeded in maintaining a net NPL of -0.12%.

Capital base grew by Rs. 4.57 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.

a superior experience to customers and generate good shareholder value over the long term. System and process revamping, transformation from legacy systems to modern systems, digital transformation, infrastructure investments are some leads for the structural cost transformation.

## FINANCIAL PERFORMANCE

### INTEREST INCOME

Total Interest Income grew by 6.57% YoY to Rs.29.16 billion in 2019/20 with improved business volumes. All the major business segments contributed to the growth. LBF managed its risk and return at both product level and business levels.



### NET INTEREST INCOME

Net interest income grew by 7.86% to Rs. 15.54 billion in 2019/20 with increased loan volumes coupled with reduction in the deposit rates. Total interest earning assets increased by 4.68% YoY to Rs. 132.98 billion while net interest margin (net interest income as a percentage of average earning assets) or NIM increased by 70 basis points as of March 2020. Year-on-year yields on lending assets remain constant during the year. Rapid pace of re-pricing in the short-term deposit base as against loans, especially leases with longer-term tenure and fixed rates, impacted positively on net interest margin. Interest expenses grew by 5.13% to Rs. 13.61 billion in 2019/20

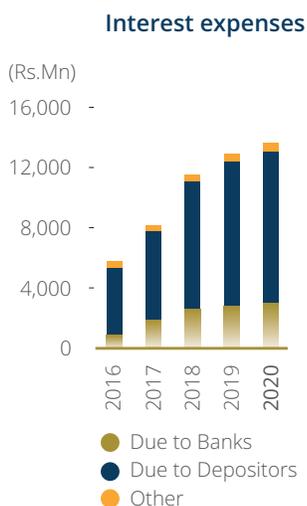
Financial highlights	31st March 2020 Rs. '000	31st March 2019 Rs. '000
Total assets	143,963,719	136,390,718
Investments	10,496,297	12,280,468
Lending (net of impairment)	118,865,924	113,445,454
Deposits by the public	89,256,435	83,214,949
Interest bearing liabilities	27,203,725	27,741,291
Net profit after tax	5,187,053	5,054,660
Total comprehensive income	5,126,455	5,040,004
Return on equity	25.04%	29.93%
Cost to income ratio	33.44%	34.22%
Earnings per share (Rs.)	37.45	36.49

## STRUCTURAL COST TRANSFORMATION

We are optimising our operations to be able to better serve our customers and to reduce effective cost. To be more efficient, agile, and better, we are investing in levers

such as technology, process improvements and organisational design to reduce complexity and improve productivity. We drive our selves in identifying synergies and leverage opportunities for partnerships to improve our structure. Our intention is to lower operating costs while delivering

compared to Rs. 12.95 billion in previous financial year. Deposits were replaced at a higher rate of the early part of the year compared to the latter part of the year.



### OTHER INCOME

Other income includes fees and commission income, net trading income and other operating income. Fees and commissions grew by 8.95% YoY to Rs. 1.94 billion as a result of higher transaction volumes. Income from credit related fees and commissions increased by 2.24% YoY to Rs. 1.08 billion during the period. All other fees have increased along with transaction volumes. Net trading income recorded a loss of Rs. 2.09 million due to the decline in market prices of equity securities held for trading. Other operating income decreased by 8.68% YoY to Rs. 123.04 million during the year.



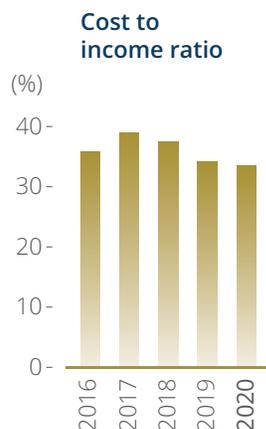
### OPERATING EXPENSES

Operating expenses increased by 5.37% YoY to Rs. 5.88 billion in 2019/20 consistent with the business growth. Salaries and employee benefits increased by 11.57% to Rs. 3.00 billion and represented 51.04% of the total operating expenses in 2019/20 (48.21% in 2018/19).

Office administration and establishment expenses mainly include electricity, insurance security, printing and stationery, postage and telecommunication. The growth of office administration and establishment expenses was driven by higher transaction volumes and opening of new branches. During the year the Company added two new branches and relocated five of its existing branches.

The Company managed to maintain its cost per employee within the budgeted levels for the last five years consecutively.

Advertising and business promotion expenses increased by 2.44% YoY to Rs. 552.32 million. The business volume is one of the Key Performance Indicator (KPI) and the Company achieved a continuous volume growth even under stiff competition and the highly-regulated environment. Our cost to income ratio has improved by 0.78% during the year by reporting the lowest cost to income ratio in LBF history which indicates the efficient cost management efforts of the Company.



### TAXES

L B Finance tax expense includes direct taxes such as Income Tax, Debt Repayment Levy on Financial Services, Value Added Tax on Financial Services and Nation Building Tax on Financial Services. The Company's tax expenses as a percentage of operating profit decreased marginally to 47.55% from 48.19% in previous year. The effective income tax rate of the Company decreased to 31.69% during the year from 34.70% reported in 2018/19 mainly due to downward income tax rate revision effected during last quarter of 2019/20.

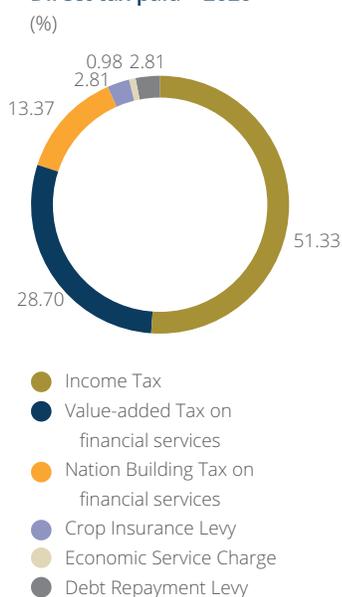
The Company as a responsible taxpayer has a tax strategy that outlines the framework by which the Company's tax obligations are met from an operational and risk management perspective. We adopt an overarching risk philosophy in relation to tax matters which aims to mitigate any adverse or unexpected financial consequences and protect our reputation. Total direct tax paid by the Company amounted to Rs. 5.60 billion (2018/19: Rs. 3.70 billion) and indirect tax collected from Value Added Tax (VAT), Withholding Tax, PAYE and Stamp duty amounted to Rs. 1.22 billion (2018/19: Rs. 1.20 billion).

## FINANCIAL REVIEW

### Direct tax paid – 2020

Tax incurred	Rs. '000
Income Tax	2,875,243
Value Added Tax on Financial Services	1,607,388
Debt Repayment Levy on Financial Services	749,182
Nation Building Tax on Financial Services	157,173
Crop Insurance Levy	54,797
Economic Service Charge	157,338

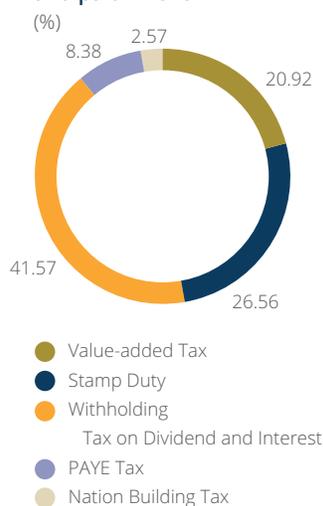
### Direct tax paid – 2020



### Indirect tax collected and paid – 2020

Tax collected and paid	Rs. '000
Value-Added Tax	255,963
Stamp Duty	324,986
Withholding Tax on Dividend and Interest	508,602
PAYE Tax	102,611
Nation Building Tax	31,402

### Indirect tax collected and paid – 2020



Tax on Financial Services consists of VAT on Financial Services, NBT on Financial Services and Debt Repayment Levy on Financial Services. Tax on Financial Services increased by 13.05% amounting to Rs. 2.27 billion during the year from Rs. 2.01 billion reported in 2018/19. The increase in Tax on Financial Services was mainly due to the impact of Debt Repayment Levy (DRL) which was effective from October 2018. Subsequently, DRL was abolished with effective from December 2019 which resulted in nine months of impact to the current financial year compared to six months of the previous financial year.

However the recent corporate income tax rate revision had a favourable impact to the Company which resulted in 10% reduction of income tax expense compared to the previous financial year.

Several changes were introduced to the tax legislation during the year 2019/20 including abolishing of Debt Repayment Levy (DRL), Nation Building Tax, Economic Service Charges (ESC) and reduction of the Value Added Tax (VAT) rate and corporate Income Tax Rates along with upward revision to the VAT registration threshold. As well as provisions relating to deduction of PAYE, WHT on Interest, Dividend, Rent, and Service Fee were reformed to get the consent of relevant payee before deduction of such taxes.

Deferred tax liability mainly arises from higher amount of capital allowances claimed compared to higher accounting base as a result of lower amount of amortisation (EIR method). This has created a temporary liability gap between tax base and accounting base. However, the new Inland Revenue Act No. 24 of 2017 has discontinued the current method of computation for taxes on finance leases. For the new leases, capital allowance will not be liable, instead interest income is liable for taxes.

Deferred tax liability resulting from finance leases are Rs. 1.04 billion at the end of the financial year 2019/20 compared to Rs. 1.13 billion in previous year resulted in Rs. 0.09

Financial highlights	2020 Rs. '000	2019 Rs. '000	2018 Rs. '000
Profit Before Tax on Financial Services	9,888,847	9,756,268	7,814,383
Tax on financial services	2,278,560	2,015,619	1,336,693
Profit after Tax on Financial Services	7,610,284	7,740,649	6,477,690
Current Income Tax (A)	2,683,698	2,441,729	1,658,321
Deferred Taxation Charge/(Reversal) - Income Statement (B)	(260,464)	244,260	568,648
Taxation Charge – Income Statement C=(A + B)	2,423,234	2,685,989	2,226,969
Deferred Taxation charge/(Reversal) - Other Comprehensive Income (D)	(11,678)	6,712	(13,386)
Total Tax Expense for the Financial Year E=(C+D)	2,411,556	2,692,701	2,213,583
Effective Tax Rate (Taxation Charge/Profit after Tax on Financial Services)	31.69%	34.79%	34.17%

billion reversal of deferred tax liability during the financial year. The remaining deferred tax liability is expected to be reversed over the next five-year period in line with settlement and termination of finance lease receivables.

### LOANS AND RECEIVABLES

Gross loans and receivables grew by 22.84% to Rs. 58.23 billion in 2019/20 mainly driven by key loan segments – gold loans, vehicle loans, medium and short-term loans, and power draft. Factoring and mortgage loan decreased by 71.77% and 5.20% respectively on gross basis. The Company has taken a significant measures on credit underwriting standards of factoring and mortgage business during the year.

### LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

Lease rentals receivable and stock out on hire decreased by 8.21% which is by Rs. 5.42 billion to Rs. 60.62 billion. Stiff competition and strict credit standards and regulated high LTV made the credit disbursements difficult during the year. In addition, disruptions such as the Easter Sunday attacks and COVID-19 pandemic adversely impacted the achievement of anticipated growth for the current financial year.

### CREDIT QUALITY

Credit quality of the Company affected with disruption to economic activities which had an adverse impact on Non-Performing Loan ratio. However, the Company was able to maintain NPL ratio substantially lower than the NBFIs sector. Non-performing loan ratio (i.e. non-performing loans as percentage of total loans) slightly increased to 3.93 % in 2019/20 from 2.69% in 2018/19. In addition,

the Company has recorded net Non-Performing Loan ratio of (-0.12%) in financial year 2019/20. These two ratios could be considered as significant signs for the credit quality of the Company. It is important to note that the Company's definition on NPL classification is stricter than the classification requirements of the CBSL; CBSL defines Non-Performing loan as a loan which is six installments in arrears, however LBF defines NPL as a loan which is five installments in arrears. Even with a strict definition, the Company's NPL ratio remains below the industry average of 10.6%.

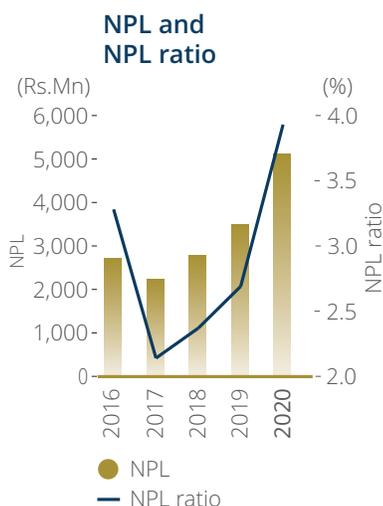
Impairment charge for the year increased by 86.24% to Rs. 1,831.05 million compared to Rs. 983.15 million in 2018/19. As a measure of prudence, the Group considered the portfolio delinquency state, probability of default, and loss given default as at 31 March 2020 for the impairment provisioning which reflects the impact of COVID-19.

Financial highlights	2020 Rs. '000	2019 Rs. '000	2018 Rs. '000
Gross loans (with unearned income)	143,630,452	140,149,944	126,884,401
Unearned income	19,502,148	22,950,300	21,662,825
Gross loans (A)	124,128,304	117,199,644	105,221,576
Non-Performing Loans (with unearned income)	5,648,464	3,773,333	3,003,175
Unearned income	536,198	276,867	223,230
Gross Non-Performing Loans	5,112,266	3,496,466	2,779,945
IFRS impairment provision (B)	5,257,339	3,746,911	2,867,398
CBSL loan loss provision	3,897,772	2,642,510	2,058,159
Excess/(Deficit) loan loss provision compared to CBSL	1,359,567	1,104,401	809,239
IFRS impairment provision as a percentage of gross loans (B/A)	4.24%	3.20%	2.73%
IFRS impairment provision as a percentage of non-performing loans	102.84%	117.16%	103.15%
Total regulatory loan loss provision as a percentage of gross loans	3.14%	2.25%	1.96%
Total regulatory loan loss provision as a percentage of non-performing loans	76.24%	75.58%	74.04%
Total assets	143,963,719	136,390,718	120,820,780
Net loans (after impairment)	118,865,924	113,445,454	102,345,084
NPL: gross loans	4.12%	2.98%	2.64%
NPL: total assets	3.55%	2.56%	2.30%
NPL: gross loans-unearned income basis*	3.93%	2.69%	2.37%
Net NPL	-0.12%	-0.21%	-0.06%

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

It is noteworthy to mention that the Company has maintained 34.88 percent above the CBSL mandatory provision.

## FINANCIAL REVIEW



### ASSETS

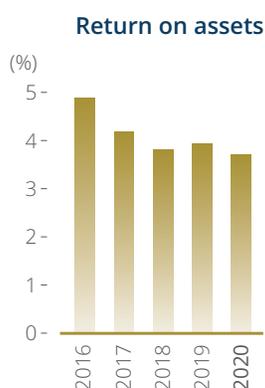
Total assets increased by 5.55% YoY to Rs. 143.96 billion from Rs. 136.39 billion while maintaining over 90% interest earning assets.

Total interest earning assets have increased by 4.68% from Rs. 132.98 billion compared to Rs. 127.03 billion at the end of previous financial year.

### Cash and Cash Equivalents and Treasury Investments

Our cash resources held to meet statutory reserves and the prudential liquidity targets stood at Rs. 14.30 billion, which is also well above the statutory liquidity requirement of Rs. 9.31 billion. We continued to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

Total asset mix	2020 Rs. '000	2019 Rs. '000
Cash and Cash Equivalent	6,162,637	4,040,586
Lending Portfolio	118,865,924	113,445,454
Investments	9,474,615	10,836,773
Other Assets	9,460,543	8,068,905
	<b>143,963,719</b>	<b>136,390,718</b>



### Property, Plant and Equipment

During the year, the Company acquired Rs. 230.13 million worth of freehold land and building to be in line with its future expansion plans. Further, PPE has also increased by Rs. 1,577.67 million from right of use assets with the implementation of Sri Lanka Accounting Standard SLFRS 16 - Leases.

### LIABILITIES

Total liabilities increased 2.54% YoY to Rs. 120.96 billion in 2019/20, driven by increases in customer deposits.

### Due to Depositors

Customer deposits increased 7.26% YoY to Rs. 89.25 billion in 2019/20 with higher share of deposits from Individual customers as a result of close customer relationships. Our objective is to ease the concentration on larger value deposits to minimise the liquidity risk in the total deposit base.

### Due to Banks

During the year, we have borrowed Rs. 14.58 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 customer deposits.

### Debt Instruments Issued and other Borrowed Funds - Debentures

LBF issued Rs. 3 billion listed debentures in December 2017 of which Rs 2 billion were subordinated debentures to strengthen Tier 2 capital.

### SHAREHOLDERS' EQUITY

Total shareholders' equity rose to Rs. 22.99 billion in 2019/20 from Rs. 18.42 billion in the previous year. During the year the Company paid a final dividend of Rs. 554.06 million for 2018/19. In addition, L B Finance Tier 1 capital adequacy ratio and total capital adequacy ratio as at the end of the financial year stood at 19.04% and 20.75% respectively compared to the minimum regulatory requirement of 7% (Tier 1) and 11% (Tier 1 and 2).

### OFF-BALANCE SHEET ITEMS AND OTHER MATTERS

During the year, the Company reported a 5.93% YoY increase in its total commitments and contingencies to Rs. 1.92 billion mainly due to an increase in contingent liabilities on counter indemnity for letter for guarantee issued on behalf of L B Microfinance Myanmar Company Limited favoring CB Bank Limited, Myanmar. Total of this sum relates to the term loan facility obtained by L B Microfinance Myanmar Company Limited.

The Provincial Councils of Western, Central and Southern requested LBF 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. This was on the basis that registration is not necessary as its gold loan business which is being carried out in terms of the Mortgage Act as mortgages of movables, and that LBF is in fact not engaged in pawn broking business and thus need not register in terms of such Statutes. LBF has filed three Writ Applications in the Court of Appeal, challenging the requirement to register under the said Provincial Council Statutes, and such Writ Applications are pending adjudication at present.

### **L B MICROFINANCE MYANMAR COMPANY LIMITED (LBM)**

LBM recorded net profit of Rs. 23.80 million during the year reflecting continued momentum and growth prospects. Net Interest Income grew by 118.73% to Rs.120.83 million. In addition, total operating expenses excluding impairment charges increased by 100.36% to Rs. 52.24 million.

Total asset base of LBM increased by 124.07% to Rs. 895.37 million. Loan portfolio has increase by 46.32% to Rs. 554.09 million from Rs. 378.68 in 2018/19. Total Liability of LBM increased to Rs. 197.69 million from Rs. 40.77 million mainly due to increase in customer deposits.

## **ACCOUNTING DEVELOPMENTS**

### **SLFRS 16 (LEASES)**

Sri Lanka Accounting Standard SLFRS-16 (Leases) became effective on 1 January 2019 which introduces a single lessee accounting model. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on Statement of Financial Position. SLFRS 16 (Leases) has retained LKAS 17's (Leases) finance lease and operating lease distinction for lessors but this distinction is no longer relevant for lessees. Hence, the changes introduced in SLFRS 16 are not significant in respect of contracts in which the Company is the lessor. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. SLFRS 16 (Lease) eliminates the classification of leases for lessee as either operating or finance leases, as was required by LKAS 17 (Leases), and introduces a single lessee accounting model,

### **LEASING TRANSACTIONS**

The Company is a lessee for the majority of its offices and branches under long-term rental agreements. As per Sri Lanka

Accounting Standard SLFRS-16 (Leases) requires, Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### **TRANSITION AND IMPACT**

LBF applied the modified retrospective approach which retained the prior period figures as reported under the previous standard LKAS-17 (Leases) and recognised the effects of Sri Lanka Accounting Standard SLFRS-16 (Leases) in the opening balance as at 1 April 2019.

On initial application, the Company measured the lease liability at the present value of the remaining lease payments, discounted using the Incremental Borrowing Rate (IBR). The right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The introduction of Sri Lanka Accounting Standard SLFRS-16 (Leases) did not have an impact on the opening balance of equity, but led to an increase of assets and liabilities as at 1 April 2019.

<b>Financial highlights</b>	<b>1 April 2019 Rs. '000</b>
Operating lease commitments as at 31 March 2019	2,337,215
Weighted average incremental borrowing rate applied (%)	12%
Lease liabilities recognised in the statement of financial position	1,293,121
Prepaid lease payments	143,478
Right-of-use assets recognised in the Statement of Financial Position	1,436,599

## FINANCIAL REVIEW

### ECONOMIC CONTRIBUTION

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

### ECONOMIC VALUE ADDED STATEMENT (EVA)

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

	2019/20	2018/19	2017/18
For the year ended 31st March	Rs. million	Rs. million	Rs. million
<b>Invested Equity</b>			
Shareholders' funds	22,999.55	18,427.15	15,348.90
Add: Cumulative provision for impairment	5,257.33	3,746.91	2,867.40
<b>Total</b>	<b>28,256.88</b>	<b>22,174.06</b>	<b>18,216.30</b>
<b>Earnings</b>			
Profit attributable to shareholders	5,187.05	5,054.66	4,224.36
Add: Impairment provision	1,831.06	982.11	667.63
<b>Total</b>	<b>7,018.11</b>	<b>6,036.77</b>	<b>4,891.99</b>
Economic cost % (Average 3 months Treasury Bill rate plus 2% risk premium)	10.66	11.49	11.80
Economic cost	2,687.97	2,320.43	1,801.57
<b>Economic value added</b>	<b>4,330.14</b>	<b>3,716.34</b>	<b>3,090.42</b>

### MARKET VALUE ADDED (MVA)

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

	2019/20	2018/19	2017/18
For the year ended 31st March	Rs. million	Rs. million	Rs. million
<b>Market capitalisation</b>			
Market value of equity	16,690.97	16,635.57	16,469.35
<b>Less: Equity owners' funds</b>			
Shareholders' funds	22,999.55	18,427.15	15,348.90
Total equity owners' funds	22,999.55	18,427.15	15,348.90
<b>Market value added</b>	<b>(6,308.58)</b>	<b>(1,791.58)</b>	<b>1,120.45</b>



### VALUE GENERATED AND DISTRIBUTED

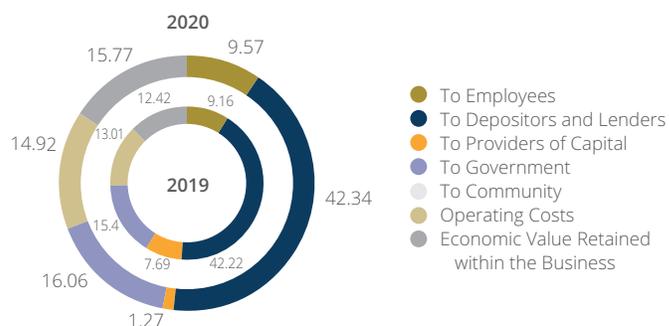
Information on the generated and distributed value provides a basic indication of how the Company has created wealth for the stakeholders. Components of the economic value generated and distributed provide an economic profile of the Company, which may be useful for controlling other performance indicators. 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	2019/20		2018/19		2017/18	
	Rs. million	%	Rs. million	%	Rs. million	%
<b>Direct Economic Value Generated</b>						
Interest Income	29,160.29		27,363.77		23,394.12	
Fee Commission Income	1,941.63		1,782.07		1,504.19	
Net Gain/(loss) from trading	(2.10)		(2.56)		(0.3)	
Other operating income	123.04		134.74		148.2	
<b>Economic Value Generated</b>	<b>31,222.86</b>		<b>29,278.02</b>		<b>25,046.21</b>	
<b>Economic Value Distributed</b>						
<b>To Employees</b>						
Employees salaries & benefits	2,986.63		2,682.61		2,389.35	
	<b>2,986.63</b>	9.57%	<b>2,682.61</b>	9.16%	<b>2,389.35</b>	9.54%
<b>To Depositors and Lenders</b>						
Interest expenses	13,218.85		12,361.66		11,077.10	
	<b>13,218.85</b>	42.34%	<b>12,361.66</b>	42.22%	<b>11,077.10</b>	44.23%
<b>To Providers of Capital</b>						
Dividend to shareholders	-		1,662.17		1,523.66	
Interest to debenture holders	396.55		589.66		421.31	
	<b>396.55</b>	1.27%	<b>2,251.83</b>	7.69%	<b>1,944.97</b>	7.77%
<b>To Government</b>						
Income Tax expenses	2,683.70		2,441.73		1,658.32	
Debt Repayment Levy	684.71		401.53		-	
VAT & NBT on Financial Services	1,593.85		1,614.09		1,336.69	
Crop Insurance Levy	52		51		43.15	
	<b>5,014.32</b>	16.06%	<b>4,508.35</b>	15.40%	<b>3,038.16</b>	12.13%
<b>To Community</b>						
Social responsibility projects	22.52		26.95		23.51	
Donations	-		-		-	
	<b>22.52</b>	0.07%	<b>26.95</b>	0.09%	<b>23.51</b>	0.09%
<b>Operating Costs</b>						
Depreciation & Amortisation	713.39		435.38		384.23	
Impairment charge for loans and other losses	1,831.06		982.11		667.63	
Training Cost	18.56		10.95		8.57	
Other operating expenses	2,094.40		2,380.39		2,213.96	
	<b>4,657.40</b>	14.92%	<b>3,808.83</b>	13.01%	<b>3,274.39</b>	13.07%
Economic Value Retained	4,926.60	15.77%	3,637.79	12.42%	3,298.73	13.17%
<b>Economic Value Distributed</b>	<b>31,222.86</b>	100.00%	<b>29,278.02</b>	100.00%	<b>25,046.21</b>	100.00%

### Economic value added & distributed

(%)



## FINANCIAL REVIEW

### INVESTOR

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

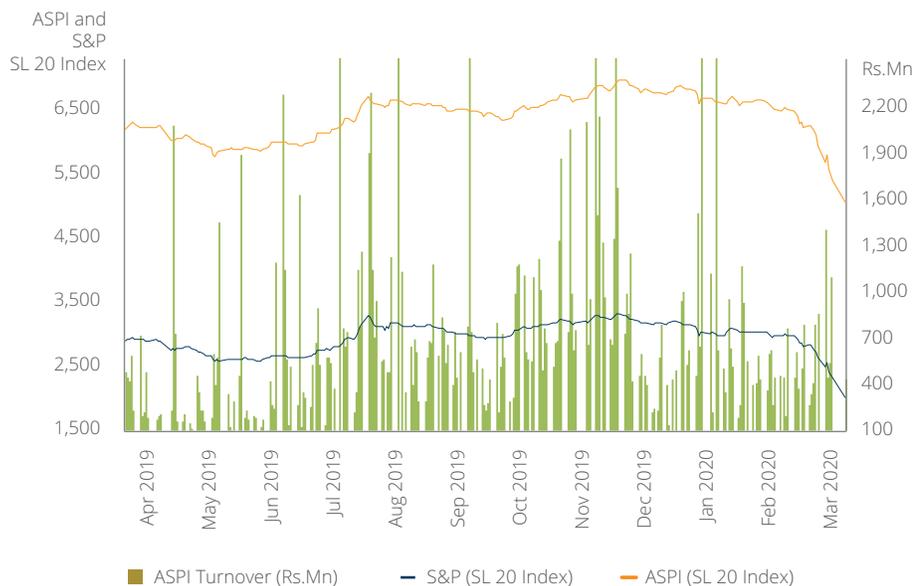
LBF believes that this will lead the shareholders to taking a long-term view of the Company without being swayed by short-term fluctuations with a view to building lasting and trusting relationships.

In order to maintain professionalism and good governance, some of the channels LBF uses to keep the investors informed are the Annual General Meeting, investor meetings, Annual Report, Interim Financial Statements and announcements at the Colombo Stock Exchange (CSE), press conferences and media releases.

In the year under review total shareholders' equity increased by 24.81% to Rs. 22.99 billion from Rs. 18.42 billion in the previous year. The Company paid a final dividend of Rs. 554.04 million for the year 2018/19 which amounts to Rs. 4 per share. Above average growth in the profitability helped LBF's share to outperform the market and sector indices during the financial period.

index with effect 20 January 2020. The All Share Price Index closed 17.73% lower to be at 4,571.63 points compared to 2018/19. Standard and Poor's (S&P SL 20) which tracks the performance of larger blue chip companies decreased by 28.89% YoY to 1,947.42 points during the period. The Corona virus impact on Global financial market conditions has also affected Sri Lanka's foreign investments. The outstanding stock of T-bills and T-bonds held by foreigners has decreased during the year. The daily average turnover of the CSE increased by 15.54% YoY to Rs. 805.95 million in 2019/20, while daily average share volume increased by 116.35% YoY to 44.39 million shares. Market capitalisation of listed companies reduced by 18.32% to Rs. 2.18 trillion at the end of the period.

ASPI, S&P SL 20 Index and market turnover



### BANKING, FINANCE AND INSURANCE SECTOR (BFI)

Banking, Finance and Insurance sector index decreased by 23.56% YoY to 11,220.24 points during 2019/20.

### LBF SHARE

#### General Information

Total number of shares in issue as at 31 March 2020 138,514,284

Public shareholding as at 31 March 2020 21.83%

Beta value against ASPI (As of first quarter of year 2020) 1.43

Stock symbol LFIN : N0000

#### News wire codes of LBF share:

Bloomberg LBFIN : SL

Dow Jones LFINN

Reuters LFIN. CM

### THE COLOMBO STOCK EXCHANGE

The Colombo stock market was less active during the financial year 2019/20, due to political uncertainty in the country and

external shocks. Lack of local and foreign investor participation was observed during the year. The CSE has adopted the Global Industry Classification Standard (GICS) along with S&P/CSE Co-branded sector

## ANNUAL PERFORMANCE

	2019/20	2018/19	2017/18
<b>Share Price</b>			
Highest (Rs.)	167.5	129.9	145
Lowest (Rs.)	114	110	118
Closing (Rs.)	120.5	120.1	118.9
Number of transactions	2,995	1,857	2,766
Number of shares traded	3,552,610	2,845,955	4,602,929
Value of shares traded (Rs. billion)	0.50	0.33	0.6
Number of days traded	223	218	217
Average daily turnover (Rs. million)	2.27	1.41	2.77
Market capitalisation (Rs. billion)	16.69	16.7	16.6

## QUARTERLY PERFORMANCE 2019/20

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Share Price</b>				
Highest (Rs.)	129.00	138.00	159.80	167.50
Lowest (Rs.)	114.00	120.10	128.20	119.00
Closing (Rs.)	120.00	129.60	153.30	120.50
Number of transactions	727	638	821	809
Number of share traded	646,062	340,616	1,633,530	932,402
Value of shares traded (Rs. million)	78.07	44.41	239.20	146.03
Number of days traded	55	61	61	46
Average daily turnover (Rs. million)	1.41	0.72	3.92	3.17

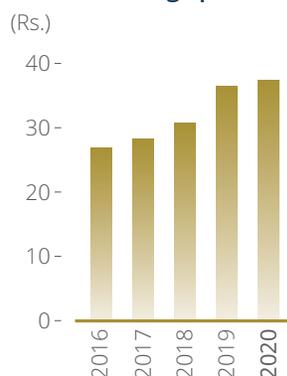
## STATED CAPITAL

The stated capital of the Company as at 31st March 2020 was Rs 838.28 million represented by 138,514,284 fully paid ordinary shares. The share capital comprised a single class in which every share has the same voting power and the same entitlement to dividends.

## EARNINGS PER SHARE (EPS)

The earnings per share (EPS) for the period increased to Rs. 37.45 in 2019/20 from Rs. 36.49 in 2018/19, as a result of increased profit attributable to shareholders.

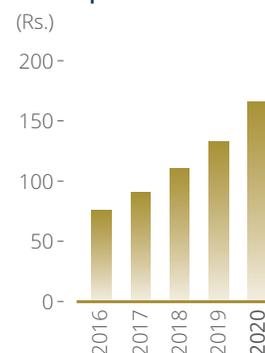
### Movement of earnings per share



## NET ASSET VALUE PER SHARE

As at the financial year ended 31st March 2020, the net assets value per share of the Company stood at Rs. 166.04, which reflected an increase of 24.81% compared to Rs. 133.03 the previous year.

### Net asset value per share

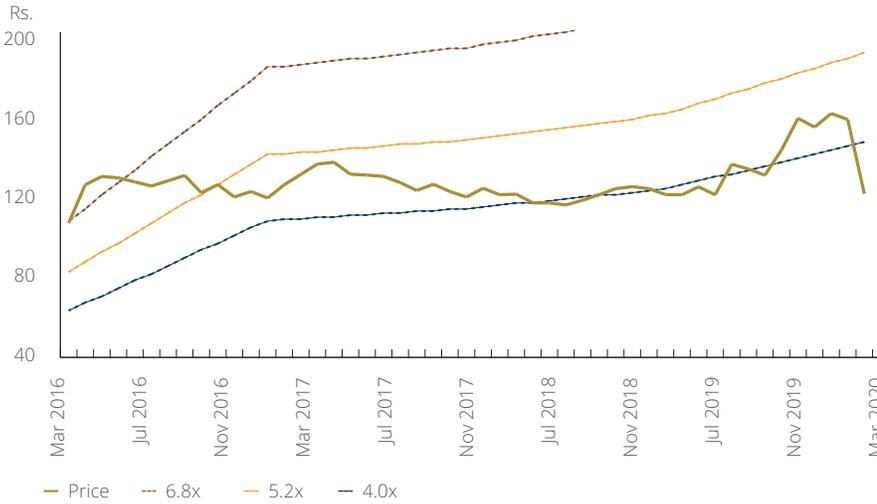


# FINANCIAL REVIEW

## PRICE EARNINGS RATIO (P/E)

The P/E ratio as at 31st March 2020 decreased to 3.22 times from 3.29 times as at 31st March 2019. The improvement in the P/E ratio is mainly due to increased EPS.

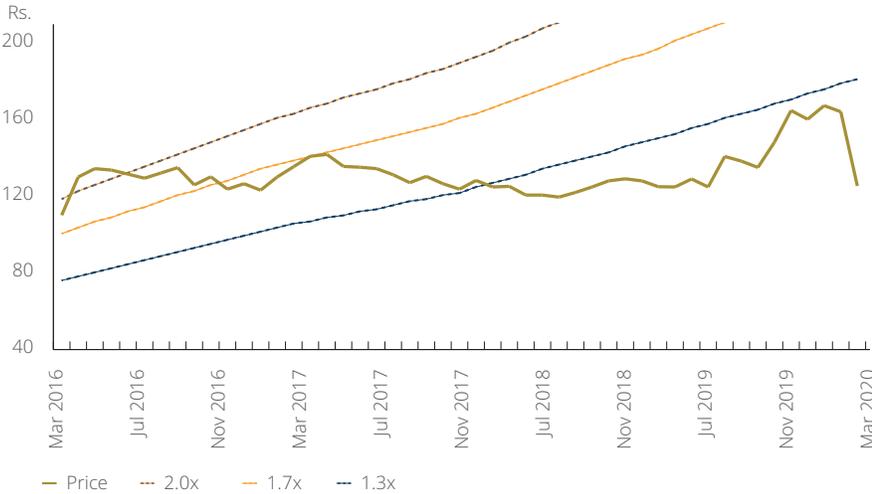
P/E Multiple band chart



## PRICE TO BOOK VALUE (P/B)

The P/B ratio as at 31st March 2020 marginally decreased in 0.73 times from 0.90 times compared to the previous financial year due to increase in shareholder wealth outpacing the share price growth.

P/B Multiple band chart

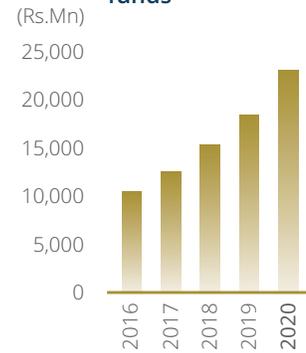


## TOTAL SHAREHOLDER RETURN

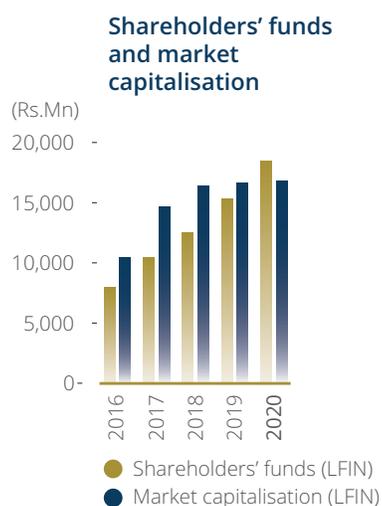
Despite the share price appreciation by 0.33%, Total Shareholder return (including both dividends and change in share price of the common share) has declined compared to previous financial year. This was mainly driven by the economic impact such as COVID-19. LBF has implemented number of strategic initiatives to support and continue delivering shareholder value through cost discipline.

The advent of the global COVID-19 pandemic has necessitated changes to the ways we interact with our shareholders. However, we do believe that these are temporary and we remain focused on achieving sustainable, long term earnings growth and maintain stable dividend income stream to our shareholders

Shareholders' funds



Public holding as at 31st March 2020 was 21.83% comprising 1,877 shareholders. Float adjusted market capitalisation of the Company is Rs. 3.64 billion and the Company falls under option 4 of rule 7.13.1 (a) of the listing rules of the Colombo Stock Exchange and the company has complied with the minimum public holding requirement applicable the said option.



#### MARKET CAPITALISATION (AS AT 31ST MARCH)

Year	Shareholders' funds Rs Mn	LFIN market capitalisation Rs Mn	CSE market capitalisation Rs Mn	LFIN market capitalisation as % of CSE market capitalisation
2015	7,927	10,402	2,891,170	0.36%
2016	10,479	14,696	2,586,150	0.57%
2017	12,510	16,400	2,662,860	0.62%
2018	15,349	16,604	3,032,710	0.54%
2019	18,427	16,635	2,605,899	0.64%
2020	22,999	16,691	2,128,266	0.78%

#### PUBLIC HOLDING

Public holding as at 31st March 2020 was 21.83% comprising 1,877 shareholders. Float adjusted market capitalisation of the Company is Rs. 3.64 billion and the Company falls under option 4 of rule 7.13.1 (a) of the listing rules of the Colombo Stock Exchange and the company has complied with the minimum public holding requirement applicable the said option.

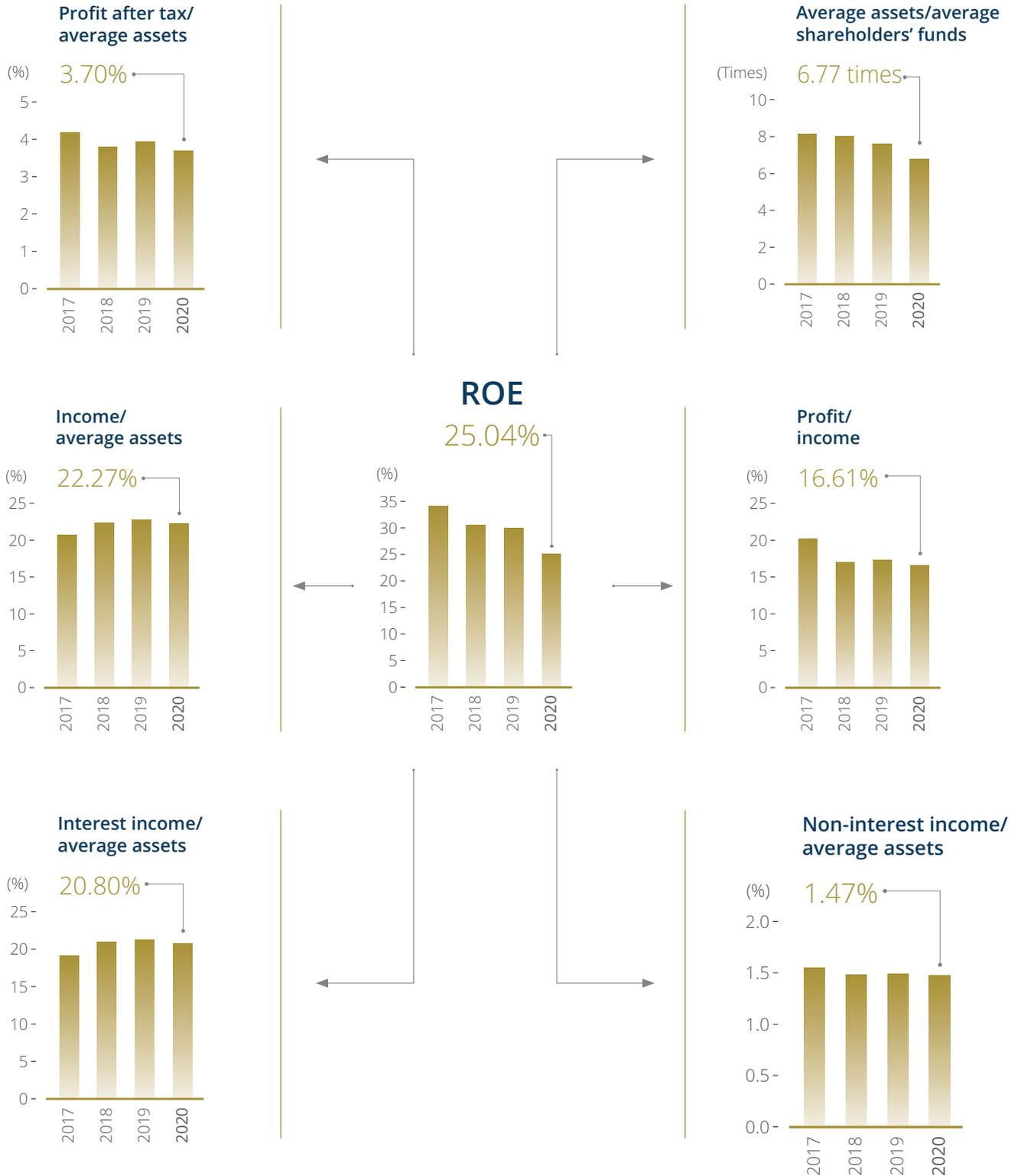
#### DIVIDENDS

LBF's investor-friendly dividend policy determines the immediate returns to investors, whilst retaining funds for future investments. This ensures growth in the medium- and long-term which grows shareholder wealth in these time frames.

# FINANCIAL REVIEW

## FINANCIAL CAPITAL ANALYSIS

Dupont analysis (ROE analysis)



## LIQUIDITY

Average daily shares traded during the year increased to 15,930 in 2019/20 from 13,054 shares in 2018/19.

## ANALYSIS OF SHAREHOLDERS

With reference to the distribution of shareholding, approximately 93% of the shares amounted to shareholding of over one million shares whilst it was 91.52% in the previous year. The total number

of shareholders decreased to 1,886 in the year under review from 1,994 in the previous year. Local investors constituted 94.86% of the investor base (96.33% in 2018/19). Out of the total shareholder base 5.32% was individual shareholders (5.61% in 2018/19).

## DISTRIBUTION OF SHAREHOLDINGS

	As at 31st March 2020				As at 31st March 2019			
	Number of shareholders	%	Number of shares held	%	Number of shareholders	%	Number of shares held	%
1 to 1,000	1,235	65.48	286,758	0.21	1,261	63.24	309,997	0.22
1,001 to 10,000	499	26.47	1,730,147	1.25	564	28.29	2,005,227	1.45
100,001 to 100,000	127	6.73	3,690,102	2.66	142	7.12	4,013,703	2.9
100,001 to 1,000,000	17	0.90	3,988,348	2.88	20	1	5,419,965	3.91
Over 1,000,000	8	0.42	128,818,929	93.00	7	0.35	126,765,392	91.52
<b>Total</b>	<b>1,886</b>	<b>100</b>	<b>138,514,284</b>	<b>100</b>	<b>1,994</b>	<b>100</b>	<b>138,514,284</b>	<b>100</b>

## COMPOSITION OF SHAREHOLDINGS

Category	As at 31st March 2020			As at 31st March 2019		
	Number of shareholders	Number of shares held	%	Number of shareholders	Number of shares held	%
Local - Individual	1,766	7,246,739	5.23	1,855	7,611,018	6
Local - Institutional	94	124,148,216	89.63	111	125,812,634	91
Foreign - Individual	21	131,432	0.09	24	156,272	0
Foreign - Institutional	5	6,987,897	5.05	4	4,934,360	4
<b>Total</b>	<b>1,886</b>	<b>138,514,284</b>	<b>100</b>	<b>1,994</b>	<b>138,514,284</b>	<b>100</b>

## DIRECTORS' SHAREHOLDINGS

Names of Directors	No. of shares as at 31st March 2020	As a % of total shares	No. of shares as at 31st March 2019	As a % of total shares
Mrs. A K Gunawardhana	-	-	-	-
Mr. K D D Perera	-	-	-	-
Mr. J A S S Adhietty	106,120	0.077	106,120	0.077
Mr. N Udage	329,135	0.238	329,135	0.238
Mr. B D A Perera	-	-	-	-
Mr. R S Yatawara	905	0.001	-	-
Mrs. Y Bhaskaran	-	-	-	-
Mr. M A J W Jayasekara	-	-	-	-
Mrs. Ashwini Natesan	-	-	-	-
Mr. D Rangalle (appointed w.e.f. 10th April 2019)	-	-	-	-

## FINANCIAL REVIEW

### LARGEST SHAREHOLDERS OF THE COMPANY

Shareholders	As at 31st March 2020			As at 31st March 2019	
	Number of shares	Percentage holding (%)	Cumulative percentage holding (%)	Number of shares	Percentage holding (%)
1. Vallibel One PLC	71,682,400	51.751	51.751	71,682,400	51.751
2. Royal Ceramics Lanka PLC Commercial Bank of Ceylon PLC/ Royal Ceramics Lanka PLC	36,123,232	26.079	77.830	36,123,232	26.079
3. Esna Holdings (Pvt) Ltd.	14,062,400	10.152	87.982	14,062,400	10.152
4. Bnymyansv Re-Frontaura Global Frontier Fund LLC	2,290,135	1.653	89.636	2,290,135	1.653
5. Pershing LLC S/A Averbach Grauson & Co.	2,006,078	1.448	91.084	1,007,225	0.727
6. SBI Ven Holdings Pte Ltd.	1,600,000	1.155	92.239	1,600,000	1.155
7. BBH-Matthews Emerging Asia Fund	1,054,684	0.761	93.000	-	-
8. Janashakthi Insurance PLC – NON PAR Janashakthi Insurance PLC (Policy Holders)	500,000	0.361	93.361	500,000	0.361
9. Mr. K D A Perera	438,996	0.317	93.678	438,996	0.317
10. Hatton National Bank PLC/Mr. Karuna Ranaraja Ekanayaka Mudiyanseelage Dharshan Maduranga Bandara Jayasundara	401,249	0.290	93.968	361,699	0.261
11. Mr. N Udage	329,135	0.238	94.206	329,135	0.238
12. Mr. A A Page	314,800	0.227	94.433	314,800	0.227
13. Mr. N P De A Samaranyake	240,000	0.173	94.606	300,000	0.217
14. J B Cocoshell (Pvt) Ltd.	237,626	0.172	94.778	197,859	0.143
15. People's Leasing & Finance PLC/Dr. H S D Soysa & Mrs. G Soysa	230,816	0.167	94.944	230,816	0.167
16. Mrs. P C Cooray	208,632	0.151	95.095	208,632	0.151
17. DFCC Bank PLC/Mr. W G D C Ranaweera	191,275	0.138	95.233	190,275	0.137
18. Mr. T Jeremiah	155,164	0.112	95.345	155,164	0.112
19. Mr. K Karunanayake & Ms. P N Karunanayake	148,324	0.107	95.452	148,324	0.107
20. Mr. P Somadasa	138,051	0.100	95.552	151,141	0.109
Total of top 20 shareholders	132,352,997	95.551			
Other public shareholders	6,161,287	4.449			
<b>Total</b>	<b>138,514,284</b>	<b>100.000</b>			

## DEBENTURES

In December 2017, LBF raised Rs. 3 billion to boost business growth opportunity, reducing the mismatch of maturity period, to improve the capital adequacy of the Company and to strengthen Tier II capital position.

Year Issued date Type of Debenture	2019/20 11-Dec-17		2018/19 11-Dec-17	
	Type A	Type B	Type A	Type B
Maturity date	11-Dec-22	11-Dec-22	11-Dec-22	11-Dec-22
CSE listing	Listed	Listed	Listed	Listed
Code	LFIN/ BD/11/12/22-C2 387-A-12.75	LFIN/ BD/11/22/22-C2 388-B-13.25	LFIN/ BD/11/12/22-C2 387-A-12.75	LFIN/ BD/11/22/22-C2 388-B-13.25
Interest payment frequency	Bi-Annually	Bi-Annually	Bi-Annually	Bi-Annually
Coupon Interest rate	12.75% p.a	13.25% p.a	12.75% p.a	13.25% p.a
Traded Yield (%)	NA	13.10%	NA	16.79%
No of Debentures	10,000,000	20,000,000	10,000,000	20,000,000
Amount (Rs. Mn)	1,000	2,000	1,000	2,000
Market price				
Highest (Rs)		100.34		90
Lowest (Rs)	Did not trade during the year	100.34	Did not trade during the year	90
Close (Rs)		100.34		90

## CREDIT RATINGS

The Company's credit rating, A- (lka), was affirmed by Fitch Ratings Lanka Limited in 2020.

### Credit rating – Debentures

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

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE PHILOSOPHY

LBF's corporate governance philosophy stems from our belief that corporate governance is an integral element in improving efficiency and growth as well as enhancing investor confidence. The corporate governance philosophy is scripted as:

"As a good corporate citizen, the Company is committed to sound corporate practices based on conscience, openness, fairness, professionalism and accountability in building confidence of its various stakeholders in it thereby paving the way for its long-term success."

The Company believes in sustainable corporate growth that emanates from the top leadership down through the organisation to the various stakeholders which is reflected in its sound financial system, enhanced market reputation and improved efficiency.

We believe that our Company shall go beyond adherence to the regulatory framework. Our corporate structure, business, operations and disclosure practices have been strictly aligned to our corporate governance philosophy. Transparency, accountability, fairness and intensive communication with stakeholders are integral to our functioning.

We believe in system-driven performance and performance-oriented systems. We accord highest priority to these systems and protect the interests of all our shareholders, particularly the minority shareholders.

We have tried to blend growth and efficiency with governance and ethics. Our Board of Directors, guided by the mission statement, formulate strategies and policies having focus on optimising value for various stakeholders including customers, shareholders and society at large.

The Board leads the Company with the integrity and competence in a manner that is responsible, accountable, fair and transparent, show as to ensure leadership that results in the achievement of the Company's strategic objectives, positive outcomes, overtime and value creation to the stakeholders.

## CORPORATE GOVERNANCE REPORT

We believe that our Company shall go beyond adherence to the regulatory framework. Our corporate structure, business, operations and disclosure practices have been strictly aligned to our corporate governance philosophy.

## GOVERNANCE FRAMEWORK

Our governance framework is anchored on (i) competent leadership, (ii) effective internal controls, (iii) a strong risk culture and (iv) accountability to shareholders.

We believe that it is crucial to have a good balance between continuity and fresh perspectives on the Board. Our Board plays a key role in setting our governance standards to meet our stakeholders' expectations. Our leadership model ensures an appropriate balance of power, accountability and independence in decision-making.



## REGULATORY BENCHMARKS ON CORPORATE GOVERNANCE

- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011 and all Directions/Guidelines issued thereunder
- Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka
- Listing Rules of the Colombo Stock Exchange (CSE)
- The Code of Best Practice on Corporate Governance as published by the Institute of Chartered Accountants of Sri Lanka (voluntary)
- Continuing Listing Requirements of the Colombo Stock Exchange (CSE)
- Related Party Transactions Section 9 of the Listing Rules of the CSE
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)
- Inland Revenue Act No. 24 of 2017 and amendments thereto and other statutes
- Shop and Office Employees Act No. 19 of 1954 and amendments thereto
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Anti-Money Laundering Laws and Regulations and Financial Transactions Reporting Act No. 6 of 2006

## INTERNAL BENCHMARKS ON CORPORATE GOVERNANCE

- Articles of Association
- Board Charter
- Charters/Terms of Reference of Board Subcommittees and Management Committees
- Organisational structure
- Code of Ethics and Conduct for all employees
- Policies related to corporate governance

- Securities Trading Policy
- Human Resources Policy and Manual
- Whistleblowing Policy
- Policy on Managing Conflicts of Interest
- Communication Policy
- Complaint Handling Policy
- Related Party Transactions Policy
- Document Retention and Destruction Policy
- Information Systems Security Policy
- Anti-Money Laundering and Suppression of Terrorist Financing Policy
- Risk Management Policy
- All Board-approved Policies on operational areas

## CORPORATE GOVERNANCE PRINCIPLES

LBF's approach to corporate governance is guided by the following core principles:

### Ethical culture

Trust, integrity and good governance are hallmarks of the Board's governance approach. By setting the tone from above, the Board champions the values of trust, integrity and good governance that are well entrenched in the culture of LBF, and reinforces the ethical principles on which LBF's reputation and success are founded.

To maximise shareholder value on a sustainable basis, these values must extend into every segment of LBF operations and business activities.

### Stewardship

The members of the Board are the stewards of LBF, exercising independent judgment in overseeing management and safeguarding the interests of shareholders.

In fulfilling its stewardship role, the Board seeks to instil and foster a corporate environment founded on integrity and to provide Management with sound guidance in pursuit of long-term shareholder value.

## Strategic oversight

The members of the Board are the key advisors to Management, advising on strategic direction, objectives and action plans, taking into account both the opportunities and LBF's risk appetite.

In carrying out this oversight role, the Board actively engages in setting the long-term strategic goals for the organisation, reviews and approves business strategies, corporate financial objectives and financial and capital plans that are consistent with the strategic goals, and monitors LBF's performance in executing strategies and meeting objectives.

## Risk-oversight

The Board oversees the framework, policies and systems to identify and manage risks to the businesses and seeks to embed a strong risk management culture throughout LBF.

The Board actively monitors the organisation's risk profile relative to risk appetite and seeks to ensure that Management's plans and activities provide an appropriate balance of return for the risks assumed and are prudently focused on generating shareholder value.

## Independence

Independence from Management is fundamental to the Board's effective oversight and mechanisms are in place to ensure its independence.

All direct and indirect material relationships with LBF are considered in determining whether a member of the Board is independent.

## Accountability

Transparency is a key component of good governance. The Board is committed to clear and comprehensive financial reporting and disclosure, and constructive shareholder engagement.

# CORPORATE GOVERNANCE

The Board has carefully defined the expectations and scope of duties of the Board, its committees and Management.

### Continuous improvement

The Board is committed to continuous improvement of its corporate governance principles, policies and practices, which are designed to align the interests of the Board and Management with those of shareholders, to support the stewardship role of the Board and to enhance the Board's ability to safeguard the interests

of shareholders through independent supervision of Management.

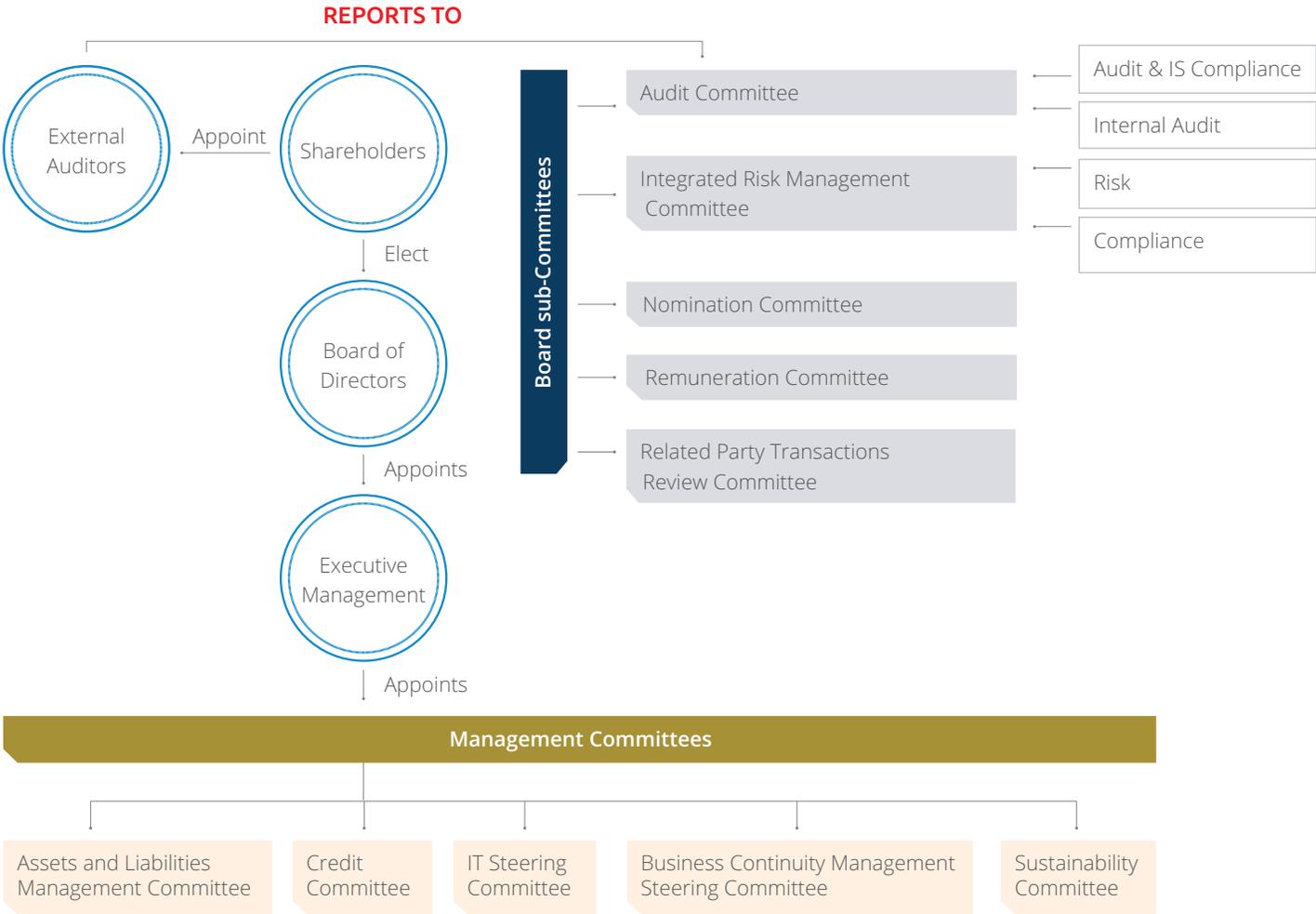
To ensure policies and practices meet or exceed evolving best practices and regulatory expectations, LBF's corporate governance system is subject to ongoing review by the Board.

### GOVERNANCE STRUCTURE

The fundamental relationships among the Board, its sub-committees, management, shareholders, regulators and other stakeholders are guided by

LBF's governance structure. Through this framework, the Company's values and strategic and corporate objectives are set, and plans are determined for achieving those objectives and monitoring performance.

The duties and responsibilities imposed on Directors of a financial institution are expansive and demanding. LBF's present governance structure therefore remains critical to ensuring strict compliance at all times, and is reviewed in response to matters arising, and at least on an annual basis.



## CORPORATE GOVERNANCE INITIATIVES FOR THE YEAR 2019/2020



### Strategic function and monitoring

Board approved the Strategic Plan - 2019/20 to 2022/23 on 30th of April 2019.

Quarterly review of strategic plan was performed.



### Transparency and disclosures

The Board resolved voluntarily adopt the Code of Best Practice on Corporate Governance 2017 (the Code) issued by the Institute of Chartered Accountants of Sri Lanka in December 2017.

Reviewed the Interim Financial Statements for the year ended 31st March 2019.



### Continues developments

Training programmes on "Anti-Money Laundering Regulations, AML Trends and Industry Best Practices" was conducted for the entire staff.



### Policies and Procedures Framework

In terms of corporate governance Direction No. 03 of 2008 (as amended), section 2, Audit Committee discussed the paper submitted jointly by AGM – Finance, Head of IT, Internal Audit and IS Audit and reviewed the adequacy and the integrity of the Company's internal control system and Management Information System (MIS).

Reviewed IT Policies.

Related Party Transactions Policy was reviewed and approved by the Board.

Remuneration Policy reviewed approved by the Board.

Procedure Manual of Internal Audit was considered and approved by the Board.

Mandatory Leave Policy was reviewed and approved by the Board.

LB Code of Conduct was reviewed and approved by the Board.



### Compliance and risk oversight

Succession Plan for Key Management Personnel was reviewed and approved by the Board.

Organisational structure was reviewed and approved by the Board.

Compliance Policy Manual was considered and approved by the Board.

Whistle Blowing Policy was reviewed and approved by the Board.

AML solution was introduced for customer screening and suspicious transaction monitoring.

Carried out unannounced real time testing on the comprehensive Business Continuity Plan (BCP Drill) 18 July 2019.

Risk assessment on existing outsourcing arrangements was proposed to the Audit Committee in order to comply with Finance Business Act No. 07 of 2018 – Outsourcing of Business Operations).

Risk assessment of all deposit and lending products and all processes was presented to the Audit Committee.



## Performance appraisal

The Board and all Board Subcommittees carried out self-assessments to critically evaluate the effectiveness of the Board and each of the Subcommittees. The results of the self-evaluations were discussed in detail and areas for improvement together with an action plan were mandated.

The Board and all Board Subcommittees carry out self-assessments to critically evaluate the effectiveness of the Board and each of the Subcommittees. The results of the self-evaluations were discussed in detail and areas for improvement together with an action plan where mandated.

## DIVERSITY IN THE BOARDROOM

### Board composition

The Board of Directors forms one of the pillars of a robust corporate governance framework. LBF Board diversity aims to cultivate a broad spectrum of demographic attributes and characteristics in the boardroom, with the benefits of more effective decision making, better utilisation of the talent pool and enhancement of corporate reputation and investor relations by establishing the company as a responsible corporate citizen.

The Board has adopted a diversity policy, which recognises the importance of having an appropriate balance of industry knowledge, skills, experience, professional qualifications, gender and nationalities to build an effective and cohesive board. In particular, the Board has set an objective of having female representation. Board members have a broad range of experience and deep industry expertise. LBF have a good balance between continuity and fresh perspectives on the Board.

### Skills, expertise and experience

LBF Board having the optimal mix of skills, expertise and experience is paramount to ensure that the Board as a collective is equipped to guide the business and strategy of the Company.

### Gender and age

These elements are some of the most emphasised forms of diversity in the boardroom. Historically, corporate boardrooms have largely been a male consortium. In recent years, this practice has been challenged and the LBF Board and shareholders have recognised the benefits of having the benefits of gender-balanced board room. Age diversity too is well exhibited at the LBF Board room.

### INDEPENDENCE

To be independent of Management, a Director must be free of any business or other association that could materially interfere with his or her ability to act in the best interests of LBF. A register of Directors' material interests is maintained and regularly reviewed by each Director. If a Director is involved with another company or firm that may have dealings with LBF, those dealings must be at arm's length and on normal commercial terms.

To assist in determining independence, each Non-Executive Director is required to make an annual disclosure to the Board of all relevant information. The Board considers the independence of each Director, taking into account the factors outlined in the Corporate Governance Principles and Recommendations.

To further assist in ensuring that the Board operates independently of Management, Non-Executive Directors meet in the absence of Management, where necessary at scheduled Board and Committee meetings.

Based on the declarations submitted by the Non-Executive Directors, the Board has determined that each Independent Non- Executive Director who has served

on the Board during year 2019/20 has retained independence of character and judgment and has not formed associations with Management or others that might compromise their ability to fulfill their role as an Independent Director.

### BOARD MEETINGS AND ACTIVITIES

We have a highly-engaged Board with diverse perspectives. Board and Board committee meetings are held regularly to discuss key topics such as strategic, governance and operational issues.

#### Before meeting

- To facilitate meaningful participation, all Board and Board committee meetings are planned and scheduled well in advance in consultation with the Directors
- The Chairperson oversees the setting of the agenda of Board meetings in consultation with the CEO/MD to ensure that there is sufficient information and time to address all agenda items
- The agenda of the Board meetings is carefully-thought-out and well-managed. At the same time, the agenda allows for flexibility when it is needed
- Directors are provided with complete information related to agenda items in a timely manner
- All materials for Board and Board committee meetings are uploaded onto a secure portal which can be readily accessed on tablet devices provided to the Board members
- When exigencies prevent a Director from attending a Board or Board committee meeting in person, that Director can participate by telephone or video-conference
- Directors have the discretion to engage external advisers

### At every meeting

- The Chairperson promotes open and frank debates by all Directors at Board meetings
- The Board members come well prepared and engage in robust discussions on key matters pertaining to the Company
- If there are any situations where there is a conflict of interest, the Director in question will excuse him or herself from the discussions and abstain from participating in any Board decision
- Chairperson of each Board committee provides a thorough update on significant matters discussed at the Board committee meetings which are typically scheduled before the Board meeting
- The Managing Director and Executive Directors give a complete and comprehensive update on the Company's business and operations as well as a macro perspective on industry trends and developments
- The Chief Financial Officer (CFO)/ Assistant General Manager – Finance (AGM) presents the financial performance and significant financial highlights
- The Compliance Officer (CO) presents the status of compliance with regulations and significant regulation updates
- Certain business heads provide updates on their areas of business
- Key Management Personnel are present at all Board meetings, Directors have the opportunity to discuss specific areas with them and challenge the ideas on constructive manner
- Exposures of LBF to the individual Directors and their respective related concerns are tabled
- The Board holds a private session for Directors
- External professionals or in-house subject matter experts are also invited to present key topics identified by the Board as well as updates on corporate governance, risk management, capital, tax, accounting, listing and other regulations, which may have an impact on LBF affairs
- Ad-hoc meetings are held when necessary
- The CFO/AGM – Finance provides the Board with detailed financial performance reports on a monthly basis
- Directors have direct access to senior management and may request from management any additional information to make informed and timely decisions
- Throughout the year, the Directors also have various opportunities to interact with members of the Management Committees
- Directors have ongoing interactions across various levels, functions within LBF. This allows Directors to have a better understanding of the business and operations of LBF
- Directors have separate and independent access to the Company Secretary at all times. The Company Secretary attends all Board meetings and generally assists Directors in the discharge of their duties. The Company Secretary facilitates communication between the Board, its committees and management. The Company Secretary helps with the induction of new Directors. The appointment and removal of the Company Secretary require the approval of the Board.

Frequent and effective engagement with the Board

- The Board is regularly updated on the performance and prospects of LBF
- Board approvals for matters in the ordinary course of business can be obtained through the circulation of written resolutions

### Board Meeting attendance from April 2019 to March 2020

Board members	Composition	Date of appointed to the board	Board meeting attendance
Mrs. Anandhiy Gunawardhana	Chairperson*	01.03.2013	11/12
Mr. Dhammika Perera	Executive Deputy Chairman	22.10.2002	11/12
Mr. Sumith Adhihetty	Managing Director	10.12.2003	12/12
Mr. Nirosan Udage	Executive Director	01.01.2007	12/12
Mr. B D A Perera	Executive Director	01.01.2007	11/12
Mr. Ravindra Yatawara	Executive Director	15.03.2016	11/12
Mrs. Yogadinusha Bhaskaran	Non-Executive Director	15.03.2016	12/12
Mr. Ashane Jayasekara	Independent Non-Executive Director	30.10.2017	11/12
Mrs. Ashwini Natesan	Non-Executive Director	01.09.2018	12/12
Mr. Dharmadasa Rangalle	Non Independent Non-Executive Director	10.04.2019	12/12
Mrs. Shirani Jayasekara	Chairperson	25.08.2010	5/5**

\* Appointed w.e.f. 09.09.2019

\*\*Ceased w.e.f. 24.08.2019

# CORPORATE GOVERNANCE

## ROLES AND RESPONSIBILITIES

### The Board

The Board is elected by the shareholders to supervise the management of the business and affairs of the Company. The prime stewardship responsibility of the Board is to ensure the viability of the LBF and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders.

### Key responsibilities

- reviewing and approving overall business strategy as well as organisation structure, as developed and recommended by management;
- ensuring that decisions and investments are consistent with long-term strategic goals;
- ensuring that the Company operates in such a way as to preserve its financial integrity and in accordance with policies approved by the Board;
- overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure and procedures and internal controls; and, through the Risk Management Committee, the quality of the risk management processes and systems;
- providing oversight in ensuring that the Company's risk appetite and activities are consistent with its strategic intent, the operating environment and effective internal controls, as well as capital sufficiency and regulatory standards;
- overseeing, through the Risk Management Committee, the establishment and operation of an independent risk management system for managing risks on an enterprise-wide basis, the adequacy of the risk management function (including ensuring that it is sufficiently resourced to monitor risk by the various risk categories and that it has appropriate independent reporting lines), and

the quality of the risk management processes and systems;

- reviewing any transaction for the acquisition or disposal of assets that is material to the Company;
- ensuring that the necessary human resources are in place for the Company to meet its objectives;
- overseeing the related party transactions through the Related Party Transactions Review Committee;
- reviewing management performance and ensuring that management formulates policies and processes to promote fair practices and high standards of business conduct by staff;
- establishing corporate values and standards, emphasising integrity, honesty and proper conduct at all times with respect to internal dealings and external transactions, including situations where there are potential conflicts of interest;
- overseeing, through the Remuneration Committee, the design and operation of an appropriate remuneration framework, and ensuring that remuneration practices are aligned to and in accordance with the remuneration framework;
- providing a balanced and understandable assessment of the Company's performance, position and prospects, including interim and other price-sensitive public reports as well as reports to regulators;
- ensuring that obligations to shareholders and others are understood and met;
- maintaining records of all meetings of the Board and Board Committees,
- particularly records of discussion on key deliberations and decisions taken;
- identifying the key stakeholder groups, recognising that perceptions affect the Company's reputation; and
- considering sustainability issues, e.g. environmental and social factors, as part of strategy formulation.

### Board approval

The Company has documented internal guidelines for matters that require Board approval. Matters which are specifically reserved for Board approval, amongst others, are:

- Material acquisition and disposal of assets;
- Financial reporting
- Corporate or financial restructuring; and
- Share issuance, dividends and other returns to shareholders.

The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below those limits to the Board Committees and management to optimise operational efficiency.

### Chairperson

The role of Chairperson is distinct and separate from that of the Chief Executive and there is a clear division of responsibilities with the Chairperson leading the Board and the Chief Executive managing LBF business day to day.

### Key responsibilities

- provide strong and effective leadership to the Board;
- ensure the Board is structured effectively, observes the highest standards of integrity and corporate governance, and sets the tone from the top in terms of culture and values;
- build an effective and complementary Board with an appropriate balance of skills and personalities;
- foster open and inclusive discussions at each Board/Committee meeting which challenge executives, where appropriate;
- in conjunction with the Chief Executive and Company Secretary, ensure that members of the Board receive accurate, timely and clear information to enable the Board to lead LBF, take sound decisions and monitor effectively the performance of executive management;

- ensure that the performance of individual Directors and of the Board as a whole and its committees is evaluated regularly; and
- ensure LBF maintains effective communication with shareholders and other stakeholders.

### Managing Director

The Managing Director has responsibility for all of LBF's business and acts in accordance with the authority delegated by the Board.

#### Key responsibilities

- exercise executive accountability for the LBF businesses delivering operational management and oversee the full range of activities of the customer businesses and functions;
- develop, drive and deliver the strategy approved by the Board;
- drive and deliver performance against financial plans, acting in accordance with authority delegated by the Board;
- consult regularly with the Chairperson and Board on matters which may have a material impact on LBF;
- lead the culture and values of LBF, creating an environment where employees are engaged and committed to good customer outcomes;
- lead, manage and develop LBF's senior leadership team, ensuring professional capability is developed and that succession coverage meets the needs of LBF;
- ensure LBF has effective frameworks and structures to identify, assess and mitigate risks; and
- in conjunction with the Chairperson and Company Secretary, ensure that the Board receives accurate, timely and clear information.

### Non-Executive Directors

Along with the Chairperson and Executive Directors, the Non-Executive Directors are responsible for ensuring that the Board

fulfils its responsibilities under its terms of reference. The Non-Executive Directors combine broad business and commercial experience with independent and objective judgment and they provide independent challenge to the Executive Directors and the leadership team. The balance between Non-Executive and Executive Directors enables the Board to provide clear and effective leadership across LBF's business activities. The standard terms and conditions of appointment of Non-Executive Directors are documented and approved by the Board.

The Non-Executive Directors on the Board constructively challenge and help develop proposals on strategy, review the performance of Management in meeting agreed goals and objectives, and monitor the reporting of performance. They meet during the year, without the presence of Executive Directors, to discuss the effectiveness of Management.

Separate sessions are also arranged for the independent Directors to meet at least once a year to ensure effective corporate governance in managing the affairs of the Board and the Company

### Company secretary

All Directors have access to the services and advice of the Company Secretary P & W Corporate Secretarial (Pvt) Ltd. The Company Secretary is not a director of LBF and they maintains an arm's-length relationship with the Board. The Company Secretary supports the Board as a whole, and Directors individually, by providing guidance as to how to fulfil their responsibilities as Directors in the best interests of LBF. To achieve these objectives, independent advisory services are retained by the Company Secretary at the request of the Board or its Committees. The Company Secretary maintains their knowledge of developments in corporate governance best practices and regulations.

#### Key responsibilities

- Working closely with the Chairperson to ensure effective functioning of the Board and appropriate alignment and

information flows between the Board and its committees. This includes Board succession planning, induction, and professional development;

- executive responsibility for Chairman/ Non-Executive Director search and appointment process;
- management of LBF's profile with key stakeholders, including oversight of relations with key influencers and regulators;
- the provision of professional support to the Board and its committees and leading on implementation of recommendations from the annual Board evaluation.

### DIRECTORS' TRAINING AND DEVELOPMENT

- The Nomination Committee oversees Director Education, providing Directors with an ongoing programme to assist them in understanding their responsibilities, as well as keeping current their knowledge and understanding of the industry within which the Company operates. Directors identify their continuing education needs through Annual Board and Board Sub-Committee Performance Assessments and regular feedback to the Board Chairperson and Sub-Committee Chairs.
- Members of the Board participated in seminars and conferences held throughout the financial year.

### BOARD SUB COMMITTEES

The Board has established the standing committees in accordance with the relevant rules, regulations and best practices. Each Committee is chaired by an Independent Non-Executive Director, and has its own terms of reference. These terms of reference set out the committees' roles and responsibilities, functions, scope of authority and composition. Committees report to the Board at each Board meeting and make recommendations in accordance with their terms of references.

## CORPORATE GOVERNANCE

### Attendance of Directors at meeting of sub-committees from April 2019 to March 2020

Name of the Directors	Board status	Remuneration Committee	Nomination Committee	Audit Committee	Integrated Risk Management Committee	Related party Transactions Review Committee
Total meetings held		2	2	15	4	5
Mrs. Anandhiy Gunawardhana	Chairperson/Independent Non-Executive Director*	2/2	2/2	14/15	4/4	
Mr. Dhammika Perera	Executive Deputy Chairman					
Mr. Sumith Adihetty	Managing Director		2/2		3/4	
Mr. Nirosan Udage	Executive Director				4/4	
Mr. B D A Perera	Executive Director				4/4	
Mr. Ravindra Yatawara	Executive Director				Excused	
Mrs. Yogadinusha Bhaskaran	Non-Executive Director	2/2		15/15***		
Mr. Ashane Jayasekara	Independent Non-Executive Director	2/2***	2/2***	14/15	4/4***	5/5
Mrs. Ashwini Natesan	Independent Non-Executive Director				4/4	5/5***
Mr. Dharmadasa Rangalle	Non-Executive Director					3/3
Mrs. Shirani Jayasekara	Chairperson**					2/2**

\*Appointed w.e.f. 09.09.2019 \*\*Ceased w.e.f. 24.08.2019 \*\*\* Committee Chairman/Chairperson

#### 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.

#### BOARD AND COMMITTEE PERFORMANCE

The Board has an annual performance evaluation process, to assess the effectiveness of the Board, Board Committees and each Director's contribution. The purpose of the evaluation process is to increase the overall effectiveness of the Board.

The Directors participate in the evaluation. Each Director evaluates the performance of the Board and Board Committees whilst the Chairperson and Nomination Committee evaluate the performance

of each Director and meet to discuss the matter. The assessments are made against pre-established criteria which are derived from the Board's duties and responsibilities. The results of the evaluation are used constructively to discuss improvements to the Board and ensure that each Director remains qualified for office. The Chairperson and/or Nomination Committee Chairman acts on the results of the evaluation, and if appropriate, proposes new Directors in consultation with the Nomination Committee.

Directors are expected to set aside adequate time for their oversight of matters relating to the Company. They must provide declarations of any changes in their other appointments, which are disseminated to all members. The Company has guidelines on meeting attendance and the extent of other appointments that a Director can assume. The Nomination Committee, based on the guidelines established, assesses annually each Director's attendance record and degree of participation at meetings. In respect of other appointments, it takes

into account - among various factors - the nature of an appointment (full-time or otherwise), number of meetings to attend, complexity of organisation and degree of participation in sub-committees.

#### Board's key areas of focus

- Review LBF' strategic and business plans
- Monitor the responsibilities delegated to the Board committees to ensure proper and effective oversight and control of LBF' activities
- Establish a framework for risks to be assessed and managed
- Review management performance
- Determine LBF' values and standards (including ethical standards) and ensure that obligations to its stakeholders are understood and met
- Develop succession plans for the Board and Key Management Personnel
- Consider sustainability issues (including environmental and social factors) as part of LBF' strategy

## ACTING ETHICALLY AND RESPONSIBLY

### Managing conflicts of interest

All Directors are guided by the provisions of Conflict of Interest Policy. It is mandated that Directors should avoid any situation which might give rise to a conflict between their personal interests and those of the Company. During the nomination process, conflicts of interest (actual and potential) are disclosed and assessed to ensure that there are no matters which would prevent that person from offering himself for election to the Office of Director. Directors are responsible for disclosure as soon as they become aware of conflict situations. In instances where Directors have an interest in a material transaction or matter involving the Company that is being considered at the Board or a Board Sub-Committee level, they:

- Disclose that interest;
- As a general requirement, excuse themselves from the meeting during board or Board Sub-Committee discussions; and
- Do not cast a vote on the matter.

### Related party transactions

The Company has established policies and procedures on related party transactions. These include definitions of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving and monitoring the transactions. The Related Party Transaction Review Committee reviews non recurrent related party and interested person transactions and keeps the Board informed of such transactions, if any. Measures are taken to ensure that terms and conditions for related party lendings are no more favourable than those granted to non-related obligors under similar circumstances.

### Share trading

The Board has laid down a 'Share Trading Policy' as the code of Internal Procedures and Conduct for Prevention of Insider Trading, with the objective of preventing purchase and/or sale of shares of the Company by an Insider on the basis of unpublished price sensitive information. Under this Policy, insiders (designated employees and their dependents) are prevented to deal in the Company's shares during the closure of Trading Window.

To deal in securities beyond limits specified, permission is required. All Directors/ designated employees are also required to disclose related information periodically as defined in the Policy.

### RISK GOVERNANCE

As a financial institution engaged in a varied offering of financial services, assuming and active management of risks plays an integral part of our business strategy. The integrated risk management committee, on behalf of the Board, is responsible for the overall oversight of reviewing the effectiveness of risk management activities. The Company has implemented a wide array of risk management strategies to treat the risks that the Company is exposed to; while aligning the business strategy within the boundaries of the risk appetite of the Company. The principal risks identified and the mitigation strategies are set out on in the Risk Management section of the Annual Report.

### IT GOVERNANCE

In the corporate world, Information Technology (IT) plays a vital role. Increasing complexities and criticalities in IT decision-making demands the Company to adopt an effective IT governance system. IT governance, which forms an integral part of the Company's corporate governance, deals primarily with optimising the linkage between strategic direction and information systems management of the

Company. IT governance of the Company creates value that fits into the overall corporate governance strategy of the Company and is not a discipline on its own. IT governance of the Company ensures that the investments in IT generate value, avoids failure and mitigates IT associated risks.

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

- To ensure that IT has 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.

### HR GOVERNANCE

Human Capital relates to the actual resources or people of the organisation and that create the productivity and sustainability of the business. Hence HR governance strategy allows for inclusion and effective delivery towards the business strategy. This strategic intent is achieved through HR governance with regards to culture, performance, controls and legitimacy.

### Whistleblower protection

The Company places great importance on fostering a culture that encourages its people to speak up about issues and conduct that cause them concern. The Whistleblower Policy is designed to encourage and support individuals in reporting such matters, knowing that it is safe to do so, they will receive support and they will not be subject to retaliation or victimisation in response.

# CORPORATE GOVERNANCE

## SUSTAINABILITY REPORTING

### Sustainability governance

Effective integration and operative management of Sustainability Committee at a company needs dedicated leadership, clear vision, business direction, and strategic focus and none of this will happen without a robust governance structure. Sustainability governance benefits a company to implement sustainability strategy across the business, manage goal-setting and reporting processes, strengthen relations with external stakeholders, and ensure overall accountability.

Sustainability fits into the overall corporate structure can be very revealing of a company's direction and priorities. It's important to keep in mind that there is no cookie-cutter structure that can be applied; every company must tailor its approach for what makes most sense given its business model, structure, resources, and level of sustainability integration into the business.

## SHAREHOLDER/STAKEHOLDER RELATIONS

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

LBF's stakeholder engagement is governed by the Sustainability Committee. The unit is responsible for facilitating an integrated approach to stakeholder engagement across the group. This approach is aligned with LBF's organisational philosophy, brand ethos and values, material sustainability focus areas and strategy. The frequency of engagement varies according to each stakeholder group and the particular issue at hand. LBF is proactive in identifying and responding to its stakeholders' expectations, concerns and conflicts. A centralised approach is used to manage investors, employees, regulators and communities. LBF's customer facing units undertake stakeholder engagement relevant to each of their areas and are responsible for identifying relevant stakeholder concerns and taking appropriate action. The Board of Directors is kept apprised of engagement activities, concerns raised and mitigating action taken through the group social, ethics and transformation through the Sustainability Committee.

### Shareholder rights

LBF promotes fair and equitable treatment of all shareholders. All shareholders enjoy specific rights under the Companies' Act. These rights include, among others, the right to participate in profit distributions and the right to attend and vote at general meetings.

Ordinary shareholders are entitled to attend and vote at the AGM in person or by proxy. LBF respects the equal information rights of all shareholders and is committed to the practice of fair, transparent and timely disclosure. All price-sensitive information is publicly released prior to any sessions with individual investors or analysts.

### Communication with shareholders

The Board welcomes engagement with shareholders and encourages them to express their views. To allow shareholders to provide timely and meaningful feedback, the Board has developed practices appropriate for the Company's investor base to facilitate constructive engagement. Examples of these practices include methods of hearing from shareholders and responding to their inquiries on an ongoing basis. The Board continues to proactively consider and adapt, as suitable to the circumstances of LBF, emerging practices of Board engagement with shareholders.

Procedures are in place to provide timely information to current and potential investors. The Board reviews and approves the contents of major disclosure documents, including the Annual Report, quarterly reports to shareholders and Management's Discussion and Analysis.

### Conduct of shareholder meetings

The Annual General Meeting (AGM) provides shareholders with the opportunity to share their views and to meet the Board, including the chairpersons of the Board committees and members of Key Management Personnel. Our external auditor is available to answer shareholders' queries.

At the AGM, LBF financial performance for the preceding year is presented to shareholders. At general meetings, the Chairperson plays a pivotal role in fostering constructive dialogue between shareholders, Board members and the management.

LBF encourages and values shareholder participation at its general meetings. In accordance with the recommendations

contained in the Code and the Guidelines, resolutions requiring shareholder approval are tabled separately for adoption at the Company's general meetings unless they are closely related and are more appropriately tabled together.

### Feedback from shareholders

The Company is committed to communication with shareholders which is depicted via the introduction of the Investor Feedback Form which was continued in the preceding year and provides the opportunity for shareholders to comment on their Company. Refer page 285 for the Feedback Form.

### Inquiries by shareholders

Shareholders are invited to have a direct communication with the Company and they can raise their inquiries and concerns with the Board by contacting the Company Secretary, P W Corporate Secretarial (Pvt) Ltd., through the following channels:

Telephone : 011-4640360-3

Fax : 011-4740588

Email : pwcs@pwcs.lk

Address :

P W Corporate Secretarial (Pvt) Ltd  
No. 3/17, Kynsey Road, Colombo 08

### COMPLIANCE STATEMENT

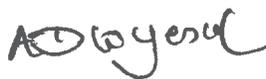
We are happy to confirm that throughout the year ended 31st March 2020 and as at the date of this Annual Report, the Company was compliant with the Listing Rules of the Colombo Stock Exchange and Finance Companies Direction No. 03 of 2008 on Corporate Governance and amendments thereto. In addition, tables set out in pages 68 to 97 depict the extent of adherence with the Code of Best Practice on Corporate Governance,

issued by the ICASL. Further, the Company has complied with the provisions of the Companies Act No. 07 of 2007 and other statutes as applicable to the Company. All statutory payments due to Government, which have fallen due, have been made or where relevant provided for, except for certain assessments against which appeals have been lodged. Retirement gratuities have been provided for in accordance with LKAS 19 – 'Employee Benefits'.

### FUTURE OUTLOOK

Corporate governance plays a vital role in business and future emphasis is to further satisfy the Company's stakeholders whilst sustaining growth of the Company. Therefore we believe in the following; operating structure, internal control, review, benchmark, feedback, effective and transparent communication.

By Order of the Board,  
L B Finance PLC



P W Corporate Secretarial (Pvt) Ltd  
Secretaries

22 June 2020

## CORPORATE GOVERNANCE

### THE FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 03 OF 2008 AND AMENDMENTS THERE TO APPLICABLE ON FINANCE COMPANIES LICENSED UNDER THE FINANCE BUSINESS ACT 42 OF 2011 ISSUED BY THE CENTRAL BANK OF SRI LANKA

Section	Rule	Compliance/ non- compliance	Status of compliance
<b>2 THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>			
2 (1) Strengthening the safety and soundness of the Company			
	(a) Approve, oversee and communicate the strategic objectives and corporate values.	Complied	<p>The Board provided leadership, set strategic aims and ensures that the necessary financial and human resources are in place for the Company to meet its objectives; Board-approved strategic objectives and corporate values have been derived from the Company's Vision and Mission and it has been communicated throughout the Company. The Board ensures that obligations to shareholders and others are understood and met.</p> <p>The Company has established a Strategic Plan - 2019/20 to 2022/23 and approved by the Board. This has been communicated to all the Directors, DGMs, AGMs, Senior Managers and other managers relevant to different operations of the company.</p>
	(b) Approve the overall business strategy, including the overall risk policy and risk management.	Complied	<p>The Board approved the 'Strategic Plan' of the Company and established a framework of prudent and effective controls which enables risk to be assessed and managed; the Board reviews Company management performance at monthly Board meetings. The Risk Management Policy is with measurable goals, includes a well-developed risk appetite well-defined responsibility for risk management in particular and control functions in general and was reviewed and recommended by the Integrated Risk Management Committee (IRMC) and approved by the Board.</p>
	(c) Identifying and managing risk.	Complied	<p>The Board is responsible for overseeing a strong risk governance framework.</p> <p>The Board takes an active role in defining the risk appetite and ensuring its alignment with the Company's strategic, capital and financial plans and compensation practices. Integrated Risk Management Committee identifies risks related to credit, market, liquidity and operations and ensures that appropriate actions are taken to manage risks. The Committee submits a Risk Assessment Report to the Board within seven days of each meeting. The Risk Management Report on pages 116 to 136 provides further insight in this regard.</p>
	(d) Communication policy with all stakeholders.	Complied	<p>The Board-approved Communication Policy is available and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders, borrowers and employees of the Company.</p> <p>The Company discloses information on a timely basis. In disclosing information, Company ensures the descriptiveness, detailed and forthcoming as possible, and avoids boilerplate disclosures.</p>

Section	Rule	Compliance/ non- compliance	Status of compliance
	(e) Integrity of the internal control system and management information system.	Complied	<p>The Board-ensures that the Management maintains a sound system of internal controls to safeguard shareholders' investments and the Company's assets.</p> <p>Internal controls are designed, among other things, to ensure that, each key operation has a policy, process or other measures, as well as a control to ensure that such policy, process or other measure is being applied and works as intended. A Board-approved Information System Security Policy is in place. Internal Auditors reviewed the integrity of the Management Information System and Internal Control</p> <p>System and observations were monitored by the Board, which confirmed that the Internal Control System and the Management Information System provide a reasonable assurance over financial reporting.</p>
	(f) Identifying and designating Key Management Personnel.	Complied	<p>The Board-identified Key Management Personnel according to the Sri Lanka Accounting Standards and as per the Direction issued by the Central Bank of Sri Lanka on Corporate Governance and the latter includes the Board of Directors, Chief Financial Officer, DGM Strategy and Digital Financial Services, Assistant General Managers Treasury, Finance &amp; Legal, Compliance Officer, and Senior Manager Finance as Key Management Personnel (KMP). The Directors have been identified as KMPs as per the Accounting Standards.</p>
	(g) Authority and responsibilities of the Board and Key Management Personnel.	Complied	<p>The Board sets out clearly the role, responsibilities, accountability and reporting relationships of Key Management Personnel, and has these properly documented. The delegation of authority from the Board to the Key Management Personnel is formal and clear.</p>
	(h) Oversight of affairs of the Company by Key Management Personnel.	Complied	<p>Oversight of the affairs of the Company by its Key Managerial Personnel takes place at the regular Board meetings and Subcommittee meetings and Key Management Personnel make regular presentations to the Board on matters under their preview.</p>
	(i) Periodically assess the effectiveness of its governance practices, including:	Complied	<p>The Board has delegated the functions of selection and nomination of Directors to the Nomination Committee (NC). Directors' interests are disclosed to the Board at the start of every meeting. If a Director has an interest in a particular matter, he abstains from voting at such meeting and he is not counted in the quorum. The Board and the Board sub committees have a formal self- evaluation process annually in order to identify and rectify the weaknesses. A summary of these evaluation forms is submitted to the Board by the Company Secretaries for further recommendations.</p>
	i) selection, nomination, and election of Directors and appointment of KMP.		
	ii) Management of conflicts of interests.		
	iii) Determination of weaknesses and implementation of changes where necessary.		
	(j) Succession plan for Key Management Personnel.	Complied	<p>The Company has a Board approved one-to-one succession plan in place for the Key Management Personnel.</p>

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance
	(k) Regular meetings with the Key Management Personnel.	Complied	The Key Managerial Persons regularly make presentations and participate in discussions on their areas of responsibility at the Board and its sub-committee meetings and progress towards corporate objectives is a regular agenda items for the Board where Key Management Personnel are involved regularly.
	(l) Understanding Regulatory environment.	Complied	The Board of Directors closely monitors regulatory compliances at monthly Board meetings by means of a regular monthly Board paper, presentations on compliance. Further, the Compliance Officer presents changes to the regulatory environment from time to time and any other necessary information to the Board. All Board members attend the Directors' and CEOs' forums arranged by the CBSL and the Management personnel of the Company maintain dialogues on an ongoing basis.
	(m) Hiring and oversight of External Auditors.	Complied	The Board Audit Committee is responsible for hiring and oversight of the External Auditors and on the recommendation of the Board. External Auditors are appointed by the shareholders of the Company at the AGM. External Auditors annually submit a statement confirming their independence as required by the regulatory authorities in connection with the external audit.
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	Complied	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and there is a clear division of the documented functions and responsibilities of the Chairman, CEO and Board to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.
2 (3)	Directors' ability to seek independent professional advice.	Complied	The Directors are able to obtain independent professional advice as and when necessary at Company expense and the Board approved procedure is in place. However, no such instances have occurred during the year.
2 (4)	Dealing with conflicts of interests.	Complied	Article 97 of Articles of Association on 'Restrictions on Voting' evidences the procedure for a Director to abstain from voting on any Board resolution when there is conflict of interest and he/ she is not to be counted in the quorum.  The Company Secretaries obtained disclosure of interest from Directors at every Board meeting and conflict of interest (if any) is managed based on this statement. Directors abstain from voting in such a situation and they are not counted in the quorum.
2 (5)	Formal schedule of matters specifically reserved for Board Decisions.	Complied	The Board has adopted a policy for a formal schedule of matters specifically reserved for the Board. Present agenda of meeting ensures that the direction and the control of the Company is under the Board's control and authority.
2 (6)	Situation on insolvency.	Complied	The Board is aware of the need to inform the Director of the Department of Supervision of Non-Bank Financial Institutions and no such situation arose during the year and we do not visualise such situations in the foreseeable future.

Section	Rule	Compliance/ non- compliance	Status of compliance
2 (7)	Publish corporate governance report in the Annual Report.	Complied	The Annual Corporate Governance Report has been published by the Company in the Annual Report 2019/20 on page 56.
2 (8)	Annual self-assessment by the Directors and maintenance of such records.	Complied	The Company has adopted a scheme of self-assessment to be undertaken by each Director annually.
<b>3 MEETINGS OF THE BOARD</b>			
3 (1)	Regular Board meetings and circulation of written or electronic resolutions.	Complied	The Board meets regularly approximately at monthly intervals and special Board meetings are convened whenever necessary. The Board met on 12 occasions during the year 2019/20. The consent of the Board is usually obtained at meetings with due notice given with Board papers. Consent obtained by circulation has been kept at minimal.
3 (2)	Arrangements for Directors to include matters and proposals in the agenda.	Complied	All the members were given equal opportunities to include matters and proposals in the agenda and the procedures are in place for this. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals to the agenda.
3 (3)	Notice of meetings.	Complied	Board meeting dates were agreed to by Board members in advance for the calendar year. Agenda and all Board papers are uploaded through a secure link to iPad for Directors to access seven days prior to the Board meetings.
3 (4)	Directors' attendance at Board meetings.	Complied	All Directors have attended at least two-thirds of the meetings held during the year and no Director has been absent from three consecutive regular Board meetings during the year 2019/20. Directors' Attendance at Board and Subcommittee meetings, Refer pages 61 to 64 for details of individual Directors' attendance at Board meetings.
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board.	Complied	P W Corporate Secretarial (Pvt) Ltd., a company registered with the Registrar of Companies as a qualified secretary, handles the secretarial services to the Board and shareholder meetings and carries out other functions specified in related laws and regulations.
3 (6)	Responsibility of preparation of agenda for a Board meeting.	Complied	Preparation of the agenda is delegated to the Company Secretary and is approved by the Chairperson.
3 (7)	Directors' access to advice and services of the Company Secretaries.	Complied	A Board-approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed. Directors have separate and independent access to the Company Secretary.
3 (8)	Maintenance of Board minutes.	Complied	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director. Additionally, the Directors have access to past Board papers and minutes through a secure electronic link.
3 (9)	Recording of Minutes of Board meetings in sufficient detail.	Complied	The Company Secretary maintains detailed minutes of Board meetings to satisfy all requirements of this direction. Minutes are approved by the Chairperson and the other members of the Board after making required amendments, if necessary.

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance
<b>4 COMPOSITION OF THE BOARD</b>			
4 (1)	The number of Directors.	Complied	The Company's Board comprised 11 Directors up to 23.08.2019 and then reduced to 10 Directors during the year 2019/20 which is within the statutory limit required by the direction. The objective of the Company is to maintain a healthy balance between Executive, Non-Executive and Independent Directors.
4 (2)	Period of service of a Director.	Complied	The total period of service of all Non-Executive Directors does not exceed nine years.
4 (3)	Board balance.	Complied	Board balance was maintained throughout the year.
4 (4)	Independent Nonexecutive Directors and the criteria for independence.	Complied	There is a strong and independent element on the Board, with Independent Directors making up a one-fourth of the Board. The Board comprised of 4 Independent Non-Executive Directors up to 23.08.2019 and then reduced to 3 as per the definition of this Direction which complies with at least 1/4th of the Board. The Board evaluates independence of the Directors annually based on the Directors' self-declarations.
4 (5)	Appointment of Alternate Directors.	Complied	There were no Alternate Directors during the year 2019/20.
4 (6)	Skills and experience of Non-Executive Directors.	Complied	Appointments are recommended by the Nomination Committee. The Directors including Non-Executive Directors are eminent persons with knowledge, expertise and experience to bring an independent judgment and their detailed profiles are on pages 16 to 19.
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings.	Complied	All Board meetings held during the financial year were duly constituted with one-half of the number of Directors present and one half of the number of Directors constituting the quorum being Non-Executive Directors.
4 (8)	Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors.	Complied	The Independent Non-Executive Directors are expressly identified in all corporate communication that discloses the names of all Directors of the Company. Composition of the Board of Directors including the category of Directors has been disclosed on pages 14 to 15 In addition to the disclosures on profiles of Directors on pages 16 to 19.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Complied	The new appointments to the Board are based on the recommendations made by the Nomination Committee and there is a procedure in place for the succession of appointments to the Board. After this procedure the names are referred to the CBSL for approval prior to appointment.
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment.	Complied	All Directors appointed to the Board are subject to re-election by the shareholders at the first Annual General Meeting after their appointment and there were no casual vacancies during the year.

Section	Rule	Compliance/ non- compliance	Status of compliance
4 (11)	Communication of reasons for removal or resignation of Directors.	Complied	Resignation of Directors and their reasons are duly communicated to the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities. Appointment, removal or resignations of Directors are informed to shareholders, with immediate notification to the Colombo Stock Exchange (CSE).

## 5 CRITERIA TO ASSESS THE FITNESS AND HE PROPRIETY OF DIRECTORS

5 (1)	The age of a Director shall not exceed 70 years.	Complied	All the Directors are below the age of 70 years as at 31st March 2020.
5 (2)	Directors shall not hold office as a Director of more than 20 Companies/Societies/ Corporate bodies including Associate and Subsidiary Companies.	Complied	The total number of positions held as a Director or any other position in companies/entities/institutions inclusive of subsidiaries or associate companies of the Company is less than 20.

## 6 DELEGATION OF FUNCTIONS

6 (1)	Delegation of work to the Management.	Complied	As per the Articles of Association the Board may delegate any of their powers to the Board-appointed committees, Managing Director, Executive Directors and Key Management Personnel upon such terms and conditions. All delegations are made in a manner that it would not hinder the Board's ability to discharge its functions.
6 (2)	Periodical evaluations of the delegation process.	Complied	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.

## 7 THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

7 (1)	Division of responsibilities of the Chairman and CEO.	Complied	There exists a clear separation of duties between the roles of the Chairperson and the CEO/Managing Director.
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director.	Complied	Chairperson is a Non-Independent Non-Executive Director.
7 (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members.	Complied	The Board has adopted a formal procedure to identify and disclose the relationships between the CEO and the Chairperson and among other Directors. Accordingly, the Board has declared that there are no material relationships [including financial, business, family or other material/relevant relationship(s)] between the Chairperson and Chief Executive Officer/Managing Director and among the members of the Board which will impair their respective roles. Details of the Chairperson and Chief Executive Officer are disclosed in the Annual Report on page 16.

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance
7 (4)	<p>Chairman to;</p> <p>(a) provide leadership to the Board;</p> <p>(b) ensure that the Board works effectively and discharges its responsibilities;</p> <p>and</p> <p>(c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.</p>	Complied	Board-approved list of functions and responsibilities of Chairperson includes 'Providing Leadership to the Board' as a responsibility of the Chairperson. The Board as a body worked effectively and discharged its responsibility as set out in the Annual Report. The annual self-assessment of the Board includes a criterion that evaluates the effectiveness of the Chairman in facilitating the Board's discharge of its responsibilities. All key and appropriate issues are discussed by the Board on a timely basis.
7 (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	Complied	Preparation of the agenda has been delegated to the Company Secretary who circulates a formal agenda prior to the Board meeting which is approved by the Chairperson.
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	Complied	The Chairperson ensures that all Directors are properly briefed on issues arising at Board meetings through submission of agenda and Board papers with sufficient time prior to meeting.
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interests of the Company.	Complied	All Directors actively participate in Board affairs and the Board acts in the best interests of the Company.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors.	Complied	Executive and Non-Executive Directors work together in the best interests of the Company. Non-Executive Directors participate in Board sub-committees. This process is further strengthened through the annual self-evaluation of the Board and Board Sub Committees where views of all Directors are canvassed in respect of the performance of the Board and Sub Committees as a whole.
7 (9)	Refrain from direct supervision of Key Management Personnel or executive duties.	Complied	Chairperson does not directly get involved in the supervision of Key Management Personnel or any other executive duties.
7 (10)	Maintain effective communication with shareholders.	Complied	The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with shareholders and they are given the opportunity to take up matters for which clarification is needed and also their views are communicated to the Board. Further, the Board-approved Communication Policy evidences the Company's process in this regard.

Section	Rule	Compliance/ non- compliance	Status of compliance
7 (11)	Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses.	Complied	In terms of duties and responsibilities of the CEO, he is the apex executive of the Company who is responsible for day-to-day operations of the Company with the assistance of Executive Directors and members of the Corporate Management and is accountable to the Board to recommend the Company's strategy implementation and ensure appropriate internal controls are in place to assess and manage risks.

## 8 BOARD APPOINTED COMMITTEES

8 (1)	Establishing Board committees, their functions and reporting.	Complied	The following committees have been appointed by the Board and each such committee is required to report to the Board: 1. Remuneration Committee 2. Integrated Risk Management Committee 3. Nomination Committee 4. Audit Committee 5. Related Party Transactions Review Committee Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented report on the performance, duties and functions of each committee in the Annual Report.
-------	---	----------	--

### 8 (2) Audit Committee

(a)	The Chairman to be a Non-executive Director with relevant qualifications and experience.	Complied	The Chairperson of the Audit Committee Mrs. Yogadinusha Bhaskaran is a Non-Executive Director and a fellow member of the Chartered Institute of Management Accountants (UK) of Sri Lanka. Qualifications and experience are disclosed on page 18 of this Annual Report.
(b)	All members of the Committee to be Non-Executive Directors.	Complied	All the members of the Audit Committee are Non-Executive Directors.
(c)	Functions of the committee include;	Complied	The Audit Committee has recommended; The re-appointment of M/s. Ernst & Young, Chartered Accountants as External Auditors for audit services; The implementation of guidelines issued by Central Bank of Sri Lanka to auditors from time to time. The application of Accounting Standards in consultation with the AGM – Finance and External Auditors; The service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. No resignation or dismissal of the Auditor has taken place during the year under review. The Committee ensures that the requirement of rotation of External Audit Engagement Partner, once in every five (5) years, is met.
(i)	the appointment of the External Auditors.		
(ii)	the implementation of the Central Bank Guidelines.		
(iii)	the application of the relevant accounting standards; and		
(iv)	the service period, audit fee and any resignation or dismissal of the Auditor;		
(d)	Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes.	Complied	The External Auditor has provided an independent confirmation in compliance with the guidelines for appointment of Auditors of Listed Companies. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations and guidelines.

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance
	<p>(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering:</p> <p>(i) skills and experience of the Auditor.</p> <p>(ii) threat to the independence</p> <p>(iii) fee for the non-audit services and Independence.</p>	Complied	The Audit Committee with the approval of the Board of Directors developed and implemented a policy for engagement of Auditors to provide non-audit services in order to ensure that the non-audit services do not impair the independence and objectivity of the External Auditors. The said policy addresses the skills and experience of the Auditor, threat to the independence and fee for the non-audit services and independency.
	(f) Determines the nature and the scope of the External Audit.	Complied	The Auditors make a presentation at the Audit Committee meeting with details of the proposed audit plan and the scope. Members of the Audit Committee obtain clarifications in respect of the contents of the presentation, if deemed necessary.
	(g) Review the financial information of the Company.	Complied	Quarterly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit judgments in the Financial Statements, going concern assumption and compliance with Accounting Standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.
	(h) Meeting of External Auditors to discuss issues and problems of Interim and Final audits in the absence of Key Management Personnel (if necessary).	Complied	The Committee met the External Auditors without the presence of the Executive Directors and Corporate Management twice during the financial year 2019/20.
	(i) Reviewing of the External Auditors' management letter and the response thereto.	Complied	Upon receipt of the management letter, Auditors are invited to make a presentation at the Audit Committee with the responses of the corporate Management to discuss the significant findings which have arisen during the audit and instructions are given to Department Heads to take remedial actions, if necessary.

Section	Rule	Compliance/ non- compliance	Status of compliance
	(j) Review of the Internal Audit Function - Review scope, function and resources - Review of Internal Audit Program - Review of Internal Audit Department - Recommendations on Internal Audit functions - Appraise the resignation of senior staff of Internal Audit and any outsourced service providers - Independence of Internal Audit functions.	Complied	The Audit Committee has reviewed the information provided in the risk-based audit plan and concluded that scope, functions and resources of the Internal Audit Department are sufficient to carry out its functions. The Audit Committee has reviewed and approved the Internal Audit Program. The Company's internal audit functions were outsourced and are carried out by an independent professional audit firm and the audit reports were discussed at the Audit Committee meetings. Internal Auditors (outsourced) reports directly to the Audit Committee. Hence, it is independent and the audits are performed with due care. The Audit Committee has carried out a performance appraisal of the Internal Audit.
	(k) Consideration about the internal investigations and Management's responses.	Complied	Whenever a need arises, the Audit Committee assigns special internal investigations on certain matters and reviews major findings with the management responses and ensures that the recommendations are implemented. However, the need for an internal investigation on major findings has not arisen during the year.
	(l) Attendees of Audit Committee meeting with corporate Management and External Auditors.	Complied	The Committee met twice with the External Auditors without the presence of Executive Directors. The Managing Director/CEO, Executive Directors, AGM – Finance, Compliance Officer, AGM IT and AGM Treasury, Information System (IS) Auditor and the Internal Auditors normally attend all meetings. Where it is deemed necessary, members of the corporate management may also attend meetings by invitation.
	(m) Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary.	Complied	The Audit Committee is guided by a Board-approved terms of reference which sets out authority and responsibility of the said Committee. The Audit Committee is 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.
	(n) Regular meetings.	Complied	The Committee meets regularly and the audit reports were issued to its members in advance and the minutes of the meetings maintained by the Company Secretary. The Committee has met 15 times during the year and the attendance at those meetings is set out on page 110 in the Audit Committee Report

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance
	(o) Disclosures in the Annual Report.	Complied	The Report of the Board Audit Committee is on page 110 and includes the detailed activities, meetings held during the year and the Directors attendance at the Audit Committee Meetings.
	(p) Maintain minutes of meetings.	Complied	The Company Secretary acts as the Secretary of the Audit Committee and records and maintains all minutes of the meetings.
	(q) Whistleblower Policy.	Complied	The Company has a Board-approved Whistleblowing Policy whereby employees of the Company are entitled to raise concerns in confidence about the malpractices in the Company.
8 (3) Integrated Risk Management			
	(a) The composition of IRMC.	Complied	Composition of the IRMC: Three Non-Executive Directors, four Executive Directors including Managing Director/CEO and other Key Management Personnel, namely AGM – Finance, AGM – Treasury, DGM – Strategy & Digital Finance, and Compliance Officer. National Manager Risk Management also participate for the meetings.
	(b) Periodical risk assessment.	Complied	The Committee has a Board-approved Risk Management Policy which provides a framework for management and assessment of risk based on a rating linked to the risk score. According to that pre-established risk indicators are reviewed by the Committee on a quarterly basis. The Committee has a process to assess and evaluate the risk and the findings and reviews submitted to the Board quarterly.
	(c) Review the adequacy and effectiveness of Management level committees to manage risk.	Complied	The Committee reviews the adequacy and effectiveness in addressing specific risk and managing the same within the quantitative and qualitative risk limits set by such respective committees such as Asset and Liability Management Committee and Credit Committee.
	(d) Corrective action to mitigate the risk.	Complied	The risk indicators introduced have been reviewed against the benchmark and prompt corrective actions are taken to mitigate the effects of such risks that are at level beyond the prudent levels decided by the committee. Review of this process is minuted at the IRMC for their review and action if deemed necessary.
	(e) Frequency of meetings.	Complied	The Committee has met four times during the year to assess the risks of the Company.

Section	Rule	Compliance/ non- compliance	Status of compliance
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	Complied	Committee refers such matters, if any, to the HR Department for necessary action. However, the specific risk and limits identified by the Risk Management Committee and such decisions are taken collectively.
	(g) Risk assessment report to the Board.	Complied	The Committee had kept the Board informed of their risk assessment of the Company by forwarding a risk report.
	(h) Establishment of a compliance function.	Complied	An independent compliance function is established as second line of defence. This function is responsible for, among other things, ensuring that the Company operates with integrity and in compliance with applicable, laws, regulations and internal policies. Dedicated compliance officer appointed with sufficient authority, stature, independence, resources and access to the Board.

## 9 RELATED PARTY TRANSACTIONS

9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	Complied	The Related Party Transactions Policy is in place which describes the related parties, types of related party transactions and stipulates that no Director shall participate in any discussion of a proposed related party transaction for which he or she is a related party, provided however he or she may participate in discussion to express, propose and providing information concerning to Related Party Transaction to the committee. The Board appointed Related Party Transactions Review Committee ensures that the transactions with Related Parties are in accordance with best practices. A system for monitoring and reporting of data pertaining to such transactions has been established by the Company during the year and through that system the Company ensures that no favorable transaction has been entered in to with such parties. Transactions carried out with Related Parties in the ordinary course of business (Recurrent transactions) are disclosed in the Financial Statements on 'Related Party Disclosures' under Note 6.1 on page 261 in Financial Statements.
9 (3)	Related party transactions.	Complied	A Board-approved process is in place to identify the related party transactions and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis.

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance
9 (4)	<p>Monitoring of related party transactions defined as more favorable treatment including,</p> <p>(a) Granting accommodation in excess of prudent percentage of regulatory capital.</p> <p>(b) Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counterparty.</p> <p>(c) Allowing preferential treatment compared to unrelated parties in the normal course of business.</p> <p>(d) Providing or obtaining services without proper evaluation.</p> <p>(f) Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties.</p>	Complied	<p>The Board-approved Related Party Transactions Policy contains provisions to ensure compliance and the Related Party Transactions Review Committee ensures that all the transactions with Related Parties are on arm's length basis. The Company has developed a separate system to monitor Related Party Transactions through the IT network, to ensure that related party transactions are not entered into on more favourable terms than those offered to others, and where applicable relevant approvals of the Related Party Transactions Review Committee/Board are obtained.</p>

Section	Rule	Compliance/ non- compliance	Status of compliance
<b>10 DISCLOSURES</b>			
10 (1)	Publish Interim and Annual Financial Statements based on applicable accounting standards and publish in Sinhala, Tamil and English newspapers.	Complied	Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements are published in the newspapers, in all three languages.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report;  (a) A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	Compliance with applicable accounting standards and regulatory requirements has been reported under the 'Statement of Directors' Responsibility for Financial Reporting' on page 141.
	(b) A report by the Board on the finance company's internal control mechanism.	Complied	Directors' Responsibility Statement on Internal Control Systems Over Financial Reporting is given on page 140.
	(c) The External Auditors' certification on the effectiveness of the internal control mechanism.	Complied	The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism.

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance																																
	(d) Details of Directors and the transactions with the finance company.	Complied Complied Complied	<b>Transaction with KMP</b>  <b>Compensation of KMP – Company</b>																																
	(e) Fees/remuneration paid by the finance company to the Directors in aggregate.		<table border="1"> <thead> <tr> <th>For the year ended</th> <th>2017/2018 Rs.</th> <th>2018/2019 Rs.</th> <th>2019/2020 Rs.</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>Short-term employment benefits</b></td> </tr> <tr> <td>Directors</td> <td>338,790,257</td> <td>357,571,487</td> <td>426,116,130</td> </tr> <tr> <td>KMPS</td> <td>43,165,396</td> <td>47,152,956</td> <td>51,048,458</td> </tr> <tr> <td colspan="4"><b>Post-employment benefits</b></td> </tr> <tr> <td>Directors</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>KMPS</td> <td>1,904,243</td> <td>Not Paid</td> <td>1,625,000</td> </tr> <tr> <td><b>Total</b></td> <td><b>383,859,897</b></td> <td><b>404,724,444</b></td> <td><b>478,789,588</b></td> </tr> </tbody> </table>	For the year ended	2017/2018 Rs.	2018/2019 Rs.	2019/2020 Rs.	<b>Short-term employment benefits</b>				Directors	338,790,257	357,571,487	426,116,130	KMPS	43,165,396	47,152,956	51,048,458	<b>Post-employment benefits</b>				Directors	-	-	-	KMPS	1,904,243	Not Paid	1,625,000	<b>Total</b>	<b>383,859,897</b>	<b>404,724,444</b>	<b>478,789,588</b>
For the year ended	2017/2018 Rs.	2018/2019 Rs.	2019/2020 Rs.																																
<b>Short-term employment benefits</b>																																			
Directors	338,790,257	357,571,487	426,116,130																																
KMPS	43,165,396	47,152,956	51,048,458																																
<b>Post-employment benefits</b>																																			
Directors	-	-	-																																
KMPS	1,904,243	Not Paid	1,625,000																																
<b>Total</b>	<b>383,859,897</b>	<b>404,724,444</b>	<b>478,789,588</b>																																
	(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds.																																		

Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM).

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner. CFM are related parties to the Company.

### Statement of Financial Position – Company

For the year ended	Year end balance 2017/2018 Rs.	Year end balance 2018/2019 Rs.	Year end balance 2019/2020 Rs.
<b>Assets</b>			
Loans and advances	3,257,723	9,590,304	1,417,372
Total	3,257,723	9,590,304	1,417,372
<b>Liabilities</b>			
Deposits	762,510,780	927,774,658	536,051,377
Securities sold under repurchase agreements	-	-	-
Debentures	-	-	-
<b>Total</b>	<b>762,510,780</b>	<b>927,774,658</b>	<b>536,051,377</b>

Section	Rule	Compliance/ non- compliance	Status of compliance																																																																					
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.	Complied	<p><b>Commitments and contingencies – Company</b></p> <table border="1"> <thead> <tr> <th>For the year ended</th> <th>Year end balance 2017/2018 Rs.</th> <th>Year end balance 2018/2019 Rs.</th> <th>Year end balance 2018/2019 Rs.</th> </tr> </thead> <tbody> <tr> <td>Undrawn facilities</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td><b>Total</b></td> <td><b>-</b></td> <td><b>-</b></td> <td><b>-</b></td> </tr> </tbody> </table> <p><b>Share-based transactions of KMP and CFM</b></p> <table border="1"> <thead> <tr> <th>For the year ended</th> <th>Average balance 2017/2018</th> <th>Average balance 2018/2019</th> <th>Average balance 2019/2020</th> </tr> </thead> <tbody> <tr> <td>Number of ordinary shares held</td> <td>446,177</td> <td>431,050</td> <td>524,439</td> </tr> <tr> <td>Dividends paid</td> <td>4,232,306</td> <td>5,330,220</td> <td>3,763,640</td> </tr> </tbody> </table> <p><b>Total accommodations granted to each category of related parties and as a percentage of the company's regulatory capital</b></p> <table border="1"> <thead> <tr> <th>Category of related party transactions</th> <th>2018/2019 Rs.</th> <th>percentage of the regulatory capital</th> <th>2019/2020 Rs.</th> <th>percentage of the regulatory capital</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td><b>KMP</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Non-Executive Directors and their close family members</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Key Management Personnel and their close family members (includes the Executive Director)</td> <td>9,590,304</td> <td>0.052%</td> <td>1,417,372</td> <td>0.01%</td> </tr> <tr> <td>Subsidiaries</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Joint Venture</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Entities which Directors and their close family members have a substantial interest</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka</td> <td>-</td> <td>0%</td> <td>-</td> <td>0%</td> </tr> </tbody> </table>	For the year ended	Year end balance 2017/2018 Rs.	Year end balance 2018/2019 Rs.	Year end balance 2018/2019 Rs.	Undrawn facilities	-	-	-	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	For the year ended	Average balance 2017/2018	Average balance 2018/2019	Average balance 2019/2020	Number of ordinary shares held	446,177	431,050	524,439	Dividends paid	4,232,306	5,330,220	3,763,640	Category of related party transactions	2018/2019 Rs.	percentage of the regulatory capital	2019/2020 Rs.	percentage of the regulatory capital	Directors	-	0%	-	0%	<b>KMP</b>					Non-Executive Directors and their close family members	-	0%	-	0%	Key Management Personnel and their close family members (includes the Executive Director)	9,590,304	0.052%	1,417,372	0.01%	Subsidiaries	-	0%	-	0%	Joint Venture	-	0%	-	0%	Entities which Directors and their close family members have a substantial interest	-	0%	-	0%	Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	-	0%	-	0%
For the year ended	Year end balance 2017/2018 Rs.	Year end balance 2018/2019 Rs.	Year end balance 2018/2019 Rs.																																																																					
Undrawn facilities	-	-	-																																																																					
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>																																																																					
For the year ended	Average balance 2017/2018	Average balance 2018/2019	Average balance 2019/2020																																																																					
Number of ordinary shares held	446,177	431,050	524,439																																																																					
Dividends paid	4,232,306	5,330,220	3,763,640																																																																					
Category of related party transactions	2018/2019 Rs.	percentage of the regulatory capital	2019/2020 Rs.	percentage of the regulatory capital																																																																				
Directors	-	0%	-	0%																																																																				
<b>KMP</b>																																																																								
Non-Executive Directors and their close family members	-	0%	-	0%																																																																				
Key Management Personnel and their close family members (includes the Executive Director)	9,590,304	0.052%	1,417,372	0.01%																																																																				
Subsidiaries	-	0%	-	0%																																																																				
Joint Venture	-	0%	-	0%																																																																				
Entities which Directors and their close family members have a substantial interest	-	0%	-	0%																																																																				
Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka	-	0%	-	0%																																																																				

## CORPORATE GOVERNANCE

Section	Rule	Compliance/ non- compliance	Status of compliance
	(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls.	Complied	This has been disclosed on page 105.  There were no significant lapses in the Company's Risk Management or non-compliance with this Direction that have been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and/or directed to be disclosed to the public by the Monetary Board.
	(i) Non-compliance reporting.	Complied	The Company has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Direction.
	(j) The External Auditors' certification of compliance with the corporate governance direction.	Complied	

### COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017 ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Code Reference	Compliance and implementation	Status of compliance	Complied
<b>A DIRECTORS</b>			
A.1	The Board.	The Board comprised 10 Directors as at 31st March 2020, five of whom functioned in Non-Executive capacity, having the required professional competence, skills and experience in the fields of entrepreneurship, banking and finance, legal and marketing to lead and control the Company. The Board gives leadership in setting the strategic direction and implement sound control environment for the successful functioning of the Company. Directors are elected by shareholders at the AGMs with the exception of the Executive Directors who are appointed by the Board and remain as Executive Directors until retirement, resignation or termination of such appointment.	✓
A.1.1	Regular meetings.	The Board usually meets at monthly intervals and special Board meetings are convened whenever necessary. The Board met twelve (12) times during the year. Attendance at meetings is summarised on page 61.	✓
A.1.2	Role and responsibilities of the Board.	Formulation and implementation of a sound business strategy. The Board engages in providing direction in formulating a sound business strategy and closely monitors the implementation of the strategy effectively. A Strategic Plan has been developed covering five years from 2019-2022/23 and was approved by the Board.	✓
A.1.3	Act in accordance with laws.	The Board collectively and Directors individually, recognise their duty to comply with laws of the country. The Board of Directors ensures that procedures and processes are in place to ensure that the Company complies with all applicable laws and regulations. In order to preserve the independence of the Board and to strengthen the decision-making, the Board seeks independent professional advice when deemed necessary.	✓
A.1.4	Access to advice and services of Company Secretary.	All Directors have access to the Company Secretary, a company registered as a qualified Secretary. Their services are available to all Directors and they advise the Board on corporate governance matters, Board procedures and applicable rules and regulations	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
A.1.5	Independent judgment.	All Directors are responsible for bringing independent judgment on issues of strategy, performance, resources and standard of business conduct. Non-Executive Directors are responsible for providing independent judgment on the proposals made by the Managing Director and Executive Directors.	✓
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company.	Every Director has dedicated adequate time and effort to the meetings of the Board and sub-committee meetings to ensure that the duties and responsibilities are satisfactorily discharged and all the Board papers are loaded through a secure link to the iPad at least seven days prior to the Board meetings for the Directors to access prior to the Board Meeting.	✓
A.1.7	If necessary in the best interest of the Company, one-third of the Directors can call for a resolution to be presented to the Board.	Necessity did not arise during the year.	✓
A.1.8	Board induction and training.	Every Director was given appropriate induction when first appointed to the Board with regard to the affairs of the Company and laws and regulations applicable to the Company. It is mandatory for the Directors to attend Director Forums organised by the CBSL. Further the Corporate Management and external experts make presentations with regard to the business environment to update the knowledge.	✓
A.2	Separating the business of the Board from the executive responsibilities for management of the Company.	The positions of Chairperson and the Managing Director/CEO have been separated in line with best practices with a view to maintain the balance of power and authority.  The Chairperson is an Independent Non-Executive Director. Managing Director/CEO is conferred with executive authority to manage the business.	✓
A.3	Chairman's role in preserving good corporate governance.	The Chairperson provides leadership to the Board, ensures that the Board works effectively and discharges its responsibilities and ensures that all key and appropriate issues are discussed by the Board in a timely manner.	✓
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance.	The Chairperson of the Audit Committee is a Fellow member of The Chartered Institute of Management Accountants of UK and the Chairman of the Integrated Risk Management Committee and is also a Fellow member of The Institute of Chartered Accountants of Sri Lanka and a Fellow member of the CIMA-UK. Further the Non-Executive Director and an Executive Director are qualified finance professionals with experience in finance and management. The remaining members of the Board also possess experience in finance and banking thus there is sufficient financial acumen and knowledge within the Board to offer guidance on matters of finance. The profiles of the Board of Directors are given on page 16 to 19.	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and implementation	Status of compliance	Complied
A.5	Board balance.	<p>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.</p> <p>The Board should include at least two Non-Executive Directors or one-third of total Directors whichever is higher.</p> <p>During the financial year under review, the Board comprised six (6) Non-executive Directors and five (5) Executive Directors facilitating the required balance within the Board (Non-Executive Directors as at 31.03.2020 – 05)</p> <p>Two or one-third of Non-Executive Directors whichever is higher should be independent.</p> <p>The Board has determined Three (3) out of five (5) Non-Executive Directors are Independent as at 31.03.2020 as per this Code.</p> <p>Evaluation of independence of Non-Executive Directors.</p> <p>The Board evaluates the Independence yearly using annual declarations submitted by the Directors according to the Code criteria.</p> <p>Signed declaration of independence by the Non-Executive Directors</p> <p>All Non-Executive Directors provided the signed declarations of independence for 2019/20 as per Schedule K of the Code.</p> <p>Determination of the Independence and Non-Independence of each Non-Executive Director annually.</p> <p>The Board has reviewed the declarations submitted by the Non-Executive Directors, and determined their independence.</p> <p>If an Alternate Director is appointed by a Non-Executive Director such Alternate Director should not be an Executive Director and if an Alternate Director is appointed by an Independent Director, the person who is appointed also should meet the criteria of independence.</p> <p>No Alternate Directors were appointed during the year.</p> <p>Senior Independent Director (SID). Confidential discussion with other Directors by the SID.</p> <p>The requirement to appoint a 'Senior Independent Director' does not arise under the Code in view of the roles of the Chairman and the CEO being held by two different individuals. Hence, no 'Senior Independent Director' was appointed during the year 2019/2020.</p> <p>Meetings held by the Chairman with Non-Executive Directors.</p> <p>The Chairperson held meetings with Non-Executive Directors.</p> <p>Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.</p> <p>There were no instances where the Directors could not unanimously resolve matters and accordingly no such matters were recorded in the minutes.</p>	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
A.6	Provision of appropriate and timely information.	<p>The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties.</p> <p>Management should provide timely information to the Board.</p> <p>Timely and accurate information is provided by the Management to the Board generally seven days prior to the Board meetings. The members of Corporate Management make presentations to the Directors on important issues relating to the financial performance, strategy, risk, systems and procedures.</p> <p>The minutes, agenda and papers required for a Board meeting should be provided before seven (7) days.</p> <p>Board papers are uploaded through a secure link to the iPad for the Directors to access seven (7) days prior to the Board meeting.</p>	✓
A.7	Appointments to the Board and re-election.	<p>Nomination Committee.</p> <p>The Nomination Committee makes recommendations to the Board on all new appointments to the Board. The Committee was set up pursuant to the Code of Best Practice on Corporate Governance.</p> <p>The report of the Nomination Committee is given on page 109 of the Annual Report.</p> <p>Assessment of Board composition by the Nomination Committee.</p> <p>The Nomination Committee reviews the new appointments and re-elections to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications.</p> <p>Disclosure requirements when appointing of new Directors to the Board.</p> <p>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.</p>	✓
A.8	All Directors should submit themselves for reelection at regular intervals.	<p>All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.</p> <p>Re-election of Directors.</p> <p>At each Annual General Meeting one-third of the Non-Executive Directors for the time being who are subject to retirement, or, if their number is not a multiple of three, the number nearest to (but not greater than) one third, retire and seek re-election by the shareholders. The provisions of the Company's Articles of Association also require Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at that meeting.</p>	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and implementation	Status of compliance	Complied
A.9	Appraisal of Board and committee performance.	<p>Appraisal of Board performance.</p> <p>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.</p> <p>Annual self-evaluation by the Board of its sub-committees.</p> <p>The appraisal of the performance of sub-committees is presented to the Board.</p> <p>Disclosure in the Annual Report about the Board's performance evaluation methodology.</p> <p>Board approved procedure is in place.</p>	✓
A.10	Annual Report to disclose specified information regarding Directors.	<p>Shareholders should be kept advised of relevant details in respect of Directors.</p> <p>Annual Report disclosure in respect of Directors.</p> <p>Profiles of the Board of Directors are given on pages 16 to 19 including other directorships held by the Directors and memberships of Board Committees. Directors' attendance is disclosed on page 61.</p>	✓
A.11	Appraisal of the CEO.	<p>The Board should require at least annually assessing the performance of the CEO.</p> <p>Targets for CEO at the commencement of each financial year.</p> <p>CEO/Managing Director's performance targets are aligned with business strategies of the Company. Targets are set at the beginning of every financial year by the Board which is in line with the short- medium- and long-term objectives of the Company. Evaluation of the performance at the end of fiscal year. At the end of each financial year the Board evaluates the set targets and the actual performance.</p>	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
<b>B DIRECTOR'S REMUNERATION</b>			
B.1	Directors' and executive remuneration.	<p>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.</p> <p>Setting up of Remuneration Committee.</p> <p>The functions of the Committee include determination of compensation and benefits of the Managing Director/CEO and Executive Directors while ensuring that no Director is involved in setting his/her own remuneration.</p> <p>Composition of Remuneration Committee Composition of Remuneration Committee is in line with Listing Rules.</p> <p>All are Independent Non-Executive Directors as per the Code and the Listing Rules of the CSE.</p> <p>Disclosure in the Annual Report about the Remuneration Committee members. Remuneration Committee report is given on page 108 of the Annual Report.</p> <p>Remuneration of Non-Executive Directors.</p> <p>The Non-Executive Directors receive a fee for being a Director of the Board and additional fee whenever they serve on Board sub-committees and their fee structure is decided by the Board Remuneration Committee consults the Chairperson/MD on matters relating to the Remuneration Committee, Executive Directors and access to the professional advice. The Committee consults the Managing Director when recommending the remuneration of other Executive Directors and also has access to professional advice when deemed necessary.</p>	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and implementation	Status of compliance	Complied
B.2	Level and make-up of remuneration.	<p>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 Directors' remuneration should be structured to link rewards to corporate and individual performance.</p> <p>Remuneration of Executive Directors. Remuneration of Executive Directors consists of performance-based incentive payment to attract, retain and motivate them.</p> <p>Remuneration packages in line with industry practices.</p> <p>The Remuneration Committee reviews the information relating to competitors of the Company and due care is taken to ensure that remuneration is on par with industry standards. Remuneration packages in line with other companies in the Group.</p> <p>Size and scale of the Company's operations are not comparable with other Group Companies and therefore guidance could not be drawn from them.</p> <p>Performance-related payments to Executive Directors.</p> <p>There are performance-related elements of remuneration for Executive Directors with the objective of providing appropriate incentives to those Directors to perform at the highest level. Executive Share Option.</p> <p>There are no Share Option schemes offered by the Company.</p> <p>Designing schemes of performance related remuneration.</p> <p>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.</p> <p>Early termination of service of Directors. Consideration of termination of service of the Executive Directors will be in accordance with their contract of service.</p> <p>Remuneration of Non-Executive Directors.</p> <p>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.</p>	✓
B.3	Disclosures related to remuneration in Annual Report.	<p>Annual Report of the Company should contain a statement of Remuneration Policy and details of remuneration of the Board as a whole. Disclosure in the Annual Report about the Remuneration Committee members, statement of Remuneration Policy and aggregate remuneration paid. Remuneration Committee report is given on page 108 which sets out the details on the composition of Committee and the remuneration policy. The aggregate remuneration paid to the Board of Directors is disclosed in Note 6.1.1 to the Financial Statements on page 261.</p>	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
<b>C RELATIONS WITH SHAREHOLDERS</b>			
C.1	Constructive use of the AGM and conduct of other general meetings.	<p>The Board should use the AGM to communicate with shareholders and should encourage their participation.</p> <p>Use of proxy votes.</p> <p>The Company has recorded all proxy votes for each resolution prior to the general meeting.</p> <p>Separate resolutions for separate issues. Separate resolutions are placed before shareholders for each substantial matters that require approval of shareholders at the Annual General Meetings (AGM). Arrangement made by the Chairman of the Board that all Chairmen of Subcommittees make themselves available at the AGM.</p> <p>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.</p> <p>Adequate notice for the AGM to the shareholders.</p> <p>The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders 15 working days prior to the date of the AGM as stipulated by the Companies Act. Procedures of voting at general meetings. Shareholders right to appoint a proxy for voting at AGM appears on Notice of Meeting and on the Form of Proxy. Voting procedures at general meetings appear on the Form of Proxy.</p>	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and implementation	Status of compliance	Complied
C.2	Communication with shareholders.	<p>Channel to reach all shareholders to disseminate timely information.</p> <p>There are many channels of communication for engaging with shareholders. These include press releases and notices and required disclosures to the CSE which are published on the CSE website. The quarterly Interim Financial Statements are disseminated to the CSE within 45 days, the exception being for the last quarter of the financial year where the Company has 60 days to publish those accounts. Half yearly Financial Statements are published in daily newspapers in all three languages as per the Finance Companies Guidelines No. 2 of 2006. Notice of Annual General Meeting is circulated together with the Annual Report and Accounts which includes any other special business (if any) to be transacted at the AGM. Where necessary Extra Ordinary General meetings are convened after giving statutory notice to all shareholders. Annual General Meeting provides a platform for shareholders to discuss and seek clarification on the activities of the Company.</p> <p>Policy and methodology of communicating.</p> <p>The Company provides fair disclosure with emphasis on the integrity, accuracy, timeliness and relevance of the information provided. Refer Stakeholder engagement on page 26 in the Annual Report.</p> <p>Implementation of the communication policy and methodology.</p> <p>Shareholders receive the Annual Report from the Company either by way of a CD or in hard copy form. Shareholders may at any time elect to receive the Annual Report from the Company in printed form without any charge.</p> <p>Contact person.</p> <p>Shareholders may, at any time, direct questions and request for publicly available information from the Directors or Management of the Company.</p> <p>Awareness of Directors on major issues and concerns of shareholders.</p> <p>The Company Secretary maintains a record of all correspondence received and will deliver as soon as practicable such correspondence, which require Board attention to the Board or individual Director/s as applicable.</p> <p>Contact person for shareholders.</p> <p>Company Secretary can be contacted for any queries of shareholders.</p> <p>Process for responding to shareholders.</p> <p>Company has a Board-approved communication policy addressing this.</p>	✓
C.3	Disclosure of major and material transactions.	<p>Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company.</p> <p>Major transactions.</p> <p>During the year, the Company did not engage in or commit any major transactions which materially affected the Company's net asset base</p>	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
<b>D ACCOUNTABILITY AND AUDIT</b>			
D.1	Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects.	<p>The Board should present a balanced and an understandable assessment of the Company's financial position and prospects.</p> <p>Board should present interim and other price sensitive information to the public and reports to regulators.</p> <p>The Company has reported a true and fair view of its financial position and performance for the year ended on 31st March 2020 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.</p> <p>Directors' Report in the Annual Report.</p> <p>Annual Report of the Board of Directors on the affairs of the Company is given on page 98 covering all areas of this section.</p> <p>Annual Report disclosure stating Board's and Auditors' responsibility</p> <p>Statement of Directors' Responsibility for Financial Reporting is given on page 141 and Auditors responsibility given in the Auditors' Report to the Internal Control is given on page 140 respectively.</p> <p>Management discussion and analysis is given on page 24.</p> <p>Information Required Page Industry structure and developments..... 24</p> <p>Opportunities and threats ..... 24</p> <p>Risks and concerns ..... 116</p> <p>Internal control systems and their adequacy..... 34</p> <p>Social and environmental protection activities carried out by the Company ..... 38</p> <p>Financial performance..... 40</p> <p>Material developments in human resource/industrial relations and..... 32</p> <p>Prospects for the future ..... 32</p> <p>Disclosure of Related Party Transactions.</p> <p>A detailed Board-approved documented process is available in the Company for monitoring and reporting of Related Party Transactions. The Company Secretary makes necessary disclosures of any Related Party Transactions which require disclosure as per the rules. All related party transactions as defined in Sri Lanka Accounting Standard – 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 6.1 to the Financial Statements on pages 261.</p> <p>Directors' assumption on the going concern of the business.</p> <p>This is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 98.</p> <p>Serious loss of capital.</p> <p>No such circumstance occurred, and its likelihood of occurrence is also remote.</p>	✓

## CORPORATE GOVERNANCE

Code Reference	Compliance and implementation	Status of compliance	Complied
D.2	Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets.	The Board is responsible for formulating and implementing appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Company. The IRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in discharge of its duties in relation to internal control. Their responsibilities are summarised in the respective Subcommittee reports and have been formulated with reference to the requirements of the Corporate Governance and business needs. The IRMC is supported by the Risk Management Department of the company and a comprehensive report of how the company manages risk is included on pages 116 to 136 and the Subcommittee Reports on page 112.	✓
D.3	Audit Committee.	<p>The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors. Composition of the Audit Committee.</p> <p>The Audit Committee comprises the following Directors: Mrs. Yogadinusha Bhaskaran Mr. M A J W Jayasekara, Mrs. Anandhiy K Gunawardhana Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors.</p> <p>The Audit Committee periodically reviews the scope and results of the audit and its effectiveness. Further independence and the objectivity of the Auditors are also reviewed periodically. The Committee would consider independence when providing non- audit engagements to the External Auditor. It is also responsible to make recommendations on the appointment, reappointment and removal of Auditors.</p> <p>Disclosures made in the Annual Report about Audit Committee.</p> <p>Audit Committee report is given on page 110 of the Annual Report.</p>	✓
D.4	Code of Ethics.	The Company must adopt a Code of Business Conduct and Ethics for Directors, and members of the Senior Management Team. Any non-compliance with the said Code should be promptly disclosed. Code of Business Conduct and Ethics is in place. There were no violation for disclosure.	✓
D.5	Corporate governance disclosures.	<p>The Board should include this in the Annual Report setting out the manner and extent for it to be complied.</p> <p>Disclosure of corporate governance compliance: The requirement is met with the presentation of this Corporate Governance Report from pages 84 to 95 of the Annual Report.</p>	✓
E & F	Encourage voting at AGM.	<p>The Company has 1,886 ordinary voting shareholders of which 92.92% are institutional shareholders.</p> <p>We have a regular structured dialogue with the large institutional shareholders and any concerns of these institutional shareholders expressed at the meetings is communicated to the Board as a whole.</p> <p>All shareholders are encouraged to participate at AGM and cast their votes. Investor relations hotline/email is open for any investor to reach out to the CEO/Director if required. From the Company's perspective, the AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions from the Directors and to use their votes responsibly.</p>	✓
G	Internet of Things and cyber-security.	Please refer page 112.	✓

Code Reference	Compliance and implementation	Status of compliance	Complied
H	Environment, Society and Governance (ESG).	Please refer page 39/105	✓
H. 1	ESG reporting.	Please refer page 39/105	✓
H. 1.2	Environmental factors.	Please refer page 39/105	✓
H. 1.3	Social factors.	Please refer page 38	✓
H. 1.4	Governance.	Please refer page 56/105	✓
H.1.5	Board's role on ESG factors.	Please refer page 39/105	✓

### LISTING RULES CORPORATE GOVERNANCE FOR LISTED COMPANIES ISSUED BY THE COLOMBO STOCK EXCHANGE

Section Reference	Rule	Status of Compliance	Complied
7.6 (iv)	The public holding percentage.	Please refer 'Financial Review' on page 51	✓
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the Item 5.4 of the "Investor Relations" beginning and at the end of the financial year.	Please refer 'Financial Review' on page 53	✓
7.6 (vi)	Information pertaining to material foreseeable risk factors.	Please refer the 'Risk Management' section on page 116	✓
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Please refer page 36	✓
7.6 (viii)	Extents, locations, and valuations of land holdings and Investment properties as at the end of the year.	Please refer Note 4.23 Information on the freehold land and buildings of the Company in the Financial Reports on page 213	✓
7.6 (ix)	Number of shares representing the stated capital as at the end of the year.	Please refer Note 4.33 Stated Capital in the Financial Reports on page 233	✓
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as at the end of the year.	Please refer 'Financial Review' on page 54	✓
7.6 (xi)	Ratios and market price information: Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share  Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year Any changes in credit rating.	Please refer 'Financial Review' on page 48-55/271  Please refer 'Ten-year summary' on page 271	✓
7.6 (xii)	Significant changes in the Company or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year.	Please refer Note 4.23 - Property, Plant & Equipment in the Financial Statements on page 213	✓
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year.	There were no share issues, rights issues or private placements during the year.	✓

## CORPORATE GOVERNANCE

Section Reference	Rule	Status of Compliance	Complied
7.6 (xiv)	Information in respect of Employee Share Option Schemes: Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any).  Highest, lowest, and closing price of the share recorded during the financial year.	The Company does not have any Employee Share Ownership or Stock Option Schemes at present.  Please refer page 104	✓
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Listing Rules.	Please refer Report on compliance with the Rules on the Content of the Annual Report on page 95	✓
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	The Company did not have any Related Party Transactions exceeding this threshold during the year.	✓
<b>7.10.1 NON- EXECUTIVE DIRECTORS</b>			
7.10.1 (a)	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors.	As at 31st March 2020 The Board comprised five Non-Executive Directors out of a total of 10 Directors which is 50 as a percentage	✓
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	The Board comprised 11 Directors as at the conclusion of the immediately preceding AGM.	✓
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	The cessation and the appointment of the Directors as disclosed in 7.10.1 (b) complied with the requirement.	✓
<b>7.10.2 INDEPENDENT DIRECTORS</b>			
7.10.2 (a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	The Board has determined that three Directors out of five Non-Executive Directors are Independent	✓
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format.	All Directors have submitted annual declarations in respect of the year under review.	✓
<b>7.10.3 DISCLOSURES RELATING TO DIRECTORS</b>			
7.10.3 (a)	The Board shall make determination of Independence/Non-Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	Please refer page 14-15 of the Annual Report	✓
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	Not applicable	✓
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Please refer page 16-19 in the Annual Report.	✓
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public.	Please refer page 19 in the Annual Report	✓
<b>7.10.4 CRITERIA FOR DETERMINATION OF INDEPENDENCE OF DIRECTORS</b>			
7.10.4 (a-h)	Requirements for meeting criteria to be independent.	All Independent Directors of the Company met the criteria for independency specified in this Rule.	✓

Section Reference	Rule	Status of Compliance	Complied
<b>7.10.5 REMUNERATION COMMITTEE</b>			
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Board appointed Remuneration Committee is in place. Please refer page 108 of the Annual Report. All the Directors in the Remuneration Committee comprised independent Non-Executive Directors. Mrs. A.K. Gunawardhana who is an Independent Non-Executive Director is the Chairperson of the Committee	✓
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Please refer the Report of the Remuneration Committee on page 108 to the Annual Report.	✓
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors.	Please refer the page 108 of Remuneration Committee Report.	✓
<b>7.10.6 AUDIT COMMITTEE</b>			
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.  One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.  The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.  The Chairman or one member of the Committee should be a member of a recognise professional accounting body.	All the members of the Audit Committee are Independent Non-Executive Directors. Mrs. Yogadinusha Bhaskaran is the Chairperson of the Committee who is a Non-Executive Director. Both the Managing Director and the Chief Financial Officer attend the meetings by invitation. The Chairperson of the Audit Committee, is a fellow member of The Institute of Chartered Management Accountants of UK. Please refer page 16 to 19 of Directors' profiles and Mr. A Jayasekara, a member of the Committee is also a Fellow Member of The Institute of Chartered Accountants of Sri Lanka.	✓
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.	Please refer Audit Committee Report on page 110 of the Annual Report.	✓
7.10.6 (c)	Annual Report shall set out; (i) The names of the Directors who comprise the Audit Committee. (ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination. (iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules.	Please refer the Audit Committee Report' on page 110 for the required disclosure.	✓

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of L B Finance PLC have pleasure in presenting to the shareholders the Annual Report of the Board of Directors on the affairs of the Company together with the Consolidated Financial Statements of the Company and its subsidiary for the year ended 31st March 2020 and the Independent Auditors Report on those Financial Statements, conforming to the relevant statutory requirements.

This Report includes the information as required by the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange. It is also guided by the Recommended Best Practices on Corporate Governance.

## GENERAL

L B Finance PLC (the Company) is a Licensed Finance Company in terms of the Finance Business Act No.42 of 2011.

It was incorporated under the Companies Ordinance No. 51 of 1938 as a private limited liability company on 30th May 1971, converted to a public limited liability company on 29th September 1982 and was admitted to the Official List of the Colombo Stock Exchange on 30th December 1997. The Company was re-registered as per the Companies Act No. 07 of 2007 on 6th June 2008 under Company Registration No. PQ 156.

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

The ordinary shares of the Company and Debentures issued by the Company 10,000,000 Senior Unsecured Redeemable Rated Debentures (redeemable in 2022) and 20,000,000 Subordinated Unsecured, Redeemable, Rated, Debentures

(redeemable in 2022) are listed on the Main Board of the Colombo Stock Exchange.

The Company has been affirmed a national long-term rating at A-(lka) with a stable outlook by Fitch Ratings Lanka Limited. The rating in respect of the Debentures issued by the Company are 10,000,000 Senior Unsecured Debentures redeemable in 2022 - national long term rating at A-(lka) and 20,000,000 Subordinated Debentures redeemable in 2022 - national long term rating at BBB (lka).

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

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

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Level of compliance by the Company
The nature of the business of the Company	Section 168 (1) (a)	Page 98
Signed Group Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Page 146 to 270
Auditor's Report on Group Financial Statements of the Company	Section 168 (1) (c)	Page 142 to 145
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Page 156
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Page 101
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Page 261
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Page 104
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Page 100
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 171
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Page 104
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 105
Information as per Section 168 (i)(b) to (j) in relation to the subsidiary	Section 168 (2)	Pages 100, 104 and 153

## VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission and values are given on page 4 of this Report.

## PRINCIPAL ACTIVITIES

The Company's principal activities during the year were savings/deposit mobilisation, lending activities including finance lease/

vehicle loan facilities, gold loans, mortgage loans, personal loans and other credit facilities, value added services and digital financial services.

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

The Company's only subsidiary, which is incorporated in the Republic of the Union of Myanmar, L B Microfinance Myanmar Company Limited, carried on micro finance business in Myanmar.

There were no significant changes in the nature of the principal activities of the Company during the year under review, except the launch of digital financial services.

## REVIEW OF OPERATIONS

A review of the business of the Company and its subsidiary and their performance during the year with comments on financial results, future strategies and prospects are contained in the Managing Director's Review on pages 12 to 13 which forms an integral part of this Report.

## FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairperson's Message on pages 10 to 11, Managing Director's Review on pages 12 to 13 and the Management Discussion and Analysis on pages 24 to 55.

## FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Company and its subsidiary have been prepared and presented in accordance with the Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (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, Finance Business Act No.42 of 2011 the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 22nd June 2020.

The Consolidated Financial Statements of the Company and its subsidiary duly signed by the Assistant General Manager - Finance and two Directors on behalf of the Board which are attached here to form an integral part of the Annual Report.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

In terms of Section 150(1), 151, 152(1) and 153(1) and (2) of the Companies Act No. 07 of 2007, the Board of Directors of the Company is responsible for the preparation of the Financial Statements of the Group and the Company which reflect a true and fair view of the state of affairs of the Company and its subsidiary as at the reporting date and the profit or loss or income and expenditure of the Company and its subsidiary for the accounting period ending as at the reporting date.

The Directors confirm that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements appearing on pages 146 to 270 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, Companies Act No. 07 of 2007, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibilities for Financial Reporting is given on page 141 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 page 140.

The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Control over Financial Reporting as referred to in page 139.

## AUDITORS' REPORT

The Report of the Independent Auditors on the Financial Statements of the Company and the Group is given on page 142 to 145.

## ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The accounting policies adopted in the preparation of the Financial Statements are given on pages 153 to 270. 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 2020 was Rs. 31,222 million (in 2019 it was Rs. 29,278 million)

Group Income during the year was Rs. 31,359 million (2019 – Rs. 29,342 million)

An analysis of the Income is given in Note 4.1.1 to the Financial Statements.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## FINANCIAL RESULTS AND APPROPRIATIONS

The profit before tax declined by 2% whilst the Company recorded growth of 3% in net

profit after tax for the year under review in comparison to those of the preceding year.

The growth in Total Comprehensive Income was 2%.

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

	2020 Rs. '000	2019 Rs. '000
Profit for the year after payment of all the expenses of management, provision for depreciation and amortisation, impairment of loans and other losses, gold loan auction losses and tax on financial services.	7,610,287	7,740,649
Less: Income tax expense	2,423,234	2,685,989
Profit after tax	5,187,053	5,054,660
Unappropriated balance brought forward from previous year	12,378,771	10,240,092
Actuarial gains/(losses) on defined benefit plans	(30,029)	17,257
Profit available for appropriation	17,535,795	15,312,009
Less: Appropriations		
Impact of Adoption of SLFRS 09	-	299,578
Dividend paid for previous financial year	554,057	554,057
Interim dividend payable/paid for current financial year	-	1,108,114
Transfers during the year	1,037,411	971,488
Total appropriation	1,591,468	2,933,237
Unappropriated balance carried forward	15,944,327	12,378,771
Proposed final dividend	-	554,057

## RESERVES

The reserves of the Company and the Group with the movements during the year are given in Note 4.34 to the Financial Statements on pages 233 to 234.

## TAXATION

The Income Tax rates applicable to the Company's operations are as follows.

	2019/20 Rs.	2018/19 Rs.
1 April - 31 December	28%	28%
1 January - 31 March	24%	28%

The Company was also liable for Value Added Tax (VAT) on Financial Services at 15% (2018/19 - 15%) and Nation Building Tax (NBT) on Financial Services VAT at 2% (2018/19 - 2%) NBT was abolished from 1 December 2019.

## THE BOARD OF DIRECTORS

The Board of Directors of the Company as at 31st March 2020 consisted of 10 Directors with a balance of skills, wide knowledge and experience in entrepreneurship, banking, finance, audit and assurance, legal and marketing which is appropriate for the business carried out by the Company.

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 16 to 19.

### 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

## Non-Executive Directors

Mrs. Anandhiy K. Gunawardhana - Chairperson\*  
Mrs. Yogadinusha Bhaskaran  
Mr. M A J W Jayasekara \*  
Mrs. Ashwini Natesan \*  
Mr. Dharmadasa Rangalle (appointed wef 10th April 2019)

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

## New appointments during the year

Mr. Dharmadasa Rangalle was appointed as a Non-Executive Director on 10th April 2019 after having obtained the relevant regulatory approval under the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers) Direction No. 03 of 2011.

## Resignations during the year

There were no resignations during the year.

## Cessations during the year

Mrs. Shirani Jayasekara, an Independent Non-Executive Director/Chairperson of the Board ceased to be a Director on 24th August 2019 upon completion of nine (9) years in terms of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended).

## Directors of Subsidiary

The Directors of the subsidiary, L B Microfinance Myanmar Company Limited as at 31st March 2020 consisted of the following;

Mr. Dhammika Perera  
Mr. Sumith Adhietty  
Mr. Dulan De Silva  
Mr. Niroshan Udage  
Mr. B D A Perera  
Mr. R S Yatawara

There were no changes in the Directors of the subsidiary, during the year under review and upto the date of this Report.

## Retirement by rotation and re-election of Directors

The names of the Directors who are

- (i) subject to retirement by rotation in terms of Articles 85 and 86 of the Articles of Association and
- (ii) proposed for re-appointment in terms of Section 211 of the Companies Act,

and the applicable provisions are set out in the undernoted Table;

The Nomination Committee and the Board have recommended the re-election/re-appointment of the said Directors.

## Directors' interests register and Directors' interests in contracts or proposed contracts

The Company maintains the Directors' Interests Register in terms of the Companies Act No. 07 of 2007.

Directors of the Company have made necessary declarations of their interests in Contracts and proposed Contracts in terms of Section 192 (1) and 192 (2) of the Companies Act. These interests are entered in the Interests Register which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

The particulars of the Directors Interests in Contracts with the Company are given in Note 6.1 to the Financial Statements on pages 261 to 265 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 102.

The relevant interests of Directors in the shares/debentures of the Company as at 31st March 2020 as recorded in the

Interests Register are given in this Report under Directors' shareholding on page 103

In accordance with the Myanmar Companies Law, Directors of the subsidiary have disclosed their interests in shares and securities in the said subsidiary and related companies and also their interests in contracts and other arrangements with the said company.

## Directors' Declarations in terms of paragraph 7(3) of the Finance Companies (Corporate governance) Direction No. 03 of 2008

The Chairperson and the Directors of the Company have made declarations as per the requirements in Section 7 (3) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended), that there is no financial, business, family or other material/relevant relationship(s) between the Chairperson and the Managing Director and/or amongst the members of the Board.

Name of Director	Applicable Article of the Articles of Association / Section of the Companies Act	Other information
Mr. M A J W Jayasekara	Articles 85 and 86	<p>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.</p> <p>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.</p> <p>Accordingly after excluding the five Executive Directors, the number of Directors subject to retirement by rotation is five and therefore, one Director should retire by rotation. Accordingly, Mr. M A J W Jayasekara is due to retire at this Meeting.</p> <p>Mr. Jayasekara was last re-elected as a Director at the Annual General Meeting held in 2018</p>

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Name of Director	Applicable Article of the Articles of Association / Section of the Companies Act	Other information
Mr. J A S S Adhihetty	Section 211 of the Companies Act	<p>Mr. J A S S Adhihetty, who holds the position of Managing Director of the Company, attains the age of 70 years on 4th July 2020. The Board at its meeting held on 22nd June 2020, having considered the Finance Business Act Directions No.05 of 2020 resolved to seek the prior approval of the Monetary Board of the Central Bank of Sri Lanka for an extension of time period vis-à-vis Mr. Adhihetty.</p> <p>In terms of Section 210 of the Companies Act, Mr. Adhihetty vacates office at the conclusion of the next Annual General Meeting which is the first Annual General Meeting to be held after he attains the age of 70 years.</p> <p>In line with the Board's decision to seek an extension of time period for Mr. Adhihetty in terms of the aforesaid Directions No. 05 of 2020, the Board further resolved to place a resolution before the shareholders at the forthcoming Annual General Meeting in terms of Section 211 of the Companies Act seeking the approval of the shareholders for the re-appointment of Mr. Adhihetty specially declaring that the age limit referred to in Section 210 of the Companies Act shall not apply to Mr. Adhihetty. The approval of the shareholders will be sought for the aforesaid Resolution in compliance with the Guidelines attached to the said Direction No. 05 of 2020, with respect to determining the fitness and propriety of Directors beyond the age of 70 years upto a maximum of 75 years.</p>

## RELATED PARTY TRANSACTIONS WITH THE COMPANY

The Directors have also disclosed transactions, if any, that could be classified as related party transactions in terms of LKAS 24.

With effect from 1st January 2016, all proposed non-recurrent related party transactions have been placed before the Related Party Transactions Review Committee formed under the Listing Rules of the Colombo Stock Exchange, for its review and recommendations.

The aggregate value of transactions of related parties (as defined in LKAS 24 – 'Related Parties Disclosure') with the Company are set out in Note 6.1 to the Financial Statements on pages 261 to 265

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party 'more favorable treatment' than that accorded to other similar constituents of the Company.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2020.

## DIRECTORS' REMUNERATION

The remuneration of Directors of the Company and its subsidiary is disclosed under key management personnel compensation in Note 6.1.1 to the Financial Statements on page 261.

## 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 2020 and 31st March 2019 are as follows;

	Shareholding as at 31st March 2020	Shareholding as at 31st March 2019
Mrs. Anandhiy K Gunawardhana	-	-
Mr. Dhammika Perera	-	-
Mr. J A S S Adhihetty	106,120	106,120
Mr. N Udage	329,135	329,135
Mr. B D A Perera	-	-
Mr. R S Yatawara	905	-
Mrs. Yogadinusha Bhaskaran	-	-
Mr. M A J W Jayasekara	-	-
Mrs. Ashwini Natesan	-	-
Mr. Dharmadasa Rangalle	-	-

Mr. Dhammika Perera is the major shareholder of Vallibel One PLC, which holds 71,682,400 shares constituting 51.75% of the shares representing the stated capital of the Company.

Vallibel One PLC is also the holding company of Royal Ceramics Lanka PLC which holds 36,123,232 shares constituting 26.08% of the shares representing the stated capital of the Company.

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

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

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

## DIRECTORS' INTERESTS IN DEBENTURES

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

## BOARD 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 (as amended), Listing Rules of the Colombo Stock Exchange and as per the recommended best practices on Corporate Governance.

They are the Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and the Nomination Committee.

The composition of the said Committees is as follows:

### Audit committee

Mrs . Yogadinusha Bhaskaran  
– Chairperson/Non-Executive Director  
Mrs. Shirani Jayasekara  
(upto 24th August 2019)  
Mrs. Anandhiy Gunawardhana -  
Independent Non-Executive Director  
Mr. M A J W Jayasekara - Independent  
Non-Executive Director

The Report of the Audit Committee appears on pages 110 to 111.

## Integrated Risk Management Committee (IRMC)

Mr. M A J W Jayasekara – Chairman/  
Independent Non-Executive Director  
Mrs. Anandhiy Gunawardhana -  
Independent Non-Executive Director  
Mrs. Ashwini Natesan  
- Independent Non-Executive Director  
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. Ravi Yatawara – Executive Director  
Mr. Malith Hewage – AGM Finance  
Mrs. Zairaa Kaleel – Compliance Officer  
Mrs. Waruni Perera - National Manager  
– Risk Management

The Report of the IRMC appears on page 112 to 113.

## Remuneration committee

Mr. M A J W Jayasekara – Chairman/  
Independent Non-Executive Director  
Mrs. Anandhiy Gunawardhana -  
Independent Non-Executive Director  
Mrs . Yogadinusha Bhaskaran  
– Non-Executive Director

The Report of the Remuneration Committee appears on page 108.

## Related party transactions review committee (RPTRC)

Mrs. Ashwini Natesan – Chairperson/  
Independent Non-Executive Director  
Mrs. Shirani Jayasekara  
– (upto 24th August 2019)  
Mr. M A J W Jayasekara - Independent  
Non-Executive Director  
Mr. Dharmadasa Rangalle - Non-Executive  
Director (appointed on 9th September  
2019)

The Report of the RPTRC Committee appears on page 114 to 115

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## Nomination Committee

Mr. M A J W Jayasekera – Chairman –  
Independent Non Executive Director

Mrs. Anandhiy Gunawardhana –  
Independent Non Executive Director

Mr. J A S S Adhihetty – Managing Director

The Report of the Nomination Committee  
appears on page 109.

## STATED CAPITAL AND DEBENTURES

The Stated Capital of the Company  
as at 31st March 2020 was Rs.  
838,282,159/- represented by 138,514,284  
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 2020 are set out in  
Note 4.27 to the Financial Statements on  
page 225 to 226.

## SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS

### Shareholders

There were 1,886 shareholders registered  
as at 31st March 2020 (1,994 shareholders  
as at 31st March 2019).

### 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 49, 51 and 54 under Financial  
Review.

### Ratios and market prices of debentures

Interest rate of comparable government  
securities, ratios and market prices of the  
debentures issued by the Company, as  
required by the Listing Rules are set out on  
page 55.

During the year under review, there were  
no changes in the credit rating for the  
Company and/or the Debentures issued by  
the Company in 2017/18.

### Property plant & equipment and significant changes in the Company's and its subsidiary's fixed assets/ market value of land

The details of Property, Plant and  
Equipment are given in Notes 4.23 of the  
Financial Statements.

The land and buildings owned by the  
Company are recorded at cost and details  
of those properties and their market values  
as at 31st March 2020 as per valuations  
conducted by H V Manjula Basnayake an  
Independent Valuer are set out in  
Note 4.23.10 to the Financial Statements  
on page 219

## 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 2020, the Company had  
3,606 employees (3,618 employees as at  
31st March 2019).

### Material issues pertaining to employees and industrial relations pertaining to the Company

No material issues pertaining to employees  
or industrial relations of the Company  
occurred during the year under review  
which required disclosure under Rule 7.6  
(vii) of the Listing Rules.

### Employee share option schemes/ employee share purchase schemes

The Company has not implemented any  
Share Option/Share Purchase Schemes for  
its employees.

## DONATIONS

During the year under review the Company  
and its subsidiary made donations to the  
value of Rs. 6,400,000 and Rs. 87,296  
respectively.

## AUDITORS

Messrs Ernst & Young, Chartered  
Accountants served as the Independent  
Auditors during the year under review and  
also provided audit related services and  
permitted non-audit/consultancy services.

The Auditor of the subsidiary company,  
L B Microfinance Myanmar Company Ltd is  
UTW (Myanmar) Limited, a Member of Ernst  
& Young Global Limited.

A total amount of Rs. 9,046,174/- is payable  
by the Company to the Auditors for the  
year under review comprising  
Rs. 3,524,737/- as Audit Fees, and  
3,268,822/- as audit related fees and  
expenses and Rs. 2,252,615/- for non-audit  
services. A fee of Rs. 1,436,843 (Audit Fees  
– Statutory) and Rs. 628,084 (Audit Fees –  
Group Audit) is payable to the Auditors of  
the subsidiary company as audit fees.

The Auditors of the Company have  
expressed their willingness to continue in  
office. The Audit Committee at a meeting  
held on 11th March 2020 recommended  
that they be re-appointed as Auditors.  
A resolution to re-appoint 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 116 to 136.

Directors' statement on Internal Controls over Financial Reporting is on pages 140 to 141.

## **MATERIAL FORESEEABLE RISK FACTORS**

Material Foreseeable Risk Factors as applicable to the business operations of the Company and subsidiary are set out in Notes 5.1 to 5.6 to the Financial Statements.

## **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 for discussion and further evaluated by the Board.

The Board also carried out an annual self-evaluation of its own performance and that of the Sub-Committees to ensure that they discharge their duties and responsibilities satisfactorily in terms of the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and Best Practices on Corporate Governance.

Board and sub-committee evaluations for the year under review were discussed at the Board Meetings held in the months of May and June 2020.

## **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 56 to 97 describes the application of the Corporate Governance practices within the Company during the year under review.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The Compliance Officer independently monitors adherence with all applicable laws, regulations and statutory requirements and reports to the Board and the Integrated Risk Management Committee.

## **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 page 30.

## **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 matters disclosed in Note 6.9 to the Financial Statements, there are no material events as at the date of the Auditor's Report which require adjustment to or disclosure in the Financial Statements.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## 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 Seventh (47th) Annual General Meeting appears on Page 286.

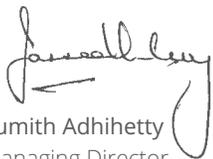
## ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

As required by section 168 (1) (k) of the Companies Act, this Report is signed on behalf of the Board of the Company by two Directors and the Secretaries of the Company in pursuance of the authority granted by the Board by a Resolution passed on 30th June 2020 having acknowledged the contents of this Annual Report.

Signed on behalf of the Board by



Anandhiy Gunawardhana  
Chairperson



Sumith Adihetty  
Managing Director



P W Corporate Secretarial (Pvt) Ltd  
Secretaries

30 June 2020

## Channels of communication with stakeholders

### Annual General Meetings

Shareholders use their voting rights to vote on current issues such as appointments of Company's Board of Directors, dividends and selection of auditors.



### 2019/20 share information

A thorough analysis of share information in connection to the market is available in the financial capital in annual report



### Reports and announcements

- Annual report and sustainability report
- Quarterly financial statements
- Announcements and press releases



### LB Website

Updates of recent financial information and latest investor information

## BOARD COMPOSITION

### DEMOGRAPHICS

Executive 

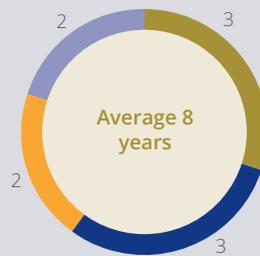
Non-Executive 

Independent Non-Executive 

Female 

Male 

### BOARD TENURE



- 0-3 years
- 4-10 years
- 11-15 years
- 16+ years

### AGE



# REMUNERATION COMMITTEE REPORT



Aligning remuneration with performance, and making continued progress towards ensuring a high performing culture in line with the Company's values.

Ashane Jayasekara  
Chairman  
Remuneration Committee

## COMPOSITION OF THE COMMITTEE

Mr. Ashane Jayasekara – Chairman/  
Independent Non-Executive Director  
Mrs. Anandhiy Gunawardhana –  
Independent Non Executive Director  
Mrs. Yogadinusha Bhaskaran –  
Non-Executive Director

## ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mr. Ashane Jayasekara – Chairman / Independent Non-Executive Director	2/2
Mrs. Anandhiy Gunawardhana – Independent Non-Executive Director	2/2
Mrs, Yogadinusha Bhaskaran – Non-Executive Director	2/2

The Company Secretary functions as the Secretary to the Remuneration Committee.

## REGULATIONS/RULES RELEVANT TO THE FUNCTIONS OF THE COMMITTEE

The Remuneration Committee was formed by the Board in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange and its composition and functions are in conformity with the provisions of the Listing Rules.

The Remuneration Committee functions within the agreed terms of reference approved by the Board.

## 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.

## FUNCTIONS

The functions of the Committee include making recommendations to the Board on the compensation and benefits of the Managing Director, Executive Directors and the Senior Management of the Company, and on specific matters referred to the Committee by the Board.

## REMUNERATION POLICY

The primary objective of the Remuneration Policy of the Company is to align remuneration with performance, whilst ensuring that the Company is able to attract and retain employees critical to deliver the Company's strategy and to make continued progress towards ensuring a high performing culture in line with the Company's values.

## DIRECTORS' REMUNERATION

The total amount paid as Directors' remuneration during the year under review is set out in Note 6.1.1 to the Financial Statements.

Ashane Jayasekara  
Chairman  
Remuneration Committee

22 June 2020

# NOMINATION COMMITTEE REPORT



Assessing whether the balance of skills, experience, knowledge and independence is appropriate to enable the Board to operate effectively.

**Ashane Jayasekara**  
Chairman  
Nomination Committee

## COMPOSITION OF THE COMMITTEE

Mr. Ashane Jayasekara – Chairman - Independent Non-Executive Director
Mrs. Anandhiy Gunawardhana – Independent Non-Executive Director
Mr Sumith Adhihetty – Managing Director

## ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mr. Ashane Jayasekara – Independent Non Executive Director	2/2
Mrs. Anandhiy Gunawardhana – Independent Non Executive Director	2/2
Mr Sumith Adhihetty – Managing Director	2/2

The Company Secretary functions as the Secretary to the Committee.

## REGULATIONS/RULES RELEVANT TO THE FUNCTIONS OF THE COMMITTEE

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

## 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 Directions issued by the Central Bank of Sri Lanka and the relevant Statutes;
- To make recommendations on other related matters referred to the Committee by the Board of Directors.

## ACTIVITIES DURING THE YEAR

The Committee met twice during the year to deliberate on succession planning for two Key Management Personnel and also to review and make its recommendations on a revised organizational chart with the introduction of two key positions to the corporate structure of the Company.

Based on the Committee's recommendations, revisions to the succession plan for key management personnel and the organisational structure were approved by the Board on 20th August 2019 and 24th September 2019 respectively.

The Committee also reviewed the structure and composition of the Board and recommended the requirement of additional/new expertise on the Board and the succession arrangements for retiring Directors.

**Ashane Jayasekara**  
Chairman  
Nomination Committee

22 June 2020

# AUDIT COMMITTEE REPORT



The Committee continues to assist the Board in discharging its key responsibilities by providing oversight on the financial reporting process, the audit process, the internal control systems and compliance with laws and regulations

**Yogadinusha Bhaskaran**  
Chairperson - Audit Committee

## COMMITTEE DUTIES AND RESPONSIBILITIES

- The Charter of the Audit Committee clearly defines the Terms of Reference of the Committee. The Charter is reviewed annually, to ensure new developments to the Committee's functions and concerns are catered to. The Audit Committee Charter was last reviewed by the Committee in February 2020 and approved subsequently by the Board of Directors.
- The Committee is provided with sufficient resources to perform its duties including support, as necessary, from the Internal Audit Department, the external auditor, KPMG Sri Lanka, legal counsel and management in examining all matters relating to the company's adopted accounting principles and practices, and in reviewing all material financial, operational and compliance controls.
- The Audit Committee is set up primarily to assist the Board in carrying out its overall independent oversight functions in relation to the accuracy and integrity of the financial statements, internal control systems and compliance with Company policies, legal and regulatory requirements. This is done to safeguard the interests of shareholders, depositors and other stakeholders.
- The Committee is responsible for supervision to ensure the effectiveness of the system of internal controls, financial reporting, risk management, compliance with laws, regulations and directions of the CBSL and other regulators, as well as the independence and performance of the external and internal auditors.

## COMPOSITION OF THE COMMITTEE

The Board-appointed Audit Committee comprises three Non-Executive Directors, a majority of whom are independent, in line with the composition requirements specified by the regulators. The Board is satisfied that the current members of the Committee are competent in financial matters and have recent and relevant experience.

### Board members

Mrs. Yogadinusha Bhaskaran  
Mrs. Anandhiy K Gunawardhana  
Mr. Ashane Jayasekara

The Managing Director, Executive Directors, Deputy General Manager – Strategy and Digital Finance, Deputy General Manager – IT, Head of Treasury, Chief Internal Auditor, Assistant General Manager – Finance, Compliance Officer, Senior Manager – IS Audit, Head of Risk, and the Audit Manager attended the meetings by invitation. The members of the management team and the Company's External Auditor, 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 Committee, the proceedings of which were periodically reported to the Board.

The profiles of the Audit Committee members are given on pages 16-18.

## Meetings held during the year and record of attendance

Name of Director	Attendance
Mrs. Yogadinusha Bhaskaran	15/15
Mrs. Anandhiy Gunawardhana	14/15
Mr. Ashane Jayasekara	14/15

## Summary of Audit Committee activities during the Financial Year

### Financial reporting system

The Committee assisted the Board of Directors in the discharge of its duties by reviewing the financial reporting system adopted by the Company with particular reference to the following:

- the preparation, presentation and adequacy of the disclosures in the Company's annual and interim financial statements in accordance with Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards;
- the rationale and basis for the 'significant estimates and judgments' underlying the financial statements;
- the systems and procedures in place to ensure that all transactions are accurately recorded in the books of accounts; and
- the effectiveness of the financial reporting system/s including the management accounts to ensure reliability of the information provided to the Board and other stakeholders of the Company.

### Regulatory Compliance

Regulatory compliance is a priority. Mechanisms to ensure timely and effective implementation of regulatory requirements are necessary to safeguard the interests

of all stakeholders. Process owners are responsible for compliance with regulations as part of their standard operating procedure.

The Compliance Officer reviews and reports on any gaps or areas of non-compliance to the Audit Committee. It is also the mandate of the Compliance Officer to disseminate new regulatory requirements and update policies and procedure manuals to incorporate such requirements. The reports of the Compliance Officer are also periodically submitted to the Board.

The Committee also receives a review of regulatory compliance prepared by the internal auditors in selected areas, in line with their respective internal audit programmes.

Periodic confirmations are obtained from the senior management regarding compliance with the regulatory requirements through the compliance function.

The Committee periodically reviews customer complaints and action thereof to ensure timely resolution.

On instructions from the Committee, the management launched an email campaign to increase employee awareness on Anti Money Laundering Activities.

### Internal audit

The Internal Audit Department was established during the year, pursuant to CBSL Direction No. 07 of 2018. The Committee ensures that the internal audit function is independent of the activities it audits and it possesses proficiency and exercises due professional care. The Procedure Manual of the Internal Audit Department was amended to reflect current practice.

The Audit Committee reviewed the efficacy of the internal control system and compliance with regulatory requirements and also the Company's accounting and operational policies through the internal audit function. Prior to the commencement of audits, the scope of audit is reviewed by the Committee which recommends amendments where necessary, prior to approval. Control weaknesses highlighted in the internal audit reports are critically examined by the

Committee. Follow-up action taken by the management on the audit recommendations are also reviewed. The Committee recommends re-audits of certain processes when necessary, to ensure effectiveness of controls.

The Audit Committee retained the services of Messrs. KPMG Sri Lanka to supplement the Department in performing branch audits. The representatives of Messrs. KPMG Sri Lanka present their audit reports to the Audit Committee during their monthly meetings.

### External Audit

The Audit Committee assisted the Board by recommending the appointment of the External Auditor in compliance with the relevant statutes and regulations. It monitors the service period, approves the audit fee and any resignation or dismissal of the auditor.

The Audit Committee reviewed and monitored the independence and objectivity of the external auditor - Messrs. Ernst & Young, Chartered Accountants. The Audit Committee together with management reviewed and discussed the scope of audit, approach and audit plan with Messrs. Ernst & Young, prior to the commencement of the audit for 2019/20.

The Committee reviewed the non-audit services provided by the auditor to ensure that the provision of these services does not impair their independence and objectivity. The Committee is satisfied that there is no conflict of interests between the Company and the Auditor which would hinder the independence and objectivity of the Auditor. The Policy for obtaining non-audit services was reviewed and approved this year.

The Auditors were provided with the opportunity of meeting the Non-Executive Directors separately, without any executive officer present, to ensure that the Auditors had the unrestricted opportunity to discuss and express their opinions on any relevant matter. This process assured the Committee that the management has fully cooperated in providing the information and explanations requested by the Auditor.

The Committee met the external auditors to discuss the management letter pertaining

to the previous year's audit and the management's response thereto. Follow-up actions were taken to ensure that the recommendations contained in the management letter were implemented by management.

During the year, the Committee evaluated the performance of the external auditor. The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young, Chartered Accountants, be reappointed as the external auditor for the financial year ending 31st March 2021, subject to the approval of the shareholders at the next annual general meeting.

### Corporate Governance and Whistleblowing Policy

The Committee ensures the Whistleblowing Policy of the Company is a current, active set of measures to which all employees/incidents have recourse. There were no complaints by whistleblowers during the year. All employees are encouraged to practice whistleblowing if they suspect any wrongdoing. Senior Management, from time to time conducts awareness programs to encourage staff to raise genuine concerns. The Compliance Officer reports on the whistleblowing incidents to the Audit Committee each quarter end. The Committee remains committed to follow-up on any future complaints/incidents, should they occur.

### Audit Committee Effectiveness

As in the previous years, the effectiveness of the Committee was self-evaluated by its members and the results were presented to the Board. The Committee has concluded that its performance was effective.

I wish to thank my fellow Committee members, Executive Directors and the Senior Management for their cooperation during the year.



Yogadinusha Bhaskaran  
Chairperson

22 June 2020

# INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



Assessing the risks arising from internal and external factors on an ongoing basis and escalating those to the Board in a timely manner to minimize/mitigate their impact on the operations of the Company

**Ashane Jayasekara**  
Chairman  
Integrated Risk Management Committee

## COMPOSITION OF THE COMMITTEE

### Board members

Mr. Ashane Jayasekara – Chairman/  
Independent Non-Executive Director

Mrs. Anandhiy Gunawardhana  
– Independent Non-Executive Director

Mrs. Ashvini Natesan  
– Independent Non-Executive Director

Mr. J A S S Adhihetty – Managing Director

Mr. Niroshan Udage- Executive Director

Mr. B D A Perera – Executive Director

Mr. Ravindra Yatawara  
– Executive Director

## ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mr. Ashane Jayasekara – Chairman, Independent Non-Executive Director	4/4
Mrs. Anandhiy Gunawardhana – Independent Non- Executive Director	4/4
Mrs. Ashvini Natesan – Independent Non- Executive Director	4/4
Mr. J A S S Adhihetty – Managing Director	3/4
Mr. Niroshan Udage – Executive Director	4/4
Mr. B D A Perera – Executive Director	4/4
Mr. Ravindra Yatawara – Executive Director	Excused

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. 03 of 2008 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka.

The Company Secretary functions as the Secretary to the Integrated Risk Management Committee. The proceedings of the Committee were reported regularly to the Board.

## COMMITTEE RESPONSIBILITIES

The responsibilities of the Integrated Risk Management Committee as mandated by the Board of Directors are as follows:

1. Assess all risks i.e. credit, market, liquidity, operational and strategic risk including business continuity plans of the Company on a quarterly basis through appropriate risk indicators and management information.
2. Review the adequacy and effectiveness of all management level committees such as Credit Committee and the Asset-Liability Committee to address specific risk and to manage those risks within quantitative and qualitative risk limits as specified by the Committee. The Committee shall:
  - a. receive reports from management concerning capital adequacy, asset quality, credit, market, liquidity, operational, new and emerging risks etc in order to oversee these risks and assess their effect on capital levels.

- b. receive reports from management concerning resolution of significant risk exposures and risk events, in order to monitor them and, if thought fit, approve them.
3. Take prompt corrective action to mitigate the effects of specific risk in the case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and supervisor's requirements.
  4. Take appropriate 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.
  6. Consider, monitor and approve, as required, the Company's material strategies, frameworks, plans, policies, processes, models, limits and regulatory requirements in place to govern risk-taking that are consistent with the risk management strategy and the established risk appetite of the Company.
  7. Review any issues raised by External Auditors or Internal Audit that may materially impact the Company's risk management framework or the risk management.

8. Oversee and review the outcomes of stress testing of the risk portfolio, including both scenario analysis and sensitivity analysis for the capital adequacy assessment process and liquidity adequacy assessment process.

## COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

### Credit Risk

- Key focus area for the year under review was on the deterioration of credit quality level of the industry amidst deteriorating socioeconomic factors of the country and discussed the measures to be undertaken to improve credit quality.
- Local and global macro-economic factors were discussed with a view to identify impact of such factor related changes on the Company, in order to initiate actions in a proactive manner.
- Reviewed the activities of Credit Committee through the assessment of the loan performance of significant exposures against the Company and internal credit rating.
- Improvements were recommended to ensure the completeness of security documentation of large exposures.
- Reviewed the effectiveness of the current mortgage bond registration process and proposed recommendations to further strengthen the process.

### Liquidity and Market Risk

- Reviewed the adequacy and effectiveness of ALCO activities by assessing asset and liability limits, single borrower exposure/single group exposure, single depositor exposure/bulk depositor exposure, duration of deposits and optimal funding mix.
- Reviewed the liquidity position, funding pipeline and liquidity management strategies of the Company.

### Information & Cyber Security

- Reviewed the Data Protection Policy of the Company and implemented across the Company
- Data classification was rolled out as a mandatory security control for employees who communicate with external entities.

### Operational Risk & Human Resources Risks

- Reviewed the effectiveness of mandatory leave policy and assessed the progress of the rollout of mandatory leave plan.
- Reviewed the control environment of operational risks with special focus on external frauds and work place safety including;
  - adequacy of cash in transit/cash in safe
  - 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

### Compliance

- Reviewed the annual risk assessment for existing outsourced activities and new outsourcing arrangements.
- Reviewed the annual risk assessment of Money Laundering and Terrorist Financing (ML & TF) risks of the customers, deposit products, lending products, processes and the overall Company.
- Assessed the Company's compliance with laws, regulations and regulatory guidelines, CBSL directions, internal policies in all areas of business operations.

### General

- Monitored the effectiveness of risk communication framework in place to escalate the new risks faced by each department on a timely manner and improvements were recommended to streamline the process.
- Potential risks arising from recent changes in business environment were discussed with a view to identify the impact of such events on the achievement of Company's objectives and to initiate remedial actions in a proactive manner.
- Reviewed the KRIs used in FY2019/20 for their appropriateness for FY2020/21 in light of changing business, economic, industry and Company dynamics.
- Reviewed and approved the risk appetite statement of the Company for FY 2020/21.
- Reviewed and strengthened the IRMC Charter and Risk Management Policy of the Company.



Ashane Jayasekara  
Chairman  
Integrated Risk Management Committee

22 June 2020

# REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE



Managing relationships with related parties to uphold good governance and the best interests of the Company.

**Ashwini Natesan**  
Chairperson  
Related Party Transactions Review Committee

## COMPOSITION OF THE COMMITTEE

Mrs. Ashwini Natesan – Chairperson/  
Independent Non-Executive Director

Mr. Ashane Jayasekara –  
Independent Non-Executive Director

Mr. Dharmadasa Rangalle –  
Non-Executive Director  
(from 9th September 2019)

Mrs. Shirani Jayasekara – Chairperson/  
Independent Non-Executive Director  
(upto 24th August 2019)

*Consequent to the cessation of office of the Chairperson, Mrs Shirani Jayasekara, the Committee was reconstituted by the Board. Accordingly, Mrs Ashwini Natesan, a member of the Committee was appointed the Chairperson and Mr Dharmadasa Rangalle, a Non-Executive Director was appointed as a member, effective from 9th September 2019.*

## ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Name of Director	Attendance
Mrs. Ashwini Natesan Chairperson/Independent Non- Executive Director	5/5
Mr. Ashane Jayasekara Independent Non- Executive Director	5/5
Mr. Dharmadasa Rangalle Non-Executive Director (from 9th September 2019)	3/3
Mrs. Shirani Jayasekara Chairperson / Independent Non- Executive Director (upto 24th August 2019)	2/2

The Company Secretary functions as the Secretary to the Related Party Transactions Review Committee.

## REGULATIONS/RULES RELEVANT TO THE FUNCTIONS OF THE 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.

Scope of the Committee includes:

- To manage relationships with related parties to uphold good governance and the best interests of the Company
- To provide an independent review, approval and oversight of Related Party Transactions (RPTs) (except those expressly exempted by the Charter) on terms set forth in greater detail in the Policy
- To review the Charter and Policy annually and recommend amendments to the Charter and the Policy to the Board as and when determined to be appropriate by the Committee.
- Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company;

- Establishing guidelines in respect of Recurrent Related Party Transactions, for senior management to follow in its ongoing dealings with the relevant related party
- Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner

## POLICIES AND PROCEDURES

- The Charter of the Committee was adopted by the Board on 22nd September 2015. It includes a RPT Policy whereby the categories of persons/entities who shall be considered as 'related parties' have been identified.
- In accordance with the RPT Policy, monthly self-declarations are obtained from each Director for the purpose of identifying parties related to them and such declarations are filed with the Company Secretary. The Company Secretary communicates any changes in the Related Parties to the officer responsible for collation of information on related parties.

- The Company uses a RPT System that enables the Company to retrieve data on RPTs throughout the Company's network. Based on the information furnished in the declarations submitted by the Directors, the data base of related parties maintained in the RPT system is continuously updated and the system automatically generates a comprehensive report every quarter for Management's review, which is also tabled at RPTRC meetings and where necessary, at Board Meetings held after the completion of the relevant quarter. The said report reflects all types of transactions with related parties including general payments, creditors, debtors, savings, fixed deposits and lending.
- In its review of RPTs, RPTRC considers the terms and conditions of the RPT, value, and the aggregate value of transactions with the said related party during the financial year, in order to determine whether they are carried out on an arm's length basis, the disclosure requirements as per the Listing Rules of the Colombo Stock Exchange and the level of approval required for the respective RPTs are complied with.

The RPTRC ensures that all transactions with related parties are in the best interests of all stakeholders, adequate transparency is maintained and are in compliance with the Listing Rules.

The Committee reviewed, a non recurrent RPT during the year and made recommendations and communicated its observations to the Board.

The Committee has established guidelines in respect of Recurrent RPTs to be followed by the Management of the Company, in the Company's dealings with related parties.

The Committee has also suggested mechanism that can be followed by the Management of the Company whilst reporting that related party transactions are being conducted at arm's length.

During the year, the Committee reviewed the Charter and the Policy and noted that they did not require any amendments, except the deletion of a word from item 17 of the charter; which was recommended to and approved by the Board.

Reviewing and approval of RPTs are either at a meeting of a majority of the members who form the quorum or by circulation, approved by all the members.

#### **RELATED PARTY TRANSACTIONS/ DISCLOSURES DURING THE YEAR**

1. Information on all related parties, as extracted as at the end of each quarter, was presented to the RPTRC and the Board at their meetings held in the immediately following month.
2. All Directors made a monthly declaration, where any transactions entered/to be entered into by the respective Directors and/or any related parties of the said Director were disclosed, which were tabled at the RPTRC.
3. The value of non-recurrent RPTs during the year was below the threshold for immediate disclosure in terms of Rule 9.3.1 of the Listing Rules or disclosure in the Annual Report as per Rule 9.3.2 (a) of the Listing Rules.
4. The aggregate value of recurrent Related Party Transactions entered into during the year was below the threshold for disclosure in the Annual Report as per Rule 9.3.2(b) of the Listing Rules.
5. The aggregate value of all RPTs during the year is disclosed in Note 6.1 to the Financial Statements in terms of LKAS 24 – Related Party Disclosures.

#### **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 102 of the Annual Report.



**Ashwini Natesan**  
Chairperson  
Related Party Transactions Review  
Committee

22 June 2020

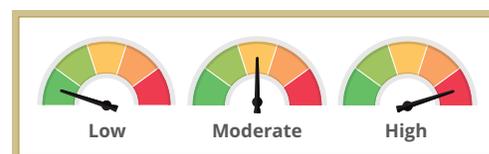
# INTEGRATED RISK MANAGEMENT REPORT

## RISK ENVIRONMENT

The risk environment of the Company in the year under review was surrounded by many complexities due to the changes in technological, social, political, market and regulatory factors. Volatility and uncertainty have become the new normal and therefore as a financial intermediary it is imperative to be proactive in our risk management strategies to build resilience against external shocks. FY2019/20 was characterised by lacklustre economic growth, a sharp deterioration in asset quality following the April 2019 terrorist attacks, subpar credit growth and political instability. The outbreak of the COVID -19 pandemic globally and locally has caused unprecedented levels of business disruptions, the impact of which will add extra pressure on the next financial year's performance.

## RISK LANDSCAPE

RISK EVENT	ASSESSMENT	IMPACT TO THE COMPANY
Easter Sunday terror attacks		<ul style="list-style-type: none"> <li>Wide-ranging impact over the entire country specially on leisure and tourism sectors which resulted in a sharp decline in GDP growth from 3.7% in Q1 to 1.1% in Q2 2019</li> </ul>
Low economic growth than expected		<ul style="list-style-type: none"> <li>Subpar private sector credit growth</li> <li>Lower disposable income resulting in low savings</li> <li>Increase in credit default risk</li> </ul>
Policy and political uncertainty		<ul style="list-style-type: none"> <li>The change in Government and the impending Parliamentary Elections has caused policy uncertainty which led Sri Lanka's sovereign rating revised to negative outlook by rating agencies. This created unnecessary delays in negotiating foreign loans</li> </ul>
Cybercrimes		<ul style="list-style-type: none"> <li>Possibility of breaking down of critical information infrastructure and misuse of company's customer database</li> <li>Possible reputational, legal and financial consequences and loss of customer confidence</li> <li>Heavy investments in preventive and detective cyber security systems increasing the cost to income ratio</li> </ul>
Unstable geopolitical conditions including Sino American Trade war and tension in Middle East		<ul style="list-style-type: none"> <li>Geopolitical uncertainty has given rise to instability in international relations, international policies, etc.</li> </ul>
License cancellations of a few LFCs by CBSL		<ul style="list-style-type: none"> <li>Possible reputational, legal and financial consequences and loss of customer confidence on the NBF sector</li> </ul>
High volatility in precious metal (gold) prices and volatility in exchange rate (USD/LKR)		<ul style="list-style-type: none"> <li>Increase in provisioning on gold loans expected losses due to high price volatilities</li> </ul>
Outbreak of COVID-19		<ul style="list-style-type: none"> <li>Stoppage of economic activities of the whole country has caused disturbances on recoveries, disbursements and deposit mobilisation</li> </ul>



## RISK MANAGEMENT AT LBF

Risk is inherent in all business activities of a financial institution engaged in a varied offering of financial services. Sound risk management enables us to protect our depositors and investors whilst delivering an adequate risk adjusted return to our shareholders. At LBF we believe in aligning corporate strategy closely with risk strategy. Risk management efforts are aimed at risk steering, as opposed to mere risk prevention or minimisation. The Company takes a comprehensive approach to risk management with a defined Risk Framework and a clearly articulated Risk Appetite Statement sanctioned by the Board of Directors. Company's risk management process is steered by the Board appointed Integrated Risk Management Committee (IRMC).

An appropriate and effective risk management system ensures that risks and their impacts are identified and evaluated at an early stage and contingency plans and measures are in place where necessary to handle risks and to prevent their accumulation.

Through proper implementation of an enterprise risk management system, the Company strives to achieve the following goals:

- Development of a risk culture that fosters awareness of risks and a common understanding of risks across functions and departments
- Capital protection, both for internal as well as regulatory purposes
- Limitation of earnings volatility
- Risk-based performance measurement and decision making
- Ability to act proactively or to respond quickly and effectively to adverse events
- Better understanding of risks for competitive advantage
- Increase transparency and optimise information flows between business functions, control functions, the Management Committees and the Board of Directors

### KEY INITIATIVES IN FY 2019/20

Major initiatives relating to risk governance and risk management during the year included:

- Strengthened and updated the IRMC Charter, Risk Management Policy and Risk Appetite Statement
- The digital wallet application and Myanmar subsidiary operations were included to the scope of the Enterprise Risk Management (ERM) of the Company
- Internally developed expected loss models for SLFRS 9 was validated by an external party
- Conducted meetings to the management on monitoring NPAs with the participation of Area Managers to discuss strategies to turnaround NPA portfolio
- Introduced a branch grading mechanism based on respective branches' lending portfolio composition in comparison to targeted asset quality levels
- Development of Stress Testing Policy and Framework
- Conducted vulnerability assessment and penetration testing to assess the secureness of existing networks
- Successfully renewed the ISO/IEC 27001:2013 on information security management
- Enhanced the internal information security arrangements by strengthening internal firewall structure with the latest available technology
- Comprehensive review of Treasury and Gold Loans business applications were conducted by an independent external party
- Conducted the annual risk assessment for existing outsourced activities and new outsourcing arrangements
- Conducted the annual risk assessment of Money Laundering and Terrorist Financing (ML & TF) risks of the customers, deposit products, lending products, processes and the overall Company
- Conducted risk assessments for newly launched Gold Loans products and strengthened the mechanism on setting advance /safety margin limits for all gold backed lending products

### PRIORITIES FOR FY 2020/2021

- Extending the internally developed credit rating/scoring model to other lending products by recalibrating the credit risk parameters
- Further strengthening the Credit Risk Management Framework and Policy whilst incorporating the output of credit rating/scoring model in credit decision making process
- Revising and tightening internal data management approach by clearly classifying all internal reports and defining who has access/sharing rights of sensitive data
- Development of a dedicated policy and framework for Operational Risk Management
- Certify all digital products/platforms with highest security standards and internal controls
- Further strengthening the detective and reporting mechanisms for the early detection of internal/external frauds and exceptions through exception reports and data analytics
- Regular review of credit portfolio performance in order to validate the assumptions used in expected loss model

# INTEGRATED RISK MANAGEMENT REPORT

## RISK MANAGEMENT PROCESS

Management of risks within the Company takes place in several steps. These apply in principle to all risk categories. The risk management process at its broadest level can be broken down into the following generic steps;



## RISK IDENTIFICATION

In the context of risk identification, all existing risk categories, their sub-risks as well as their risk sources within the Company's business are determined and clearly distinguished from each other on an ongoing basis.

New risks can occur, given that the business environment is constantly changing and new products are being developed and brought into the market. Early and comprehensive identification of risk is an essential element for the early warning system.

Before commencing business with new products, types of business and in new markets, the risks inherent in them and the resultant effects on risk management must be identified.

## RISK ANALYSIS AND MEASUREMENT

Subsequent to risk identification, risks are analysed and measured using quantitative as well as qualitative risk-appropriate methods and procedures. The methods used are verified continuously using sensitivity analysis, stress tests, gap

analysis, risk rating, risk scoring and Value at Risk (VaR) analysis. Interdependencies are to be taken into account and risk concentrations or accumulation risks are to be continuously analysed and evaluated.

## RISK MANAGEMENT DECISION AND EXECUTION

The risk management function together with respective department heads, initiate suitable strategies and concepts aimed at the prevention, reduction, mitigation, transfer or diversification of all identified and analysed risks in accordance with defined objectives.

## RISK MONITORING AND REPORTING

The quantifiable risks are restricted by risk limits. The development of risk limits for controlling and monitoring risk positions, risk exposure in particular to avoid risk concentrations for sectors, customers and security types form an essential part of the Company's risk approach.

All non-quantifiable risks are managed via appropriate methods or approaches that involve process improvement, modifications or re-engineering.

Monitoring ensures that the risk management decision is implemented appropriately and in a timely manner. It includes both monitoring of deviations from the prescribed risk limits and monitoring of methods, procedures and processes used for quantifiable and non-quantifiable risks.

## RISK MANAGEMENT AND REPORTING PROCEDURE (RMR)

RMR procedure is the practical manifestation of the Company's risk management process. In line with the risk management process, this mechanism is designed for managing and reporting risks within the entire organisation.

RMR procedure allows the Risk Management Department (RMD) and the Head of Risk Management to identify and assess risks affecting the entire business on a continuous basis.



- (a) RMR procedure starts with the initial identification of key risks concerning each business unit/function. Risk identification is a collective exercise carried out with the active participation and contribution of the respective HoDs (Risk Owners) on a quarterly basis where RMD's role primarily is to facilitate the process.
- (b) For quantifiable risks, Key Risk Indicators (KRIs) are defined and tolerance levels are set for monitoring purposes. KRIs should be evaluated on regular basis for appropriateness and relevance. Any newly identified KRIs should be added to enhance effective risk monitoring. A comprehensive set of KRIs are prepared on a monthly basis and reviewed by Head of Risk Management. Any risk highlighted is communicated to the relevant HoDs and executive leadership of the Company to mitigate the negative consequences.

- (c) For qualitative non-quantifiable risks, RMD should initiate and formulate risk mitigation plans together with the respective business divisions. For agreed mitigation actions clear timelines should be set for completion and responsibilities should be assigned.
- (d) RMD is responsible for submitting the Key Risk Indicators to the members of IRMC on a monthly basis which should include the status of compliance with the KRI tolerance levels.
- (e) Head of Risk Management is responsible for escalating any proposed mitigation strategy beyond the scope/authority of the business units/HoD or RMD to the executive leadership and seek necessary approvals for the implementation.
- (f) RMD should regularly communicate with the risk owners for the purpose of monitoring KRIs and ensure the implementation of agreed mitigation strategies. Risk owners are responsible for providing all necessary information to the RMD
- and Head of Risk Management to facilitate independent supervision.
- (g) Head of Risk Management is responsible for submitting Risk Database, Top 10 Risks, Qualitative Risk Report, Key Risk Indicators and Risk Grid based on the RMR procedure to the Board IRMC on a quarterly basis.

## RISK APPETITE

Risk appetite is the types of risks and the aggregate amount of risks that the Company is prepared to be exposed to at any given point in time which is approved by the Board of Directors. After a careful consideration of the regulatory requirements, capital, funding and liquidity position, strategic objectives and the risk management framework, the Company has put in place a risk appetite statement which clearly defines the Company's risk appetite and the strategic risk objectives.

Risk Appetite Criteria	Appetite	Regulatory Limit	Actual as at 31st March 2020	Actual as at 31st March 2019
<b>Credit Risk</b>				
<b>Loans and Advances</b>				
Non-Performing Loans ratio – Gross	< 3.0%		3.9%	2.7%
Non-Performing Loans ratio – Net	< 1.0%		-0.1%	-0.2%
Minimum safety margin for Gold Loans (<1 year products disbursements)	8.0%		19.5%	13.8%
Maximum exposure to single borrower-secured - Individual	5.0%	15% of capital funds	1.8%	1.8%
Maximum exposure to single borrower-secured - Group	10.0%	20% of capital funds	1.8%	1.8%
Maximum exposure to aggregate unsecured financing	4.0%	5% of capital funds	1.1%	1.6%
Maximum exposure to single borrower-unsecured – Individual	0.5%	1% of Core capital	0.1%	0.1%
<b>Liquidity Risk</b>				
Liquid assets ratio	12.0%	10.2%	15.6%	15.5%
Deposits renewal ratio	75.0%		87.9%	77.9%
Maximum single depositor/group exposure	5.0% of total deposits		2.7%	1.2%
Maximum exposure to bulk deposits (Over Rs.50 mn)	20.0% of total deposits		20.2%	19.3%
<b>Capital Adequacy</b>				
Core capital ratio	9.0%	7.0%	19.0%	15.5%
Total risk weighted capital ratio	15.0%	11.0%	20.7%	17.7%
Capital funds to deposits ratio	12.0%	10.0%	27.8%	24.9%
<b>Market Risk (Increase in market interest rates on rate sensitive liabilities)</b>				
% Impact on net interest income from 100 bps shock	5.0%		3.5%	3.8%
% Impact on net interest income from 200 bps shock	10.0%		7.0%	7.7%
% Impact on net interest income from 300 bps shock	15.0%		10.5%	11.5%
% Impact on net interest income from 400 bps shock	20.0%		14.0%	15.3%

# INTEGRATED RISK MANAGEMENT REPORT

## STRESS TESTING

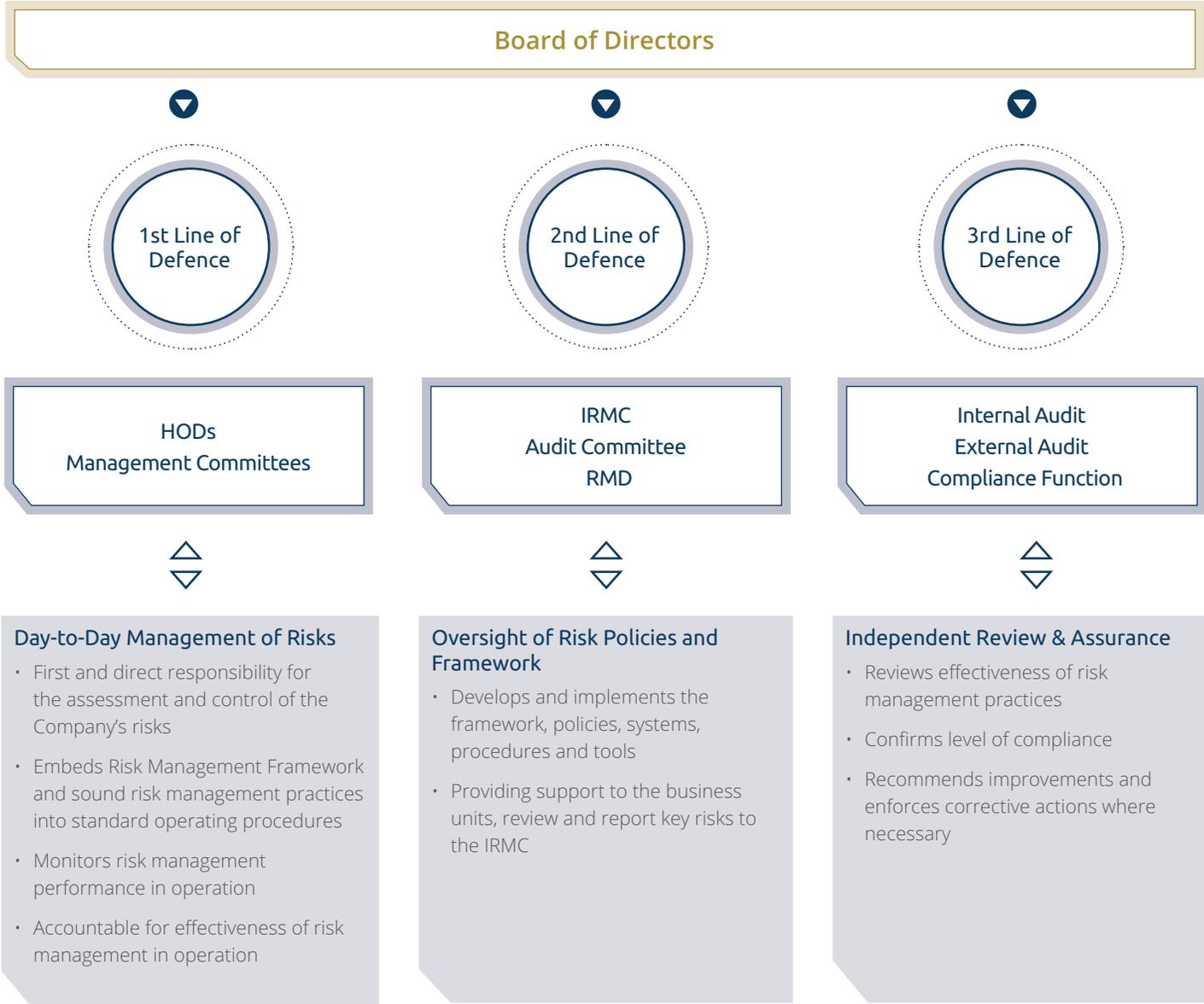
Stress testing is an integral part of the Company's risk management framework, which assess the vulnerability and movements in key financial variables, which could impact the Company's profitability, liquidity and capital adequacy and results are designed to indicate the resilience of the Company to face potential and future risks.

The Company's stress testing framework has been developed based on the guidelines on stress testing by CBSL for Licensed Commercial Banks and the Basel Committee. The identification of key macroeconomic factors impacting the Company, methodologies for assessing stress conditions and the feedback from key business drivers form critical areas of the stress testing framework.

The stress tests gauge the impact of adverse scenarios on the Company's Capital Adequacy Ratio (CAR) which is impacted by the change in P&L.

## RISK GOVERNANCE FRAMEWORK

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



## 1ST LINE OF DEFENCE

### Asset and Liability Committee

The Asset and Liability Committee (ALCO) is chaired by the Managing Director and comprises Executive Directors, Head of Treasury, Head of Deposits, Head of Finance and Head of Risk Management. The Committee meets regularly to monitor and manage the assets and liabilities of the Company and also the overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements.

### Credit Committee

The Credit Committee comprises the Managing Director, Executive Directors, Head of Finance and Head of Risk Management. Sanctioning of large exposures are primarily handled by the Credit Committee. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The Committee also periodically reviews the Company's credit policy and lending guidelines to different business segments, in line with prevailing market conditions and industry dynamics.

### Information Technology Steering Committee

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

It is the responsibility of ITSC to ensure that the Company's Information Technology needs and objectives are being adequately addressed. The Committee helps to ensure that IT strategy is aligned with the strategic goals of the Company whilst its topmost mandate is to find and align business solutions that may leverage technology. ITSC also looks in to information security related matters on a regular basis.

### Sustainability Committee

The Sustainability Committee is responsible for the formulation and the review of the Company's CSR policy and ensuring that CSR activities are integrated into the

Company's operations. Keeping in line with the Company's triple bottom line focus, the Committee is tasked with the responsibility of steering the Company's CSR activities aimed at uplifting the communities we work with and preserving the environment. The Committee is headed by the Head of Marketing, reflecting the close links of our social and environmental initiatives and brand visibility which demonstrates how the CSR strategy is integrated into our business strategy.

## 2ND LINE OF DEFENCE

### Integrated Risk Management Committee (IRMC) - Board Sub Committee

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

### Audit Committee - Board Sub Committee

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

### Risk Management Department (RMD)

The Risk Management Department provides an independent oversight function, acting as a second line of defence

within the organisation. RMD is tasked with the responsibility of assisting the business units and functional departments in identifying and managing the risks related to their respective operations and processes and independently monitoring the status and effectiveness of the mitigation action plans. RMD is headed by the National Manager – Risk Management who directly reports to the Managing Director and has a functional reporting to the Board of Directors and the IRMC.

The RMD maintains a comprehensive database of risks that are being identified in collaboration with risk owners along with mitigation action plans and timelines. In addition to the risk database, the RMD maintains records of department wise risks which are being reviewed and updated on a quarterly basis.

## 3RD LINE OF DEFENCE

### Internal Audit

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

### Compliance Function

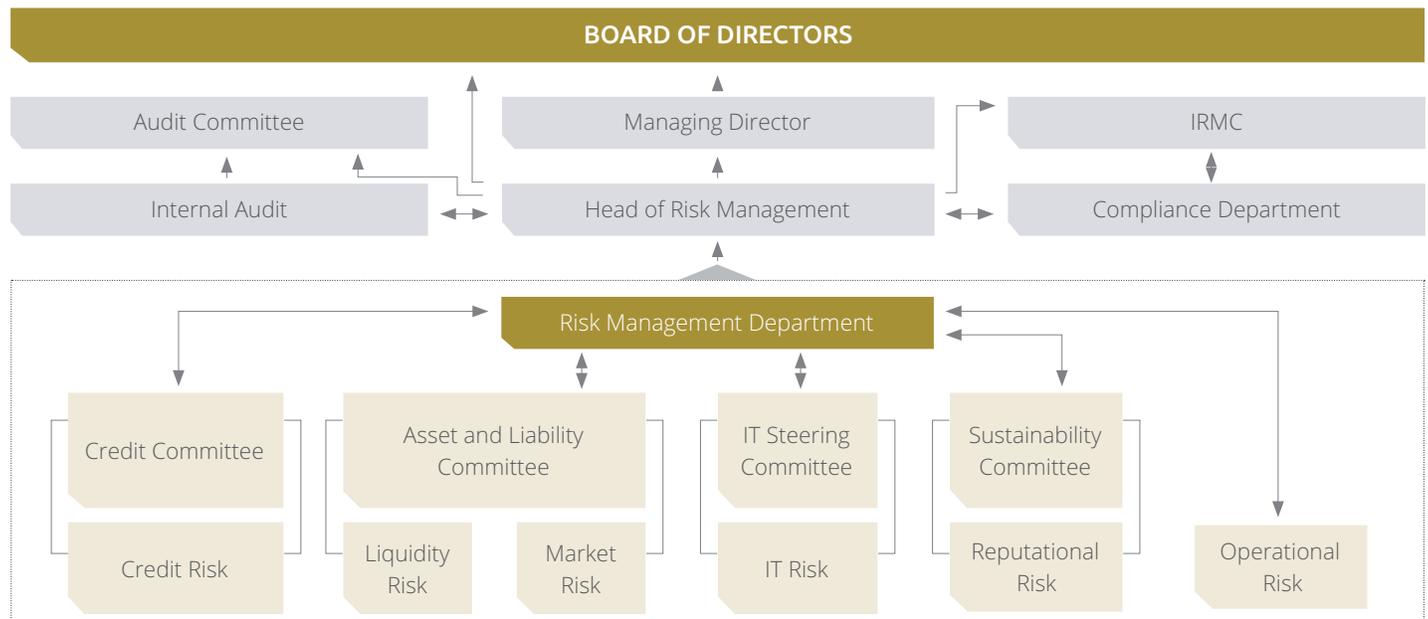
Compliance function is responsible for ensuring that the Company is in compliance with all applicable laws, regulations and supervisory directions. It complements the RMD by providing necessary risk related information on legal and regulatory risk areas.

### External Audit

External Audit is responsible for adding credibility and reliability to the Company's financial reports by giving an independent opinion on the report. In addition, as part of their annual audit exercise, external auditors also perform an audit on the Company's adequacy of risk management controls, corporate governance and compliance.

# INTEGRATED RISK MANAGEMENT REPORT

## RISK GOVERNANCE FRAMEWORK



### CREDIT RISK

**Risk Level**

**Moderate**

**Trend**

---

**Objective**

Safeguard the asset quality and reduce exposures to high risk segments

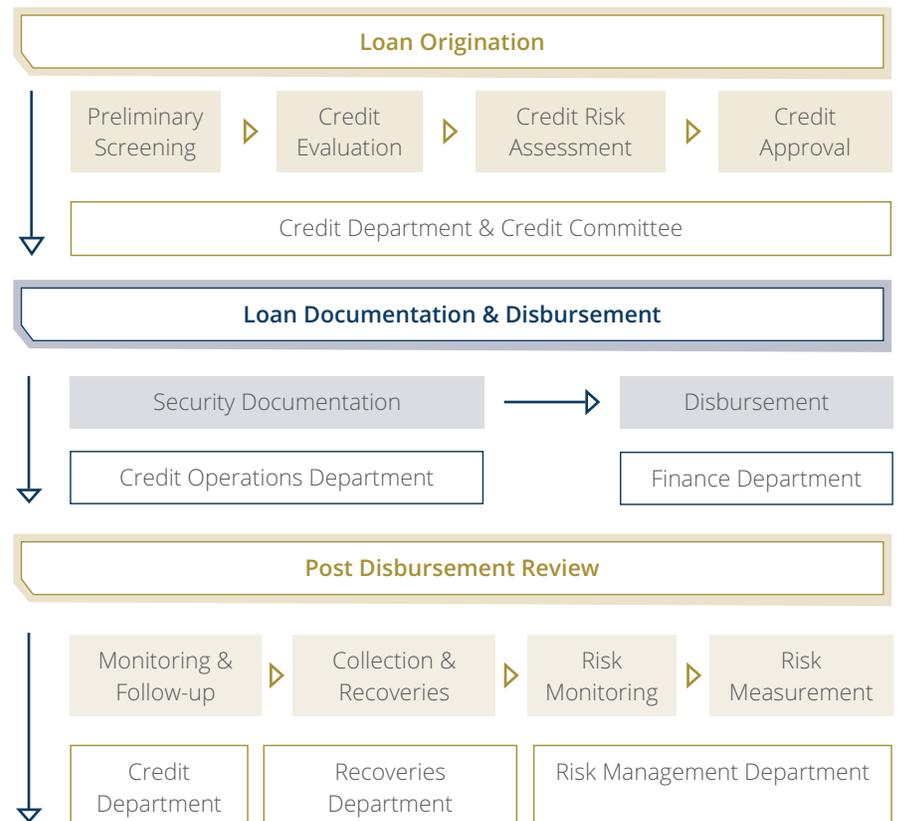
**Credit risk** constitutes the Company's largest risk exposure category. This can be broadly categorised into three types; default, concentration and settlement risk. When it comes to financing business, settlement risk also falls under the category of credit default risk.

The Company has a well-structured credit process that spells out the guidelines and parameters within which the Company's credit decision process takes place. For managing risks arising from counterparty investments, the Company has formulated a comprehensive policy for treasury investments.

The Company's credit approval process plays the most vital role in credit risk management on a day-to-day basis. The process defines the principles about delegation of lending authority, client selection, due diligence in line with the Company's risk appetite.

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

### CREDIT PROCESS



## Loan Origination

The credit process starts with the preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. An investigation procedure takes place to assess physical verification of moveable and immovable assets, documentary evidence, references, income sources and the past payment history. This enables the Company to assess the default risk of the borrower.

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

## Loan Documentation and Disbursement

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

## Post Disbursement Review

Initial monitoring and follow up activities are carried out by the Credit Department. Once a loan is overdue for more than the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. RMD reviews asset quality performance regularly. Delinquencies are handled early with effective follow ups and reminders. Swift recovery actions are taken against critical exposures.

## Management of Large Exposures

RMD takes an extra effort in closely monitoring large borrower exposures and aggregate exposure limits to manage the concentration risk whilst ensuring compliance to regulatory thresholds. RMD conducts an internal rating of significant exposures measured across 5 criteria listed below.

1. Individual/Group Exposure against capital funds
2. Loan to Value (LTV) ratio
3. Repayment history and performance
4. Liquidity and recoverability of pledged collaterals
5. Length of relationship with the Company

## Impact of COVID -19

The outbreak of COVID-19 has caused disruptions to business and economic activities and uncertainty to the global and local economy. The subsequent adverse economic effects have caused financial stress among our retail, SME and corporate clients which may lead to elevated levels of credit risk in the short term. Therefore the Company is currently in the process of providing relief for the affected businesses and individuals in line with the directions issued by the CBSL. The relief measures include deferment of repayment terms of credit facilities, offering concessionary

rates of interest to eligible loan products and waiving off certain fees and charges. The Management of the Company is in the process of finalising the moratorium applications and the recovery efforts have been strengthened on the customers who were not affected by Covid-19 and not eligible for CBSL debt moratoriums.

As a measure of prudence, the Company considered the portfolio delinquency state, probability of default and loss given default as at 31st March 2020 for the impairment provisioning which partially reflects the impact of COVID-19. As a result the Company's NPL ratio increased to 3.9% exceeding the risk appetite level of 3.0% by the end of FY 2019/20 from 2.7% reported in the previous financial year.

During the early stages of the global pandemic the Management of the Company conducted an in-depth analysis on the probable industries which would get affected and the scale of impact it may have on the Company's lending portfolio in terms of concentration risk. The outset of COVID-19 in Sri Lanka in mid-March 2020 stressed the importance of diversification of the Company's loan book across a wide range of industries which in turn would ensure the resilience of the Company in an economic shock of this nature. The Company is comfortable with the existing composition of its loan book and continuous monitoring activities will be carried out to avoid accumulation of exposures to risky economic segments.

# INTEGRATED RISK MANAGEMENT REPORT

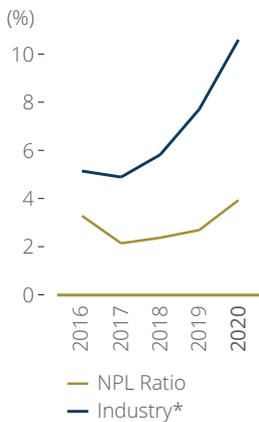
## CREDIT RISK MANAGEMENT

### Default Risk - Moderate

Risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Company's loans and advances to customers.

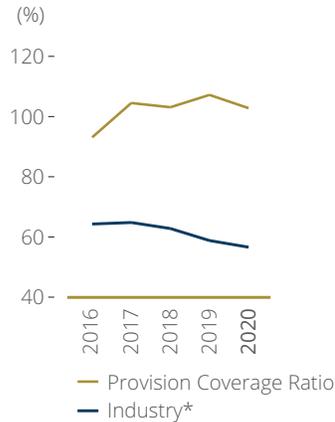
### Assessment

#### GROSS NPL RATIO



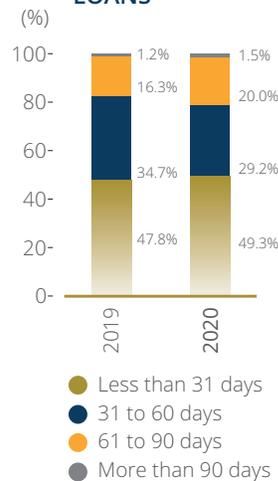
\*Industry is comprised of LFCs and SLCs which represents data as at 31st December 2019  
(Source: CBSL)

#### PROVISION COVERAGE RATIO

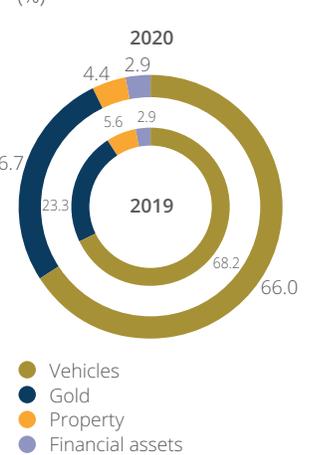


\*Industry is comprised of LFCs and SLCs which represents data as at 31st December 2019  
(Source: CBSL)

#### AGE ANALYSIS OF PAST DUE LOANS



#### MAIN TYPES OF COLLATERALS



### Risk Mitigation Strategies & Objectives

Strategy	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

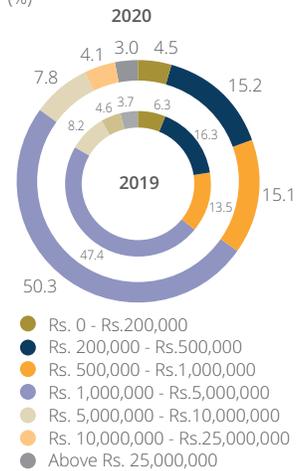
## CREDIT RISK MANAGEMENT

### Concentration Risk – Low

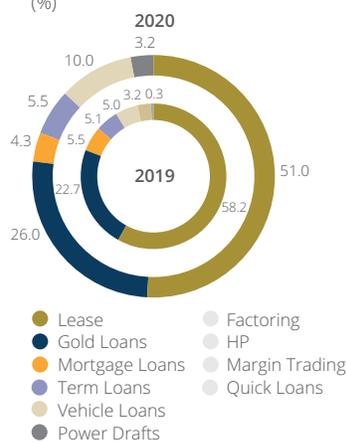
Concentration risk arises from uneven distribution of counterparties, business sectors or geographical regions.

#### Assessment

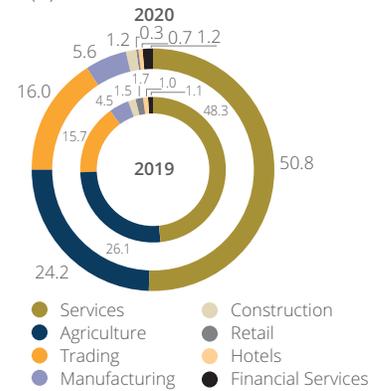
##### EXPOSURE BY CUSTOMER SIZE (%)



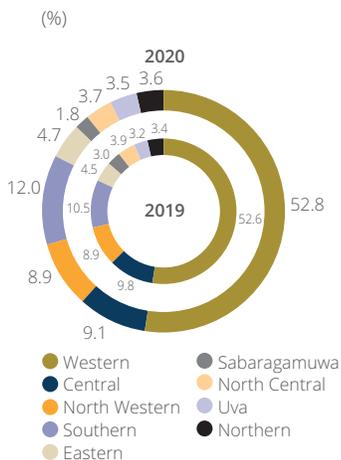
##### PRODUCT CONCENTRATION (%)



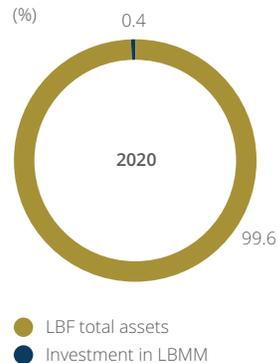
##### INDUSTRY CONCENTRATION (%)



##### GEOGRAPHICAL CONCENTRATION (%)



##### EXPOSURE TO CROSS BORDER ASSETS (%)



### Risk Mitigation Strategies & Objectives

Strategy	Objective
Setting of prudential limits on maximum exposures which are reviewed periodically	Diversification
Strict adherence to single borrower limits defined by Finance Companies Direction No. 4 of 2006 issued by the Central Bank of Sri Lanka	Diversification
Board-approved limits for maximum accommodations for a single counterparty	Diversification
Regular monitoring of exposure to single counterparty, single collateral type, industry and geographic area	Mitigation
Continuously monitoring macroeconomic and market developments of Myanmar while maintaining frequent dialogue	Mitigation

# INTEGRATED RISK MANAGEMENT REPORT

## LIQUIDITY RISK

**Risk Level**



**Moderate**

**Trend**



---

**Objective**

Safeguard against funding constraints that prevent growth and meet demands of depositors/investors

In the context of a financial institution, liquidity risk arises primarily due to the mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; market liquidity and funding liquidity.

**Market liquidity** risk is the inability to easily exit a position. Company's market liquidity risk is low if assets can be liquidated without moving the price too much.

**Funding liquidity** risk means the Company's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality at least perceived to be deteriorating but also due to financial conditions as a whole are deteriorating.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the company regularly monitors liquidity position and maintains an adequate buffer of liquid assets. The Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management.

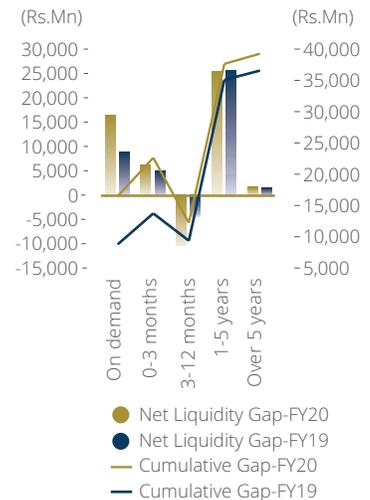
## Impact of COVID-19

With the onset of the COVID-19 pandemic in late March of this year, the Company introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Company is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

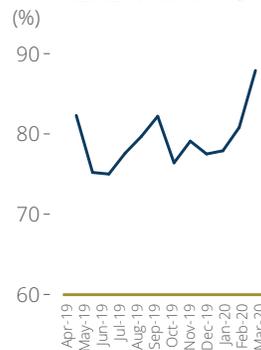
## LIQUIDITY RISK MANAGEMENT

### Assessment

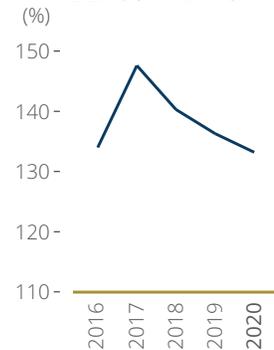
#### NET LIQUIDITY GAP BASED ON CONTRACTUAL MATURITIES



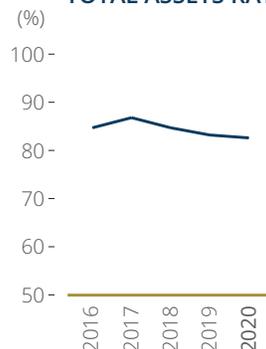
#### DEPOSIT RENEWAL RATIO



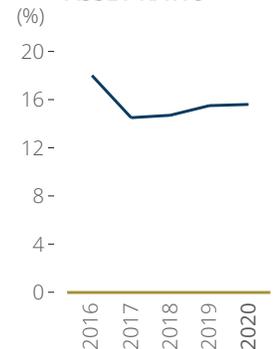
#### LOANS TO DEPOSIT RATIO



#### NET LOANS TO TOTAL ASSETS RATIO

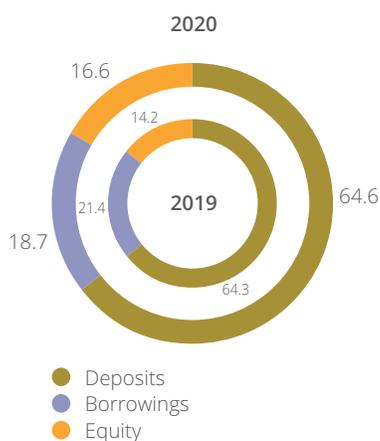


#### STATUTORY LIQUID ASSET RATIO



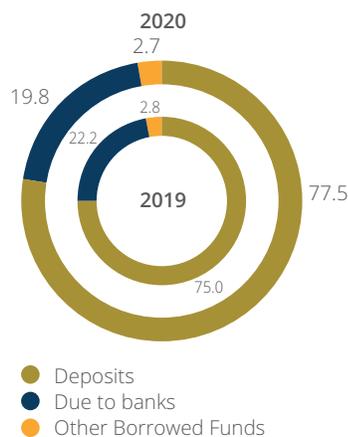
### FUNDING MIX

(%)



### INTEREST BEARING LIABILITIES MIX

(%)



### Statutory Liquid Assets Ratio - 15.6%

Scenario	1	2	3
Magnitude of Shock	2.5%	5.0%	10.0%
Stressed Statutory Liquid Asset Ratio	13.5%	11.5%	7.4%

Stressed scenario – Sudden fall in deposit base impacting statutory liquid asset ratio

### Risk Mitigation Strategies & Objectives

Strategy	Objective
Proper coordination of funding activities between the Treasury and the deposit mobilisation units for optimum liquidity management	Diversification
Strengthening the contingency funding arrangements using standby facilities	Mitigation
Increasing the exposure to shorter duration assets to minimise maturity mismatches. Eg. gold-backed loans, factoring, daily loans, power drafts	Mitigation
Maintaining deposit renewal ratio above the internal threshold of 75%	Prevention
Promoting long-term deposits to improve asset liability matching	Diversification
Continuous analysis and monitoring of liquidity positions and maintaining an adequate buffer of liquid assets	Prevention

### MARKET RISK

#### Risk Level



Moderate

#### Trend



#### Objective

Safeguard against adverse movement of market factors arising out of price sensitivities of funding sources, investments, commodity prices

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk and commodity risk have been identified as the most critical risks given the Company's business profile. In managing the market risk, 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.

#### Impact from COVID-19

The onset of COVID -19 pandemic has created elevated levels of volatilities to all market driven variables, impact of which is yet to be analysed given the evolving nature of the pandemic-related economic conditions.

# INTEGRATED RISK MANAGEMENT REPORT

## MARKET RISK MANAGEMENT

### Interest Rate Risk - Medium

Interest rate risk is a key component of the market risk exposure of the Company arising from adverse and unanticipated movements in future interest rates that could impact core business activities; granting of credit facilities, accepting deposits and issuing debt instruments, leading to fluctuations in earnings.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios.

Excessive movements in market interest rate could bring severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

- Re-pricing risk arising from a fixed rate borrowing portfolio where re-pricing frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

Interest rate risk is managed principally through minimising interest rate sensitive asset and liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

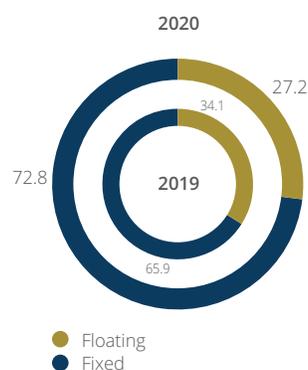
### Assessment

Impact on the Company's net interest income due to fluctuations in market interest rates is closely monitored on an on-going basis. The Company uses the interest rate sensitivity of its assets and liabilities for modelling the financial impact. The table below illustrates the impact on net interest income from different interest rate scenarios.

#### Stress Test on NII from Parallel Interest Rate Shocks

Annual Impact on NII	2020		2019	
	Parallel Increase Rs.'000	Parallel Decrease Rs.'000	Parallel Increase Rs.'000	Parallel Decrease Rs.'000
1%	107,361	(107,361)	45,107	(45,107)
2%	214,722	(214,722)	90,213	(90,213)
3%	322,084	(322,084)	135,320	(135,320)

#### BORROWINGS - FIXED TO FLOATING MIX (%)



### Risk Mitigation Strategies & Objectives

Strategy	Objective
ALCO closely monitors the interest rate movements and issues directions to lending and borrowing units on interest rate strategies	Prevention
Making timely adjustments to the proportion of fixed rate borrowings in the funding mix	Diversification
Promoting lending products with shorter re-pricing cycle to reduce interest rate sensitive gaps	Mitigation
Exploring opportunities to hedge the interest rate risk synthetically using interest rate swaps	Transfer
Negotiating interest rate caps on new borrowings	Mitigation
RMD closely monitors the impact on Net Interest Income (NII) caused by market interest rate shocks on rate sensitive liabilities	Mitigation

## MARKET RISK MANAGEMENT

### 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 the gold loans business to the Company's overall lending operation, fluctuations in gold prices could have an adverse impact on earnings. Gold price risk could arise from either of adverse movements in the world prices, exchange rates, basis risk between local and world prices. Gold price fluctuations lead to market risk which is the primary source of credit risk associated with this product.

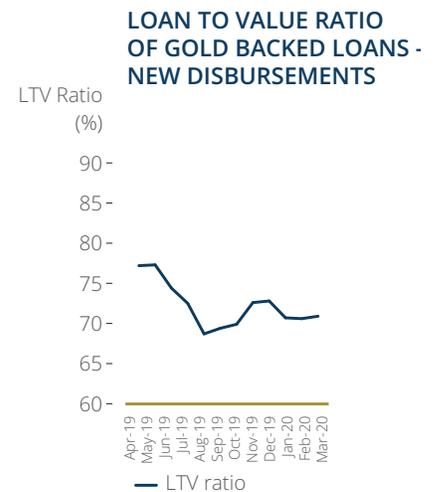
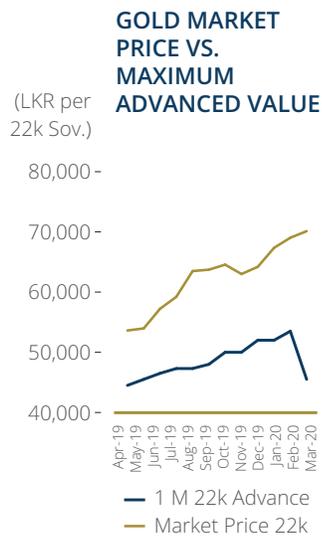
#### Assessment

The Company has adopted a dynamic lending strategy to determine the Loan to Value ratio based on the global gold prices. Advance offered per gold sovereign is constantly adjusted in line with the gold market prices.

#### Value at Risk (VaR) Analysis

The Company uses the VaR statistical model approach to estimate the potential loss/impairment provision arising from adverse price movements of gold under global market conditions. VaR is calculated based on Exponentially Weighted Moving Average (EWMA) method by assigning greater weight on the historical gold price data in the last 12 months. This method is used to place greater weight on recent price changes while diminishing the weight on older price changes.

VaR arising from global gold price fluctuations is calculated for both 1 day and 1 month periods, at a 99% confidence level and the increase in impairment charge over and above current impairment is shown in the table.



#### Stress Test on Impairment Charge from Scenarios of Gold Price Shocks Derived from VaR Model

##### EWMA VaR at Price USD 1,592 (as at 31st March 2020)

Time Horizon	Confidence Level	Price at 99% VaR USD	Impairment (Rs.)	Impairment Increase (Rs.)
Daily	99%	1,554	6,384	4,055
Monthly	99%	1,413	22,879	20,551

#### Risk Mitigation Strategies & Objectives

Strategy	Objective
Shorter product life: The Company, as a credit risk management strategy lends for shorter periods allowing it to initiate its recovery process faster	Mitigation
Frequent revisions to the advance offered per gold sovereign: The Company practices a process of revising advance offered per sovereign to reflect market value fluctuations to maintain the desired loan to value ratio	Mitigation
The Company is in the process of exploring opportunities available for hedging the commodity price risk	Transfer

# INTEGRATED RISK MANAGEMENT REPORT

## MARKET RISK MANAGEMENT

### Exchange Rate Risk – Moderate

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Exchange rate risk could materialise as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk. Company is exposed to two types of risks caused by currency volatility.

**Transaction risk** – This risk arises whenever the Company has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. This type of exposure is short-term to medium-term in nature.

**Translation risk** – This exposure arises from the effect of currency fluctuations on a company's consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term.

### Assessment

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

### Risk Mitigation Strategies & Objectives

Strategy	Objective
Managing the risk arising from the USD/LKR exchange rate volatility through maintaining an adequate safety margin on gold advances	Mitigation

## EQUITY PRICE RISK – LOW

This is the risk of loss based on market changes in the value of equity investments. Although the Company's exposure to equity price risk is negligible, mark-to-market calculations are conducted monthly on Held For Trading and Available For Sale portfolios.

## OPERATIONAL RISK

**Risk Level**



Low

**Trend**



---

**Objective**

Improve the reliability and effectiveness of business operations and enhance organisational capability in ensuring safety of staff

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (Basel II definition). Operational risk may result in a financial loss and a reputation risk to the Company. Company broadly identifies, assesses and aims to mitigate the following operational risk categories.

1. Internal fraud
2. External fraud
3. Work place safety
4. Business disruptions
5. Process risk
6. Damage to physical assets

## OPERATIONAL RISK MANAGEMENT

### 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 Mitigation Strategies & Objectives

Strategy	Objective
Segregation of duties, well-defined demarcated responsibilities for employees, use of procedural manuals, dual controls	Prevention
Periodic internal audits are conducted covering the entire branch network . The scope of the audit includes the review of adequacy and application of accounting, financial and operational controls	Prevention
Transferring insurable risk by obtaining insurance policies	Transfer
Installing access controls to identified high impact areas	Prevention
Staff training on technical aspects to comply with security regulations	Prevention
Assessing the adequacy and effectiveness of the insurance coverage periodically	Prevention
Conducting post completion audits after a successful implementation of system change/ modification	Mitigation
Disaster Recovery (DR) planning and Business Continuity Planning (BCP)	Mitigation
Obtaining ISO 27001 certification to ensure information system security	Prevention
Use of exception reports and data analytics for detecting trends and unusual transactions	Prevention

## BUSINESS CONTINUITY MANAGEMENT

LBF Business Continuity Management System (BCMS) is established to achieve operational resiliency for the Company. BCMS framework of the Company encompasses business continuity, disaster recovery, crisis management, incident management, emergency management and contingency planning activities. This will ensure the Company's ability to serve its stakeholders with minimum disruptions in the occurrence of an unforeseen event to the business activities arising through manmade, natural or technical disasters.

The BCM Steering Committee which is comprised of key staff members, plays an integral part of the BCM program. BCM Steering committee enables the companywide roll out of the BCM and ensure the alignment of business goals with the BCM goals.

The scope of the BCM includes programme initiation and management, risk evaluation and business impact analysis, developing business continuity strategies, emergency preparedness and response, developing and implementing business continuity plans, awareness building and training, business continuity plan exercise, audit and maintenance, crisis communications and coordination with external agencies.

A BCP drill was successfully carried out in July 2019. During the BCP drill, the core and other critical systems were operated from the Disaster Recovery (DR) systems. The BCM Steering Committee had a meeting prior to the lockdown in the country to take proactive measures to ensure the smooth continuation of business operations with minimum disruptions.

## OTHER RISKS

### STRATEGIC RISK

**Risk Level**



Low

**Trend**



---

**Objective**

To minimise risks associated with Company's business strategy, strategic objectives and strategy execution

Strategic risk can be seen as the impact on the Company's earnings or capital, due to poor business policy decisions, improper implementation of business strategies or lack of responsiveness to industry changes. Hence, strategic risk could arise due to internal or external factors.

# INTEGRATED RISK MANAGEMENT REPORT

## STRATEGIC RISK MANAGEMENT

### Assessment

Conducting reviews of pre and post implementation financial performance for every product, project and investment.

### Risk Mitigation Strategies & Objectives

Strategy	Objective
Quarterly budget reviews	Mitigation
Monthly variance analysis on key income and expense items	Mitigation

## REPUTATIONAL RISK

**Risk Level**



Low

**Trend**



---

**Objective**

Safeguard the Company's brand value/ goodwill against adverse internal and external events

Reputational risk arises from an event or behaviour that could adversely impact market 'perception' of the Company's goodwill. As reputation itself is a valuable business asset, the Company takes great care in managing its reputation risk. The exponential growth in channels of communication especially social media increases the risk of exposure to reputational risk given the extent of

freedom allowed to a wider spectrum of stakeholders directly and indirectly associated with the Company's business. As all other types of risks impact reputation risk, efficient management of other risks also forms part of our management of reputational risk.

## REPUTATIONAL RISK MANAGEMENT

### Assessment

- Evaluation of the effectiveness of CSR projects against the stated objectives
- 17 CSR events were carried out during the year incurring a cost of Rs. 22.53 Mn
- Evaluation of the number of customer complaints and types of complaints

### Risk Mitigation Strategies & Objectives

Strategy	Objective
Sustainability Committee to play a key role in conceptualising and monitoring CSR initiatives	Mitigation
Close monitoring of any events which could lead to reputational risk by adopting an early warning system including media reports, social media content, inputs from frontline staff and market survey results	Mitigation
Training employees on work place professionalism, behaviour and educate them on business ethics.	Prevention
Swift and efficient process of resolving customer complaints.	Prevention



# INTEGRATED RISK MANAGEMENT REPORT

## Computation of Total Capital

Item	FY 2019/20 (Rs.'000)	FY 2018/19 (Rs.'000)
Tier I capital	23,105,780	18,502,813
Stated capital	838,282	838,282
Non-cumulative, Non-redeemable Preference Shares		
Reserve fund	6,323,170	5,285,759
Audited retained earnings/(losses)	15,944,328	12,378,772
(Less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit/(losses)	-	-
Adjustments to Tier I capital	380,034	259,557
Goodwill (net)		
Other intangible assets (net)		
Other Comprehensive Income losses	106,231	75,662
Deferred tax assets (net)		
Shortfall of the cumulative impairment to total provisions and interest in suspense		
50% of investment in banking and financial subsidiary companies	260,581	159,500
50% of investment in other banking and financial institutions	13,222	24,396
Shortfall of capital in financial subsidiaries		
SLFRS 9 day one Impact Adjustment		
Tier I Capital (after adjustments)	22,725,746	18,243,256
Tier 2 Capital	2,317,866	2,692,836
Instruments qualified as Tier 2 capital	1,200,000	1,600,000
Revaluation gains		
General provisions /collective impairment allowances	1,117,866	1,092,836
Eligible Tier 2 Capital	2,317,866	2,692,836
Total Adjustments to eligible Tier 2 Capital	273,803	183,895
50% of investment in banking and financial subsidiary companies	260,581	159,500
50% of investment in other banking and financial institutions	13,222	24,396
Eligible Tier 2 Capital after adjustments	2,044,063	2,508,941
Total Capital	24,769,809	20,752,197

## Risk Mitigation Strategies & Objectives

Strategy	Objective
Periodic review of the impact from different lending products on the Risk Weighted Assets and in turn on the capital adequacy ratio for necessary remedial actions using projected balance sheet scenarios	Mitigation

## INFORMATION SECURITY RISK



The Company has identified information as a vital business resource and a key asset to the organisation. Hence, any threat exploiting the vulnerabilities of this valuable and important asset can cause adverse impact to the business operation ranging from simple inconvenience to catastrophic in scale. This includes but not limited to events such as cyber-attacks, breakdowns, failures or interruptions which result in a system down time, frauds and malpractices through errors and manipulations, technological obsolescence and insufficient or ineffective infrastructure to support evolving business needs, falling behind the competitors in terms of the information technology.

Since every aspect of business relies heavily on Information Technology, it has emerged as the backbone and the live-wire of the organisation's operations and innovations. As a result information security risk is recognised as a significant portion of the potential operational risk.

In this context, the Company has recognised information, information systems and technical infrastructure as assets of paramount importance and value to the organisation. Therefore, with the objective of identifying and managing all IT-related risks effectively and efficiently in a consistent manner across the organisation, the Company has rolled out a comprehensive Information Technology Risk Management Framework.

IT risk mitigation methodology involves prioritising, evaluating and implementing the appropriate risk treatment techniques

such as technical, operational and management controls to prevent identified risks exploiting the vulnerabilities. This process is strengthened by the implementation of the Company's Information Security Management System (ISMS), which was established according to the ISO/IEC 27001:2013 standard. With the implementation of ISMS, following information security objectives have been identified:

### ISMS Objectives

- Establish safeguards to protect the company's information/information systems from theft, abuse, misuse and any form of damages.
- Assess and evaluate the established control mechanism and implement corrective and preventive actions.
- Maintain the confidentiality, integrity and availability of information.

The Company first obtained the ISO/IEC 27001 Information Security Standard in 2014 and received recertification in 2019. The Company has continued to demonstrate its commitment towards information security by maintaining certification throughout the years. As part of the IS risk assessment and mitigation methodology, the IS Audit & Compliance Division conducts independent IS risk reviews and audits of new IS developments/modifications whilst carrying out regular system and security audits for each system related functions.

Cyber risk management is key focus areas of IS risk management function in light of heightening threats of cyber-attacks which are continuously to escalating in scale and sophistication. The Company obtains the service from an independent service provider to conduct cyber security related vulnerability assessments and surveys periodically. In addition, as a proactive measure to combat growing external threats, the Company obtains Information Security Operations Centre service from an external service provider with online monitoring system capability.

At present the Company's cyber security strategies include but not limited to evaluating vulnerabilities by conducting regular internal and external security vulnerability assessments covering external and internal security vulnerabilities, comprehensive web application security vulnerability assessment, comprehensive firewall security assessment and wireless network security assessment.

## INFORMATION SECURITY RISK MANAGEMENT

### Assessment

- Conducting information security review meeting with key functional heads.
- Monitoring of system audit trails to identify patterns and anomalies.
- Performing systems audit for every core system module before deploying into production environment.
- Thorough post implementation review following the changes to IT systems or technical infrastructure, to ensure no unintended repercussions have occurred.
- Analysis of information security related incidents to identify the gaps and loopholes in the information system and infrastructure.

### Risk Mitigation Strategies & Objectives

Strategy	Objective
Regular companywide awareness of information security risk management measures currently in pace	Prevention
Strict adherence to documented IT change management process	Prevention
Strengthening of NDAs with vendors by inclusion of information security clause	Prevention
Implementation of disciplinary action procedure for information security violations	Prevention
Promoting clear desk and clear screen policy	Prevention

## LEGAL/REGULATORY RISK



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.

# INTEGRATED RISK MANAGEMENT REPORT

## LEGAL/REGULATORY RISK MANAGEMENT

### 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 Mitigation Strategies & Objectives

Strategy	Objective
Compliance function regularly reviews the Company's compliance with rules, directions and determinations of regulatory bodies	Prevention

## HUMAN RESOURCE RISK

**Risk Level**



**Trend**




---

**Objective**

To ensure the availability of skilled and competent human resources to successfully conduct business operations

Human resource risks are events that prevent employees from fulfilling their responsibilities and thus keep the business from operating at full efficiency. Human resource risks include but are not limited to;

- High employee turnover
- Poor employee management practices
- Unexpected temporary leave
- Management error/incompetence
- Disability (temporary or permanent), death of employee/s

## HUMAN RESOURCE RISK MANAGEMENT

### 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 Mitigation Strategies & Objectives

Strategy	Objective
Training and development to help employees to improve their skills to be better at their current job and prepare for future challenges	Mitigation
Strengthen the process for grievance handling and offer work place counselling	Prevention



We are invested in creating reliable, long-lasting partnerships that reinforce your Company's resilience.

<b>FINANCIAL REPORTS</b>	
Financial Calendar .....	138
Independent Assurance Report to the Board of Directors .....	139
Directors' Responsibility Statement on Internal Control Over Financial Reporting .....	140
Directors' Responsibility for Financial Reporting .....	141
Independent Auditors' Report.....	142
Income Statement .....	146
Statement of Comprehensive Income ....	147
Statement of Financial Position .....	148
Statement of Changes in Equity Company .....	149
Group.....	150
Statement of Cash Flows .....	151
Notes to the Financial Statements.....	153

# Financial Calendar

## 2019/20

Publication of Interim Financial Statements for the quarter ended 31 March 2019	13 May 2019
Authorisation for issue of audited Financial Statements for 2018/19	21 May 2019
Publication of Annual report for the financial year ended 31 March 2019	3 June 2019
Held 46th Annual General Meeting of the company	27 June 2019
Payment of final dividend of Rs. 4.00 per share for the financial year ended 31 March 2019	8 July 2019
Publication of interim Financial Statements for the quarter ended 30 June 2019	30 July 2019
Publication of interim Financial Statements for the quarter ended 30 September 2019	29 October 2019
Publication of interim Financial Statements for the quarter ended 31 December 2019	22 January 2020

## 2020/21

Publication of Interim Financial Statements for the quarter ended 31 March 2020	28 May 2020
Publication of Annual report for the financial year ended 31 March 2020	8 July 2020
47th Annual General Meeting of the Company	30 July 2020

Submission of the Interim Financial Statements in terms of the Rule 7.4 of the Colombo Stock Exchange (CSE)	2019/20 Submitted on	2020/21 to be Submitted on or before
For the 3 months ended 30 June (unaudited)	30 July 2019	15 August 2020
For the 3 and 6 months ended 30 September (unaudited)	29 October 2019	15 November 2020
For the 3 and 9 months ended 31 December (unaudited)	22 January 2020	15 February 2021
For the 3 months and year ended 31 March (unaudited)	28 May 2020	30 May 2021

Publication of the six month Financial Statements as per requirements of the Central Bank of Sri Lanka	2019/20 Published in News Papers on			2020/21 to be Published on or before
	English	Sinhala	Tamil	
For the year ended 31 March (audited)	18 June 2019	18 June 2019	18 June 2019	30 June 2020
For the 6 months ended 30 September (unaudited)	28 November 2019	28 November 2019	28 November 2019	30 November 2020

# Independent Assurance Report to the Board of Directors



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

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

## TO THE BOARD OF DIRECTORS OF L B FINANCE PLC

### Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of L B Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31 March 2020.

### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

### Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

22 June 2020

Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA 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 Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

# 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 Direction No. 06 of 2013, the Board of Directors ("Board") presents this report on internal control over financial reporting.

The Board has overall responsibility for ensuring the adequacy and effectiveness of L B Finance PLC's ("Company") internal control over financial reporting. The Company's system of internal controls is primarily designed towards managing the Company's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Company. We note that the system of internal controls stipulated can only provide reasonable but not absolute assurance against material misstatement of financial information and records or against financial losses or frauds.

In light of the above the Board has established a continuous process of identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal control over financial reporting especially when there are changes to the 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 is adequate to provide reasonable assurance regarding the reliability of financial reporting. This ensures that the preparation of the financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management is tasked with assisting the Board in the implementation of the policies and procedures on risk and control, by identifying and assessing the risks faced. It also provides inputs on design, operation and monitoring of suitable internal control over financial reporting to mitigate and control these risks.

## Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system of financial reporting

The processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- The Board has established specialised sub-committees to assist in ensuring the effectiveness of the Company's day-to-day operations and to make sure that all such operations are performed in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- Policies / charters / procedures are in place covering functional areas of the Company and these are recommended by the Board-appointed Committees and are approved by the Board. All policies, charters and procedures are regularly reviewed and approved by the Board.
- The Internal Audit Department of the Company monitors compliance with policies and procedures and their suitability of design and effectiveness on an ongoing basis. Statistical verification procedures are used and significant findings of non-compliance are highlighted. The annual audit plan is reviewed and approved by the Board Audit Committee. Branches and service departments are audited to provide an independent and objective report on operations and performance. Additionally, KPMG Sri Lanka provides independent and objective assessment thereof. The scope, quality and reports of internal audits are reviewed by the Board Audit Committee at its monthly meetings and refinements are applied wherever necessary.
- Overall, the Board Audit Committee of the Company reviews internal control issues identified by the Internal Audit Department, the External Auditor, regulatory authorities and the management, and evaluates the adequacy and effectiveness of the risk management and internal control systems.

- The Company adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure. Financial reporting and management information processes will be further strengthened by constant monitoring and adaptation to market realities. Also Company adopted Sri Lanka Accounting Standards SLFRS 16 'Leases' which became effective for financial reporting periods beginning on or after 1 April 2019.

## CONFIRMATION

Based on the above processes, the Board affirms 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 the regulatory requirements of the Central Bank of Sri Lanka.

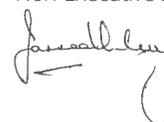
## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors, Messrs. Ernst & Young, have reviewed the above Directors' Statement on Internal Control over Financial Reporting included in the Company's Annual Report for the year ended 31st March 2020. They have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Company. Their report on the statement of internal control over financial reporting is given on page 139 of this annual report.

By order of the Board,



Mrs. Yogadinusha Bhaskaran  
Non-Executive Director



J A S Sumith Adhithetty  
Managing Director

22 June 2020

# Directors' Responsibility for Financial Reporting

The following statement sets out responsibility of the Directors in relation to the Financial Statements of the Company and its Subsidiary prepared in accordance with the provisions of the Companies Act No. 07 of 2007.

The responsibility of the Independent Auditor in relation to the Financial Statements is set out in the Report of the Auditors given on pages 142 to 145 of the Annual Report.

As per the provisions of sections 151, 152(1) and (2) and 153(1) and (2) 150 (1) of the Companies Act No. 07 of 2007, the Directors are required to prepare Financial Statements for each financial year, which should give a true and fair view of the state of affairs of the Company and its Subsidiary as at the reporting date and its profit or loss for the financial year then ended, ensure that they are completed within six months or such extended period as may be determined by the Registrar General of Companies, certified by the person responsible for the preparation of the Financial Statements that it is in compliance with the said Companies Act and dated and signed on behalf of the Board by two Directors of the Company.

In terms of section 166(1) read together with sections 168(1)(b) and (c) and section 167(1) of the Companies Act, the Directors shall cause a copy of the aforesaid Financial Statements together with the annual report of the Board of Directors of the Company prepared as per section 166(1) of the Companies Act to be sent to every shareholder not less than fifteen working days before the date fixed for holding the Annual General Meeting.

In preparing the Financial Statements, the Directors are responsible to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and all applicable accounting standards have been complied with.

The Directors are also required to ensure that the Company and its Subsidiary have adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Companies within the Group maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and the Subsidiary.

Financial Statements prepared and presented in this report have been prepared based on Sri Lanka Accounting Standards (SLFRSs/LKASs) and are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year, which is primarily handled through the Audit Committee and the Integrated Risk Management Committee as set out in their Reports that appear on pages 110 to 111 and 112 to 113 respectively.

The Directors have taken appropriate steps to ensure that the Company and its Subsidiary maintain proper books of accounts and the financial reporting system is directly reviewed by the Directors at their regular meetings and also through the Board Audit Committee.

The Board of Directors also approves the interim Financial Statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

The Financial Statements of the Company and the Subsidiary have been certified by the AGM - Finance of the Company, the officer responsible for their preparation as required by section 152(1)(b) and they have also been signed by two Directors of the Company as required by section 152(1)(c) of the Companies Act.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities, which were due and payable by the Company and the Subsidiary as at the reporting date have been paid or where relevant, provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board  
L B Finance PLC



P W Corporate Secretarial (Pvt) Ltd  
Company Secretaries

22 June 2020

# Independent Auditors' Report



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

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

## TO THE SHAREHOLDERS OF L B FINANCE PLC

### Report on the audit of the consolidated financial statements

#### Opinion

We have audited the financial statements of L B Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 2020, income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2020, and of their financial

performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most

significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA 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 Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Impairment allowance for loans &amp; receivables and lease rentals receivable &amp; stock out on hire.</b></p> <p>We considered the impairment allowance for loans &amp; receivables and lease rentals receivable &amp; stock out on hire as a key audit matter. Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. Probable impacts of COVID -19 outbreak on the economically impacted customers and related government relief measures on the key assumptions, the higher level of estimation uncertainty involved, and materiality of the amounts reported in the Group's financial statements, underpinned our basis for considering it as a Key Audit Matter.</p> <p>Loans &amp; receivables and lease rentals receivable &amp; stock out on hire amounted to Rs. 58,239,254 (Rs. '000) and Rs. 60,626,670 (Rs. '000) after deducting an impairment allowance of Rs. 2,383,038 (Rs. '000) and 2,908,033 (Rs. '000) respectively. These collectively contributed 82% to the Group's total assets.</p> <p>The Note 4.18 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation.</p>	<p>We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; these included the following procedures</p> <ul style="list-style-type: none"> <li>• We evaluated the design effectiveness of controls over impairment allowance, in the light of the requirements in SLFRS 9, focusing on the oversight, review and approval of impairment policies by the board audit committee and management.</li> <li>• We assessed whether the Group has applied a sufficiently rigorous criteria to identify specific credit – impaired balances.</li> <li>• We evaluated the model used to calculate impairment allowance to assess its appropriateness.</li> <li>• We assessed the completeness and relevance of the underlying information used in the impairment calculations by agreeing details to source documents and information in IT systems; Our assessment included evaluating whether the underlying historical information was up to the reporting date.</li> <li>• We rechecked the underlying calculations.</li> <li>• We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios.</li> <li>• We assessed the adequacy of the related financial statement disclosures as set out in note(s), 4.16 and 4.17 of the financial statements</li> </ul>
<p><b>Management's assessment of possible effects of COVID -19 outbreak on the nature and extent of risks arising from financial instruments and related disclosures.</b></p> <p>Management has assessed the possible impacts of the evolving COVID-19 outbreak on, nature and extent of risks arising from financial instruments and related financial statement disclosures are made considering the best available information up to the date of assessment, as more fully described in section 5 of the financial statements.</p> <p>We considered such management's assessment and related disclosures as a key audit matter, considering nature of business and use of significant management judgments and estimates considering future events and circumstances.</p>	<p>Our audit procedures included the following;</p> <ul style="list-style-type: none"> <li>• We gained an understanding of management's assessment of the possible impacts of the COVID-19 outbreak on the nature and extent of risks arising from financial instruments and developing related disclosures of the Group.</li> <li>• We assessed the adequacy of qualitative disclosures made, in note(s) 5.2, 5.3 &amp; 5.6 to the financial statements focusing on credit risk and liquidity risk in the light of the objective of SLFRS 7.</li> <li>• In relation to significant judgments and estimates underpinning such disclosures, we assessed the reasonableness of those key assumptions considering related market information and internal decisions made by the Group.</li> </ul>

# Independent Auditors' Report

## Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditors' report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

opinion on the effectiveness of the internal controls of the Company and the Group.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings,

including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is 1884.



22 June 2020  
Colombo

# SECTION 01

## Income Statement

Year ended 31 March	Note	Page No.	Company			Group		
			2020	2019	Change	2020	2019	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Income</b>	4.1.1	163	31,222,860	29,278,024	7	31,359,418	29,342,212	7
Interest Income	4.1.2	163	29,160,292	27,363,768	7	29,297,103	27,420,842	7
Less: Interest Expenses	4.1.6	164	13,615,391	12,951,323	5	13,631,371	12,953,155	5
<b>Net Interest Income</b>	4.1.8	165	15,544,901	14,412,445	8	15,665,732	14,467,687	8
Fee and Commission Income	4.2	165	1,941,626	1,782,072	9	1,950,180	1,786,919	9
Net Trading Income	4.3	165	(2,099)	(2,558)	(18)	(2,099)	(2,558)	(18)
Other Operating Income	4.4	166	123,041	134,742	(9)	114,234	137,009	(17)
<b>Total Operating Income</b>			17,607,469	16,326,701	8	17,728,047	16,389,057	8
Less: Impairment Charges and Other Losses	4.5	166	1,831,057	983,154	86	1,856,495	986,892	88
<b>Net Operating Income</b>			15,776,412	15,343,547	3	15,871,552	15,402,165	3
<b>Less: Operating Expenses</b>								
Personnel Expenses	4.6	170	3,005,189	2,693,563	12	3,034,198	2,707,937	12
Depreciation of Property, Plant and Equipment	4.23	213	697,508	417,889	67	698,639	418,438	67
Amortisation of Intangible Assets	4.24	220	15,882	17,487	(9)	18,125	18,492	(2)
Other Operating Expenses	4.7	171	2,168,986	2,458,340	(12)	2,188,842	2,468,485	(11)
<b>Total Operating Expenses</b>			5,887,565	5,587,279	5	5,939,804	5,613,352	6
<b>Operating Profit before Tax on Financial Services</b>			9,888,847	9,756,268	1	9,931,748	9,788,813	1
Less: Tax on Financial Services	4.8	172	2,278,560	2,015,619	13	2,278,560	2,015,619	13
<b>Profit before Taxation</b>			7,610,287	7,740,649	(2)	7,653,188	7,773,194	(2)
Less: Income Tax Expense	4.9.1 (a)	173	2,423,234	2,685,989	(10)	2,442,327	2,693,771	(9)
<b>Profit for the Year</b>			5,187,053	5,054,660	3	5,210,861	5,079,423	3
<b>Profit Attributable to:</b>								
Equity Holders of the Company			5,187,053	5,054,660	3	5,210,861	5,079,349	3
Non-Controlling Interest			-	-	-	-	74	(100)
<b>Profit for the Year</b>			5,187,053	5,054,660	3	5,210,861	5,079,423	3
<b>Earnings per Share: Basic/Diluted (Rs.)</b>	4.10	176	37.45	36.49	3	37.62	36.67	3
<b>Dividend per Share</b>	4.11	176						
Dividend per Share: Gross (Rs.)			-	12.00				
Dividend per Share: Net (Rs.)			-	10.32				

Accounting Policies and Notes from pages 153 to 270 form an integral part of these Financial Statements.

# Statement of Comprehensive Income

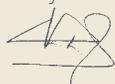
Year ended 31 March	Note	Page No.	Company			Group		
			2020	2019	Change	2020	2019	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Profit for the Year</b>			5,187,053	5,054,660	3	5,210,861	5,079,423	3
<b>Other Comprehensive Income that will be Reclassified to Income Statement</b>								
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations			-	-		96,608	15,594	>100
Less: Deferred Tax Charge/(Reversal) on above Items			-	-		-	-	
<b>Net Other Comprehensive Income that will be Reclassified to Income Statement</b>			-	-		96,608	15,594	>100
<b>Other Comprehensive Income that will never be Reclassified to Income Statement</b>								
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income			(30,569)	(31,913)	(4)	(30,569)	(31,913)	(4)
Actuarial Gains/(Losses) on Defined Benefit Plans	4.32.3	231	(41,707)	23,969	>(100)	(41,707)	23,969	>(100)
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	4.9.1 (b)	174	(11,678)	6,712	>(100)	(11,678)	6,712	>(100)
Net Actuarial Gains/(Losses) on Defined Benefit Plans			(30,029)	17,257	>(100)	(30,029)	17,257	>(100)
<b>Net Other Comprehensive Income that will never be Reclassified to Income Statement</b>			(60,598)	(14,656)	>100	(60,598)	(14,656)	>100
<b>Other Comprehensive Income for the Year, Net of Tax</b>			(60,598)	(14,656)	>100	36,010	938	>100
<b>Total Comprehensive Income for the Year, Net of Tax</b>			5,126,455	5,040,004	2	5,246,871	5,080,361	3
<b>Attributable to:</b>								
Equity Holders of the Company			5,126,455	5,040,004	2	5,246,871	5,080,240	3
Non-Controlling Interest			-	-	-	-	121	(100)
<b>Total Comprehensive Income for the Year, Net of Tax</b>			5,126,455	5,040,004	2	5,246,871	5,080,361	3

Accounting Policies and Notes from pages 153 to 270 form an integral part of these Financial Statements.

# Statement of Financial Position

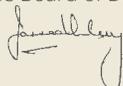
As at 31 March	Note	Page No.	Company			Group		
			2020	2019	Change	2020	2019	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Assets</b>								
Cash and Cash Equivalents	4.14	193	6,162,637	4,040,586	53	6,472,312	4,058,610	59
Financial Assets Recognised Through Profit or Loss								
- Measured at Fair Value	4.15	194	4,648	6,866	(32)	4,648	6,866	(32)
Financial Assets at Amortised Cost								
- Loans and Receivables	4.16	195	58,239,254	47,395,025	23	58,793,344	47,773,705	23
Financial Assets at Amortised Cost - Lease								
Rentals Receivable and Stock out on Hire	4.17	200	60,626,670	66,050,429	(8)	60,626,670	66,050,429	(8)
Financial Assets Measured at Fair Value Through								
Other Comprehensive Income	4.19	209	59,141	89,710	(34)	59,141	89,710	(34)
Other Financial Assets	4.20	211	9,119,681	10,804,517	(16)	9,105,761	10,794,673	(16)
Other Non Financial Assets	4.21	212	967,469	1,067,360	(9)	976,489	1,073,065	(9)
Investment in Subsidiary	4.22	213	521,162	318,999	63	-	-	-
Property, Plant and Equipment and								
Right-of-Use Assets	4.23	213	8,221,248	6,577,379	25	8,228,222	6,580,725	25
Intangible Assets	4.24	220	41,809	39,847	5	55,064	43,523	27
<b>Total Assets</b>			<b>143,963,719</b>	<b>136,390,718</b>	<b>6</b>	<b>144,321,651</b>	<b>136,471,306</b>	<b>6</b>
<b>Liabilities</b>								
Due to Banks	4.25	221	22,771,085	24,633,508	(8)	22,882,941	24,633,508	(7)
Financial Liabilities at								
Amortised Cost - Due to Depositors	4.26	224	89,256,435	83,214,949	7	89,315,097	83,242,617	7
Debt Instruments Issued and								
Other Borrowed Funds	4.27	225	3,111,186	3,107,783	0	3,111,186	3,107,783	-
Other Financial Liabilities	4.28	226	2,766,410	1,974,490	40	2,766,775	1,974,490	40
Other Non Financial Liabilities	4.29	227	909,266	2,070,632	(56)	925,778	2,075,791	(55)
Current Tax Liabilities	4.30	228	766,752	1,395,971	(45)	777,057	1,403,916	(45)
Deferred Tax Liabilities	4.31	228	1,037,580	1,309,722	(21)	1,037,580	1,309,722	(21)
Post Employment Benefit Liability	4.32	230	345,456	256,512	35	345,456	256,512	35
<b>Total Liabilities</b>			<b>120,964,170</b>	<b>117,963,567</b>	<b>3</b>	<b>121,161,870</b>	<b>118,004,339</b>	<b>3</b>
<b>Equity</b>								
Stated Capital	4.33	233	838,282	838,282	-	838,282	838,282	-
Reserves	4.34	233	6,216,939	5,210,097	19	6,334,326	5,230,876	21
Retained Earnings	4.35	235	15,944,328	12,378,772	29	15,987,173	12,397,809	29
<b>Total Equity Attributable to</b>								
<b>Equity Holders of the Company</b>			<b>22,999,549</b>	<b>18,427,151</b>	<b>25</b>	<b>23,159,781</b>	<b>18,466,967</b>	<b>25</b>
Non-Controlling Interest	4.36	235	-	-	-	-	-	-
<b>Total Equity</b>			<b>22,999,549</b>	<b>18,427,151</b>	<b>25</b>	<b>23,159,781</b>	<b>18,466,967</b>	<b>25</b>
<b>Total Liabilities and Equity</b>			<b>143,963,719</b>	<b>136,390,718</b>	<b>6</b>	<b>144,321,651</b>	<b>136,471,306</b>	<b>6</b>
<b>Commitments and Contingencies</b>	6.5	268	<b>1,928,805</b>	<b>1,820,856</b>	<b>6</b>	<b>1,816,949</b>	<b>1,820,856</b>	<b>-</b>
<b>Net Asset Value per Share (Rs.)</b>	6.6	269	<b>166.04</b>	<b>133.03</b>	<b>25</b>	<b>167.20</b>	<b>133.32</b>	<b>25</b>

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Malith Hewage  
Assistant General Manager - Finance

The Board of Directors is responsible for these Financial Statements. Approved and signed for and on behalf of the Board of Directors by,



J A S Sumith Adhietty  
Managing Director



Mrs. Yogadinusha Bhaskaran  
Director

Accounting Policies and Notes from pages 153 to 270 form an integral part of these Financial Statements.

22 June 2020  
Colombo

## Statement of Changes in Equity - Company

	Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Available for Sale Reserve	Fair Value Reserve	Total Equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
			Note 4.33	Note 4.35	Note 4.34.1	Note 4.34.2	Note 4.34.3	
<b>Balance as at 31 March 2018</b>			838,282	10,240,092	4,274,827	(4,305)	-	15,348,896
Impact of Adoption of SLFRS 09			-	(299,578)	-	-	-	(299,578)
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale			-	39,444	-	(39,444)	-	-
Transfer of Available for Sale Reserve to Fair Value Reserve			-	-	-	43,749	(43,749)	-
<b>Restated Opening Balance as at 1 April 2018</b>			838,282	9,979,958	4,274,827	-	(43,749)	15,049,318
Net Profit for the Year			-	5,054,660	-	-	-	5,054,660
Other Comprehensive Income, Net of Tax			-	17,257	-	-	(31,913)	(14,656)
<b>Total Comprehensive Income for the Year, Net of Tax</b>			-	5,071,917	-	-	(31,913)	5,040,004
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>								
Transfers During the Year			-	(1,010,932)	1,010,932	-	-	-
Final Dividend for 2017/18	4.11	176	-	(554,057)	-	-	-	(554,057)
Interim Dividend for 2018/19	4.11	176	-	(1,108,114)	-	-	-	(1,108,114)
<b>Total Transactions with Equity Holders</b>			-	(2,673,103)	1,010,932	-	-	(1,662,171)
<b>Balance as at 31 March 2019</b>			838,282	12,378,772	5,285,759	-	(75,662)	18,427,151
Net Profit for the Year			-	5,187,053	-	-	-	5,187,053
Other Comprehensive Income, Net of Tax			-	(30,029)	-	-	(30,569)	(60,598)
<b>Total Comprehensive Income for the Year, Net of Tax</b>			-	5,157,024	-	-	(30,569)	5,126,455
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>								
Transfers During the Year	4.34	233	-	(1,037,411)	1,037,411	-	-	-
Final Dividend for 2018/19	4.11	176	-	(554,057)	-	-	-	(554,057)
<b>Total Transactions with Equity Holders</b>			-	(1,591,468)	1,037,411	-	-	(554,057)
<b>Balance as at 31 March 2020</b>			838,282	15,944,328	6,323,170	-	(106,231)	22,999,549

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 153 to 270 form an integral part of these Financial Statements.

# Statement of Changes in Equity - Group

Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Available for Sale Reserve	Fair Value Reserve	Foreign Currency Translation Reserve	Total Equity Attributable to Equity Holders of the Company	Non-Controlling Interest	Total Equity
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
		Note 4.33	Note 4.35	Note 4.34.1	Note 4.34.2	Note 4.34.3	Note 4.34.4		Note 4.36	
<b>Balance as at 31 March 2018</b>		838,282	10,234,440	4,274,827	(4,305)	-	5,231	15,348,475	459	15,348,934
Impact of Adoption of SLFRS 09		-	(299,578)	-	-	-	-	(299,578)	-	(299,578)
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale		-	39,444	-	(39,444)	-	-	-	-	-
Transfer of Available for Sale Reserve to Fair Value Reserve		-	-	-	43,749	(43,749)	-	-	-	-
<b>Restated Opening Balance as at 1 April 2018</b>		838,282	9,974,306	4,274,827	-	(43,749)	5,231	15,048,897	459	15,049,356
Net Profit for the Year		-	5,079,349	-	-	-	-	5,079,349	74	5,079,423
Other Comprehensive Income, Net of Tax		-	17,257	-	-	(31,913)	15,548	891	47	938
<b>Total Comprehensive Income for the Year, Net of Tax</b>		-	5,096,606	-	-	(31,913)	15,548	5,080,240	121	5,080,361
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>										
Transfers During the Year		-	(1,010,932)	1,010,932	-	-	-	-	-	-
Final Dividend for 2017/18	4.11	176	(554,057)	-	-	-	-	(554,057)	-	(554,057)
Interim Dividend for 2018/19	4.11	176	(1,108,114)	-	-	-	-	(1,108,114)	-	(1,108,114)
Disposal of Shares		-	-	-	-	-	-	-	(580)	(580)
<b>Total Transactions with Equity Holders</b>		-	(2,673,103)	1,010,932	-	-	-	(1,662,171)	(580)	(1,662,751)
<b>Balance as at 31 March 2019</b>		838,282	12,397,809	5,285,759	-	(75,662)	20,779	18,466,967	-	18,466,967
Net Profit for the Year		-	5,210,861	-	-	-	-	5,210,861	-	5,210,861
Other Comprehensive Income, Net of Tax		-	(30,029)	-	-	(30,569)	96,608	36,010	-	36,010
<b>Total Comprehensive Income for the Year, Net of Tax</b>		-	5,180,832	-	-	(30,569)	96,608	5,246,871	-	5,246,871
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>										
Transfers During the Year	4.34	233	(1,037,411)	1,037,411	-	-	-	-	-	-
Final Dividend for 2018/19	4.11	176	(554,057)	-	-	-	-	(554,057)	-	(554,057)
<b>Total Transactions with Equity Holders</b>		-	(1,591,468)	1,037,411	-	-	-	(554,057)	-	(554,057)
<b>Balance as at 31 March 2020</b>		838,282	15,987,173	6,323,170	-	(106,231)	117,387	23,159,781	-	23,159,781

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 153 to 270 form an integral part of these Financial Statements.

# Statement of Cash Flows

## ► Accounting Policy

The cash flow statement has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard - LKAS 07 (Statement of Cash Flows), whereby operating activities, financing activities and investing activities have been recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents consist of cash in hand, balances with banks, placements with banks, money at call and short notice.

Year ended 31 March	Note	Page No.	Company		Group	
			2020	2019	2020	2019
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash Flows From/(Used in) Operating Activities</b>						
Profit and Other Comprehensive Income before Taxation			7,538,011	7,732,705	7,677,520	7,780,844
<b>Adjustments for -</b>						
Depreciation of Property, Plant and Equipment and Right-of-Use Assets	4.23	213	697,508	417,889	698,639	418,438
Amortisation of Intangible Assets	4.24	220	15,882	17,487	18,125	18,492
Impairment Charges and Other Losses	4.5	166	1,831,057	983,154	1,856,495	986,892
Diminution/(Appreciation) in Value of Investments			32,786	34,730	32,786	34,730
Loss/(Profit) on Disposal of Property, Plant and Equipment	4.4	166	(4,110)	(4,664)	(4,110)	(4,664)
Provision/(Reversal) for Defined Benefit Plans	4.32.1	230	117,650	39,129	117,650	39,129
Foreign Currency Exchange (Gain)/Loss			-	-	8,807	284
Dividend Received			(6,777)	(9,831)	(6,777)	(9,831)
Interest Income on Investing Activities			(1,342,283)	(1,140,937)	(1,342,283)	(1,140,937)
Withholding Tax Attributed to Fixed Deposits			-	(25,181)	-	(25,181)
Net Unrealised (Gains)/Losses Arising from Translating the Financial Statements of Foreign Operations			-	-	(96,608)	(15,594)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>			<b>8,879,724</b>	<b>8,044,481</b>	<b>8,960,244</b>	<b>8,082,602</b>
<b>(Increase)/Decrease in Operating Assets</b>						
(Increase)/Decrease in Financial Assets at Amortised Cost-Loans and Receivables			(11,958,602)	(8,207,246)	(12,159,450)	(8,550,784)
(Increase)/Decrease in Financial Assets at Amortised Cost-Lease Rentals Receivable and Stock out on Hire			4,714,850	(4,167,949)	4,714,850	(4,167,949)
(Increase)/Decrease in Other Financial Assets			1,905,052	(4,124,208)	1,909,128	(4,124,208)
(Increase)/Decrease in Other Non Financial Assets			99,892	(226,370)	193,185	(216,030)
			(5,238,808)	(16,725,773)	(5,342,287)	(17,058,971)
<b>Increase/(Decrease) in Operating Liabilities</b>						
Increase/(Decrease) in Financial Liabilities at Amortised Cost - Due to Depositors			6,041,485	10,271,116	6,072,480	10,296,606
Increase/(Decrease) in Other Financial Liabilities			(620,905)	213,072	(620,539)	213,072
Increase/(Decrease) in Other Non Financial Liabilities			(1,599,038)	11,949	(1,591,413)	20,242
			3,821,542	10,496,137	3,860,528	10,529,920

## Statement of Cash Flows

Year ended 31 March	Note	Page No.	Company		Group	
			2020	2019	2020	2019
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash Generated From Operations</b>			<b>7,462,458</b>	1,814,845	<b>7,478,485</b>	1,553,550
Retirement Benefit Liabilities Paid	4.32.1	230	(28,706)	(13,857)	(28,706)	(13,857)
Income Tax Paid	4.9.4	175	(2,875,243)	(1,588,320)	(2,897,059)	(1,588,320)
<b>Net Cash From/(Used in) Operating Activities</b>			<b>4,558,509</b>	212,668	<b>4,552,720</b>	(48,627)
<b>Cash Flows From/(Used in) Investing Activities</b>						
Acquisition of Property, Plant and Equipment and Right-of-Use Assets	4.23	213	(934,230)	(2,317,320)	(938,987)	(2,320,005)
Acquisition of Intangible Assets	4.24	220	(17,844)	(9,215)	(29,666)	(9,215)
Proceeds from Sale of Property, Plant and Equipment			13,189	7,335	13,189	7,335
Investment in Subsidiary			(202,163)	(166,084)	-	-
Interest Received			1,114,292	1,232,632	1,114,292	1,232,632
Dividend Received			6,777	9,831	6,777	9,831
<b>Net Cash Flows From/(Used in) Investing Activities</b>			<b>(19,979)</b>	(1,242,821)	<b>165,605</b>	(1,079,422)
<b>Cash Flows From/(Used in) Financing Activities</b>						
Net Cash Flow from debt funding from Bank			(1,514,471)	2,012,464	(1,402,615)	2,012,464
Net Cash Flow from Debt Instruments Issued and Other Borrowed Funds			-	(2,045,049)	-	(2,045,049)
Dividends Paid	4.11.1	176	(554,057)	(554,057)	(554,057)	(554,057)
<b>Net Cash Flows From/(Used in) Financing Activities</b>			<b>(2,068,528)</b>	(586,642)	<b>(1,956,672)</b>	(586,642)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>			<b>2,470,002</b>	(1,616,795)	<b>2,761,653</b>	(1,714,691)
<b>Cash and Cash Equivalents at the Beginning of the Year</b>			<b>2,972,224</b>	4,589,019	<b>2,990,248</b>	4,704,939
<b>Cash and Cash Equivalents at the End of the Year</b>	4.14.3	193	<b>5,442,226</b>	2,972,224	<b>5,751,901</b>	2,990,248
<b>Operational Cash Flows from Interest</b>						
Interest Received			29,108,901	27,455,462	29,245,712	27,512,536
Interest Paid			12,188,355	12,289,298	12,204,335	12,291,130

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 153 to 270 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## SECTION 02

### Corporate Information

#### 2.1 REPORTING ENTITY

L B Finance PLC, is a domiciled, public limited liability company incorporated in Sri Lanka on 30 May 1971 under the Companies Act No 51 of 1938. The Company was re-registered under the Companies Act No 07 of 2007. It is a Licensed Finance Company registered under the Finance Business Act No 42 of 2011 and amendments thereto. The registered office of the Company is located at No 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07. The shares of the Company have a primary listing on the Colombo Stock Exchange. The staff strength of the Company as at 31 March 2020 was 3,606 (2019 - 3,618).

For purposes of this report, "L B Finance", the "Company", "we", "our", "us" or similar references mean L B Finance PLC.

#### 2.2 CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements as at and for the year ended 31 March 2020, comprise the L B Finance PLC (Parent Company) and its Subsidiary (together referred to as the "Group" and individually as "Group entities").

The Company's parent undertaking is Vallibel One PLC. The Company's ultimate parent undertaking is Vallibel One PLC, which is incorporated in Sri Lanka. The Company's ultimate controlling party is Mr. Dhammika Perera.

#### 2.3 PRINCIPAL BUSINESS ACTIVITIES, NATURE OF OPERATIONS OF THE GROUP AND OWNERSHIP BY THE COMPANY IN ITS SUBSIDIARY

L B Finance PLC

L B Finance Myanmar Company Ltd

100%

##### L B Finance PLC

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Maintenance of Savings Accounts, Providing Finance Lease, Hire Purchase, Mortgage Loans, Gold Loans, Margin Trading Facilities, Personal Loans, Factoring and Trade Finance Loans, Other Credit Facilities and Value Added Services.

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

##### L B Microfinance Myanmar Company Limited

L B Microfinance Myanmar Company Limited was incorporated in Myanmar on 22 May 2017 as a 99% (31 March 2020 - 100%) owned subsidiary of L B Finance PLC. The principal business activities include engaging in microfinance lending. A license was issued by the Myanmar Microfinance Supervisory Committee to operate as a microfinance institution. L B Microfinance Myanmar Company Limited commenced its commercial operations in December 2017.

#### 2.4 APPROVAL OF FINANCIAL STATEMENTS BY DIRECTORS

The Financial Statements of the Group and the Company for the year ended 31 March 2020 (including comparatives for 31 March 2019) were approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 22 June 2020.

# Notes to the Financial Statements

## Basis of Preparation

### 2.5 STATEMENT OF COMPLIANCE

Financial Statements of the Group and the separate Financial Statements of the Company which comprise the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Accounting Policies and Notes, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No 07 of 2007. The presentation of these Financial Statements is also in compliance with the requirements of Finance Business Act No 42 of 2011, Listing Rules of the Colombo Stock Exchange and the CBSL guidelines.

These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements.

### 2.6 RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board of Directors of the Company is responsible for these Financial Statements of the Group and the Company as per the provisions of the Companies Act No 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges the responsibility in relation to the Financial

Statements, as set out in the 'Directors' Responsibility for Financial Reporting', 'Annual Report of the Board of Directors' and in the statement appearing with the Statement of Financial Position of the Annual Report.

### 2.7 APPLICATION OF SRI LANKA ACCOUNTING STANDARD

#### 2.7.1 SLFRS 16 (Leases)

The Group adopted Sri Lanka Accounting Standard - SLFRS 16 (Leases) effective from 1 April 2019. This Standard replaces Sri Lanka Accounting Standard - LKAS 17 (Leases). The resulting impact on the adoption of SLFRS 16 is disclosed in the Transition Disclosures note (Note 2.17). The Group elected to apply the modified retrospective transition approach, without restatement of comparative figures. The comparative figures for the year ended 31 March 2019 remains as audited and published as per the Sri Lanka Accounting Standard - LKAS 17 (Leases).

#### 2.7.2 IFRIC Interpretation 23 (Uncertainty over Income Tax Treatment)

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard - LKAS 12 (Income tax). It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following;

- Whether an entity considers uncertain tax treatments separately

- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group applies significant judgement in identifying uncertainties over income tax treatments. The Group determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Company.

### 2.8 BASIS OF MEASUREMENT

The Financial Statements of the Group have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position:

- Financial assets recognised through profit or loss - measured at fair value
- Financial assets measured at fair value through other comprehensive income
- Liabilities for defined benefit obligations are recognised using an actuarial technique (projected unit credit method)

### 2.9 GOING CONCERN

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that

may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on the going concern basis.

## **2.10 FUNCTIONAL AND PRESENTATION CURRENCY**

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is the currency of the primary economic environment in which L B Finance PLC operates.

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that Functional Currency. These Financial Statements are presented in Sri Lankan Rupees, the Group's Functional and Presentation Currency.

## **2.11 PRESENTATION OF FINANCIAL STATEMENTS**

Assets and Liabilities of the Group presented in their Statements of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 6.3 on 'Current and Non Current Analysis of Assets and Liabilities' to these Financial Statements.

## **2.12 USE OF MATERIALITY, AGGREGATION, OFFSETTING AND ROUNDING**

### **Materiality and Aggregation**

In compliance with Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately unless they are immaterial.

### **Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard.

### **Rounding**

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements).

## **2.13 COMPARATIVE INFORMATION**

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where

relevant for better presentation and to be comparable with those of the current year. The Group has not restated the comparative information for the year ended 31 March 2019 for leases within the scope of Sri Lanka Accounting Standard - SLFRS 16 (Leases). Therefore, the comparative information for the year ended 31 March 2019 is reported under Sri Lanka Accounting Standard - LKAS 17 (Leases) and is not comparable to the information presented for year ended 31 March 2020.

## **2.14 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 MARCH 2020**

The following new accounting standards/amendments have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those accounting standards will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements. None of those have been early adopted by the Group.

### **2.14.1 Amendments to LKAS 01 and LKAS 08: Definition of Material**

Amendments to Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements) and Sri Lanka Accounting Standard - LKAS 08 (Accounting policies, Changes in accounting Estimates and Errors) are made to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements,

## Notes to the Financial Statements

which provide financial information about a specific reporting entity.' The Group shall apply those amendments prospectively for annual financial periods beginning on or after 1 January 2020.

The amendments to the definition of material are not expected to have a significant impact on the Group's Financial Statements.

### 2.14.2 Amendments to SLFRS 03: Definition of a Business

Amendments to the definition of a business in Sri Lanka Accounting Standard - SLFRS 03 (Business Combinations) are made to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The Group shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after 1 January 2020, if the asset acquisitions occurs on or after the beginning of that period.

### 2.14.3 Amendments to Conceptual Framework for Financial Reporting

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- a new chapter on measurement;
- guidance on reporting financial performance;

- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The amendments are effective for annual periods beginning on or after 1 January 2020, with early application is permitted. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Group's Financial Statements.

### 2.15 CHANGES IN ACCOUNTING POLICIES

In these Financial Statements, the Company and the Group applied the Sri Lanka Accounting Standard - SLFRS 16 (Leases), effective for annual periods beginning on or after 1 April 2019, for the first time. Reconciliation of the amounts disclosed as operating lease commitments (as a lessee) as at 1 April 2019 to the net lease liabilities recognised as at that date is disclosed in Note 2.17 together with the amount of right of use assets recognised due to transition to SLFRS 16.

The accounting policies adopted by the Group are consistent with those used in the previous financial year other than the above.

### 2.16 SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTIES

The preparation of Financial Statements of the Group in conformity with Sri Lanka Accounting Standards requires the management to make assumptions, judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and

expenses. Due to the inherent uncertainty involved with estimates, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation uncertainties, critical judgments and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Group are as follows;

- 2.17 Determination of Lease Term and Estimating Incremental Borrowing Rate
- 3.8 Impairment of Non Financial Assets
- 4.9 Taxation
- 4.12 Classification of Financial Assets and Liabilities
- 4.13 Fair Value of Financial Instruments
- 4.18 Allowance for Impairment Losses
- 4.22 Investment in Subsidiary
- 4.23 Useful lifetime of the Property, Plant and Equipment
- 4.24 Useful lifetime of the Intangible Assets
- 4.31 Deferred Taxation
- 4.32 Post Employment Benefit Liability
- 6.5 Commitments and Contingencies
- 6.9 Events Occurring after the Reporting Date

## 2.17 SLFRS 16 (LEASES) TRANSITION DISCLOSURE

### 2.17.1 Background

With effect from 1 January 2019, Sri Lanka Accounting Standard - SLFRS 16 replaced Sri Lanka Accounting Standard - LKAS 17 as well as the related interpretations. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on Statement of Financial Position. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. SLFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, as was required by LKAS 17, and introduces a single lessee accounting model, where a right-of-use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. SLFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the Group as a lessor are not different from those under LKAS 17.

### 2.17.2 Adoption and Transition

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognised at the date of initial application. Accordingly, the Group and Company's previously reported financial results up to 31 March 2019 are presented in accordance with the requirements of LKAS 17 and for the year ended 31 March 2020, and future reporting periods, are presented in terms of SLFRS 16.

On adoption of SLFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of LKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019.

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 31 March 2019.

### 2.17.3 Determination of Lease Term and Estimating the Incremental Borrowing Rate

The Group uses its judgement to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Group applies judgements in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic benefits for it to exercise either the renewal or termination.

Further, as the Group cannot readily determine the interest rate implicit in the lease, it uses its Incremental Borrowing Rate (IBR) to measure the lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease). The Group estimates the

IBR using observable input when available and is required to make certain entity-specific adjustments.

### 2.17.4 The Group's Leasing Activities and How These are Accounted for:

The Group is a lessee for the majority of its offices and branches under long-term rental agreements. Rental contracts are typically made for fixed average periods of ten years. Most of the lease contracts are made under usual terms and conditions, which means they include options to extend the lease by a defined amount of time, price adjustment clauses and escalation clauses in line with general office rental market conditions.

Until 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to Income Statement.

From 1 April 2019, all existing operating leases, which were either not less than 12 months or not deemed a low value asset, were recognised as a right-of-use asset and a corresponding lease liability.

## Notes to the Financial Statements

### 2.17.5 Reconciliation between the Operating Lease Commitments to the Lease Liability Balances Reported under SLFRS 16 as at 1 April 2019

	Rs. '000
Operating lease commitments as at 31 March 2019	2,337,215
Recognition exemptions adopted for short-term leases and leases of low-value assets	-
Adjustments as a result of de-scoped leases	-
Undiscounted lease liabilities as at 1 April 2019	2,337,215
Weighted average incremental borrowing rate as at 1 April 2019 (%)	12
Lease liabilities due to initial application of SLFRS 16, recognised as at 1 April 2019	1,293,121

### 2.17.6 SLFRS 16 Key Financial Impacts

The single lessee accounting model which comprises Sri Lanka Accounting Standard - SLFRS 16's most material impact for the Group results in an increase of Rs. 1,293,121,438/- in total assets and total liabilities. The total undiscounted operating lease commitments as at 31 March 2019 amounted to Rs. 2,337,214,830/- and the lease liability as at 1 April 2019 amounted to Rs. 1,293,121,438/-. This difference primarily relates to discounting the operating lease commitments balance at the Group's weighted average incremental borrowing rate, which is 12%.

#### Impact on the Group's Summarised Statement of Financial Position on 1 April 2019

	31 March 2019	SLFRS 16 transition adjustment at 1 April 2019	1 April 2019
	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>			
Property, Plant and Equipment and Right-of-Use Assets	6,580,725	1,436,599	8,017,324
Other Financial and Non-Financial Assets*	129,890,581	(143,478)	129,747,103
<b>Total Assets</b>	<b>136,471,306</b>	<b>1,293,121</b>	<b>137,764,427</b>
<b>Liabilities and Equity</b>			
Liabilities **	118,004,339	1,293,121	119,297,460
Equity	18,466,967	-	18,466,967
<b>Total Liabilities and Equity</b>	<b>136,471,306</b>	<b>1,293,121</b>	<b>137,764,427</b>

\* Due to derecognition of the LKAS 17 prepaid lease asset.

\*\* Due to recognition of lease liabilities.

### 2.17.7 Leasing Transactions Under LKAS 17 (Leases) - (Applicable up to 31 March 2019)

The Group enters into lease contracts both as a lessee and lessor. The terms and conditions of these contracts were assessed and the leases were classified as operating leases or finance leases according to their economic substance at inception of the lease.

#### Finance Leases

When the Group is the lessor under a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee are included in Note 4.17 to these Financial Statements.

#### Operating Leases

Assets leased under leases other than finance leases are classified as operating leases.

Group as Lessor - Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognise the rental income over the lease term. Details of Operating leases- Group as a lessor are given in Note 4.23.6 to these Financial Statements.

Group as Lessee - Operating lease rentals payable were recognised as an expense over the lease term, which commenced when the lessee controlled the physical use of the property. Lease incentives were treated as a reduction of rental expense and were also recognized over the lease term. Details of Operating leases- Group as a lessee are given in Note 4.23.9 to these Financial Statements.

# Notes to the Financial Statements

## SECTION 03

### General Accounting Policies and Notes

Accounting policy relating to each accounting topic is given along with the relevant note to the Financial Statements. The other significant accounting policies are described below;

#### 3.1 BASIS OF CONSOLIDATION

The Group's Financial Statements comprise, Consolidated Financial Statements of the Company and its Subsidiary in terms of the Sri Lanka Accounting Standard - SLFRS 10 (Consolidated Financial Statements).

##### 3.1.1 Non-Controlling Interest

Details of Non-Controlling Interest are given in Note 4.36 to these Financial Statements.

##### 3.1.2 Subsidiary

Details of the Company's subsidiary are set out in Note 4.22 to these Financial Statements.

##### 3.1.3 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interest and other components of equity. Any resulting gain or loss is recognised in Income Statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

##### 3.1.4 Transactions Eliminated on Consolidation

Intra-group balances, transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 3.2 FOREIGN CURRENCY

##### 3.2.1 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Company's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the middle exchange rate of the functional currency ruling as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency as at the beginning of the year adjusted for effective interest and payments during the year and the amortised

cost in foreign currency translated at the exchange rate as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in Income Statement. However, foreign currency differences arising from the translation of available for sale equity instruments are recognised in Other Comprehensive Income.

##### 3.2.2 Foreign Currency Translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Company's functional currency. The Financial Statements of the foreign operations of the Company have been translated into the Group's presentation currency as explained under Note 3.2.3 below;

##### 3.2.3 Foreign Operations

The results and financial position of overseas operations that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows;

Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange rates ruling as at the reporting date.

Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.

All resulting exchange differences are recognised in the Other Comprehensive Income and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the Non-Controlling Interest.

When a foreign operation is disposed of such that the control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to Income Statement as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount of the translation reserve is reattributed to Non-Controlling Interest.

### **3.3 PROVISIONS**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that

an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

### **3.4 OPERATIONAL RISK EVENTS**

Provisions for operational risk events are recognised for losses incurred by the Group which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and

circumstances that affect the provision.

## **3.5 OTHER TAXES**

### **3.5.1 Economic Service Charge (ESC)**

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and subsequent amendments thereto, ESC was payable on Company's liable turnover at 0.5% and was deductible from income tax payable. As per Notice dated 31 December 2019 published by the Department of Inland Revenue, ESC was abolished with effect from 1 January 2020.

### **3.5.2 Withholding Tax on Dividends (WHT)**

Withholding Tax arises from the distribution of dividends by the Company and is recognised at the time the liability to pay the related dividend is recognised. As per Notice dated 18 February 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective 1 January 2020.

## **3.6 BORROWING COSTS**

As per the Sri Lanka Accounting Standard – LKAS 23 (Borrowing Costs), the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the Income Statement in the period in which they occur.

## Notes to the Financial Statements

### 3.7 FINANCIAL GUARANTEES AND LOAN COMMITMENTS

Financial Guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Loan commitments at below market interest rates drawdown are initially measured at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statement of Financial Position.

Loan types with undrawn limits are expected to change the exposure over a period due to the available portion in the unutilised limit. The drawdowns for unutilised portions (only for Stage 1 and 2) is considered by applying the behavioural (average) use of the facility over the given period and current excess over the average (positive net exposure). Then the positive net exposure is classified as 12 month or life time expected credit loss.

Details of commitments and contingencies are presented in Note 6.5 to these Financial Statements.

### 3.8 IMPAIRMENT OF NON FINANCIAL ASSETS

The Group 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 Group 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 Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

## SECTION 04

### Specific Accounting Policies and Notes

#### 4.1 NET INTEREST INCOME

##### ► Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The Group use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of financial assets and financial liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability.

The calculation of EIR takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as an impairment charge or reversal to the Income Statement.

Interest income on impaired financial instruments continues to be recognised at original EIR to the unadjusted carrying amount until the financial asset has been classified as fully impaired. Until such the accrued interest added to the unadjusted carrying amount has been impaired to the estimated Loss Given Default (LGD). Discontinuation of interest accrual is discussed in Note 4.18 to these Financial Statements. Interest from overdue rentals have been accounted for on a cash received basis.

##### 4.1.1 Income

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	29,160,292	27,363,768	29,297,103	27,420,842
Fee and Commission Income	1,941,626	1,782,072	1,950,180	1,786,919
Net Trading Income	(2,099)	(2,558)	(2,099)	(2,558)
Other Operating Income	123,041	134,742	114,234	137,009
	31,222,860	29,278,024	31,359,418	29,342,212

##### 4.1.2 Interest Income

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Note 4.1.3)	11,917,186	9,822,945	12,053,997	9,880,019
Lease Rentals Receivable and Stock out on Hire (Note 4.1.4)	15,900,823	16,374,704	15,900,823	16,374,704
Other Financial Assets	1,342,283	1,166,119	1,342,283	1,166,119
	29,160,292	27,363,768	29,297,103	27,420,842

## Notes to the Financial Statements

### 4.1.3 Interest Income - Loans and Receivables

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	6,980,205	5,566,077	6,980,205	5,566,077
Vehicle Loans	1,671,360	898,082	1,671,360	898,082
Medium and Short-Term Loans	1,149,318	1,119,726	1,286,129	1,176,800
Mortgage Loans	1,189,501	1,407,599	1,189,501	1,407,599
Quick Loans	66	2,690	66	2,690
Power Drafts	867,451	709,586	867,451	709,586
Margin Trading	3,076	2,920	3,076	2,920
Factoring Receivable	56,209	116,121	56,209	116,121
Real Estate Loans	-	144	-	144
	11,917,186	9,822,945	12,053,997	9,880,019

### 4.1.4 Interest Income - Lease Rentals Receivable and Stock out on Hire

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Rentals Receivable	15,900,823	16,340,276	15,900,823	16,340,276
Stock out on Hire	-	34,428	-	34,428
	15,900,823	16,374,704	15,900,823	16,374,704

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

4.1.5 Interest Income from Sri Lanka Government Securities 721,036 521,651 721,036 521,651

### 4.1.6 Interest Expenses

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to Banks	2,955,307	2,796,264	2,955,307	2,796,264
Financial Liabilities at Amortised Cost - Due to Depositors	10,106,091	9,565,400	10,122,071	9,567,232
Debt Issued and Other Borrowed Funds	396,546	589,659	396,546	589,659
Other Financial Liabilities	157,447	-	157,447	-
	13,615,391	12,951,323	13,631,371	12,953,155

#### 4.1.7 Interest Expenses (Product-wise Breakdown)

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank Overdrafts	965	1,702	965	1,702
Debt Funding from Banks	2,954,342	2,794,562	2,965,714	2,794,562
Fixed Deposits	9,870,444	9,330,640	9,870,444	9,330,640
Certificates of Deposit	7,199	9,580	7,199	9,580
Savings Deposits	228,448	225,180	233,056	227,012
Unsecured Debentures	396,546	589,659	396,546	589,659
Interest expense on lease liabilities	157,447	-	157,447	-
	13,615,391	12,951,323	13,631,371	12,953,155

#### 4.1.8 Net Interest Income

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	29,160,292	27,363,768	29,297,103	27,420,842
Interest Expenses	13,615,391	12,951,323	13,631,371	12,953,155
	15,544,901	14,412,445	15,665,732	14,467,687

#### 4.2 FEE AND COMMISSION INCOME

##### ► Accounting Policy

The Group earns fee and commission income from a diverse range of services it provides to its customers. These fees include credit-related fees and commission income. All fees and commissions are recognised to the Income Statement on an accrual basis. Fee and commission income that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Credit Related Fees and Commissions	1,087,193	1,063,356	1,095,747	1,068,203
Service Charge	854,433	718,716	854,433	718,716
	1,941,626	1,782,072	1,950,180	1,786,919

#### 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 'recognised through profit or loss' other than interest income.

Dividend income received from financial assets recognised through profit or loss is recognised when the Group's right to receive the payment is established.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Income from Financial Assets Recognised				
Through Profit or Loss	118	259	118	259
Appreciation/(Depreciation) in Market Value of				
Financial Assets Recognised Through Profit or Loss	(2,217)	(2,817)	(2,217)	(2,817)
	(2,099)	(2,558)	(2,099)	(2,558)

## Notes to the Financial Statements

### 4.4 OTHER OPERATING INCOME

#### ► Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Group is recognised as Other Operating Income on an accrual basis.

Dividend income received from financial assets measured at fair value through other comprehensive income is recognised when the Group's right to receive the payment is established.

The profit/(loss) on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of other operating income in the financial year in which significant risks and rewards of ownership are transferred to the buyer.

Income on operating leases are accounted for on a straight-line basis over the periods of the leases.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Income from Financial Assets Measured at Fair Value Through Other Comprehensive Income	6,659	9,572	6,659	9,572
Profit/(Loss) on Disposal of Property, Plant and Equipment	4,110	4,664	4,110	4,664
Income on Operating Lease	106,308	111,121	106,308	111,121
Sundry Income*	5,964	9,385	(2,843)	11,652
	123,041	134,742	114,234	137,009

\* Negative goodwill amounted to Rs. 51,625/- generated from the acquisition of remaining 3,000 shares of the L B Microfinance Myanmar Company Limited has been included in the Sundry Income for the year ended 31 March 2019.

### 4.5 IMPAIRMENT CHARGES AND OTHER LOSSES

#### ► Accounting Policy

The Group recognises the changes to the impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments). The methodology adopted by the Group is explained in the Note 4.18 to these Financial Statements. Recovery of amounts written-off as bad and doubtful debts is credited to impairment charges and other losses.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	1,112,900	367,641	1,138,338	371,379
Lease Rentals Receivable and Stock out on Hire	788,797	706,298	788,797	706,298
Other Losses	4,876	-	4,876	-
Recovery of Written-off Debts	(79,888)	(93,460)	(79,888)	(93,460)
Impairment on Investment in Fixed Deposits	7,775	251	7,775	251
Impairment on Off-Balance Sheet Credit Exposures	(3,403)	2,424	(3,403)	2,424
	1,831,057	983,154	1,856,495	986,892

#### 4.5.1 Impairment Charges and Other Losses (Detailed Breakdown) - Company

	2020			2019		
	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	27,121	1,085,779	1,112,900	24,100	343,541	367,641
Lease Rentals Receivable and Stock out on Hire	43,435	745,362	788,797	127,149	579,149	706,298
Other Losses	-	4,876	4,876	-	-	-
	70,556	1,836,017	1,906,573	151,249	922,690	1,073,939
Recovery of Written-off Debts			(79,888)			(93,460)
Impairment on Investment in Fixed Deposits			7,775			251
Impairment on Off-Balance Sheet Credit Exposures			(3,403)			2,424
			1,831,057			983,154

#### 4.5.2 Impairment Charges and Other Losses (Detailed Breakdown) - Group

	2020			2019		
	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	27,121	1,111,217	1,138,338	23,057	348,322	371,379
Lease Rentals Receivable and Stock out on Hire	43,435	745,362	788,797	127,149	579,149	706,298
Other Losses	-	4,876	4,876	-	-	-
	70,556	1,861,455	1,932,011	150,206	927,471	1,077,677
Recovery of Written-off Debts			(79,888)			(93,460)
Impairment on Investment in Fixed Deposits			7,775			251
Impairment on Off-Balance Sheet Credit Exposures			(3,403)			2,424
			1,856,495			986,892

## Notes to the Financial Statements

### 4.5.3 Analysis of Impairment Charges and Other Losses - Company

Year ended 31 March 2020	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 01	Stage 02	Stage 03	Total
Gold Loans	102,065	-	8,722	110,787
Vehicle Loans	24,335	28,377	39,983	92,695
Medium and Short Term-Loans	18,373	(7,329)	87,033	98,077
Mortgage Loans	(12,571)	(20,706)	814,812	781,535
Quick Loans	-	-	1,510	1,510
Power Drafts	(5,386)	260	4,907	(219)
Factoring Receivable	(26,463)	-	48,003	21,540
Real Estate Loans	-	-	6,975	6,975
<b>Loans and Receivables</b>	<b>100,353</b>	<b>602</b>	<b>1,011,945</b>	<b>1,112,900</b>
Leases	(113,735)	49,616	877,021	812,902
Hire Purchase	(135)	(68)	(23,902)	(24,105)
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>(113,870)</b>	<b>49,548</b>	<b>853,119</b>	<b>788,797</b>
Other Losses			4,876	4,876
Recovery of Written-off Debts				(79,888)
Impairment on Investment in Fixed Deposits				7,775
Impairment on Off-Balance Sheet Credit Exposures				(3,403)
<b>Total Allowance for Impairment Losses</b>				<b>1,831,057</b>

Year ended 31 March 2019	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 01	Stage 02	Stage 03	Total
Gold Loans	4,054	-	6,826	10,880
Vehicle Loans	10,537	4,141	17,792	32,470
Medium and Short Term-Loans	20,683	7,311	118,928	146,922
Mortgage Loans	2,048	(2,841)	98,499	97,706
Quick Loans	(11)	(3)	2,338	2,324
Power Drafts	3,362	1,843	44,531	49,736
Factoring Receivable	-	-	27,669	27,669
Real Estate Loans	-	-	(66)	(66)
<b>Loans and Receivables</b>	<b>40,673</b>	<b>10,451</b>	<b>316,517</b>	<b>367,641</b>
Leases	37,369	54,921	629,693	721,983
Hire Purchase	(1,248)	(697)	(13,740)	(15,685)
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>36,121</b>	<b>54,224</b>	<b>615,953</b>	<b>706,298</b>
Recovery of Written-off Debts				(93,460)
Impairment on Investment in Fixed Deposits				251
Impairment on Off-Balance Sheet Credit Exposures				2,424
<b>Total Allowance for Impairment Losses</b>				<b>983,154</b>

#### 4.5.4 Analysis of Impairment Charges and Other Losses - Group

Year ended 31 March 2020	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 01	Stage 02	Stage 03	Total
Gold Loans	102,065	-	8,722	110,787
Vehicle Loans	24,335	28,377	39,983	92,695
Medium and Short Term-Loans	19,480	(4,820)	108,855	123,515
Mortgage Loans	(12,571)	(20,706)	814,812	781,535
Quick Loans	-	-	1,510	1,510
Power Drafts	(5,386)	260	4,907	(219)
Factoring Receivable	(26,463)	-	48,003	21,540
Real Estate Loans	-	-	6,975	6,975
<b>Loans and Receivables</b>	<b>101,460</b>	<b>3,111</b>	<b>1,033,767</b>	<b>1,138,338</b>
Leases	(113,735)	49,616	877,021	812,902
Hire Purchase	(135)	(68)	(23,902)	(24,105)
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>(113,870)</b>	<b>49,548</b>	<b>853,119</b>	<b>788,797</b>
Other Losses			4,876	4,876
Recovery of Written-off Debts				(79,888)
Impairment on Investment in Fixed Deposits				7,775
Impairment on Off-Balance Sheet Credit Exposures				(3,403)
<b>Total Allowance for Impairment Losses</b>				<b>1,856,495</b>

Year ended 31 March 2019	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 01	Stage 02	Stage 03	Total
Gold Loans	4,054	-	6,826	10,880
Vehicle Loans	10,537	4,141	17,792	32,470
Medium and Short Term-Loans	24,421	7,311	118,928	150,660
Mortgage Loans	2,048	(2,841)	98,499	97,706
Quick Loans	(11)	(3)	2,338	2,324
Power Drafts	3,362	1,843	44,531	49,736
Factoring Receivable	-	-	27,669	27,669
Real Estate Loans	-	-	(66)	(66)
<b>Loans and Receivables</b>	<b>44,411</b>	<b>10,451</b>	<b>316,517</b>	<b>371,379</b>
Leases	37,369	54,921	629,693	721,983
Hire Purchase	(1,248)	(697)	(13,740)	(15,685)
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>36,121</b>	<b>54,224</b>	<b>615,953</b>	<b>706,298</b>
Recovery of Written-off Debts				(93,460)
Impairment on Investment in Fixed Deposits				251
Impairment on Off-Balance Sheet Credit Exposures				2,424
<b>Total Allowance for Impairment Losses</b>				<b>986,892</b>

## Notes to the Financial Statements

### 4.6 PERSONNEL EXPENSES

#### ► Accounting Policy

Personnel Expenses include salaries and bonus, terminal benefits and other staff-related expenses. The provision for bonus is recognised when it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

#### Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund - Company

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The Company and the employees contribute 15% and 10% respectively on the salary of each employee to the Employees' Provident Fund.

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

#### Defined Contribution Plans - Social Security Fund - L B Microfinance Myanmar Company Limited

The Company and the employees contribute 3% and 2% respectively on the salary of each employee to the Social Security Board. The maximum contribution is limited to Myanmar kyat 9,000/- by the Company and Myanmar kyat 6,000/- by the employee.

#### Defined Benefit Plans - Company

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, staff gratuity was considered as defined benefit plan as per Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salaries and Other Related Expenses	2,537,989	2,289,613	2,565,475	2,303,987
Employer's Contribution to Employees' Provident Fund	239,164	214,908	239,164	214,908
Employer's Contribution to Employees' Trust Fund	47,833	42,982	47,833	42,982
Gratuity Charge/(Reversal) for the Year	75,942	63,099	75,942	63,099
Staff Training	18,560	10,950	18,755	10,950
Staff Welfare Expenses	79,269	65,650	80,597	65,650
Amortisation of Staff Loan Day 01 Difference	6,432	6,361	6,432	6,361
	3,005,189	2,693,563	3,034,198	2,707,937

## 4.7 OTHER OPERATING EXPENSES

### ► Accounting Policy

Other operating expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earnings of the specific items of the income. All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit for the year.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' Emoluments	16,740	15,149	16,740	15,149
Auditors' Remuneration	3,525	3,137	8,609	4,642
Audit-Related Expenses	3,269	2,734	3,269	2,734
Non-Audit Fees to Auditors	2,253	486	2,253	486
Professional and Legal Expenses	43,313	55,608	44,368	55,608
Deposit Insurance Premium	118,134	106,064	118,134	106,064
General Insurance Expenses	135,077	153,447	135,113	153,447
Office Administration and Establishment Expenses	1,242,287	1,531,540	1,255,679	1,540,180
Advertising and Business Promotional Expenses	552,324	539,173	552,613	539,173
Crop Insurance Levy Expenses	52,064	51,002	52,064	51,002
	2,168,986	2,458,340	2,188,842	2,468,485

### Crop Insurance Levy

As per provisions of the Section 14 of the Finance Act No 12 of 2013, the Crop Insurance Levy was introduced with effect from 1 April 2013 and was payable to the National Insurance Trust Fund. Currently, the Crop Insurance Levy is payable at 1% of profit after tax.

### Directors' Emoluments

Directors' Emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under Salaries and Other Related Expenses in Note 4.6 to these Financial Statements.

## Notes to the Financial Statements

### 4.8 TAX ON FINANCIAL SERVICES

#### ► Accounting Policy

Tax on Financial Services include Value Added Tax on Financial Services and Nation Building Tax on Financial Services.

#### Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits.

VAT rate applied for the current financial year is 15%.

#### Nation Building Tax (NBT) on Financial Services

As per provisions of the Nation Building Tax (NBT) Act No 9 of 2009 and amendments thereto, NBT on Financial Services was payable at 2% on Company's value additions attributable to financial services with effect from 1 January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on Financial Services. As per Notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019.

#### Debt Repayment Levy (DRL) on Financial Services

As per the Finance Act No 35 of 2018, with effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on Financial Services. As per notice published by the Department of Inland Revenue dated 20 January 2020, DRL was abolished with effect from 1 January 2020.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Value Added Tax on Financial Services	1,456,843	1,424,376	1,456,843	1,424,376
Nation Building Tax on Financial Services	137,005	189,712	137,005	189,712
Debt Repayment Levy on Financial Services	684,712	401,531	684,712	401,531
	<b>2,278,560</b>	<b>2,015,619</b>	<b>2,278,560</b>	<b>2,015,619</b>

## 4.9 TAXATION

### ► Accounting Policy

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income (OCI)', in which case it is recognised in Equity or in OCI.

### Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 4.9.2 to these Financial Statements.

Provision for taxation on the overseas operations is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant statutes in those countries, using the tax rates enacted or substantively enacted as at the reporting date.

### Accounting Estimates

Significant judgment was required to determine the total provision for current and deferred taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. The Company recognised assets and liabilities for current and deferred taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

### Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 4.31 to these Financial Statements.

#### 4.9.1 The Major Components of Income Tax Expense for the Years ended 31 March are as follows;

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

#### 4.9.1 (a) Income Statement

<b>Current Income Tax</b>				
Income Tax for the Year	2,724,337	2,457,981	2,735,062	2,465,763
Under/(Over) Provision of Current Taxes in respect of Previous Years	(40,639)	(16,252)	(32,271)	(16,252)
<b>Deferred Tax</b>				
Deferred Taxation Charge/(Reversal) (Note 4.31)	(260,464)	244,260	(260,464)	244,260
	2,423,234	2,685,989	2,442,327	2,693,771

## Notes to the Financial Statements

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

### 4.9.1 (b) Other Comprehensive Income

#### Deferred Tax

Deferred Taxation Charge/(Reversal) (Note 4.31)	(11,678)	6,712	(11,678)	6,712
	(11,678)	6,712	(11,678)	6,712

<b>4.9.1 (c) Total Tax Expense for the Financial Year</b>	<b>2,411,556</b>	<b>2,692,701</b>	<b>2,430,649</b>	<b>2,700,483</b>
---	------------------	------------------	------------------	------------------

### 4.9.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by relevant tax rate for the years ended 31 March is as follows;

	Tax Rate	Company		Group	
		2020	2019	2020	2019
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Accounting Profit Before Income Taxation</b>		<b>7,610,287</b>	<b>7,740,649</b>	<b>7,653,188</b>	<b>7,773,194</b>
<b>Income Tax Expense at the Statutory Income</b>					
L B Finance PLC	28%	2,130,880	2,167,382	2,130,880	2,167,382
L B Microfinance Myanmar Company Limited	25%	-	-	10,725	8,136
Tax Effect of Non-Deductible Expenses		399,759	538,917	399,759	545,629
Tax Effect of Allowable Credits		(1,110)	(1,306)	(1,110)	(1,306)
Tax Effect of Exempt Income		(1,231)	(2,753)	(1,231)	(2,753)
Tax Effect of Rate change to 24% with effect from 1 January 2020		(76,103)	-	(76,103)	-
Under/(Over) Provision of Current Taxes in respect of Previous Years		(40,639)	(16,251)	(32,271)	(16,605)
		<b>2,411,556</b>	<b>2,685,989</b>	<b>2,430,649</b>	<b>2,700,483</b>
<b>Charge/(Reversal) for Deferred Tax</b>		<b>(260,464)</b>	<b>244,260</b>	<b>(260,464)</b>	<b>244,260</b>
<b>Effective Tax Rate</b>		<b>31.69%</b>	<b>34.70%</b>	<b>31.76%</b>	<b>34.74%</b>
<b>Effective Tax Rate (Excluding Deferred Tax)</b>		<b>35.11%</b>	<b>31.54%</b>	<b>35.16%</b>	<b>31.60%</b>
<b>Accounting Profit Before Tax on Financial Services</b>		<b>9,888,847</b>	<b>9,756,268</b>	<b>9,931,748</b>	<b>9,788,813</b>
<b>Effective Tax Rate (Excluding Tax on Financial Services)</b>		<b>24.39%</b>	<b>27.53%</b>	<b>24.47%</b>	<b>27.59%</b>

**4.9.3 Income Tax expense of the Company and its subsidiary have been recorded for on the taxable income at rates shown below;**

	2020	2019
L B Finance PLC (1 April - 31 December)	28%	28%
L B Finance PLC (1 January - 31 March)	24%	28%
L B Microfinance Myanmar Company Limited	25%	25%

**4.9.4 Summary of the Taxes Paid During the Financial Year**

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Direct Taxes</b>				
Income Tax	2,875,243	1,588,320	2,897,059	1,588,320
Value Added Tax on Financial Services	1,607,388	1,402,281	1,607,388	1,402,281
Nation Building Tax on Financial Services	157,173	186,500	157,173	186,500
Debt Repayment Levy on Financial Services	749,182	337,061	749,182	337,061
Crop Insurance Levy	54,797	47,320	54,797	47,320
Economic Service Charge	157,338	142,410	157,338	142,410
	5,601,121	3,703,892	5,622,937	3,703,892
<b>Indirect Taxes (Collected and Paid)</b>				
Value Added Tax	255,963	292,987	255,963	292,987
Nation Building Tax	31,402	36,502	31,402	36,502
Stamp Duty	324,986	411,308	324,986	411,308
Withholding Tax on Dividend and Interest	508,602	360,324	508,602	360,324
PAYE Tax	102,611	106,619	102,611	106,619
	1,223,564	1,207,740	1,223,564	1,207,740
Total Taxes Paid during the Financial Year	6,824,685	4,911,632	6,846,501	4,911,632

## Notes to the Financial Statements

### 4.10 EARNINGS PER ORDINARY SHARE

#### ► Accounting Policy

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per the Sri Lanka Accounting Standard - LKAS 33 (Earnings Per Share).

Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees. The Group does not have any potentially dilutive shares.

#### 4.10.1 Income and Shares Details Used in the Basic Earning per Share Computation

	Company		Group	
	2020	2019	2020	2019
<b>Amounts Used as the Numerators:</b>				
Profit after Tax for the Year Attributable to Equity Holders (Rs. '000)	5,187,053	5,054,660	5,210,861	5,079,349
<b>Number of Ordinary Shares Used as Denominators for Basic Earnings per Share</b>				
Weighted Average Number of Ordinary Shares in Issue	138,514,284	138,514,284	138,514,284	138,514,284
Basic/Diluted Earnings per Ordinary Share (Rs.)	37.45	36.49	37.62	36.67

4.10.2 The Diluted earnings per ordinary share is equal to the basic earnings per ordinary share since the Company and the Group does not have any convertible securities as at the reporting date.

4.10.3 There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

### 4.11 DIVIDEND PAID AND PROPOSED

#### ► Accounting Policy

Provision for final dividends is 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.

	Company	
	2020	2019
	Rs. '000	Rs. '000
<b>4.11.1 Declared and Paid During the Year</b>		
Dividends on Ordinary Shares:		
Final Dividend for 2019 - Rs. 4.00 per Share (Final Dividend for 2018 - Rs. 4.00 per Share)	554,057	554,057
	554,057	554,057

#### 4.11.1 Declared and Paid During the Year

Dividends on Ordinary Shares:		
Final Dividend for 2019 - Rs. 4.00 per Share (Final Dividend for 2018 - Rs. 4.00 per Share)	554,057	554,057
	554,057	554,057

	Company	
	2020	2019
	Rs. '000	Rs. '000

#### 4.11.2 Declared During the Year and Paid after the Reporting Date

(recognised as a liability as at 31 March)

Dividends on Ordinary Shares:

(Interim Dividend for 2019 - Rs. 8.00 per Share)	-	1,108,114
--	---	-----------

#### 4.11.3 Proposed for Approval at Annual General Meeting

(not recognised as a liability as at 31 March)

Dividends on Ordinary Shares:

(Final Dividend for 2019 - Rs. 4.00 per Share)	-	554,057
--	---	---------

### 4.12 FINANCIAL INSTRUMENTS

#### ► Accounting Policy

##### Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to depositors, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to depositors when funds are transferred to the Group.

##### Classification and Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables of subsidiaries are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1' profit or loss.

##### Day 1' Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and the fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

##### Classification and Subsequent Measurement of Financial Assets

As per SLFRS 09, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through Other Comprehensive Income (FVOCI)
- Fair value through Profit or Loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

# Notes to the Financial Statements

## Business Model Assessment

Group determines its business model at the level that best reflects how it manages the financial assets to achieve its objectives. The Group's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as;

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)
- The expected frequency, value and timing of sales

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectation, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

## Contractual Cash flow Characteristic Test (The SPPI Test)

As the second test of the classification process the Group assesses the contractual terms of the financial asset to identify whether those meet 'Solely the Payment of Principal and Interest' (SPPI) criteria.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principle or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Group applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

## Classification and Subsequent Measurement of Financial Liabilities

As per SLFRS 09, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories;

- Financial liabilities at fair value through profit or loss, and within this category as;
  - Held for trading; or
  - Designated at fair value through profit or loss
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

## Reclassification of Financial Assets and Financial Liabilities

As per SLFRS 09, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 09.

### Derecognition of Financial Assets and Financial Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

#### 4.12.1 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKASs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

During the year Group has not offset any financial assets and financial liabilities in the Statement of Financial Position.

#### Offsetting of Financial Instruments

Offsetting of financial instruments based on the rights of set off relating to the financial instruments and cash collateral is as follows;

##### Company

As at 31 March 2020	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	60,626,670	-	60,626,670	-	24,730,786	35,895,884
<b>Financial Liabilities</b>						
Due to Depositors	89,256,435	-	89,256,435	-	3,311,868	85,944,567
<b>As at 31 March 2019</b>						
	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	66,050,429	-	66,050,429	-	28,094,634	37,955,795
<b>Financial Liabilities</b>						
Due to Depositors	83,214,949	-	83,214,949	-	2,855,607	80,359,342

## Notes to the Financial Statements

### Group

As at 31 March 2020	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	60,626,670	-	60,626,670	-	24,730,786	35,895,884
<b>Financial Liabilities</b>						
Due to Depositors	89,315,097	-	89,315,097	-	3,311,868	86,003,229
<b>As at 31 March 2019</b>						
	Gross Amounts	Gross Amounts Set off on the Statement of Financial Position	Net Amounts Presented on the Statement of Financial Position	Cash Collateral	Financial Instrument Collateral	Net Amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	66,050,429	-	66,050,429	-	28,094,634	37,955,795
<b>Financial Liabilities</b>						
Due to Depositors	83,242,617	-	83,242,617	-	2,855,607	80,387,010

The financial instruments and cash collateral amounts have been recorded at amortised cost. The rights of set off relating to the financial instruments and cash collateral are conditional upon the default of the counterparty.

### 4.13 FAIR VALUE MEASUREMENT

#### ► Accounting Policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

01. In the principal market for the asset or liability; or
02. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses various valuation

methodologies that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

**Level 1:** Inputs include quoted prices for identical instruments.

**Level 2:** Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.

**Level 3:** Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments.

#### Valuation Framework

The Company has an established control framework for the measurement of fair values. Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department.

We review the inputs to the fair value measurements to ensure they are appropriately categorised within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognised as if they had taken place at the end of the reporting period.

#### 4.13.1 Fair Value Measurement Hierarchy - Financial Assets Measured at Fair Value - Company & Group

As at 31 March	Notes	2020				2019				
		Fair Value Measurement Using				Fair Value Measurement Using				
		Quoted Prices In Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Financial Assets Recognised Through Profit or Loss - Measured at Fair Value</b>		4.15								
Quoted Equities		4,648	-	-	4,648	6,866	-	-	6,866	
<b>Financial Assets Measured at Fair Value Through Other Comprehensive Income</b>		4.19								
Quoted Equities		58,836	-	-	58,836	89,405	-	-	89,405	
Unquoted Equities		-	-	305	305	-	-	305	305	
		58,836	-	305	59,141	89,405	-	305	89,710	

There were no transfers into and transfers out of the hierarchy levels during 2019 and 2020.

Details of valuation methodologies and assumptions are disclosed in Note 4.15 and Note 4.19 to these Financial Statements.

## Notes to the Financial Statements

### 4.13.2 Fair Value Measurement Hierarchy - Financial Assets and Liabilities Measured at Amortised Cost

#### 4.13.2 (a) Financial Assets Measured at Amortised Cost - Company

As at 31 March	Notes	2020				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash and Cash Equivalents</b>	4.14					
Notes and Coins Held		936,075	-	-	936,075	936,075
Balances with Banks		3,683,718	-	-	3,683,718	3,683,718
Treasury Bills Repurchase Agreements		-	1,542,844	-	1,542,844	1,542,844
		4,619,793	1,542,844	-	6,162,637	6,162,637
<b>Financial Assets at Amortised Cost - Loans and Receivables (Net of Allowance for Impairment Losses)</b>	4.16					
Gold Loans		-	-	30,865,783	30,865,783	30,865,783
Vehicle Loans		-	-	12,386,581	12,386,581	11,862,685
Medium and Short-Term Loans		-	-	6,558,503	6,558,503	6,571,733
Mortgage Loans		-	-	5,532,136	5,532,136	5,097,547
Quick Loans		-	-	-	-	-
Power Drafts		-	-	3,939,431	3,939,431	3,841,506
Margin Trading		-	-	-	-	-
Factoring Receivable		-	-	-	-	-
		-	-	59,282,434	59,282,434	58,239,254
<b>Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)</b>	4.17					
Lease Rentals Receivable		-	-	62,559,507	62,559,507	60,624,088
Stock out on Hire		-	-	4,433	4,433	2,582
		-	-	62,563,940	62,563,940	60,626,670
<b>Other Financial Assets</b>	4.20					
Treasury Bills Repurchase Agreements		-	5,462,735	-	5,462,735	5,462,735
Investment in Fixed Deposits		-	3,426,929	-	3,426,929	3,426,929
Insurance Premium Receivable		-	206,038	-	206,038	206,038
Due from Subsidiary		-	16,278	-	16,278	16,278
Sundry Debtors		-	7,701	-	7,701	7,701
		-	9,119,681	-	9,119,681	9,119,681

2019				
Fair Value Measurement Using				
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
Level 1	Level 2	Level 3		
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
873,072	-	-	873,072	873,072
1,403,820	-	-	1,403,820	1,403,820
-	1,763,694	-	1,763,694	1,763,694
2,276,892	1,763,694	-	4,040,586	4,040,586
-	-	25,717,165	25,717,165	25,717,165
-	-	5,671,597	5,671,597	5,713,384
-	-	5,778,043	5,778,043	5,743,814
-	-	6,438,755	6,438,755	6,227,649
-	-	2,472	2,472	2,472
-	-	3,682,897	3,682,897	3,682,058
-	-	17,141	17,141	17,141
-	-	291,342	291,342	291,342
-	-	47,599,412	47,599,412	47,395,025
-	-	67,385,922	67,385,922	66,022,581
-	-	31,164	31,164	27,848
-	-	67,417,086	67,417,086	66,050,429
-	5,138,730	-	5,138,730	5,138,730
-	5,281,468	-	5,281,468	5,281,468
-	349,425	-	349,425	349,425
-	9,844	-	9,844	9,844
-	25,050	-	25,050	25,050
-	10,804,517	-	10,804,517	10,804,517

## Notes to the Financial Statements

### 4.13.2 (b) Financial Assets Measured at Amortised Cost - Group

As at 31 March	Notes	2020				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash and Cash Equivalents</b>	4.14					
Notes and Coins Held		936,604	-	-	936,604	936,604
Balances with Banks		3,992,864	-	-	3,992,864	3,992,864
Treasury Bills Repurchase Agreements		-	1,542,844	-	1,542,844	1,542,844
		4,929,468	1,542,844	-	6,472,312	6,472,312
<b>Financial Assets at Amortised Cost - Loans and Receivables (Net of Allowance for Impairment Losses)</b>	4.16					
Gold Loans		-	-	30,865,783	30,865,783	30,865,783
Vehicle Loans		-	-	12,386,581	12,386,581	11,862,685
Medium and Short-Term Loans		-	-	7,112,593	7,112,593	7,125,823
Mortgage Loans		-	-	5,532,136	5,532,136	5,097,547
Quick Loans		-	-	-	-	-
Power Drafts		-	-	3,939,431	3,939,431	3,841,506
Margin Trading		-	-	-	-	-
Factoring Receivable		-	-	-	-	-
		-	-	59,836,524	59,836,524	58,793,344
<b>Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)</b>	4.17					
Lease Rentals Receivable		-	-	62,559,507	62,559,507	60,624,088
Stock out on Hire		-	-	4,433	4,433	2,582
		-	-	62,563,940	62,563,940	60,626,670
<b>Other Financial Assets</b>	4.20					
Treasury Bills Repurchase Agreements		-	5,462,735	-	5,462,735	5,462,735
Investment in Fixed Deposits		-	3,426,929	-	3,426,929	3,426,929
Insurance Premium Receivable		-	206,038	-	206,038	206,038
Sundry Debtors		-	10,059	-	10,059	10,059
		-	9,105,761	-	9,105,761	9,105,761

2019				
Fair Value Measurement Using				
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
Level 1	Level 2	Level 3		
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
873,251	-	-	873,251	873,251
1,421,665	-	-	1,421,665	1,421,665
-	1,763,694	-	1,763,694	1,763,694
2,294,916	1,763,694	-	4,058,610	4,058,610
-	-	25,717,165	25,717,165	25,717,165
-	-	5,671,597	5,671,597	5,713,384
-	-	6,156,723	6,156,723	6,122,494
-	-	6,438,755	6,438,755	6,227,649
-	-	2,472	2,472	2,472
-	-	3,682,897	3,682,897	3,682,058
-	-	17,141	17,141	17,141
-	-	291,342	291,342	291,342
-	-	47,978,092	47,978,092	47,773,705
-	-	67,385,922	67,385,922	66,022,581
-	-	31,164	31,164	27,848
-	-	67,417,086	67,417,086	66,050,429
-	5,138,730	-	5,138,730	5,138,730
-	5,281,468	-	5,281,468	5,281,468
-	349,425	-	349,425	349,425
-	25,050	-	25,050	25,050
-	10,794,673	-	10,794,673	10,794,673

## Notes to the Financial Statements

### Sensitivity Analysis of Financial Assets Measured at Amortised Cost under Level 3 Category

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Increase/(Decrease) in Interest Rate</b>				
1bp Up	(10,013)	(9,418)	(10,013)	(9,418)
1bp Down	10,015	9,419	10,015	9,419

### Unobservable Inputs Used in Measuring Fair Value under Level 3 Category

The following table sets out information about significant unobservable inputs used as at 31 March 2020 and 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair Values as at 31 March 2020	Fair Values as at 31 March 2019	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Company	Group				
	Rs. '000	Rs. '000				
Financial Assets at Amortised Cost/Loans and Receivables (Net of Allowance for Impairment Losses)	59,282,434 (2019) 47,599,412	59,836,524 (2019) 47,978,092	Discounted cash flow	Spread	2-11.5% (2019 : 2-12.5%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	1.5-7.1% (2019 : 2-7%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	5-100% (2019 : 25-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.03-3.4% (2019 : 0.03-3.4%)	Correlates with the current interest rates
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)	62,563,940 (2019) 67,417,086	62,563,940 (2019) 67,417,086	Discounted cash flow	Spread	9% (2019 : 10%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	1.5-7.1% (2019 : 2-7%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	5-100% (2019 : 5-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.5-3.85% (2019 : 0.5-3.85%)	Correlates with the current interest rates

There were no transfers into and transfers out of the hierarchy levels during 2019 and 2020.

## **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.

## Notes to the Financial Statements

### 4.13.2 (c) Financial Liabilities Measured at Amortised Cost - Company

As at 31 March	Notes	2020				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Due to Banks</b>	4.25					
Bank Overdrafts		-	720,411	-	720,411	720,411
Debt Funding from Banks		-	24,096,491	-	24,096,491	22,050,674
		-	24,816,902	-	24,816,902	22,771,085
<b>Financial Liabilities at Amortised Cost - Due to Depositors</b>	4.26					
Fixed Deposits		-	-	86,353,155	86,353,155	85,761,986
Certificates of Deposit		-	-	10,373	10,373	10,373
Savings Deposits		-	-	3,484,076	3,484,076	3,484,076
		-	-	89,847,604	89,847,604	89,256,435
<b>Debt Instruments Issued and Other Borrowed Funds</b>	4.27					
Unsecured Debentures		-	3,215,338	-	3,215,338	3,111,186
		-	3,215,338	-	3,215,338	3,111,186
<b>Other Financial Liabilities</b>	4.28					
Trade Payables		-	68,309	-	68,309	68,309
Insurance Premium Payable		-	482,244	-	482,244	482,244
Unclaimed Balances		-	657,711	-	657,711	657,711
Lease Liability		-	1,321,454	-	1,321,454	1,321,454
Advances Collected from Customers		-	99,166	-	99,166	99,166
Other Payables		-	137,526	-	137,526	137,526
		-	2,766,410	-	2,766,410	2,766,410

2019					
Fair Value Measurement Using					
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost	
Level 1	Level 2	Level 3			
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
-	1,068,362	-	1,068,362	1,068,362	
-	23,788,928	-	23,788,928	23,565,146	
-	24,857,290	-	24,857,290	24,633,508	
-	-	81,096,420	81,096,420	80,250,164	
-	-	88,737	88,737	88,737	
-	-	2,876,048	2,876,048	2,876,048	
-	-	84,061,205	84,061,205	83,214,949	
-	3,026,629	-	3,026,629	3,107,783	
-	3,026,629	-	3,026,629	3,107,783	
-	620,323	-	620,323	620,323	
-	657,018	-	657,018	657,018	
-	573,891	-	573,891	573,891	
-	-	-	-	-	
-	27,862	-	27,862	27,862	
-	95,396	-	95,396	95,396	
-	1,974,490	-	1,974,490	1,974,490	

## Notes to the Financial Statements

### 4.13.2 (d) Financial Liabilities Measured at Amortised Cost - Group

As at 31 March	Notes	2020				
		Fair Value Measurement Using				
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Due to Banks</b>	4.25					
Bank Overdrafts		-	720,411	-	720,411	720,411
Debt Funding from Banks		-	24,208,348	-	24,208,348	22,162,530
		-	24,928,759	-	24,928,759	22,882,941
<b>Financial Liabilities at Amortised Cost - Due to Depositors</b>	4.26					
Fixed Deposits		-	-	86,353,155	86,353,155	85,761,986
Certificates of Deposit		-	-	10,373	10,373	10,373
Savings Deposits		-	-	3,542,738	3,542,738	3,542,738
		-	-	89,906,266	89,906,266	89,315,097
<b>Debt Instruments Issued and Other Borrowed Funds</b>	4.27					
Unsecured Debentures		-	3,215,338	-	3,215,338	3,111,186
		-	3,215,338	-	3,215,338	3,111,186
<b>Other Financial Liabilities</b>	4.28					
Trade Payables		-	68,309	-	68,309	68,309
Insurance Premium Payable		-	482,244	-	482,244	482,244
Unclaimed Balances		-	658,068	-	658,068	658,068
Lease Liability		-	1,321,454	-	1,321,454	1,321,454
Advances Collected from Customers		-	99,166	-	99,166	99,166
Other Payables		-	137,534	-	137,534	137,534
		-	2,766,775	-	2,766,775	2,766,775

2019				
Fair Value Measurement Using				
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Carrying Value at Amortised Cost
Level 1	Level 2	Level 3		
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
-	1,068,362	-	1,068,362	1,068,362
-	23,788,928	-	23,788,928	23,565,146
-	24,857,290	-	24,857,290	24,633,508
-	-	81,096,420	81,096,420	80,250,164
-	-	88,737	88,737	88,737
-	-	2,903,716	2,903,716	2,903,716
-	-	84,088,873	84,088,873	83,242,617
-	3,026,629	-	3,026,629	3,107,783
-	3,026,629	-	3,026,629	3,107,783
-	620,323	-	620,323	620,323
-	657,018	-	657,018	657,018
-	573,891	-	573,891	573,891
-	-	-	-	-
-	27,862	-	27,862	27,862
-	95,396	-	95,396	95,396
-	1,974,490	-	1,974,490	1,974,490

## Notes to the Financial Statements

### Sensitivity Analysis of Financial Liabilities Measured at Amortised Cost under Level 3 Category

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Increase/(Decrease) in Interest Rate</b>				
1bp Up	(9,972)	(9,888)	(9,972)	(9,888)
1bp Down	9,974	9,890	9,974	9,890

### Unobservable Inputs Used in Measuring Fair Value under Level 3 Category

The following table sets out information about significant unobservable inputs used as at 31 March 2020 and 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Company	Group	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Fair Values as at 31 March 2020	Fair Values as at 31 March 2020				
	Rs. '000	Rs. '000				
Financial Liabilities at Amortised Cost	89,847,604 (2019)	89,906,266 (2019)	Discounted cash flow	Spread	0-2.66% (2019 : 0-2.1%)	A significant increase in the spread would result in a lower fair value.
- Due to Depositors	84,061,205	84,088,875		Expected premature rate	0.36-2.83% (2019 : 0.31-1.02%)	Correlates with the current interest rates.

There were no financial liabilities recorded at fair value as at 31 March 2019 and 2020.

There were no transfers into and transfers out of the hierarchy levels during 2019 and 2020.

### Valuation Methodologies and Assumptions

#### Due to Depositors

We measure the fair value using internal valuation models. These models project future cash flows of fixed deposits based on scheduled maturities (including principal and interest) and pre-maturities of deposits. The projected cash flows are discounted to present value based on applicable spreads to approximate current deposit rates for each tenor. Our assumptions regarding pre-maturity speed and spreads are based on historical performance. Certificate of deposits that have a maturity less than one year and savings deposits without a specific maturity are assumed that the carrying amounts approximate their fair values. The fair value of due to depositors is categorised within Level 3 of the hierarchy.

#### Debentures, Bank Borrowings, Securitised Notes and Debt Instruments

We measure fair value for listed debentures using quoted prices for our own debentures with approximately the same remaining maturities, where possible. If the particular debenture is off the run, we estimate the fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debenture. Comparable on the run debenture yield to maturity (YTM) assumed to be a good approximation for the fair value estimation of off the run debentures. We estimate the fair value of Bank borrowings and debt instruments using discounted cash flows and use the most recent transacted rate and/or unexpired offered rate of a similar instrument or borrowing. Debt instrument and bank borrowing do not carry prepayment or embedded options. The fair value of debt is categorised within Level 2 of the hierarchy.

#### Other Financial Liabilities

Since all the liabilities which are under other financial liabilities have short-term maturities, it is assumed that the carrying amounts of those liabilities approximate their fair values.

#### 4.14 CASH AND CASH EQUIVALENTS

##### ► Accounting Policy

Cash and cash equivalents includes cash and bank balances and money at call and short notice. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Notes and Coins Held	936,075	873,072	936,604	873,251
Balances with Banks	3,683,718	1,403,820	3,992,864	1,421,665
Treasury Bills Repurchase Agreements (Less than 03 Months)	1,542,844	1,763,694	1,542,844	1,763,694
	6,162,637	4,040,586	6,472,312	4,058,610
Fair Value	6,162,637	4,040,586	6,472,312	4,058,610

4.14.1 The collateral value of repurchase agreements reflected on the Statement of Financial Position under cash and cash equivalents as at 31 March 2020 and 31 March 2019 was Rs. 1,685,700,000/- and Rs. 1,957,585,303/-, respectively.

#### 4.14.2 Cash and Cash Equivalents Allocated for the Liquidity Requirement

##### ► Accounting Policy

Our cash and cash equivalents allocated for the liquidity requirement primarily include cash held to meet certain local governmental and regulatory reserve requirement and cash held under the terms of certain contractual agreements. This does not include required minimum balances or cash securing debt issued through securitisation transactions. Cash and cash equivalents allocated for the liquidity requirement were as follows;

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents Allocated for the Liquidity Requirement	427,537	-	427,537	-

#### 4.14.3 Net Cash and Cash Equivalents for the Purpose of the Cash Flow Statement

##### ► Accounting Policy

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	6,162,637	4,040,586	6,472,312	4,058,610
Bank Overdrafts (Note 4.25)	(720,411)	(1,068,362)	(720,411)	(1,068,362)
Net Cash and Cash Equivalents	5,442,226	2,972,224	5,751,901	2,990,248

## Notes to the Financial Statements

### 4.15 FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE

#### ► Accounting Policy

The Group classifies financial assets as financial assets recognised through profit or loss when they have been purchased primarily for short-term profit making through trading activities. Financial assets recognised through profit or loss are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value are recognised in Net Trading Income.

Financial assets recognised through profit or loss include quoted equity securities that have been acquired principally for the purpose of selling in the near term, and are recorded at fair values. The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange.

SLFRS 09 requires financial instruments to be classified based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. For financial assets that are debt instruments, held for trading is a business model objective that results in measurement at fair value through profit or loss.

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
Equity Securities - Quoted (Note 4.15.1)	4,648	6,866

#### 4.15.1 Equity Securities - Quoted

	Company & Group			Company & Group		
	2020			2019		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	
<b>Bank Finance and Insurance</b>						
Seylan Bank PLC (Non-Voting)	104,110	1,685	2,301	96,257	1,685	3,457
		1,685	2,301		1,685	3,457
<b>Beverages, Food and Tobacco</b>						
Bairaha Farms PLC	17,600	425	1,385	17,600	425	2,020
		425	1,385		425	2,020
<b>Manufacturing</b>						
Lanka Walltiles PLC*	19,740	790	811	19,740	790	1,184
		790	811		790	1,184
<b>Trading</b>						
Hayleys PLC*	1,222	207	151	1,222	207	205
		207	151		207	205
<b>Total</b>		<b>3,107</b>	<b>4,648</b>		<b>3,107</b>	<b>6,866</b>

\* Investments made in related parties

#### 4.16 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

##### ► Accounting Policy

Loans and advances include financial assets measured at amortised cost if both of the following conditions are met:

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement loans and advances are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charges and other losses' in the Income Statement.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	31,017,589	25,766,906	31,017,589	25,766,906
Vehicle Loans	12,125,470	5,899,422	12,125,470	5,899,422
Medium and Short-Term Loans	6,923,467	6,041,682	7,511,289	6,424,565
Mortgage Loans	6,456,908	6,810,784	6,456,908	6,810,784
Quick Loans	-	6,474	-	6,474
Power Drafts	3,960,962	3,805,755	3,960,962	3,805,755
Margin Trading	-	17,142	-	17,142
Factoring Receivable	103,636	367,073	103,636	367,073
Real Estate Loans	528	910	528	910
<b>Gross Loans and Receivables</b>	<b>60,588,560</b>	<b>48,716,148</b>	<b>61,176,382</b>	<b>49,099,031</b>
Allowance for Impairment Losses (Note 4.18)	(2,349,306)	(1,321,123)	(2,383,038)	(1,325,326)
<b>Net Loans and Receivables subject to Fair Value (Note 4.16.2)</b>	<b>58,239,254</b>	<b>47,395,025</b>	<b>58,793,344</b>	<b>47,773,705</b>
Fair Value	59,282,434	47,599,412	59,836,524	47,978,092

##### 4.16.1 Loans and Receivables Include Loans Granted to Employees, the Movement of which is as Follows;

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
As at the Beginning of the Year	508,402	356,942
Loans Granted During the Year	588,462	393,286
Repayments During the Year	(532,011)	(241,826)
As at the End of the Year	564,853	508,402

## Notes to the Financial Statements

### 4.16.2 Contractual Maturity Analysis of Loans and Receivables - Company

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	31,017,589	-	-	31,017,589
Vehicle Loans	3,910,128	8,138,698	76,645	12,125,471
Medium and Short Term-Loans	4,020,875	2,902,592	-	6,923,467
Mortgage Loans	2,055,326	3,783,094	618,487	6,456,907
Power Drafts	3,305,596	655,366	-	3,960,962
Factoring Receivable	99,579	4,057	-	103,636
Real Estate Loans	528	-	-	528
<b>Gross Loans and Receivables</b>	<b>44,409,621</b>	<b>15,483,807</b>	<b>695,132</b>	<b>60,588,560</b>
Allowance for Impairment Losses (Note 4.18)				(2,349,306)
<b>Net Loans and Receivables</b>				<b>58,239,254</b>

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	25,766,906	-	-	25,766,906
Vehicle Loans	2,165,139	3,661,443	72,840	5,899,422
Medium and Short Term-Loans	3,634,984	2,406,698	-	6,041,682
Mortgage Loans	1,892,927	4,207,953	709,904	6,810,784
Quick Loans	6,474	-	-	6,474
Power Drafts	2,549,431	1,256,324	-	3,805,755
Margin Trading	17,142	-	-	17,142
Factoring Receivable	363,279	3,794	-	367,073
Real Estate Loans	910	-	-	910
<b>Gross Loans and Receivables</b>	<b>36,397,192</b>	<b>11,536,212</b>	<b>782,744</b>	<b>48,716,148</b>
Allowance for Impairment Losses (Note 4.18)				(1,321,123)
<b>Net Loans and Receivables</b>				<b>47,395,025</b>

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

#### 4.16.3 Contractual Maturity Analysis of Loans and Receivables - Group

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	31,017,589	-	-	31,017,589
Vehicle Loans	3,910,128	8,138,698	76,645	12,125,471
Medium and Short Term-Loans	4,600,017	2,911,272	-	7,511,289
Mortgage Loans	2,055,326	3,783,094	618,487	6,456,907
Power Drafts	3,305,596	655,366	-	3,960,962
Factoring Receivable	99,579	4,057	-	103,636
Real Estate Loans	528	-	-	528
<b>Gross Loans and Receivables</b>	<b>44,988,763</b>	<b>15,492,487</b>	<b>695,132</b>	<b>61,176,382</b>
Allowance for Impairment Losses (Note 4.18)				(2,383,038)
<b>Net Loans and Receivables</b>				<b>58,793,344</b>

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	25,766,906	-	-	25,766,906
Vehicle Loans	2,165,139	3,661,443	72,840	5,899,422
Medium and Short Term-Loans	3,957,942	2,466,623	-	6,424,565
Mortgage Loans	1,892,927	4,207,953	709,904	6,810,784
Quick Loans	6,474	-	-	6,474
Power Drafts	2,549,431	1,256,324	-	3,805,755
Margin Trading	17,142	-	-	17,142
Factoring Receivable	363,279	3,794	-	367,073
Real Estate Loans	910	-	-	910
<b>Gross Loans and Receivables</b>	<b>36,720,150</b>	<b>11,596,137</b>	<b>782,744</b>	<b>49,099,031</b>
Allowance for Impairment Losses (Note 4.18)				(1,325,326)
<b>Net Loans and Receivables</b>				<b>47,773,705</b>

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

## Notes to the Financial Statements

### 4.16.4 Credit Exposure Movement - ECL Stage-wise - Company

Loans and Receivables	2020			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2019	41,856,465	4,329,972	2,529,711	48,716,148
Transfer to Stage 01	424,101	(396,489)	(27,612)	-
Transfer to Stage 02	(2,143,465)	2,256,215	(112,750)	-
Transfer to Stage 03	(979,231)	(1,323,489)	2,302,720	-
New Assets Originated or Purchased	22,515,537	5,282,778	2,896,750	30,695,065
Financial Assets Derecognised or Repaid	(11,432,205)	(4,048,790)	(3,256,963)	(18,737,956)
Write-offs	(35)	(226)	(84,436)	(84,697)
As at 31 March 2020	50,241,167	6,099,971	4,247,420	60,588,560

Loans and Receivables	2019			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2018	34,308,332	3,991,280	2,422,051	40,721,663
Transfer to Stage 01	791,071	(607,195)	(183,876)	-
Transfer to Stage 02	(1,550,690)	1,670,294	(119,604)	-
Transfer to Stage 03	(769,259)	(503,377)	1,272,636	-
New Assets Originated or Purchased	19,017,672	3,128,837	1,422,952	23,569,461
Financial Assets Derecognised or Repaid	(9,940,652)	(3,349,786)	(2,232,476)	(15,522,914)
Write-offs	(9)	(81)	(51,972)	(52,062)
As at 31 March 2019	41,856,465	4,329,972	2,529,711	48,716,148

#### 4.16.5 Credit Exposure Movement - ECL Stage-wise - Group

Loans and Receivables	2020			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2019	42,239,348	4,329,972	2,529,711	49,099,031
Transfer to Stage 01	424,101	(396,489)	(27,612)	-
Transfer to Stage 02	(2,143,465)	2,256,215	(112,750)	-
Transfer to Stage 03	(979,231)	(1,323,489)	2,302,720	-
New Assets Originated or Purchased	23,016,720	5,287,796	2,921,470	31,225,986
Financial Assets Derecognised or Repaid	(11,822,909)	(4,049,202)	(3,256,963)	(19,129,074)
Write-offs	(35)	(226)	(84,436)	(84,697)
Exchange Rate Variance on Foreign Currency Provisions	65,136	-	-	65,136
As at 31 March 2020	50,799,665	6,104,577	4,272,140	61,176,382

Loans and Receivables	2019			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2018	34,347,600	3,991,280	2,422,051	40,760,931
Transfer to Stage 01	791,071	(607,195)	(183,876)	-
Transfer to Stage 02	(1,550,690)	1,670,294	(119,604)	-
Transfer to Stage 03	(769,259)	(503,377)	1,272,636	-
New Assets Originated or Purchased	19,361,626	3,128,837	1,422,952	23,913,415
Financial Assets Derecognised or Repaid	(9,940,652)	(3,349,786)	(2,232,476)	(15,522,914)
Write-offs	(9)	(81)	(51,972)	(52,062)
Exchange Rate Variance on Foreign Currency Provisions	(339)	-	-	(339)
As at 31 March 2019	42,239,348	4,329,972	2,529,711	49,099,031

## Notes to the Financial Statements

### 4.17 FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

#### ► Accounting Policy

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the Statement of Financial Position. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Lease and stock out on hire include financial assets measured at amortised cost if both of the following conditions are met:

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, lease receivable and stock out on hire are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charges and other losses' in the Income Statement.

	Company & Group			Company & Group		
	2020			2019		
	Lease	Hire Purchase	Total	Lease	Hire Purchase	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Gross Rentals Receivables</b>	82,924,583	117,309	83,041,892	91,216,889	216,907	91,433,796
Unearned Income	(19,502,061)	(87)	(19,502,148)	(22,949,287)	(1,013)	(22,950,300)
<b>Net Rentals Receivables</b>	63,422,522	117,222	63,539,744	68,267,602	215,894	68,483,496
Rentals Received in Advance	(5,041)	-	(5,041)	(7,279)	-	(7,279)
Allowance for Impairment Losses (Note 4.18)	(2,793,393)	(114,640)	(2,908,033)	(2,237,742)	(188,046)	(2,425,788)
<b>Total Net Rentals Receivable subject to Fair Value (Note 4.17.2)</b>	60,624,088	2,582	60,626,670	66,022,581	27,848	66,050,429
Fair Value			62,563,940			67,417,086

#### Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

#### 4.17.1 Lease and Hire Purchase Facilities Granted to Employees, the Movement of which is as Follows;

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
As at the Beginning of the Year	48,957	64,172
Lease and Hire Purchase Facilities Granted During the Year	17,448	26,745
Repayments During the Year	(31,237)	(41,960)
As at the End of the Year	35,168	48,957

#### 4.17.2 Contractual Maturity Analysis of Lease Rentals Receivable and Stock out on Hire - Company & Group

As at 31 March 2020	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivables	36,692,691	46,202,072	29,820	82,924,583	116,644	665	-	117,309
Unearned Income	(10,079,620)	(9,420,682)	(1,759)	(19,502,061)	(64)	(23)	-	(87)
<b>Net Rentals Receivables</b>	<b>26,613,071</b>	<b>36,781,390</b>	<b>28,061</b>	<b>63,422,522</b>	<b>116,580</b>	<b>642</b>	<b>-</b>	<b>117,222</b>
Rentals Received in Advance				(5,041)				-
Allowance for Impairment Losses				(2,793,393)				(114,640)
<b>Total Net Rentals Receivable</b>				<b>60,624,088</b>				<b>2,582</b>

As at 31 March 2019	Lease				Hire Purchase			
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivables	37,888,372	53,263,612	64,905	91,216,889	215,036	1,871	-	216,907
Unearned Income	(11,429,758)	(11,514,781)	(4,748)	(22,949,287)	(916)	(97)	-	(1,013)
<b>Net Rentals Receivables</b>	<b>26,458,614</b>	<b>41,748,831</b>	<b>60,157</b>	<b>68,267,602</b>	<b>214,120</b>	<b>1,774</b>	<b>-</b>	<b>215,894</b>
Rentals Received in Advance				(7,279)				-
Allowance for Impairment Losses				(2,237,742)				(188,046)
<b>Total Net Rentals Receivable</b>				<b>66,022,581</b>				<b>27,848</b>

Our lease rentals receivable and stock out on hire are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

#### 4.17.3 Credit Exposure Movement - ECL Stage-wise Lease Rentals Receivable and Stock out on Hire

	Company & Group				Company & Group			
	2020				2019			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount								
as at the Beginning of the Year	44,672,064	18,700,586	5,103,566	68,476,216	43,008,567	17,130,475	4,351,777	64,490,819
Transfer to Stage 01	2,257,459	(2,095,376)	(162,083)	-	3,734,909	(3,470,004)	(264,905)	-
Transfer to Stage 02	(12,202,504)	12,624,522	(422,018)	-	(8,899,518)	9,409,933	(510,415)	-
Transfer to Stage 03	(2,531,399)	(4,398,591)	6,929,990	-	(1,246,415)	(1,981,043)	3,227,458	-
New Assets Originated or Purchased	29,602,847	17,016,383	7,044,877	53,664,107	34,341,787	14,049,525	3,513,503	51,904,815
Financial Assets Derecognised or Repaid	(29,317,134)	(19,862,726)	(9,119,208)	(58,299,068)	(26,266,745)	(16,434,171)	(4,785,512)	(47,486,428)
Write-offs	(50)	(687)	(305,816)	(306,553)	(521)	(4,129)	(428,340)	(432,990)
As at the End of the Year	<b>32,481,283</b>	<b>21,984,111</b>	<b>9,069,308</b>	<b>63,534,702</b>	<b>44,672,064</b>	<b>18,700,586</b>	<b>5,103,566</b>	<b>68,476,216</b>

# Notes to the Financial Statements

## 4.18 ALLOWANCE FOR IMPAIRMENT LOSSES

### ➔ Accounting Policy

#### Overview of the Expected Credit Loss (ECL) Principles

The adoption of SLFRS 09 has fundamentally changed the Group's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1 April 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 09.

The ECL allowance is based on the credit losses expected to arise over the life of the asset.

The 12 months ECL is the portion of Lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both Lifetime ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on such process Group allocates loans into Stage 1, Stage 2, Stage 3 as described below;

#### Stage 01

When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

#### Stage 02

When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the Lifetime ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

#### Stage 03

When a loan is considered to be credit impaired/contain objective evidences of incurred loss, the Group records an allowance for the Lifetime ECLs.

#### Significant Increase in Credit Risk

The Group continuously monitors all assets subject to ECL, in order to determine whether there has been a significant increase in credit risk since initial recognition and whether the instrument or a portfolio of instruments is subject to 12 months ECL or Lifetime ECL. The Group considers an exposure to have a significant increase in credit risk at 30 days past due.

#### Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Group will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Group will consider the following criteria;

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

#### **Grouping Financial Assets Measured on a Collective Basis**

As explained above, Group calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to Stage 3. All assets which belong to Stage 1 and 2 will be assessed collectively for impairment.

The Group allocates smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

#### **Calculation of ECL**

The expected cash shortfalls are calculated by multiplying respective loan level PDs, EADs and LGDs. The cash shortfall is discounted to the Effective Interest Rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

PDs and LGDs are adjusted to the forward looking information using statistically quantified variance.

The mechanics of the ECL calculation are outlined below and the key elements are as follows;

- Probability of Default (PD) : PD is an estimate of the likelihood of default over a given time horizon. Hence majority of our client base being retail; we use internal information to estimate the PDs. The client has two credit statuses which can be identified as default or not default. We used Cohort method (CM) to compute the PDs.
- Exposure at Default (EAD) : EAD is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principal and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- Loss Given Default (LGD) : LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

## Notes to the Financial Statements

For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

The published global financial sector credit rating migration matrix Probability of Default used for fixed income (bank deposits) securities expected loss calculation, Value at Risk Methodology (VAR) is used for gold based loan expected loss calculation and binominal distribution model is used for small number of obligors portfolio expected loss calculation. Any financial asset, fully secured through a cash collateral, has not taken into the expected loss calculation.

### Forward Looking Information

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs in the Multiple economic factor model developed to forecast the expected Non-Performing Loans (NPL).

The model predicts the one year forward industry NPL levels and which has been used to adjust the Company PD curve using statistically quantified variance. The economic factor model is developed by the University of Colombo, Science and Technology CELL and consent to use with an annual review. The economic factor model predicts the NPL as an output and use some key economic factors as an input to the model. The key variables of the model is as follows;

- Industry NPL
- Business Confidence Index
- All Share Price Index(ASPI)
- Exchange Rates
- Fuel Prices
- GDP Growth Rate
- Disposable Income
- Real Interest Rates
- Inflation Rates
- Unemployment Rates
- Rainfall
- Assets Recovery Ratio
- Company Probability of Default Curve

### Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the Income Statement.

### Write-off of Loans and Receivables

Financial assets and the related impairment allowance accounts are normally written-off, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

## Collateral Valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Non financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

## Collateral Repossessed

Reposessed collateral will not be taken into books of accounts unless the Group has taken those collaterals into its business operations. However such additions from the reposessed collaterals to the business operations are not significant.

## Non-Accrual Receivables

Non performing classification point is triggered out when the receivables are more than five 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.

### 4.18.1 Stage-wise Analysis of the Allowance for Impairment Losses

	Company							
	2020				2019			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>4.18.1 (a) As at the Beginning of the Year</b>	579,701	477,047	2,690,163	3,746,911				2,867,398
Transition Adjustment on Adoption of SLFRS 09								291,668
<b>Restated Opening Balance</b>					503,436	416,582	2,239,048	3,159,066
Charge/(Reversal) for the Year	11,896	49,699	1,840,102	1,901,697	76,794	64,675	931,427	1,072,896
Amounts Written-Off	(15)	(461)	(390,793)	(391,269)	(529)	(4,210)	(480,312)	(485,051)
<b>As at the End of the Year</b>	591,582	526,285	4,139,472	5,257,339	579,701	477,047	2,690,163	3,746,911
<b>4.18.1 (b) Individual Impairment</b>	-	-	4,139,472	4,139,472	-	-	2,690,163	2,690,163
Collective Impairment	591,582	526,285	-	1,117,867	579,701	477,047	-	1,056,748
<b>Total</b>	591,582	526,285	4,139,472	5,257,339	579,701	477,047	2,690,163	3,746,911
<b>4.18.1 (c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance</b>	-	-	13,316,729	13,316,729	-	-	7,633,276	7,633,276
Gross Amount of Loans Collectively Assessed for the Impairment	82,722,450	28,084,083	-	110,806,533	86,528,529	23,030,560	-	109,559,089
<b>Gross Receivables</b>	82,722,450	28,084,083	13,316,729	124,123,262	86,528,529	23,030,560	7,633,276	117,192,365
Gross Amount of Loans Individually Determined to be Impaired				10.73%				6.51%

## Notes to the Financial Statements

### 4.18.2 Stage-wise Analysis of the Allowance for Impairment Losses

	Group							
	2020				2019			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>4.18.2(a) As at the Beginning of the Year</b>	583,905	477,047	2,690,163	3,751,115				2,867,788
Transition Adjustment on Adoption of SLFRS 09								291,668
<b>Restated Opening Balance</b>	583,905	477,047	2,690,163	3,751,115	503,826	416,582	2,239,048	3,159,456
Charge/(Reversal) for the Year	13,149	52,540	1,864,821	1,930,510	80,532	64,675	931,427	1,076,634
Amounts Written-Off	(15)	(461)	(390,793)	(391,269)	(529)	(4,210)	(480,312)	(485,051)
Exchange Rate Variance on Foreign Currency Provisions	714	-	-	714	76	-	-	76
<b>As at the End of the Year</b>	597,753	529,126	4,164,191	5,291,070	583,905	477,047	2,690,163	3,751,115
<b>4.18.2(b) Individual Impairment</b>	-	-	4,164,191	4,164,191	-	-	2,690,163	2,690,163
Collective Impairment	597,753	529,126	-	1,126,879	583,905	477,047	-	1,060,952
<b>Total</b>	597,753	529,126	4,164,191	5,291,070	583,905	477,047	2,690,163	3,751,115
<b>4.18.2(c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance</b>	-	-	13,341,448	13,341,448	-	-	7,633,276	7,633,276
Gross Amount of Loans Collectively Assessed for the Impairment	83,280,534	28,089,102	-	111,369,636	86,911,411	23,030,560	-	109,941,971
<b>Gross Receivables</b>	83,280,534	28,089,102	13,341,448	124,711,084	86,911,411	23,030,560	7,633,276	117,575,247
Gross Amount of Loans Individually Determined to be Impaired				10.70%				6.49%

#### 4.18.3 Product-wise Analysis of the Allowance for Impairment Losses

	Company							
	2020				2019			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	141,187	-	10,619	151,806	20,996	-	28,745	49,741
Vehicle Loans	58,667	49,200	154,918	262,785	34,333	20,823	130,882	186,038
Medium and Short Term-Loans	73,111	14,926	262,705	350,742	54,773	22,480	220,613	297,866
Mortgage Loans	30,535	52,609	1,276,216	1,359,360	43,107	73,314	466,714	583,135
Quick Loans	-	-	-	-	-	-	4,002	4,002
Power Drafts	5,093	8,480	105,883	119,456	10,478	8,220	105,000	123,698
Factoring Receivable	-	-	104,629	104,629	19,107	-	56,626	75,733
Real Estate Loans	-	-	528	528	-	-	910	910
<b>Loans and Receivables</b>	<b>308,593</b>	<b>125,215</b>	<b>1,915,498</b>	<b>2,349,306</b>	<b>182,794</b>	<b>124,837</b>	<b>1,013,492</b>	<b>1,321,123</b>
Leases	282,989	401,059	2,109,345	2,793,393	396,773	352,130	1,488,839	2,237,742
Hire Purchase	-	12	114,628	114,640	134	80	187,832	188,046
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>282,989</b>	<b>401,071</b>	<b>2,223,973</b>	<b>2,908,033</b>	<b>396,907</b>	<b>352,210</b>	<b>1,676,671</b>	<b>2,425,788</b>
<b>Total Allowance for Impairment Losses</b>	<b>591,582</b>	<b>526,286</b>	<b>4,139,471</b>	<b>5,257,339</b>	<b>579,701</b>	<b>477,047</b>	<b>2,690,163</b>	<b>3,746,911</b>

#### 4.18.4 Product-wise Analysis of the Allowance for Impairment Losses

	Group							
	2020				2019			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	141,187	-	10,619	151,806	20,996	-	28,745	49,741
Vehicle Loans	58,667	49,200	154,918	262,785	34,333	20,823	130,882	186,038
Medium and Short Term-Loans	79,282	17,767	287,424	384,473	58,977	22,480	220,613	302,070
Mortgage Loans	30,535	52,609	1,276,216	1,359,360	43,107	73,314	466,714	583,135
Quick Loans	-	-	-	-	-	-	4,002	4,002
Power Drafts	5,093	8,480	105,883	119,456	10,478	8,220	105,000	123,698
Factoring Receivable	-	-	104,629	104,629	19,107	-	56,626	75,733
Real Estate Loans	-	-	528	528	-	-	910	910
<b>Loans and Receivables</b>	<b>314,764</b>	<b>128,056</b>	<b>1,940,217</b>	<b>2,383,037</b>	<b>186,998</b>	<b>124,837</b>	<b>1,013,492</b>	<b>1,325,327</b>
Leases	282,989	401,059	2,109,345	2,793,393	396,773	352,130	1,488,839	2,237,742
Hire Purchase	-	12	114,628	114,640	134	80	187,832	188,046
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>282,989</b>	<b>401,071</b>	<b>2,223,973</b>	<b>2,908,033</b>	<b>396,907</b>	<b>352,210</b>	<b>1,676,671</b>	<b>2,425,788</b>
<b>Total Allowance for Impairment Losses</b>	<b>597,753</b>	<b>529,127</b>	<b>4,164,190</b>	<b>5,291,070</b>	<b>583,905</b>	<b>477,047</b>	<b>2,690,163</b>	<b>3,751,115</b>

## Notes to the Financial Statements

### 4.18.5 Stage Movements in Allowance for Impairment Losses

	Company							
	2020				2019			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(ECL) as at the Beginning of the Year	579,701	477,047	2,690,163	3,746,911	503,436	416,582	2,239,048	3,159,066
Transfer to Stage 01	72,001	(57,090)	(14,911)	-	117,038	(88,719)	(28,319)	-
Transfer to Stage 02	(131,195)	164,685	(33,490)	-	(89,586)	128,242	(38,656)	-
Transfer to Stage 03	(38,409)	(131,718)	170,127	-	(17,436)	(53,158)	70,594	-
New Assets Originated or Purchased	470,922	441,644	2,460,931	3,373,497	348,448	374,799	1,352,922	2,076,169
Financial Assets Derecognised or Repaid	(361,422)	(367,822)	(742,576)	(1,471,820)	(281,670)	(296,489)	(425,114)	(1,003,273)
Write-offs	(15)	(461)	(390,774)	(391,250)	(529)	(4,210)	(480,312)	(485,051)
<b>As at the End of the Year</b>	<b>591,583</b>	<b>526,285</b>	<b>4,139,470</b>	<b>5,257,338</b>	<b>579,701</b>	<b>477,047</b>	<b>2,690,163</b>	<b>3,746,911</b>

### 4.18.6 Stage Movements in Allowance for Impairment Losses

	Group							
	2020				2019			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(ECL) as at the Beginning of the Year	583,905	477,047	2,690,163	3,751,115	503,826	416,582	2,239,048	3,159,456
Transfer to Stage 01	72,001	(57,090)	(14,911)	-	117,038	(88,719)	(28,319)	-
Transfer to Stage 02	(131,195)	164,685	(33,490)	-	(89,586)	128,242	(38,656)	-
Transfer to Stage 03	(38,409)	(131,718)	170,127	-	(17,436)	(53,158)	70,594	-
New Assets Originated or Purchased	476,275	444,683	2,485,651	3,406,609	352,186	374,799	1,352,922	2,079,907
Financial Assets Derecognised or Repaid	(365,521)	(368,020)	(742,576)	(1,476,117)	(281,670)	(296,489)	(425,114)	(1,003,273)
Write-offs	(15)	(461)	(390,774)	(391,250)	(529)	(4,210)	(480,312)	(485,051)
Exchange Rate Variance on Foreign Currency Provisions	714	-	-	714	76	-	-	76
<b>As at the End of the Year</b>	<b>597,755</b>	<b>529,126</b>	<b>4,164,190</b>	<b>5,291,071</b>	<b>583,905</b>	<b>477,047</b>	<b>2,690,163</b>	<b>3,751,115</b>

### 4.18.7 Sensitivity Analysis of Allowance for Impairment Losses

Changed Criteria	Changed Factor	Sensitivity Effect on Impairment Allowance Increase	
		2020	2019
		Rs. '000	Rs. '000
Loss Given Default (LGD)	Increase by 10%	197,181	211,772
Probability of Default (PD)	Increase by 1%	16,403	11,526

## 4.19 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### ► Accounting Policy

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under Sri Lanka Accounting Standard - LKAS 32 (Financial Instruments: Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to Income Statement. Dividends are recognised in the Income Statement as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in Other Comprehensive Income. Equity instruments at FVOCI are not subject to an impairment assessment.

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
Equity Securities - Quoted (Note 4.19.1)	58,836	89,405
Equity Securities - Unquoted (Note 4.19.2)	305	305
	<b>59,141</b>	<b>89,710</b>

### 4.19.1 Equity Securities - Quoted

	2020			2019		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Manufacturing</b>						
Central Industries PLC	8,184	150	268	8,184	150	231
Ceylon Grain Elevators PLC	44	5	2	44	5	2
Dankotuwa Porcelain PLC	32,512	1,012	146	32,512	1,012	172
Royal Ceramics Lanka PLC*	31,320	843	1,751	31,320	843	1,848
Samson International PLC	5,899	930	425	5,899	930	578
		<b>2,940</b>	<b>2,592</b>		<b>2,940</b>	<b>2,831</b>
<b>Hotels and Travels</b>						
The Fortress Resorts PLC*	4,051,100	81,990	31,599	4,051,100	81,990	40,511
Aitken Spence Hotel Holdings PLC	308	6	5	308	6	7
Hotel Sigiriya PLC	700	30	25	700	30	41
		<b>82,026</b>	<b>31,629</b>		<b>82,026</b>	<b>40,559</b>
<b>Stores and Supplies</b>						
Hunters & Company PLC	10	3	4	10	3	4
		<b>3</b>	<b>4</b>		<b>3</b>	<b>4</b>

## Notes to the Financial Statements

	2020			2019		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Bank, Finance and Insurance</b>						
Commercial Bank of Ceylon PLC	285	15	17	278	15	27
Seylan Bank PLC	2,718	155	91	2,590	155	163
Sampath Bank PLC	5	-	1	5	-	1
Softlogic Finance PLC	2,090,000	79,656	24,035	2,090,000	79,656	45,144
		79,826	24,144		79,826	45,335
<b>Beverages, Food and Tobacco</b>						
Keells Food Products PLC	500	21	54	500	21	62
Lanka Milk Foods PLC	5,500	250	406	5,500	250	605
Convenience Foods (Lanka) PLC	22	1	7	22	1	9
		272	467		272	676
<b>Total</b>		165,067	58,836		165,067	89,405

\* Investments made in related parties

### 4.19.2 Equity Securities - Unquoted

	2020			2019		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
Credit Information Bureau of Sri Lanka	1,047	105	105	1,047	105	105
Finance House Association of Sri Lanka	20,000	200	200	20,000	200	200
<b>Total</b>		305	305		305	305

Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

### 4.19.2 (a) Reconciliation of Fair Value Measurement for Unquoted Equity Securities under Level 3 Hierarchy

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
As at the Beginning of the Year	305	305
Remeasurement Recognised in Other Comprehensive Income	-	-
Purchases	-	-
Sales	-	-
Transfers into or out of Level 3 Hierarchy	-	-
Remeasurement Recognised in Income Statement	-	-
<b>As at the End of the Year</b>	<b>305</b>	<b>305</b>

## 4.20 OTHER FINANCIAL ASSETS

### ► Accounting Policy

These include treasury bills repurchase agreements, where we are the transferee and investments in fixed deposits with banks and other financial institutions. Treasury bills repurchase agreements allow us to offset our entire gross exposure in the event of default or breach of contract. Other financial assets are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the receivable amount (including interest income) is recognised in the Income Statement over the period of the assets using effective interest method.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury Bills Repurchase Agreements (Note 4.20.1)	5,462,735	5,138,730	5,462,735	5,138,730
Investment in Fixed Deposits (Note 4.20.2)	3,426,929	5,281,468	3,426,929	5,281,468
Insurance Premium Receivable	206,038	349,425	206,038	349,425
Due from Subsidiary	16,278	9,844	-	-
Sundry Debtors	7,701	25,050	10,059	25,050
	9,119,681	10,804,517	9,105,761	10,794,673
<b>Fair Value</b>	<b>9,119,681</b>	<b>10,804,517</b>	<b>9,105,761</b>	<b>10,794,673</b>

4.20.1 The collateral value of repurchase agreements reflected on the Statement of Financial Position under Other Financial Assets as at 31 March 2020 and 31 March 2019 was Rs. 6,090,600,000/- and Rs. 6,058,900,000/-, respectively.

### 4.20.2 Investment in Fixed Deposits

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Counterparty External Credit Rating*</b>				
AA-	838,314	31,930	838,314	31,930
A+	558,932	3,219,653	558,932	3,219,653
A-	2,038,010	2,030,437	2,038,010	2,030,437
Investment in Fixed Deposits	3,435,256	5,282,020	3,435,256	5,282,020
Impairment Allowance	(8,327)	(552)	(8,327)	(552)
<b>Total</b>	<b>3,426,929</b>	<b>5,281,468</b>	<b>3,426,929</b>	<b>5,281,468</b>

\*Fitch Ratings Lanka Ltd

## Notes to the Financial Statements

### 4.21 OTHER NON FINANCIAL ASSETS

#### ► Accounting Policy

Group classifies all other non financial assets other than intangible assets and property, plant and equipment under other non financial assets. Other non financial assets include real estate stock, vehicle stock, gold stock, deposits, advances and prepayments, etc. These assets are non-interest earning and recorded at the amounts that are expected to be received.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Real Estate Stock	-	31,650	-	31,650
Impairment Allowance	-	(31,650)	-	(31,650)
Vehicle Stock	14,673	22,041	14,673	22,041
Deposits, Advances and Prepayments	900,795	989,914	905,624	995,619
Gold Stock	1,514	1,514	1,514	1,514
Stationery Stock	15,361	10,626	15,361	10,626
Withholding Tax Receivable	-	5,633	-	5,633
Sundry Debtors	11,972	11,767	16,163	11,767
Pre-Paid Staff Cost (Note 4.21.1)	23,154	25,865	23,154	25,865
	967,469	1,067,360	976,489	1,073,065

#### Gold Stock

The gold inventory is valued at lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

#### 4.21.1 The Movement in the Pre-Paid Staff Cost

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the Beginning of the Year	25,865	19,735	25,865	19,735
Adjustment for New Grants and Settlements	3,721	12,491	3,721	12,491
Charge to Personnel Expenses	(6,432)	(6,361)	(6,432)	(6,361)
<b>As at the End of the Year</b>	<b>23,154</b>	<b>25,865</b>	<b>23,154</b>	<b>25,865</b>

## 4.22 INVESTMENT IN SUBSIDIARY

Subsidiary is an investee controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the company continues to recognise the investments in Subsidiaries at cost.

The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of the Subsidiary in the Group had a common financial year which ends on 31 March. However the financial year end of its Subsidiary L B Microfinance Myanmar Company Limited has changed from 31 March to 30 September. The reason for using different reporting date by L B Microfinance Myanmar Company Limited is due to the requirements imposed by Financial Regulatory Department of Myanmar. The Financial Statements of the Company's Subsidiary are prepared using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Parent (the Company) in the form of cash dividend or repayment of loans and advances.

As at 31 March	Holding	Company			
		2020		2019	
		Cost	Market Value	Cost	Market Value
%	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
L B Microfinance Myanmar Company Limited	100	521,162	521,162	318,999	318,999

The L B Microfinance Myanmar Company Limited was incorporated as a 99% (100% - 31 March 2020) owned subsidiary in Myanmar. The Company obtained a licence from the Myanmar Microfinance Supervisory Enterprise to operate as a microfinance organisation.

Cost is assumed to be the best approximation for the market value of the investment due to the absence of most recent exit prices.

## 4.23 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets.

### ➔ Accounting Policy

#### Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

# Notes to the Financial Statements

## Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

## Cost Model

The Group applies cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

## Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are charged to the Income Statement as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

## Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in the Income Statement when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

## Right-of-Use Assets

In accordance with Sri Lanka Accounting Standard SLFRS 16 (Leases), effective from 1 January 2019, Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position.

The Group recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-Use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are amortised on the straight line basis over the lease term.

## Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated. Freehold land is not depreciated.

The estimated useful lives of the property, plant and equipment of the Company as at 31 March 2020 are as follows;

Asset Category	Period (Years)	Depreciation % per Annum
Freehold Buildings and Edifices	50	2%
Improvement of Leasehold Asset	6.67	15%
Computer Hardware and Equipment	5	20%
Motor Vehicles	5-8	12.50-20%
Equipment	5	20%
Furniture and Fittings	6.67	15-20%
Fixtures and Fittings	5	20%

The above rates are compatible with the rates used by all Group entities.

### Accounting Estimates

#### Useful Lifetime of the Property, Plant and Equipment

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

# Notes to the Financial Statements

## 4.23.1 Company - 2020

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>										
Balance as at 1 April 2019	4,498,264	919,897	310,441	777,662	435,255	859,217	606,301	521,794	-	8,928,831
Impact from the Implementation of SLFRS 16	-	-	-	-	-	-	-	-	1,436,599	1,436,599
Additions	228,859	1,277	63,129	101,446	120	97,814	100,277	179,860	141,076	913,858
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(4,027)	(15,661)	(15,394)	(14,526)	(11,368)	(7,699)	-	(68,675)
<b>Balance as at 31 March 2020</b>	<b>4,727,123</b>	<b>921,174</b>	<b>369,543</b>	<b>863,447</b>	<b>419,981</b>	<b>942,505</b>	<b>695,210</b>	<b>693,955</b>	<b>1,577,675</b>	<b>11,210,613</b>
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2019	-	99,929	205,143	499,736	223,171	555,324	442,213	325,936	-	2,351,452
Charge for the Year	-	18,410	33,669	101,654	42,469	101,156	58,822	100,620	240,708	697,508
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(3,662)	(15,292)	(8,922)	(13,862)	(10,627)	(7,230)	-	(59,595)
<b>Balance as at 31 March 2020</b>	<b>-</b>	<b>118,339</b>	<b>235,150</b>	<b>586,098</b>	<b>256,718</b>	<b>642,618</b>	<b>490,408</b>	<b>419,326</b>	<b>240,708</b>	<b>2,989,365</b>
<b>Net Book Value as at 31 March 2020</b>	<b>4,727,123</b>	<b>802,835</b>	<b>134,393</b>	<b>277,349</b>	<b>163,263</b>	<b>299,887</b>	<b>204,802</b>	<b>274,629</b>	<b>1,336,967</b>	<b>8,221,248</b>

## 4.23.2 Company - 2019

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>										
Balance as at 1 April 2018	2,734,972	788,381	288,287	789,889	404,377	640,380	930,808	84,364	-	6,661,458
Additions	1,763,292	1,315,116	30,111	127,613	36,650	141,308	32,811	54,019	-	2,317,320
Transfers	-	-	3,098	(126,994)	-	77,609	(340,165)	386,452	-	-
Disposals/Write-offs	-	-	(11,055)	(12,846)	(5,772)	(80)	(17,155)	(3,041)	-	(49,947)
<b>Balance as at 31 March 2019</b>	<b>4,498,264</b>	<b>919,897</b>	<b>310,441</b>	<b>777,662</b>	<b>435,255</b>	<b>859,217</b>	<b>606,301</b>	<b>521,794</b>	<b>-</b>	<b>8,928,831</b>
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2018	-	82,835	185,187	516,477	181,564	410,794	559,250	44,732	-	1,980,839
Charge for the Year	-	17,094	31,368	86,847	46,988	92,411	57,598	85,583	-	417,889
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	(1,661)	(91,016)	-	52,234	(157,766)	198,209	-	-
Disposals/Write-offs	-	-	(9,751)	(12,572)	(5,381)	(115)	(16,869)	(2,588)	-	(47,276)
<b>Balance as at 31 March 2019</b>	<b>-</b>	<b>99,929</b>	<b>205,143</b>	<b>499,736</b>	<b>223,171</b>	<b>555,324</b>	<b>442,213</b>	<b>325,936</b>	<b>-</b>	<b>2,351,452</b>
<b>Net Book Value as at 31 March 2019</b>	<b>4,498,264</b>	<b>819,968</b>	<b>105,298</b>	<b>277,926</b>	<b>212,084</b>	<b>303,893</b>	<b>164,088</b>	<b>195,858</b>	<b>-</b>	<b>6,577,379</b>

#### 4.23.3 Group - 2020

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>										
Balance as at 1 April 2019	4,498,264	919,897	311,603	778,652	455,342	860,971	606,301	521,794	-	8,932,824
Impact from the Implementation of SLFRS 16	-	-	-	-	-	-	-	-	1,436,599	1,436,599
Additions	228,859	1,277	63,935	102,433	120	100,359	100,277	179,860	141,076	918,196
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	199	168	15	298	-	-	-	680
Disposals/Write-offs	-	-	(4,027)	(15,661)	(15,394)	(14,526)	(11,368)	(7,699)	-	(68,675)
<b>Balance as at 31 March 2020</b>	<b>4,727,123</b>	<b>921,174</b>	<b>371,710</b>	<b>865,592</b>	<b>420,083</b>	<b>947,102</b>	<b>695,210</b>	<b>693,955</b>	<b>1,577,675</b>	<b>11,219,624</b>
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2019	-	99,929	205,286	499,917	223,186	555,632	442,213	325,936	-	2,352,099
Charge for the Year	-	18,410	33,923	101,969	42,480	101,707	58,822	100,620	2,40,708	698,639
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	58	72	4	125	-	-	-	259
Disposals/Write-offs	-	-	(3,662)	(15,292)	(8,922)	(13,862)	(10,627)	(7,230)	-	(59,595)
<b>Balance as at 31 March 2020</b>	<b>-</b>	<b>118,339</b>	<b>235,605</b>	<b>586,666</b>	<b>256,748</b>	<b>643,602</b>	<b>490,408</b>	<b>419,326</b>	<b>2,40,708</b>	<b>2,991,402</b>
<b>Net Book Value as at 31 March 2020</b>	<b>4,727,123</b>	<b>802,835</b>	<b>136,105</b>	<b>278,926</b>	<b>163,335</b>	<b>303,500</b>	<b>204,802</b>	<b>274,629</b>	<b>1,336,967</b>	<b>8,228,222</b>

#### 4.23.4 Group - 2019

	Freehold Land	Freehold Buildings and Edifices	Furniture and Fittings	Equipment	Motor Vehicles	Computer Hardware and Equipment	Improvement of Leasehold Asset	Fixtures and Fittings	Right-of-Use Assets	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>										
Balance as at 1 April 2018	2,734,972	788,381	288,607	790,202	404,465	640,978	930,808	84,364	-	6,662,777
Additions	1,763,292	131,516	30,955	128,293	36,650	142,469	32,811	54,019	-	2,320,005
Transfers	-	-	3,098	(126,994)	-	77,609	(340,165)	386,452	-	-
Exchange Rate Variance	-	-	(2)	(3)	(1)	(5)	-	-	-	(11)
Disposals/Write-offs	-	-	(11,055)	(12,846)	(5,772)	(80)	(17,153)	(3,041)	-	(49,947)
<b>Balance as at 31 March 2019</b>	<b>4,498,264</b>	<b>919,897</b>	<b>311,603</b>	<b>778,652</b>	<b>435,342</b>	<b>860,971</b>	<b>606,301</b>	<b>521,794</b>	<b>-</b>	<b>8,932,824</b>
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2018	-	82,835	185,206	516,492	181,568	410,841	559,250	44,732	-	1,980,924
Charge for the Year	-	17,094	31,489	87,009	46,999	92,666	57,598	85,583	-	418,438
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	(1,661)	(91,016)	-	52,234	(157,766)	198,209	-	-
Exchange Rate Variance	-	-	3	4	-	6	-	-	-	13
Disposals/Write-offs	-	-	(9,751)	(12,572)	(5,381)	(115)	(16,869)	(2,588)	-	(47,276)
<b>Balance as at 31 March 2019</b>	<b>-</b>	<b>99,929</b>	<b>205,286</b>	<b>499,917</b>	<b>223,186</b>	<b>555,632</b>	<b>442,213</b>	<b>375,936</b>	<b>-</b>	<b>2,352,099</b>
<b>Net Book Value as at 31 March 2019</b>	<b>4,498,264</b>	<b>819,968</b>	<b>106,317</b>	<b>278,735</b>	<b>212,156</b>	<b>305,339</b>	<b>164,088</b>	<b>195,858</b>	<b>-</b>	<b>6,580,725</b>

## Notes to the Financial Statements

### 4.23.5 Property, Plant and Equipment Acquired During the Financial Year - Company & Group

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 934,230,105/- (2019 - Rs. 2,317,321,174/-). Cash payments amounting to Rs. 934,230,105/- (2019 - Rs. 2,317,321,174/-) was paid during the year for purchases of property, plant and equipment.

During the financial year, the Group acquired property, plant and equipment to the aggregate value of Rs. 938,987,401/- (2019 - Rs. 2,320,005,344/-). Cash payments amounting to Rs. 938,987,401/- (2019 - Rs. 2,320,005,344/-) was paid during the year for purchases of property, plant and equipment.

### 4.23.6 Property, Plant and Equipment subjected to Operating Lease - Company & Group

Included in property, plant and equipment are assets subject to operating lease where the Company is a lessor. At 31 March 2020, the net carrying value amount of those assets was Rs. 53,852,056/- (2019 - Rs. 73,742,064/-), on which the accumulated depreciation as at 31 March 2020 was Rs. 50,597,988/- (2019 - Rs. 30,707,979/-).

Summary of future operating lease receivable was as follows;

As at 31 March 2020	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Future Operating Lease Receivable	31,118	41,268	-	72,386

As at 31 March 2019	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Future Operating Lease Receivable	31,118	72,386	-	103,504

### 4.23.7 Borrowing Costs - Company & Group

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the financial year 2020 (2019 - Nil).

### 4.23.8 Fully-Depreciated Property, Plant and Equipment - Company & Group

The initial cost of fully-depreciated property, plant and equipment, which are still in use as at reporting date is Rs. 1,527,144,852/- (2019 - Rs. 1,320,406,007/-).

### 4.23.9 Lease Commitments - Company & Group

The Group lease land, buildings, and equipment under agreements that expire over various contractual periods. As per LKAS 17, effective up to 31 March 2019 future minimum rentals payable under non-cancellable operating leases were considered as operating lease commitments, as follows;

	2020 Rs. '000	2019 Rs. '000
Within One Year	-	273,848
1 - 5 Years	-	1,090,204
Over 5 Years	-	973,163
<b>Total</b>	-	2,337,215

Operating lease expense for the years ended 31 March was as follows;

	2020 Rs. '000	2019 Rs. '000
Operating Lease Expense	-	299,260

#### 4.23.10 Information on the Freehold Land and Buildings - Company & Group

As required by the Rule No 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange.

	2020						2019
	Number of Buildings	Extent	Buildings	Revalued Amount	Net Book Value	Revalued Amount as a % of Net Book Value	Net Book Value
		Perches	Square Feet	Rs. '000	Rs. '000		Rs. '000
<b>Kollupitiya</b> No 20, Dharmapala Mawatha, Colombo 03.	1	52.82	57,020	2,096,000	881,885	238	894,437
<b>Kollupitiya</b> No 676, Galle Road, Colombo 03.	5	167.65	63,251	4,191,250	2,186,858	192	1,961,176
<b>Cinnamon Gardens</b> No 165, Dharmapala Mawatha, Colombo 07.	1	48.95	7,400	1,155,000	1,003,953	115	1,003,239
<b>Kandy</b> No 115B, Kotugodella Veediya, Kandy.	1	25.76	7,780	530,750	519,624	102	519,992
<b>Kandy</b> No 226, D S Senanayaka Street, Kandy.	1	7.05	3,674	76,000	10,345	735	10,405
<b>Kandy</b> Moragaspitiyawatta Road, Balagolla, Kengalla.	2	110.00	2,400	54,500	29,577	184	29,748
<b>Kandy</b> No 47/10 A, Luwiss Pieris Mawatha, Buwelikada, Kandy.	-	42.40	-	38,200	34,085	112	34,085
<b>Maradana</b> No 104/1, Vipulasena Mawatha, Colombo 10.	1	50.60	5,750	347,300	76,169	456	76,844
<b>Nuwara Eliya</b> No 35/4, Upper Lake Road, Nuwara Eliya.	-	359.00	-	392,000	64,906	604	64,906
<b>Wellawatta</b> No 51A, W A Silva Mawatha, Colombo 06.	-	14.23	-	170,000	156,442	109	156,442
<b>Panadura</b> No 37, Jayathilake Mawatha, Panadura.	1	42.00	1,925	129,500	104,224	124	104,224
<b>Kalutara</b> No 334, Main Street, Kalutara South.	1	26.27	10,620	217,600	195,181	111	196,183
<b>Borella</b> No 1024, Maradana Road, Borella.	-	25.50	-	331,500	266,710	124	266,710

Valuation of freehold land and buildings of the Company was carried out as at 31 March 2020 by H.B. Manjula Basnayaka. AIV (Sri Lanka), N.C.T., QS, (COT), incorporated valuer. Investment method, Contractor's Test method and Comparison method, Residual method have been used for the valuation.

Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy.

# Notes to the Financial Statements

## 4.23.11 Title Restriction on Property, Plant and Equipment - Company & Group

There were no restrictions existed on the title of the property, plant and equipment as at the reporting date.

## 4.23.12 Property, Plant and Equipment Pledged as Security for Liabilities - Company & Group

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date other than those disclosed in the Note 6.7 of these Financial Statements.

## 4.23.13 Compensation from Third Parties for Items of Property, Plant and Equipment - Company & Group

There were no compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up as at the reporting date.

## 4.23.14 Temporarily Idle Property, Plant and Equipment - Company & Group

There were no temporarily idle property, plant and equipment as at the reporting date.

## 4.23.15 Property, Plant and Equipment Retired from Active Use - Company & Group

There were no property, plant and equipment retired from active use as at the reporting date.

## 4.24 INTANGIBLE ASSETS

An intangible asset is an identifiable monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

### → Accounting Policy

#### Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

#### Computer Software

Cost of all computer software licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category of intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

#### Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

#### Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition of an item of intangible asset is included in the Income Statement when the item is derecognised.

#### Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Group. Indefinite-lived intangible assets are not amortised, but are tested for impairment annually or more frequently if events or circumstances indicate the asset may be impaired. Only finite-lived intangible asset is computer software of the Group. There is no indefinite-lived intangible assets which are subject to annual impairment test. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The Group assumes that there is no residual value for its intangible assets.

Intangible assets mainly represent the cost of computer software and the useful lifetime is as follows;

Intangible Asset Category	Period (Years)		Depreciation % per Annum	
Computer Software	5		20%	

Computer Software	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>				
Cost as at the Beginning of the Year	173,428	164,213	178,557	169,386
Additions and Improvements	17,844	9,215	29,339	9,215
Exchange Rate Variance	-	-	873	(44)
Cost as at the End of the Year	191,272	173,428	208,769	178,557
<b>Amortisation and Impairment Losses</b>				
Amortisation as at the Beginning of the Year	133,581	116,094	135,034	116,525
Charge for the Year	15,882	17,487	18,125	18,492
Impairment Loss	-	-	-	-
Exchange Rate Variance	-	-	546	17
Accumulated Amortisation as at the End of the Year	149,463	133,581	153,705	135,034
<b>Net Book Value as at 31 March</b>	<b>41,809</b>	<b>39,847</b>	<b>55,064</b>	<b>43,523</b>

**4.24.1** There were no restrictions on the title of the intangible assets as at the reporting date. Further there were no items pledged as securities for liabilities.

#### 4.25 DUE TO BANKS

##### ► Accounting Policy

These include bank overdrafts, finance leases, syndicated loans, term loans, securitisation loans and other bank facilities. Due to bank balances are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the repayable amount (including interest) is recognised in the Income Statement over the period of the loan using effective interest rate method.

Under finance leases, the leased assets are capitalised and included in 'property, plant and equipment' and the corresponding liability to the lessor is included in 'due to banks'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'interest expense' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining period of the liability.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank Overdrafts	720,411	1,068,362	720,411	1,068,362
Debt Funding from Banks (Note 4.25.1)	22,050,674	23,565,146	22,162,530	23,565,146
	22,771,085	24,633,508	22,882,941	24,633,508
Fair Value	24,816,902	24,857,290	24,816,902	24,857,290

## Notes to the Financial Statements

### 4.25.1 Debt Funding from Banks

	As at	*Loans	Interest	Repayments		As at
	1 April	Obtained	Recognised	Capital	Interest	31 March
	2019					2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Syndicated Loans</b>						
Syndication 1	453,488	-	6,440	(450,000)	(9,929)	-
Syndication 2	1,337,429	-	99,261	(1,320,000)	(116,690)	-
Syndication 3	1,474,774	-	166,851	(568,750)	(163,841)	909,034
Syndication 4	1,242,440	-	136,994	(475,000)	(53,641)	850,793
Syndication 5	2,234,285	-	276,245	-	-	2,510,530
Syndication 6	1,063,402	-	132,228	-	-	1,195,631
Syndication 7	1,045,778	-	131,156	-	-	1,176,934
Syndication 8	-	1,290,292	91,066	-	-	1,381,358
	8,851,596	1,290,292	1,040,241	(2,813,750)	(344,101)	8,024,280
<b>Term Loans</b>						
Bank of Ceylon	1,673,002	-	112,304	(1,250,000)	(115,967)	419,339
Commercial Bank 1	446,686	-	14,179	(446,000)	(14,865)	-
Commercial Bank 2	313,076	-	22,618	(250,000)	(23,068)	62,626
Commercial Bank 3	1,225,720	-	139,255	(444,000)	(140,512)	780,463
Commercial Bank 4	-	2,496,866	223,310	(468,750)	(217,412)	2,034,014
Commercial Bank 5	-	323,200	10,079	(31,200)	(7,430)	294,649
Nations Trust Bank 1	286,679	-	12,466	(286,000)	(13,145)	-
Nations Trust Bank 2	504,163	-	15,119	(500,000)	(19,282)	-
Nations Trust Bank 3	958,163	-	105,116	(252,000)	(105,079)	706,200
Nations Trust Bank 4	-	499,430	38,136	(112,000)	(35,580)	389,986
Hatton National Bank 1	369,320	-	13,204	(366,830)	(15,694)	-
Hatton National Bank 2	525,010	-	42,578	(525,000)	(42,588)	-
Hatton National Bank 3	422,296	-	33,086	(420,000)	(35,382)	-
Public Bank 1	100,209	-	8,792	(40,000)	(8,905)	60,096
Public Bank 2	60,048	-	5,510	(20,000)	(5,529)	40,029
Seylan Bank 1	441,560	-	44,290	(250,008)	(46,816)	189,026
Seylan Bank 2	1,007,572	-	27,963	(1,000,000)	(35,535)	-
Seylan Bank 3	-	1,998,425	62,538	(2,000,000)	(60,963)	-
Seylan Bank 4	-	2,000,000	593	(2,000,000)	(593)	-
Seylan Bank 5	-	2,000,000	7,693	(2,000,000)	(7,693)	-
DFCC Bank 1	489,599	-	49,115	(187,500)	(51,794)	299,420
DFCC Bank 2	820,487	-	83,350	(250,000)	(87,001)	566,836
DFCC Bank 3	1,181,848	-	126,335	(171,429)	(130,141)	1,006,613
DFCC Bank 4	-	997,781	26,869	(33,333)	(18,372)	972,945
AXIS Bank	419,833	-	32,988	(416,800)	(36,021)	-
Habib Bank	258,133	-	25,614	(100,000)	(25,471)	158,276
Sampath Bank	-	2,977,769	221,987	(150,000)	(184,931)	2,864,825
	11,503,404	13,293,471	1,505,087	(13,970,850)	(1,485,769)	10,845,343
<b>Securitisation Loans</b>						
Sampath Bank	3,210,146	-	409,014	(375,000)	(63,108)	3,181,051
	3,210,146	-	409,014	(375,000)	(63,108)	3,181,051
<b>Total Debt Funding from Banks - Company</b>	<b>23,565,146</b>	<b>14,583,763</b>	<b>2,954,342</b>	<b>(17,159,600)</b>	<b>(1,892,978)</b>	<b>22,050,674</b>

	As at 1 April 2019	*Loans Obtained	Interest Recognised	Repayments		As at 31 March 2020
	Rs. '000	Rs. '000	Rs. '000	Capital Rs. '000	Interest Rs. '000	Rs. '000
<b>L B Microfinance Myanmar Company Limited</b>						
<b>Term Loan</b>						
CB Bank	-	108,400	11,371	-	(7,915)	111,856
	-	108,400	11,371	-	(7,915)	111,856
<b>Total Debt Funding from Banks - Group</b>	23,565,146	14,692,163	2,965,713	(17,159,600)	(1,900,893)	22,162,530

\* Net of transaction cost

The Group has unutilised borrowing facilities of Rs. 4,492,727,321/- as at 31 March 2020 (2019 - Rs. 2,453,000,000/-).

Details of the assets pledged as security for liabilities are disclosed in Note 6.7 to these Financial Statements.

#### 4.25.2 Contractual Maturity Analysis of Debt Funding from Banks

As at 31 March 2020	Company			
	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	1,882,308	6,141,971	-	8,024,280
Term Loans	4,058,782	6,643,744	142,817	10,845,343
Securitisation Loans	1,364,312	1,816,740	-	3,181,051
	7,305,402	14,602,455	142,817	22,050,674

As at 31 March 2020	Group			
	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	1,882,308	6,141,971	-	8,024,280
Term Loans	4,116,438	6,697,944	142,817	10,957,199
Securitisation Loans	1,364,312	1,816,740	-	3,181,051
	7,363,058	14,656,655	142,817	22,162,530

As at 31 March 2019	Company & Group			
	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	2,824,821	6,026,775	-	8,851,596
Term Loans	6,541,666	4,647,492	314,246	11,503,404
Securitisation Loans	396,923	2,813,223	-	3,210,146
	9,763,410	13,487,490	314,246	23,565,146

## Notes to the Financial Statements

### 4.26 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

#### ➔ Accounting Policy

Due to depositors comprise of interest bearing savings deposits and term deposits. Customer deposits are initially recognised at fair value net of transactions cost. Subsequent to the initial recognition they are measured at their amortised cost using the effective interest rate method. Interest expense on these deposits is recognised to the Income Statement.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	85,761,986	80,250,164	85,761,986	80,250,164
Certificates of Deposit	10,373	88,737	10,373	88,737
Savings Deposits	3,484,076	2,876,048	3,542,738	2,903,716
	89,256,435	83,214,949	89,315,097	83,242,617
Fair Value	89,847,604	84,061,205	89,906,266	84,088,873

#### 4.26.1 Sri Lanka Deposit Insurance and Liquidity Support Scheme - Company

Under the Direction No 2 of 2010 [Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka and subsequent amendments thereto, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation upto a maximum of Rs. 600,000/- for each depositor. The Company has paid Rs. 118,134,385/- as the premium of the said Insurance scheme during the current financial year (2019 - Rs. 106,063,772/-).

#### 4.26.2 Contractual Maturity Analysis of Customer Deposits - Company

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	71,230,589	14,531,397	-	85,761,986
Certificates of Deposit	10,373	-	-	10,373
Savings Deposits	3,484,076	-	-	3,484,076
	74,725,038	14,531,397	-	89,256,435

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	62,423,413	17,826,751	-	80,250,164
Certificates of Deposit	88,737	-	-	88,737
Savings Deposits	2,876,048	-	-	2,876,048
	65,388,198	17,826,751	-	83,214,949

#### 4.26.3 Contractual Maturity Analysis of Customer Deposits - Group

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	71,230,589	14,531,397	-	85,761,986
Certificates of Deposit	10,373	-	-	10,373
Savings Deposits	3,542,738	-	-	3,542,738
	74,783,700	14,531,397	-	89,315,097

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	62,423,413	17,826,751	-	80,250,164
Certificates of Deposit	88,737	-	-	88,737
Savings Deposits	2,903,716	-	-	2,903,716
	65,415,866	17,826,751	-	83,242,617

We have raised fixed deposits with a pre-termination option to the customers, so fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

#### 4.27 DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

##### ► Accounting Policy

Debt instruments and other borrowings are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the repayable amount (including interest) is recognised in the Income Statement over the period of the loan using effective interest rate method.

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
Unsecured Debentures (Note 4.27.1)	3,111,186	3,107,783
Fair Value	3,215,338	3,026,629

##### 4.27.1 Unsecured Debentures

Category	Interest Payable	Features	Amortised Cost Rs. '000	Face Value Rs. '000	Interest Rate	Issued Date	Redemption Date
Type A (60 Months)	Biannually	Listed	1,036,042	1,000,000	12.75% p.a	11 December 2017	11 December 2022
Type B (60 Months)	Biannually	Listed	2,075,144	2,000,000	13.25% p.a	11 December 2017	11 December 2022
			3,111,186	3,000,000			

## Notes to the Financial Statements

### 4.27.2 Contractual Maturity Analysis of Debt Instruments Issued and Other Borrowed Funds - Company & Group

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unsecured Debentures	116,611	2,994,575	-	3,111,186

As at 31 March 2019	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unsecured Debentures	116,205	2,991,578	-	3,107,783

### 4.28 OTHER FINANCIAL LIABILITIES

#### ► Accounting Policy

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade payables are obligations to pay for vehicle suppliers in the ordinary course of business.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade Payables	68,309	620,323	68,309	620,323
Insurance Premium Payable	482,244	657,018	482,244	657,018
Unclaimed Balances	657,711	573,891	658,068	573,891
Lease Liability (Note 4.28.1)	1,321,454	-	1,321,454	-
Advances Collected from Customers	99,166	27,862	99,166	27,862
Other Payables	137,526	95,396	137,534	95,396
	2,766,410	1,974,490	2,766,775	1,974,490
Fair Value	2,766,410	1,974,490	2,766,775	1,974,490

#### 4.28.1 Lease Liability

#### ► Accounting Policy

The Group recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Group has measured the lease liability at the present value of the remaining lease payments, discounted using the Group's Incremental Borrowing Rate.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease liabilities due to initial application of SLFRS 16, recognised as at the beginning of the year	1,293,121	-	1,293,121	-
Additions	123,106	-	123,106	-
Accretion of Interest	157,447	-	157,447	-
Payments	(252,220)	-	(252,220)	-
Balance as at the End of the Year	1,321,454	-	1,321,454	-

#### 4.28.1(a) Sensitivity Analysis of Lease Liability

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the Company as at 31 March 2020.

Increase/(Decrease) in Incremental Borrowing Rate	2020	
	Sensitivity Effect on Lease Liability Increase/(Reduction) in the Liability	Sensitivity Effect on Interest Expense Increase/(Reduction) in Profits for the Year
	Rs. '000	Rs. '000
1bp Up	(41,952)	1,215
1bp Down	44,039	(1,523)

#### 4.28.1(b) Contractual Maturity Analysis of Lease Liability

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Liability	117,838	827,939	375,676	1,321,454

## 4.29 OTHER NON FINANCIAL LIABILITIES

### ➔ Accounting Policy

Group classifies all non financial liabilities other than post employment benefit liability, deferred tax liabilities and current tax liabilities under other non financial liabilities. Other non financial liabilities include accruals, advances and provisions. These liabilities are non-interest bearing and recorded at the amounts that are expected to be paid.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Payable	-	1,108,114	-	1,108,114
Stamp Duty Payable	53,959	96,420	53,959	96,420
EPF/ETF/PAYE Payable	38,331	38,081	38,331	38,081
Withholding Tax Payable	7,378	179,459	7,378	179,459
Crop Insurance Levy Payable	13,152	15,884	13,152	15,884
Accrued Expenses	768,511	606,588	779,949	606,588
Other Payables	23,980	18,728	29,054	23,887
Impairment Provision in Respect of Off-Balance Sheet Credit Exposures	3,955	7,358	3,955	7,358
	909,266	2,070,632	925,778	2,075,791

## Notes to the Financial Statements

### 4.30 CURRENT TAX LIABILITIES

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Tax	761,499	1,136,794	771,804	1,144,739
Value Added Tax (VAT)	5,253	172,033	5,253	172,033
Nation Building Tax (NBT)	-	22,674	-	22,674
Debt Repayment Levy (DRL)	-	64,470	-	64,470
	<b>766,752</b>	<b>1,395,971</b>	<b>777,057</b>	<b>1,403,916</b>

### 4.31 DEFERRED TAXATION

#### ► Accounting Policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses carried forward can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Accounting Estimates

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax planning strategies.

**Deferred Tax Assets, Liabilities and Income Tax Relate to the Followings:**

	Reflected in			Reflected in			Reflected in		
	Statement of Financial Position			Income Statement			Statement of Comprehensive Income		
	Company	Group	Rs. '000	Company	Group	Rs. '000	Company	Group	Rs. '000
	2019	2020	2019	2019	2020	2019	2020	2019	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Deferred Tax Liability</b>									
Depreciation of Leased Assets	1,043,577	1,043,577	1,133,983	(90,406)	(90,406)	211,698	(90,406)	211,698	
Depreciation of Property, Plant and Equipment	220,956	220,956	229,052	(8,096)	(8,096)	7,118	(8,096)	7,118	
	1,264,533	1,264,533	1,363,035	(98,502)	(98,502)	218,816	(98,502)	218,816	
<b>Deferred Tax Assets</b>									
Defined Benefit Obligation - Income Statement	(74,252)	(74,252)	(61,025)	(13,227)	(13,227)	(13,786)	(13,227)	(13,786)	
Right-of-Use Assets	(25,200)	(25,200)	(25,200)	(25,200)	(25,200)		(25,200)		
Defined Benefit Obligation - Other Comprehensive Income	(22,476)	(22,476)	(10,798)	(22,476)	(22,476)	(10,798)	(11,678)	(11,678)	6,712
Carried Forward Impairment Provision	(105,025)	(105,025)	18,510	(123,535)	(123,535)	39,232	(123,535)	39,232	
	(226,953)	(226,953)	(53,313)	(161,962)	(161,962)	25,446	(161,962)	25,446	6,712
<b>Deferred Income Tax Charge/(Reversal)</b>				(260,464)	(260,464)	244,262	(11,678)	(11,678)	6,712
<b>Net Deferred Tax Liability/(Asset)</b>	1,037,580	1,037,580	1,309,722	(260,464)	(260,464)	244,262	(11,678)	(11,678)	6,712

**4.31.1** Deferred tax has been determined based on the enacted tax rate of 28% for the Company.

## Notes to the Financial Statements

### 4.32 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 are based on expected future inflation rates and expected future salary increase rate of the Company.

#### Recognition of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

#### Expected Return on Assets

Expected return on assets is zero as the plan is not pre-funded.

#### Funding Arrangements

The gratuity liability is not externally funded.

#### 4.32.1 Post Employment Benefit Liability

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance at the Beginning of the Year	256,512	231,240	256,512	231,240
Amount Charged/(Reversed) for the Year	117,651	39,129	117,651	39,129
Payments Made During the Year	(28,707)	(13,857)	(28,707)	(13,857)
Balance at the End of the Year	345,456	256,512	345,456	256,512

#### 4.32.2 Amounts Recognised in the Income Statement

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current Service Cost for the Year	46,443	38,818	46,443	38,818
Interest Cost on the Net Defined Benefit Liability for the Year	29,500	24,280	29,500	24,280
	75,943	63,098	75,943	63,098

#### 4.32.3 Amounts Recognised in the Other Comprehensive Income

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Liability (Gains)/Losses due to Changes in Assumptions	33,472	(30,106)	33,472	(30,106)
Liability Experience (Gains)/Losses Arising During the Year	8,235	6,137	8,235	6,137
	41,707	(23,969)	41,707	(23,969)

#### 4.32.4 Defined Benefit Obligation Reconciliation

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Benefit Obligation at End of Prior Year	256,512	231,240	256,512	231,240
Current Service Cost for the Year	46,443	38,818	46,443	38,818
Net Interest Cost on the				
Net Defined Benefit Liability for the Year	29,500	24,280	29,500	24,280
Liability (Gains)/Losses due to Changes in Assumptions	33,472	(30,106)	33,472	(30,106)
Liability Experience (Gains)/Losses Arising During the Year	8,236	6,137	8,236	6,137
Payments Made During the Year	(28,707)	(13,857)	(28,707)	(13,857)
	345,456	256,512	345,456	256,512

4.32.5 Average future working lifetime as per the assumptions made is 14.7 years as of 31 March 2020 (14.6 years as of 31 March 2019).

#### 4.32.6 Assumptions

	2020	2019
Discount Rate	10.00%	11.50%
Salary Increment	9.00%	10.00%
Staff Turnover		
20 - 40 years	25.00%	25.00%
41 - 49 years	1.00%	1.00%
50 years or above	1.00%	1.00%

Mortality - GA 1983 Mortality Table

Disability - Long Term Disability 1987 Soc. Sec. Table

Retirement Age - Normal Retirement Age (55 Years), or Age on Valuation Date, if greater

An actuarial valuation of the gratuity was carried out as at 31 March 2020 by Piyal S. Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

## Notes to the Financial Statements

### 4.32.7 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the retirement benefit liability measurement.

The sensitivity of the Statement of Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment on the profit or loss and retirement benefit obligation for the year.

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment	2020		2019	
		Sensitivity Effect on Statement of Comprehensive Income - Increase /(Reduction) in Results for the Year	Sensitivity Effect on Retirement Benefit Obligation - Increase /(Reduction) in the Liability	Sensitivity Effect on Statement of Comprehensive Income - Increase /(Reduction) in Results for the Year	Sensitivity Effect on Retirement Benefit Obligation - Increase /(Reduction) in the Liability
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
1%		32,917	(32,917)	25,192	(25,192)
-1%		(39,291)	39,291	(30,106)	30,106
	1%	(38,366)	38,366	(29,511)	29,511
	-1%	32,766	(32,766)	25,144	(25,144)

### 4.32.8 The Expected Benefit Payout in the Future Years for Retirement Gratuity

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Within the Next 12 Months	14,091	16,453	14,091	16,453
Between 2 and 5 Years	182,133	125,615	182,133	125,615
Beyond 5 Years	191,319	230,337	191,319	230,337
	387,543	372,405	387,543	372,405

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation at the end of the financial year and include benefits attributable to estimated future employee service.

### 4.33 STATED CAPITAL

#### 4.33.1 Issued and Fully Paid Ordinary Shares

	Company & Group		Company & Group	
	2020		2019	
	No. of Shares	Rs. '000	No. of Shares	Rs. '000
At the Beginning of the Year	138,514,284	838,282	138,514,284	838,282
At the End of the Year	138,514,284	838,282	138,514,284	838,282

#### 4.33.2 Rights of Shareholders

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

### 4.34 RESERVES

	Company			Group		
	As at 1 April 2019	Movement/ Transfers	As at 31 March 2020	As at 1 April 2019	Movement/ Transfers	As at 31 March 2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory Reserve	5,285,759	1,037,411	6,323,170	5,285,759	1,037,411	6,323,170
Available for Sale Reserve	-	-	-	-	-	-
Fair Value Reserve	(75,662)	(30,569)	(106,231)	(75,662)	(30,569)	(106,231)
Foreign Currency Translation Reserve	-	-	-	20,779	96,608	117,387
	5,210,097	1,006,842	6,216,939	5,230,876	1,103,450	6,334,326

#### 4.34.1 Statutory Reserve

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	5,285,759	4,274,827
Transfers Made During the Financial Year	1,037,411	1,010,932
Balance as at the End of the Year	6,323,170	5,285,759

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.

## Notes to the Financial Statements

### 4.34.2 Available for Sale Reserve

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	-	(4,305)
Transfers Made During the Financial Year/Fair Value Gains and Losses arising on Re-measuring Available for Sale Financial Assets	-	4,305
Balance as at the End of the Year	-	-

The available for sale reserve comprises the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

### 4.34.3 Fair Value Reserve

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	(75,662)	(43,749)
Transfers Made During the Financial Year/Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	(30,569)	(31,913)
Balance as at the End of the Year	(106,231)	(75,662)

The fair value through other comprehensive income reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until they are derecognised or impaired. Due to the adoption of SLFRS 09, the balance of the available for sale reserve as at 1 April 2018 was transferred to fair value through other comprehensive income reserve.

### 4.34.4 Foreign Currency Translation Reserve

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	-	-	20,779	5,231
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	96,608	15,548
Balance as at the End of the Year	-	-	117,387	20,779

The foreign currency translation reserve comprises of all foreign currency differences arising from the translation of the Financial Statements of foreign operations. As at the reporting date, the assets and liabilities of the L B Microfinance Myanmar Company Limited a subsidiary of the Company were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the reporting date and the Income Statement and Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation are taken to foreign currency translation reserve through other comprehensive income.

#### 4.35 RETAINED EARNINGS

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	12,378,772	10,240,092	12,397,809	10,234,440
Impact of Adoption of SLFRS 09	-	(299,578)	-	(299,578)
Transfer of Available for Sale Reserve build on Impairment of Financial Investments - Available for Sale	-	39,444	-	39,444
Dividend Paid	(554,057)	(1,662,171)	(554,057)	(1,662,171)
Profit for the Year	5,187,053	5,054,660	5,210,861	5,079,349
Other Comprehensive Income, Net of Tax	(30,029)	17,257	(30,029)	17,257
Transfers During the Year (Note 4.34)	(1,037,411)	(1,010,932)	(1,037,411)	(1,010,932)
Balance as at the End of the Year	15,944,328	12,378,772	15,987,173	12,397,809

Retained earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future losses or dividends payable.

#### 4.36 NON-CONTROLLING INTEREST

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

	Group	
	2020	2019
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	-	459
Non-Controlling Interest Contribution for Subsidiary Share Issues	-	-
Profit for the year	-	74
Other Comprehensive Income, Net of Tax	-	47
Disposal of Shares	-	(580)
Balance as at the End of the Year	-	-

# Notes to the Financial Statements

## SECTION 05

### Risk Management Disclosures

#### 5.1 INTRODUCTION

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for managing the risk exposures relating to his/her functional areas.

The Group identifies the following key financial risks in its business operations.

- Credit Risk
- Liquidity Risk
- Market Risk
- Capital Adequacy

#### Risk Management Framework

The Risk Management Framework of the Group has been 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.

The overall responsibility and oversight of the Risk Management framework of the Group is vested with the Board of Directors. The Integrated Risk Management Committee (IRMC), a sub committee appointed by the Board, is responsible for developing and monitoring Group's risk management policies practiced.

The following management committees, each with a defined responsibility, support the IRMC by executing their respective risk management mandates.

- Asset and Liability Committee
- Credit Committee
- IT Steering Committee
- Sustainability Committee

#### Risk Management Department (RMD)

Whilst the business units have primary responsibility for Risk Management the RMD provides an independent oversight function acting as a second line of defense. RMD is headed by the Head of Risk Management who directly reports to the Managing Director and also has a functional reporting to the IRMC. The RMD co-exists with other control functions in the Group that might uncover risk management issues, most notably Internal Audit, Compliance and Finance. Each of the control functions has a different focus and potential overlap between them is kept at a minimum, while ensuring that the approaches taken are complementary and lead to consistent, effective and timely escalation of risks.

#### 5.2 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers/other companies and investments in debt securities. Credit risk constitutes the Group's largest risk exposure category. This can be broadly categorised into three types; default, concentration and settlement risk.

**Default risk** is the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the Group's loans and advances to customers.

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

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

Group manages credit risk by focusing on following steps;

The loan origination stage comprises preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. The Company/Group has clearly defined guidelines for credit approvals where the limits have been set taking into consideration the factors such as maximum counterparty exposures, loan to value ratio and forced sale value. These steps enables the Company/Group in assessing the default risk of the borrower.

A comprehensive set of credit risk indicators are monitored monthly to review credit concentrations, status of loan recoveries and compliance with regulatory and prudent exposure limits.

#### **Post Disbursement Review**

Initial monitoring and follow up activities are carried out by the Credit Department. Once a loan is overdue for a period exceeding the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. Risk Management Department (RMD) reviews asset quality performance regularly. Delinquencies are handled early with effective follow ups and reminders. Swift recovery actions are taken against critical exposures.

#### **Management of Large Exposures**

##### **Credit Committee**

The Credit Committee consists of the Managing Director, Executive Directors, AGM - Finance and Chief Risk Officer. Sanctioning of large exposures are primarily handled by the Credit Committee. RMD independently monitors post sanctioning performance of large exposures.

##### **Impairment Assessment**

The methodology of the impairment assessment has been explained in the Note 4.18 to these Financial Statements.

##### **Collateral and Other Credit Enhancements**

The Group uses collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, letters of guarantees, real estate, receivables, inventories and other non financial assets. The fair value of collateral is generally assessed at the inception based on the guidelines issued by the Central Bank of Sri Lanka and the Central Bank of Myanmar.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Non financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner through public auctions and the proceeds are used to reduce or recover the outstanding claims and the amount recovered in excess of the dues is refunded to the customer.

##### **COVID-19 Impact Assessment**

The outbreak of COVID-19 has caused disruptions to business and economic activities, and uncertainty to the global and local economy. The subsequent adverse economic effects have caused financial stress among our retail, SME and corporate clients which may lead to elevated levels of credit risk in the short term. Therefore the Company is currently in the process of providing relief for the affected businesses and individuals in line with the directions issued by the CBSL. The relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products and waiving off certain fees and charges. The Management of the Company is in the process of finalizing the moratorium applications and the recovery efforts have been strengthened on the customers who were not affected by COVID-19 and not eligible for CBSL debt moratoriums.

As a measure of prudence, the Group considered the portfolio delinquency state, probability of default, and loss given default as at 31 March 2020 for the impairment provisioning which partially reflects the impact of COVID-19.

Further the impact on Myanmar business operations are closely supervised by the management and the directions issued by Myanmar Financial Regulatory Department in relation to COVID-19 are being strictly adhered to.

The Company's Enterprise Risk Management Framework strives to manage the outcomes of adverse economic and market conditions proactively, whilst achieving the risk-return objectives of the Company.

## Notes to the Financial Statements

### 5.2.1 Analysis of Credit Risk Exposure

The fair value of collateral for finance receivables is calculated based on the number of contracts multiplied by the loss severity and the probability of default (PD) percentage or the outstanding receivable balances multiplied by the average recovery value (ARV) percentage to determine the fair value adjustment.

The following tables shows the maximum exposure to credit risk by class of financial asset. It further shows the net exposure to credit risk.

#### 5.2.1 (a) Company

As at 31 March	2020		2019	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	6,162,637	-	4,040,586	-
Financial Assets Recognised Through Profit or Loss				
- Measured at Fair Value	4,648	4,648	6,866	6,866
Loans and Receivables (Gross)*	60,588,560	5,702,886	48,716,149	4,243,415
Lease Rentals Receivable and Stock out on Hire (Gross)	63,534,703	3,117,674	68,476,217	3,111,225
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	59,141	89,710	89,710
Other Financial Assets**	9,119,681	3,656,946	10,804,517	5,665,787
<b>Total Financial Assets</b>	<b>139,469,370</b>	<b>12,541,295</b>	<b>132,134,045</b>	<b>13,117,003</b>

\*At 31 March 2020, the net credit risk exposure of Gold Loans was Rs. 141,186,809/- (2019 - Rs. 12,623,938/-).

\*\*Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2020, the net carrying value amount of those investments was Rs. 3,426,929,172/- (2019 - Rs. 5,282,020,232/-).

#### 5.2.1 (b) Group

As at 31 March	2020		2019	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	6,472,312	-	4,058,610	-
Financial Assets Recognised Through Profit or Loss				
- Measured at Fair Value	4,648	4,648	6,866	6,866
Loans and Receivables (Gross)*	61,176,382	6,290,708	49,099,031	4,626,297
Lease Rentals Receivable and Stock out on Hire (Gross)	63,534,703	3,117,674	68,476,217	3,111,225
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	59,141	89,710	89,710
Other Financial Assets**	9,105,761	3,643,026	10,794,673	5,655,943
<b>Total Financial Assets</b>	<b>140,352,947</b>	<b>13,115,197</b>	<b>132,525,107</b>	<b>13,490,041</b>

\*At 31 March 2020, the net credit risk exposure of Gold Loans was Rs. 141,186,809/- (2019 - Rs. 12,623,938/-).

\*\*Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2020, the net carrying value amount of those investments was Rs. 3,426,929,172/- (2019 - Rs. 5,282,020,232/-).

## 5.2.2 Credit Quality by Class of Financial Assets

### 5.2.2 (a) Company

As at 31 March 2020	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Cash and Cash Equivalents	6,162,637	-	-	6,162,637
Financial Assets Recognised Through Profit or Loss				
- Measured at Fair Value	4,648	-	-	4,648
Loans and Receivables (Gross)	33,918,197	22,421,153	4,249,210	60,588,560
Lease Rentals Receivable and Stock out on Hire (Gross)	13,119,185	41,346,210	9,069,308	63,534,703
Financial Assets Measured at Fair Value Through				
Other Comprehensive Income	59,141	-	-	59,141
Other Financial Assets	9,119,681	-	-	9,119,681
<b>Total Financial Assets</b>	<b>62,383,489</b>	<b>63,767,363</b>	<b>13,318,518</b>	<b>139,469,370</b>

\*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

As at 31 March 2020	Past Due But Not Impaired				Total
	Less than 31 Days	31 - 60 Days	61- 90 Days	More than 90 Days	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and Receivables (Gross)	12,071,034	5,981,043	3,401,038	968,038	22,421,153
Lease Rentals Receivable and Stock out on Hire (Gross)	19,362,281	12,662,041	9,321,888	-	41,346,210
	31,433,315	18,643,084	12,722,926	968,038	63,767,363
	49.29%	29.24%	19.95%	1.52%	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.

## Notes to the Financial Statements

As at 31 March 2019	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Cash and Cash Equivalents	4,040,586	-	-	4,040,586
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	6,866	-	-	6,866
Loans and Receivables (Gross)	31,212,662	14,973,776	2,529,711	48,716,149
Lease Rentals Receivable and Stock out on Hire (Gross)	29,125,389	34,247,262	5,103,566	68,476,217
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	89,710
Other Financial Assets	10,804,517	-	-	10,804,517
<b>Total Financial Assets</b>	<b>75,279,730</b>	<b>49,221,038</b>	<b>7,633,277</b>	<b>132,134,045</b>

\* 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

As at 31 March 2019	Past Due But Not Impaired				Total
	Less than 31 Days	31 - 60 Days	61 - 90 Days	More than 90 Days	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and Receivables (Gross)	7,977,076	4,317,835	2,069,998	608,867	14,973,776
Lease Rentals Receivable and Stock out on Hire (Gross)	15,547,271	12,738,114	5,961,877	-	34,247,262
	23,524,347	17,055,949	8,031,875	608,867	49,221,038
	47.79%	34.65%	16.32%	1.24%	100.00%

### Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Company's assessment do not need to be individually impaired.

### 5.2.2 (b) Group

As at 31 March 2020	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Cash and Cash Equivalents	6,472,312	-	-	6,472,312
Financial Assets Recognised Through Profit or Loss				
- Measured at Fair Value	4,648	-	-	4,648
Loans and Receivables (Gross)	34,471,513	22,430,940	4,273,929	61,176,382
Lease Rentals Receivable and Stock out on Hire (Gross)	13,119,185	41,346,210	9,069,308	63,534,703
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	-	-	59,141
Other Financial Assets	9,105,761	-	-	9,105,761
<b>Total Financial Assets</b>	<b>63,232,560</b>	<b>63,777,150</b>	<b>13,343,237</b>	<b>140,352,947</b>

\* 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

As at 31 March 2020	Past Due But Not Impaired				
	Less than 31 Days	31 - 60 Days	61 - 90 Days	More than 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	12,075,802	5,983,943	3,403,157	968,038	22,430,940
Lease Rentals Receivable and Stock out on Hire (Gross)	19,362,281	12,662,041	9,321,888	-	41,346,210
	31,438,083	18,645,984	12,725,045	968,038	63,777,150
	49.29%	29.24%	19.95%	1.52%	100.00%

#### Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Group's assessment do not need to be individually impaired.

## Notes to the Financial Statements

As at 31 March 2019	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Cash and Cash Equivalents	4,058,610	-	-	4,058,610
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	6,866	-	-	6,866
Loans and Receivables (Gross)	31,592,670	14,976,650	2,529,711	49,099,031
Lease Rentals Receivable and Stock out on Hire (Gross)	29,125,389	34,247,262	5,103,566	68,476,217
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	89,710
Other Financial Assets	10,794,673	-	-	10,794,673
<b>Total Financial Assets</b>	<b>75,667,918</b>	<b>49,223,912</b>	<b>7,633,277</b>	<b>132,525,107</b>

\* 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

As at 31 March 2019	Past Due But Not Impaired				Total
	Less than 31 Days	31 - 60 Days	61 - 90 Days	More than 90 Days	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and Receivables (Gross)	7,979,597	4,318,188	2,069,998	608,867	14,976,650
Lease Rentals Receivable and Stock out on Hire (Gross)	15,547,271	12,738,114	5,961,877	-	34,247,262
	23,526,868	17,056,302	8,031,875	608,867	49,223,912
	47.79%	34.65%	16.32%	1.24%	100.00%

### Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Group's assessment do not need to be individually impaired.

### 5.2.3 Concentration of Credit Risk

By setting various concentration limits under different criteria within the established risk appetite framework, the Group ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are monitored and reviewed by the Credit Committee, Risk Management Department and Integrated Risk Management Committee on a regular basis to capture the developments in market, regulatory and economic environment to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The Group monitors concentration of credit risk by sector and by geographic location. An analysis of risk concentration of financial assets based on industry sector and geographical location is given below;

#### 5.2.3 (a) Industry-wise Concentration

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

##### As at 31 March 2020 - Company

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables**	Lease Rentals Receivable and Stock out on Hire**	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,903,093	11,834,506	-	-	28,737,599
Manufacturing	-	-	3,968,130	2,693,123	-	-	6,661,253
Construction	-	-	634,244	802,636	-	-	1,436,880
Financial Services	6,162,637	-	954,295	481,768	-	9,119,681	16,718,381
Trading	-	4,648	8,148,338	10,843,427	59,141	-	19,055,554
Retail	-	-	373,638	-	-	-	373,638
Government	-	-	-	-	-	-	-
Hotels	-	-	341,044	501,470	-	-	842,514
Services	-	-	26,916,472	33,469,740	-	-	60,386,212
<b>Total</b>	<b>6,162,637</b>	<b>4,648</b>	<b>58,239,254</b>	<b>60,626,670</b>	<b>59,141</b>	<b>9,119,681</b>	<b>134,212,031</b>

#### 5.2.3 (b) Province-wise Concentration

\*\*Provincial breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows;

##### As at 31 March 2020 - Company

Province	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	4,119,520	6,645,701	10,765,221
Eastern	3,494,145	2,054,973	5,549,118
North Central	1,611,875	2,799,504	4,411,379
North Western	3,904,801	6,673,848	10,578,649
Northern	3,892,228	339,678	4,231,906
Sabaragamuwa	1,108,111	1,041,532	2,149,643
Southern	4,921,042	9,373,772	14,294,814
Uva	1,827,884	2,292,002	4,119,886
Western	33,359,648	29,405,660	62,765,308
<b>Total</b>	<b>58,239,254</b>	<b>60,626,670</b>	<b>118,865,924</b>

## Notes to the Financial Statements

### 5.2.3 (c) Industry-wise Concentration

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

#### As at 31 March 2019 - Company

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables**	Lease Rentals Receivable and Stock out on Hire**	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,116,050	13,542,251	-	-	29,658,301
Manufacturing	-	-	2,796,920	2,335,810	-	-	5,132,730
Construction	-	-	670,951	999,796	-	-	1,670,747
Financial Services	4,040,586	-	778,990	441,419	-	10,804,517	16,065,512
Trading	-	6,866	6,036,483	11,830,720	89,710	-	17,963,779
Retail	-	-	1,961,610	-	-	-	1,961,610
Government	-	-	-	-	-	-	-
Hotels	-	-	557,865	543,602	-	-	1,101,467
Services	-	-	18,476,156	36,356,831	-	-	54,832,987
<b>Total</b>	<b>4,040,586</b>	<b>6,866</b>	<b>47,395,025</b>	<b>66,050,429</b>	<b>89,710</b>	<b>10,804,517</b>	<b>128,387,133</b>

### 5.2.3 (d) Province-wise Concentration

\*\*Provincial breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows;

#### As at 31 March 2019 - Company

Province	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,777,180	7,387,091	11,164,271
Eastern	2,629,169	2,496,101	5,125,270
North Central	1,285,204	3,188,759	4,473,963
North Western	3,088,154	7,063,226	10,151,380
Northern	3,432,359	430,794	3,863,153
Sabaragamuwa	964,643	2,437,535	3,402,178
Southern	3,237,573	8,677,033	11,914,606
Uva	1,133,613	2,518,089	3,651,702
Western	27,847,130	31,851,801	59,698,931
<b>Total</b>	<b>47,395,025</b>	<b>66,050,429</b>	<b>113,445,454</b>

### 5.2.3 (e) Industry-wise Concentration

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

#### As at 31 March 2020 - Group

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables**	Lease Rentals Receivable and Stock out on Hire**	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	17,457,183	11,834,506	-	-	29,291,689
Manufacturing	-	-	3,968,130	2,693,123	-	-	6,661,253
Construction	-	-	634,244	802,636	-	-	1,436,880
Financial Services	6,472,312	-	954,295	481,768	-	9,105,761	17,014,136
Trading	-	4,648	8,148,338	10,843,427	59,141	-	19,055,554
Retail	-	-	373,638	-	-	-	373,638
Government	-	-	-	-	-	-	-
Hotels	-	-	341,044	501,470	-	-	842,514
Services	-	-	26,916,472	33,469,740	-	-	60,386,212
<b>Total</b>	<b>6,472,312</b>	<b>4,648</b>	<b>58,793,344</b>	<b>60,626,670</b>	<b>59,141</b>	<b>9,105,761</b>	<b>135,061,876</b>

### 5.2.3 (f) Geographical Concentration

\*\*Geographical breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers is as follows;

#### As at 31 March 2020 - Group

Province & Country	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	4,119,520	6,645,701	10,765,221
Eastern	3,494,145	2,054,973	5,549,118
North Central	1,611,875	2,799,504	4,411,379
North Western	3,904,801	6,673,848	10,578,649
Northern	3,892,228	339,678	4,231,906
Sabaragamuwa	1,108,111	1,041,532	2,149,643
Southern	4,921,042	9,373,772	14,294,814
Uva	1,827,884	2,292,002	4,119,886
Western	33,359,648	29,405,660	62,765,308
Myanmar	554,090	-	554,090
<b>Total</b>	<b>58,793,344</b>	<b>60,626,670</b>	<b>119,420,014</b>

## Notes to the Financial Statements

### 5.2.3 (g) Industry-wise Concentration

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

#### As at 31 March 2019 - Group

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables **	Lease Rentals Receivable and Stock out on Hire **	Financial Assets Measured at Fair Value Through OCI	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,494,730	13,542,251	-	-	30,036,981
Manufacturing	-	-	2,796,920	2,335,810	-	-	5,132,730
Construction	-	-	670,951	999,796	-	-	1,670,747
Financial Services	4,058,610	-	778,990	441,419	-	10,794,673	16,073,692
Trading	-	6,866	6,036,483	11,830,720	89,710	-	17,963,779
Retail	-	-	1,961,610	-	-	-	1,961,610
Government	-	-	-	-	-	-	-
Hotels	-	-	557,865	543,602	-	-	1,101,467
Services	-	-	18,476,156	36,356,831	-	-	54,832,987
<b>Total</b>	<b>4,058,610</b>	<b>6,866</b>	<b>47,773,705</b>	<b>66,050,429</b>	<b>89,710</b>	<b>10,794,673</b>	<b>128,773,993</b>

During the early stages of the global pandemic the Management of the Group conducted an indepth analysis on the probable industries which would get affected and the scale of impact it may have on Group's lending portfolio. The outset of COVID-19 in Sri Lanka in mid March 2020 stressed the importance of diversification of the Group's loan book across a wide range of industries which in turn would ensure the resilience of the Group in an economic shock of this nature. The Group is comfortable with the existing composition of its loan book and continuous monitoring activities will be carried out to avoid accumulation of exposures to risky economic segments.

### 5.2.3 (h) Geographical Concentration

\*\*Geographical breakdown for (01) Loans and receivable (02) Lease rentals receivable and Stock out on hire from customers is as follows;

#### As at 31 March 2019 - Group

Province & Country	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,777,180	7,387,091	11,164,271
Eastern	2,629,169	2,496,101	5,125,270
North Central	1,285,204	3,188,759	4,473,963
North Western	3,088,154	7,063,226	10,151,380
Northern	3,432,359	430,794	3,863,153
Sabaragamuwa	964,643	2,437,535	3,402,178
Southern	3,237,573	8,677,033	11,914,606
Uva	1,133,613	2,518,089	3,651,702
Western	27,847,130	31,851,801	59,698,931
Myanmar	378,680	-	378,680
<b>Total</b>	<b>47,773,705</b>	<b>66,050,429</b>	<b>113,824,134</b>

### 5.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may differ, due to COVID-19 related events.

Market liquidity risk is the inability to easily exit a position. Group's market liquidity risk is low if assets can be liquidated without moving the price too much.

Funding liquidity risk means the Group's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Group's credit quality is, or at least perceived to be, deteriorating, but also because financial conditions as a whole are deteriorating.

The Group's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Group regularly monitors liquidity position and maintain an adequate buffer of liquid assets. Group also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management. With the onset of COVID-19 pandemic in late March of this year, the Group introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Group is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

#### **Assets and Liability Management Committee (ALCO)**

ALCO is chaired by the Managing Director and comprises of Executive Directors, representatives from Treasury Department, Fixed Deposits, the Head of Finance, the Head of Risk Management. The Committee meets regularly and make all policy decisions with regard to funding matters, duration management of assets and liabilities and investments, to keep the liquidity at healthy levels, whilst satisfying regulatory requirements. ALCO closely monitors any developments related to the COVID-19 pandemic and reviews measures undertaken by the Group in response to resulting risk. These actions has helped the Group maintain it's existing liquidity position while mitigating any adverse effect on its asset liability position that may arise due to the continuously evolving nature of the pandemic.

## Notes to the Financial Statements

### 5.3.1 Analysis Of Liquidity Risk Exposure

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 31 March 2020.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may also differ, due to rollover of loans and advances and COVID-19 related events.

As at 31 March 2020 - Group	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	4,619,793	1,546,143	-	-	-	6,165,936
Financial Assets Recognised Through Profit or Loss	4,648	-	-	-	-	4,648
Loans and Receivables	11,594,373	23,622,717	14,943,052	19,459,546	2,432,744	72,052,432
Lease Rentals Receivable and Stock out on Hire	5,629,677	8,541,583	22,927,722	46,402,437	29,862	83,531,281
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	-	-	-	-	59,141
Other Financial Assets	230,017	1,205,999	8,179,481	-	-	9,615,497
<b>Total Financial Assets</b>	<b>22,137,649</b>	<b>34,916,442</b>	<b>46,050,255</b>	<b>65,861,983</b>	<b>2,462,606</b>	<b>171,428,935</b>
<b>Financial Liabilities</b>						
Due to Banks	720,411	1,997,670	6,598,117	18,711,345	149,444	28,176,987
Due to Depositors	3,484,076	26,520,127	49,434,932	16,890,892	-	96,330,027
Debt Instruments Issued and Other Borrowed Funds	-	196,250	196,312	3,784,938	-	4,177,500
Other Financial Liabilities	1,444,956	65,777	205,228	1,074,051	686,448	3,476,460
<b>Total Financial Liabilities</b>	<b>5,649,443</b>	<b>28,779,824</b>	<b>56,434,589</b>	<b>40,461,226</b>	<b>835,892</b>	<b>132,160,974</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>16,488,206</b>	<b>6,136,618</b>	<b>(10,384,334)</b>	<b>25,400,757</b>	<b>1,626,714</b>	<b>39,267,961</b>

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 31 March 2019.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2019 - Company	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	2,276,892	1,765,744	-	-	-	4,042,636
Financial Assets Recognised Through Profit or Loss	6,866	-	-	-	-	6,866
Loans and Receivables	8,136,234	20,673,063	11,570,569	15,489,274	1,777,630	57,646,770
Lease Rentals Receivable and Stock out on Hire	3,811,553	9,217,509	25,078,392	53,566,180	65,002	91,738,636
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	-	-	89,710
Other Financial Assets	384,319	2,641,987	8,328,339	-	-	11,354,645
<b>Total Financial Assets</b>	<b>14,705,574</b>	<b>34,298,303</b>	<b>44,977,300</b>	<b>69,055,454</b>	<b>1,842,632</b>	<b>164,879,263</b>
<b>Financial Liabilities</b>						
Due to Banks	1,068,362	2,911,289	8,220,809	17,883,500	353,444	30,437,404
Due to Depositors	2,876,047	26,248,075	40,922,119	21,284,340	-	91,330,581
Debt Instruments Issued and Other Borrowed Funds	-	195,712	196,788	4,177,500	-	4,570,000
Other Financial Liabilities	1,974,490	-	-	-	-	1,974,490
<b>Total Financial Liabilities</b>	<b>5,918,899</b>	<b>29,355,076</b>	<b>49,339,716</b>	<b>43,345,340</b>	<b>353,444</b>	<b>128,312,475</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>8,786,675</b>	<b>4,943,227</b>	<b>(4,362,416)</b>	<b>25,710,114</b>	<b>1,489,188</b>	<b>36,566,788</b>

## Notes to the Financial Statements

5.3.1 (c) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2020.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may also differ, due to rollover of loans and advances and COVID-19 related events.

As at 31 March 2020 - Group	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	4,929,468	1,546,143	-	-	-	6,475,611
Financial Assets Recognised Through Profit or Loss	4,648	-	-	-	-	4,648
Loans and Receivables	11,573,838	23,851,736	15,328,964	19,487,327	2,432,744	72,674,609
Lease Rentals Receivable and Stock out on Hire	5,629,677	8,541,583	22,927,722	46,402,437	29,862	83,531,281
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	-	-	-	-	59,141
Other Financial Assets	216,097	1,205,999	8,179,481	-	-	9,601,577
<b>Total Financial Assets</b>	<b>22,412,869</b>	<b>35,145,461</b>	<b>46,436,167</b>	<b>65,889,764</b>	<b>2,462,606</b>	<b>172,346,867</b>
<b>Financial Liabilities</b>						
Due to Banks	832,267	2,001,146	6,660,604	18,773,445	149,444	28,416,906
Due to Depositors	3,542,738	26,520,127	49,434,932	16,890,892	-	96,388,689
Debt Instruments Issued and Other Borrowed Funds	-	196,250	196,312	3,784,938	-	4,177,500
Other Financial Liabilities	1,445,321	65,777	205,228	1,074,051	686,448	3,476,825
<b>Total Financial Liabilities</b>	<b>5,820,326</b>	<b>28,783,300</b>	<b>56,497,076</b>	<b>40,523,326</b>	<b>835,892</b>	<b>132,459,920</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>16,592,543</b>	<b>6,362,161</b>	<b>(10,060,909)</b>	<b>25,366,438</b>	<b>1,626,714</b>	<b>39,886,947</b>

5.3.1 (d) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2019.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2019 - Group	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	2,294,916	1,765,744	-	-	-	4,060,660
Financial Assets Recognised Through Profit or Loss	6,866	-	-	-	-	6,866
Loans and Receivables	8,136,233	20,790,367	11,840,363	15,553,266	1,777,630	58,097,859
Lease Rentals Receivable and Stock out on Hire	3,811,553	9,217,509	25,078,392	53,566,180	65,002	91,738,636
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	-	-	89,710
Other Financial Assets	374,475	2,641,987	8,328,339	-	-	11,344,801
<b>Total Financial Assets</b>	<b>14,713,753</b>	<b>34,415,607</b>	<b>45,247,094</b>	<b>69,119,446</b>	<b>1,842,632</b>	<b>165,338,532</b>
<b>Financial Liabilities</b>						
Due to Banks	1,068,362	2,911,289	8,220,809	17,883,500	353,444	30,437,404
Due to Depositors	2,903,715	26,248,075	40,922,119	21,284,340	-	91,358,249
Debt Instruments Issued and Other Borrowed Funds	-	195,712	196,788	4,177,500	-	4,570,000
Other Financial Liabilities	1,974,490	-	-	-	-	1,974,490
<b>Total Financial Liabilities</b>	<b>5,946,567</b>	<b>29,355,076</b>	<b>49,339,716</b>	<b>43,345,340</b>	<b>353,444</b>	<b>128,340,143</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>8,767,186</b>	<b>5,060,531</b>	<b>(4,092,622)</b>	<b>25,774,106</b>	<b>1,489,188</b>	<b>36,998,389</b>

## Notes to the Financial Statements

### 5.3.2 Contractual Maturities of Commitments And Contingencies

The table below shows the contractual expiry by maturity of the Company/Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31 March 2020 - Company	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Contingent Liabilities</b>						
Guarantees Issued to Banks and Other Institutions	-	4,000	8,570	-	-	12,570
Counter Indemnity Issued to Banks for Guarantees	-	-	-	188,058	-	188,058
Import LC and Ordinary Guarantees	83,753	-	-	-	-	83,753
<b>Total Contingent Liabilities</b>	<b>83,753</b>	<b>4,000</b>	<b>8,570</b>	<b>188,058</b>	<b>-</b>	<b>284,381</b>
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments</b>	<b>1,644,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,644,424</b>
<b>Total Commitments and Contingencies</b>	<b>1,728,177</b>	<b>4,000</b>	<b>8,570</b>	<b>188,058</b>	<b>-</b>	<b>1,928,805</b>
<b>As at 31 March 2020 - Group</b>						
	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Contingent Liabilities</b>						
Guarantees Issued to Banks and Other Institutions	-	4,000	8,570	-	-	12,570
Counter Indemnity Issued to Banks for Guarantees	-	-	-	76,202	-	76,202
Import LC and Ordinary Guarantees	83,753	-	-	-	-	83,753
<b>Total Contingent Liabilities</b>	<b>83,753</b>	<b>4,000</b>	<b>8,570</b>	<b>76,202</b>	<b>-</b>	<b>172,525</b>
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments</b>	<b>1,644,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,644,424</b>
<b>Total Commitments and Contingencies</b>	<b>1,728,177</b>	<b>4,000</b>	<b>8,570</b>	<b>76,202</b>	<b>-</b>	<b>1,816,949</b>

As at 31 March 2019 - Company & Group	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Contingent Liabilities</b>						
Guarantees Issued to Banks and Other Institutions	-	-	5,270	-	-	5,270
<b>Total Contingent Liabilities</b>	-	-	5,270	-	-	5,270
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,815,586	-	-	-	-	1,815,586
<b>Total Commitments</b>	1,815,586	-	-	-	-	1,815,586
<b>Total Commitments and Contingencies</b>	1,815,586	-	5,270	-	-	1,820,856

### 5.3.3 Liquidity Reserves

The table below sets out the components of the Company's liquidity reserves;

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Notes and Coins Held	936,075	936,075	873,072	873,072
Balances with Banks	3,683,718	3,683,718	1,403,820	1,403,820
Treasury Bills Repurchase Agreements (Less than 03 Months)	1,542,844	1,542,844	1,763,694	1,763,694
Treasury Bills Repurchase Agreements (More than 03 Months)	5,462,735	5,462,735	5,138,730	5,138,730
Investment in Fixed Deposits	3,426,929	3,426,929	5,281,468	5,281,468
<b>Total Liquidity Reserves</b>	<b>15,052,301</b>	<b>15,052,301</b>	<b>14,460,784</b>	<b>14,460,784</b>

# Notes to the Financial Statements

## 5.4 MARKET RISK

Market risk refers to the possible losses to the Group that could arise from changes in market variables like interest rates, exchange rates, equity prices and commodity prices. Among them, interest rate risk has been identified as the most critical risk given Group's nature of business.

### 5.4.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Group due to adverse and unanticipated movements in future interest rate which arises from core business activities; disbursing of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Group, the impact of interest rate risk is mainly on the earnings of the Group rather than the market value of portfolios.

Excessive movements in market interest rate could result in severe volatility to Group's net interest income and net interest margin. Group's exposure to interest rate risk is primarily associated with factors such as;

- Reprising risk arising from a fixed rate borrowing portfolio, where reprising frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

Interest rate risk is managed principally through minimising interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Group conducts periodic reviews and reprices its assets accordingly.

The Management of the Company is closely scrutinizing the impact on NII/NIMs resulting from interest rate related relief measures announced by CBSL to the COVID-19 affected groups.

### 5.4.2 Commodity Price Risk

Commodity price risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. Given the significance of the Gold Loans business to Group's overall loan book, sharp fluctuations to the gold prices could have an adverse impact to earnings. Gold price fluctuations lead to market risk which is the primary source of credit risk associated with this product.

Group currently manages the credit and market risks arising from adverse movements in Gold prices by adopting the following strategies;

- Shorter product life: Group, as a credit risk management strategy lends for shorter periods allowing it to initiate its recovery process faster.
- Frequent revisions to Loan-to-Value (LTV) ratio: Group practices a process of revising advance offered per gold sovereign to reflect market value fluctuations to maintain the desired loan to value ratio.

### 5.4.3 Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

The economic fallout of the COVID-19 pandemic resulted in sharp losses in equity market indexes and subsequent closure of the exchange for trading. However, equities have retraced slightly and management is monitoring the equity price movements.

#### 5.4.4 Exchange Rate Risk

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Exchange risk could materialise as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk.

Group is exposed to two types of risk caused by currency volatility.

**Transaction risk** – This risk arises whenever the Group has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. This type of exposure is short-term to medium-term in nature.

**Translation risk** – This exposure arises from the effect of currency fluctuations on the consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term.

The Sri Lankan Rupee witnessed a sharp depreciation against the US Dollar in March 2020 on the back of economic fallout, resulting from the COVID-19 pandemic. Management analyses the market condition of foreign exchange and its likely impact to the Group.

#### 5.4.5 Interest Rate Sensitivity

The following table demonstrates the impact on net interest income to a reasonably possible change in interest rates based on the assumption that a rate sensitive asset surplus would be subjected to reinvestment risk whereas a rate sensitive asset deficit would be subjected to funding risk.

Impact on net interest income due to a parallel rate shock of 100 basis points (bps) on rate sensitive assets and liabilities is shown below;

##### Net Interest Income (NII) Sensitivity by Interest Rate Change

As at 31 March	2020		2019	
Impact on NII (Rs.'000)	Parallel Increase 100 bps	Parallel Decrease 100 bps	Parallel Increase 100 bps	Parallel Decrease 100 bps
Annual Impact	(+) 107,361	(-) 107,361	(+) 45,046	(-) 45,046

## Notes to the Financial Statements

### 5.4.6 Interest Rate Risk Exposure On Financial Assets And Liabilities

5.4.6 (a) The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

As at 31 March 2020 - Company	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and Cash Equivalents	5,226,562	-	-	-	-	936,075	6,162,637
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	4,648	4,648
Loans and Receivables	39,056,629	8,522,903	7,321,665	3,153,889	184,168	-	58,239,254
Lease Rentals Receivable and Stock out on Hire	10,787,921	14,857,420	27,915,981	7,038,637	26,711	-	60,626,670
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	59,141	59,141
Other Financial Assets	1,187,806	7,701,858	-	-	-	230,017	9,119,681
	56,258,918	31,082,181	35,237,646	10,192,526	210,879	1,229,881	134,212,031
<b>Financial Liabilities</b>							
Due to Banks	6,990,130	3,989,108	9,167,247	2,624,600	-	-	22,771,085
Due to Depositors	29,052,814	45,672,223	13,210,448	1,320,950	-	-	89,256,435
Debt Instruments Issued and Other Borrowed Funds	119,241	(2,630)	2,994,575	-	-	-	3,111,186
Other Financial Liabilities	26,236	91,757	295,632	341,287	566,542	1,444,956	2,766,410
	36,188,421	49,750,458	25,667,902	4,286,837	566,542	1,444,956	117,905,116
<b>Interest Sensitivity Gap</b>	20,070,497	(18,668,277)	9,569,744	5,905,689	(355,663)	(215,075)	16,306,915

5.4.6 (b) The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

As at 31 March 2019 - Company	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and Cash Equivalents	3,167,514	-	-	-	-	873,072	4,040,586
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	6,866	6,866
Loans and Receivables	33,810,376	6,679,348	5,038,374	1,785,056	81,871	-	47,395,025
Lease Rentals Receivable and Stock out on Hire	9,576,758	16,130,295	30,826,521	9,458,788	58,067	-	66,050,429
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	89,710	89,710
Other Financial Assets	2,619,053	7,801,145	-	-	-	384,319	10,804,517
	49,173,701	30,610,788	35,864,895	11,243,844	139,938	1,353,967	128,387,133
<b>Financial Liabilities</b>							
Due to Banks	11,406,473	3,714,479	5,714,106	3,798,450	-	-	24,633,508
Due to Depositors	28,145,642	37,242,556	14,832,852	2,993,899	-	-	83,214,949
Debt Instruments Issued and Other Borrowed Funds	118,594	(2,308)	(6,155)	2,997,652	-	-	3,107,783
Other Financial Liabilities	-	-	-	-	-	1,974,490	1,974,490
	39,670,709	40,954,727	20,540,803	9,790,001	-	1,974,490	112,930,730
<b>Interest Sensitivity Gap</b>	9,502,992	(10,343,939)	15,324,092	1,453,843	139,938	(620,523)	15,456,403

## Notes to the Financial Statements

5.4.6 (c) The table below analyses the Group's interest rate risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

As at 31 March 2020 - Group	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and Cash Equivalents	5,535,708	-	-	-	-	936,604	6,472,312
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	4,648	4,648
Loans and Receivables	39,260,020	8,865,439	7,329,828	3,153,889	184,168	-	58,793,344
Lease Rentals Receivable and Stock out on Hire	10,787,921	14,857,420	27,915,981	7,038,637	26,711	-	60,626,670
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	59,141	59,141
Other Financial Assets	1,187,806	7,701,858	-	-	-	216,097	9,105,761
	56,771,455	31,424,717	35,245,809	10,192,526	210,879	1,216,490	135,061,876
<b>Financial Liabilities</b>							
Due to Banks	6,993,586	4,043,308	9,221,447	2,624,600	-	-	22,882,941
Due to Customers	29,111,476	45,672,223	13,210,448	1,320,950	-	-	89,315,097
Debt Instruments Issued and Other Borrowed Funds	119,241	(2,630)	2,994,575	-	-	-	3,111,186
Other Financial Liabilities	26,236	91,757	295,632	341,287	566,542	1,445,321	2,766,775
	36,250,539	49,804,658	25,722,102	4,286,837	566,542	1,445,321	118,075,999
<b>Interest Sensitivity Gap</b>	20,520,916	(18,379,941)	9,523,707	5,905,689	(355,663)	(228,831)	16,985,877

5.4.6 (d) The table below analyses the Group's interest rate risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

As at 31 March 2019 - Group	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and Cash Equivalents	3,185,359	-	-	-	-	873,251	4,058,610
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	6,866	6,866
Loans and Receivables	33,902,278	6,906,862	5,097,638	1,785,056	81,871	-	47,773,705
Lease Rentals Receivable and Stock out on Hire	9,576,758	16,130,295	30,826,521	9,458,788	58,067	-	66,050,429
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	89,710	89,710
Other Financial Assets	2,609,209	7,801,145	-	-	-	384,319	10,794,673
	49,273,604	30,838,302	35,924,159	11,243,844	139,938	1,354,146	128,773,993
<b>Financial Liabilities</b>							
Due to Banks	11,406,473	3,714,479	5,714,106	3,798,450	-	-	24,633,508
Due to Customers	28,173,310	37,242,556	14,832,852	2,993,899	-	-	83,242,617
Debt Instruments Issued and Other Borrowed Funds	118,594	(2,308)	(6,155)	2,997,652	-	-	3,107,783
Other Financial Liabilities	-	-	-	-	-	1,974,490	1,974,490
	39,698,377	40,954,727	20,540,803	9,790,001	-	1,974,490	112,958,398
<b>Interest Sensitivity Gap</b>	9,575,227	(10,116,425)	15,383,356	1,453,843	139,938	(620,344)	15,815,595

## 5.5 CAPITAL ADEQUACY

For a financial institution, capital is a buffer against insolvency. It is available to absorb unforeseen losses which will assure the sustainability of the Group's operations so the Group can remain in business. The more capital the Group has relative to the risks it takes, the more confidence the stakeholders are that it will meet its obligations to them. Group's capital management process is steered with the aim of holding sufficient capital to support the Group's risk appetite whilst maintaining adequate capital to meet minimum regulatory capital requirements.

### Regulatory Capital - Company

The Company manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies in Sri Lanka. Thus the Company's operations are directly supervised by the CBSL and the Company is required to comply Directions on Risk Weighted Capital Adequacy Ratio issued by CBSL. During the year under review existing capital adequacy framework was revised and changes were implemented requiring a higher capital charge for operational risks. Following the revision, the Licensed Finance Companies (LFCs) in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 11% and a Core Capital Ratio (Tier 1) of at least 7% upto 1 July 2020. LFCs with total assets equal or more than Rs.100 bn were defined as Domestic Systematically Important LFCs where a capital surcharge will be applicable on a staggered basis. Therefore L B Finance PLC as a Domestic Systematically Important LFC is required to maintain following minimum capital ratios within the stipulated time frames.

Components of Capital	1 July 2020	1 July 2021
Tier 1 Capital (%)	8%	10%
Total Capital (%)	12%	14%

As of 31 March 2020, the Company has maintained Risk Weighted Capital Adequacy Ratios above the CBSL's minimum capital requirements.

## Notes to the Financial Statements

### 5.6 PROBABLE IMPACT OF COVID-19 OUTBREAK ON BUSINESS OPERATIONS OF THE GROUP

After a stringent lockdown period over a month, curfew has been gradually eased off. The Group has seen a smooth transition with the resumption of business activities where the Group is already seeing positive momentum.

The exact impact on the business operations of the group is still to be determined given the volatility and unexpected developments caused by COVID -19 outbreak. However, the Group evaluated the resilience of its businesses considering a wide range of factors under multiple circumstances such as optimistic (best case), most likely (base case) and pessimistic (worst case) scenarios, relating to expected income streams, cost management practices, profitability, cash reserves, credit and collection management practice, deposit renewals, availability of amount of undrawn borrowing facilities, and potential sources of financing facilities. These have been further disclosed in notes 5.2, 5.3 and 5.4 of the Financial Statements.

Having evaluated the above by the Management, and after due consideration of the range and likelihood of outcomes, the Management is satisfied that the Group have adequate resources to continue in operational existence. The Group will continue to monitor the impacts on its operations and proactively take measures to ensure the business continues as seamlessly as possible.

## SECTION 06

### Other Disclosures

#### 6.1 RELATED PARTY DISCLOSURES

The Group carried out transactions with key management and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates except that the key management have availed facilities under the loan schemes uniformly applicable to all the staff.

The Company's parent undertaking is Vallibel One PLC. The Company's ultimate parent undertaking is Vallibel One PLC, which is incorporated in Sri Lanka. The Company's ultimate controlling party is Mr. Dhammika Perera.

Details of related party transactions during the year are as follows;

##### 6.1.1 Transactions with Key Management Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Such KMPs include the Board of Directors of the Company (inclusive of executive and non-executive directors), KMPs of the subsidiary and KMPs of the parent company.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Short-Term Employment Benefits	409,376	342,422	409,376	342,422
Directors' Fees and Expenses	16,740	15,149	16,740	15,149
Post Employment Benefit Liability	58,710	48,308	58,710	48,308
	484,826	405,879	484,826	405,879

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.

## Notes to the Financial Statements

### 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.

	Reported Under	Company		Group	
		2020	2019	2020	2019
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Statement of Financial Position</b>					
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	523,210	895,284	523,210	895,284
Savings Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	7,125	4,869	7,125	4,869
Dividend Payable	Other Non Financial Liabilities	-	3,764	-	3,764
		<b>530,335</b>	<b>903,917</b>	<b>530,335</b>	<b>903,917</b>
<b>Income Statement</b>					
Interest Expense on Customer Deposits	Interest Expenses	84,617	83,835	84,617	83,835
		<b>84,617</b>	<b>83,835</b>	<b>84,617</b>	<b>83,835</b>
<b>Other Transactions</b>					
Deposits Accepted During the Year		96,232	244,761	96,232	244,761
Dividend Paid on Shareholdings		3,764	1,567	3,764	1,567
		<b>99,996</b>	<b>246,328</b>	<b>99,996</b>	<b>246,328</b>

### 6.1.3 Transaction, Arrangements and Agreements Involving Entities which are Controlled, and/or Jointly Controlled by the KMPs and Their CMFs

		Company		Group	
		2020	2019	2020	2019
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Reported Under					
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss/Financial Investments - Held for Trading	151	205	151	205
Lease Rentals Receivable	Lease Rentals Receivable and Stock out on Hire	-	-	-	-
Leasehold Improvements	Property, Plant and Equipment	88,085	31,889	88,085	31,889
		88,236	32,094	88,236	32,094
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	151,279	104,743	151,279	104,743
<b>Income Statement</b>					
Interest Income on Lease and Vehicle Loans	Interest Income	-	2,111	-	2,111
Income on Operating Lease	Other Operating Income	26,540	24,088	26,540	24,088
Interest Expense on Customer Deposits	Interest Expenses	13,772	5,234	13,772	5,234
Dividend Income	Other Operating Income	-	8	-	8
		40,312	31,441	40,312	31,441
<b>Other Transactions</b>					
Deposits Accepted During the Year		100,000	90,000	100,000	90,000
		100,000	90,000	100,000	90,000

## Notes to the Financial Statements

### 6.1.4 Transactions with Group Entities

The Group entities include the Parent, Fellow Subsidiaries and Associate companies of the parent.

#### Transactions with Parent Company

	Reported Under	Company		Group	
		2020	2019	2020	2019
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Statement of Financial Position</b>					
<b>Liabilities</b>					
Dividend Payable	Other Non Financial Liabilities	-	573,459	-	573,459
		-	573,459	-	573,459
<b>Other Transactions</b>					
	Dividend Paid on Shareholdings	573,459	286,730	573,459	967,712
		573,459	286,730	573,459	967,712

#### Transactions with Subsidiary

	Reported Under	Company		Group	
		2020	2019	2020	2019
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Investment in Equity Securities	Investment in Subsidiary	521,162	318,471	-	-
Due from Subsidiary	Other Financial Assets	16,278	9,844	-	-
		537,440	328,315	-	-
<b>Other Transactions</b>					
Counter Indemnity Issued to Banks for Guarantees	Contingent Liabilities	188,058	-	188,058	-
		188,058	-	188,058	-

## Transactions with Fellow Subsidiaries and Associate Companies of the Parent

	Reported Under	Company		Group	
		2020	2019	2020	2019
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Leasehold Improvements	Property, Plant and Equipment	6,180	2,382	6,180	2,382
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	811	1,184	811	1,184
Investment in Equity Securities	Financial Assets Measured at Fair Value Through Other Comprehensive Income	33,349	42,359	33,349	42,359
		<b>40,340</b>	<b>45,925</b>	<b>40,340</b>	<b>45,925</b>
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	305,555	112,664	305,555	112,664
Dividend Payable	Other Non Financial Liabilities	-	288,986	-	288,986
		<b>305,555</b>	<b>401,650</b>	<b>305,555</b>	<b>401,650</b>
<b>Income Statement</b>					
Dividend Income	Other Operating Income	4,098	4,379	4,098	4,379
Interest Expense on Customer Deposits	Interest Expenses	15,180	2,664	15,180	2,664
		<b>19,278</b>	<b>7,043</b>	<b>19,278</b>	<b>7,043</b>
<b>Other Transactions</b>					
Deposits Accepted During the Year		292,500	110,000	292,500	110,000
Dividend Paid on Shareholdings		288,986	144,493	288,986	144,493
		<b>581,486</b>	<b>254,493</b>	<b>581,486</b>	<b>254,493</b>

## 6.2 CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Details of the regulatory capital requirements and compliance level are disclosed in Note 5.5 to these Financial Statements.

### 6.2.1 Capital Management

#### Objective

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and maintain healthy capital ratios in order to support its business and to maximise shareholders' value.

## Notes to the Financial Statements

### 6.3 CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	Company				Group				
	2020		2019		2020		2019		
	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Assets</b>									
Cash and Cash Equivalents	6,162,637	-	6,162,637	4,040,586	-	4,040,586	6,472,312	4,058,610	-
Financial Assets Recognised Through Profit or Loss									
- Measured at Fair Value	4,648	-	4,648	6,866	-	6,866	4,648	6,866	-
Financial Assets at Amortised Cost									
- Loans and Receivables	43,441,871	14,797,383	58,239,254	35,784,930	11,610,095	47,395,025	43,995,961	36,104,345	11,669,360
Financial Assets at Amortised Cost									
- Lease Rentals Receivable and Stock out on Hire	25,645,341	34,981,329	60,626,670	25,707,053	40,343,376	66,050,429	25,645,341	25,707,053	40,343,376
Financial Assets Measured at Fair Value									
Through Other Comprehensive Income	59,141	-	59,141	89,710	-	89,710	59,141	89,710	-
Other Financial Assets	9,119,681	-	9,119,681	10,804,517	-	10,804,517	9,105,761	10,794,673	-
Other Non Financial Assets	915,119	52,350	967,469	938,421	128,939	1,067,360	924,139	944,126	128,939
Investment in Subsidiary	-	521,162	521,162	-	318,999	318,999	-	-	-
Property, Plant and Equipment and Right-of-Use Assets	-	8,221,248	8,221,248	-	6,577,379	6,577,379	-	8,228,222	-
Intangible Assets	-	41,809	41,809	-	39,847	39,847	-	55,064	-
<b>Total Assets</b>	<b>85,348,438</b>	<b>58,615,281</b>	<b>143,963,719</b>	<b>77,372,083</b>	<b>59,018,635</b>	<b>136,390,718</b>	<b>86,207,303</b>	<b>77,705,383</b>	<b>58,765,923</b>
<b>Liabilities</b>									
Due to Banks	8,025,813	14,745,272	22,771,085	10,831,772	13,801,736	24,633,508	8,083,469	14,799,472	22,882,941
Financial Liabilities at Amortised Cost									
- Due to Depositors	74,725,037	14,531,398	89,256,435	65,388,198	17,826,751	83,214,949	74,783,700	14,531,397	89,315,097
Debt Instruments Issued and Other Borrowed Funds	116,611	2,994,575	3,111,186	116,205	2,991,578	3,107,783	116,611	2,994,575	3,111,186
Other Financial Liabilities	1,562,949	1,203,461	2,766,410	1,974,490	-	1,974,490	1,563,314	1,203,461	2,766,775
Other Non Financial Liabilities	909,266	-	909,266	2,070,632	-	2,070,632	925,778	925,778	2,075,791
Current Tax Liabilities	766,752	-	766,752	1,395,971	-	1,395,971	777,057	1,403,916	-
Deferred Tax Liabilities	-	1,037,580	1,037,580	-	1,309,722	1,309,722	-	1,037,580	1,309,722
Post Employment Benefit Liability	-	345,456	345,456	-	256,512	256,512	-	345,456	256,512
<b>Total Liabilities</b>	<b>86,106,428</b>	<b>34,857,742</b>	<b>120,964,170</b>	<b>81,777,268</b>	<b>36,186,299</b>	<b>117,963,567</b>	<b>86,249,929</b>	<b>34,911,941</b>	<b>121,161,870</b>
<b>Maturity Gap</b>	<b>(757,990)</b>	<b>23,757,539</b>	<b>22,999,549</b>	<b>(4,405,185)</b>	<b>22,832,336</b>	<b>18,427,151</b>	<b>(42,626)</b>	<b>23,202,407</b>	<b>(4,112,657)</b>
<b>Cumulative Gap</b>	<b>(757,990)</b>	<b>22,999,549</b>	<b>-</b>	<b>(4,405,185)</b>	<b>18,427,151</b>	<b>-</b>	<b>(42,626)</b>	<b>23,159,781</b>	<b>(4,112,657)</b>

## 6.4 SEGMENTAL INFORMATION

### ► Accounting Policy

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Company has identified operating segments based on products and services. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2019 or 2020. There were no transactions between reportable segments in 2019 or 2020.

	Leasing and Stock out on Hire		Loans and Receivables		Others		International operation		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	15,900,624	16,374,704	11,917,386	9,822,944	1,342,282	1,166,120	136,811	57,074	29,297,103	27,420,842
Less: Interest Expenses	6,804,199	7,085,779	5,734,218	4,801,088	1,076,974	1,064,456	15,980	1,832	13,631,371	12,953,155
Net Interest Income	9,096,425	9,288,925	6,183,168	5,021,856	265,308	101,664	120,831	55,242	15,665,732	14,467,687
Fee and Commission Income	827,288	534,268	1,102,697	1,064,976	11,641	182,828	8,554	4,847	1,950,180	1,786,919
Net Trading Income and Other Operating Income	33,092	30,791	305	2,430	87,545	101,230	(8,807)	-	112,135	134,451
Total Operating Income	9,956,805	9,853,984	7,286,170	6,089,262	364,494	385,722	120,578	60,089	17,728,047	16,389,057
Less: Impairment Charges and Other Losses	725,603	632,703	1,094,543	350,451	10,910	-	25,439	3,738	1,856,495	986,892
Net Operating Income	9,231,202	9,221,281	6,191,627	5,738,811	353,584	385,722	95,139	56,351	15,871,552	15,402,165
Less: Other Costs	2,742,002	2,957,517	2,385,355	2,147,796	46,818	46,589	48,865	24,520	5,223,040	5,176,422
Less: Depreciation	364,106	235,340	342,489	192,853	6,794	7,184	3,375	1,553	716,764	436,930
Operating Profits Before Taxes	6,125,094	6,028,424	3,463,783	3,398,162	299,972	331,949	42,899	30,278	9,931,748	9,788,813
Less: Taxes	2,912,262	2,904,462	1,646,904	1,637,216	142,626	159,930	19,094	7,782	4,720,887	4,709,390
Profits for the Year	3,212,832	3,123,962	1,816,879	1,760,946	157,346	172,019	23,805	22,496	5,210,861	5,079,423
Less: Non-Controlling Interest	-	-	-	-	-	-	-	-	-	74
Profit Attributable to Equity Holders of the Company	-	-	-	-	-	-	-	-	5,210,861	5,079,349
Segmental Assets	64,783,204	69,998,724	62,466,252	50,547,893	16,714,262	15,844,101	895,372	399,587	144,859,090	136,790,305
Elimination	-	-	-	-	(537,439)	(318,999)	-	-	(537,439)	(318,999)
Total Segmental Assets	64,783,204	69,998,724	62,466,252	50,547,893	16,176,823	15,525,102	895,372	399,587	144,321,651	136,471,306
Segmental Liabilities	54,387,225	60,525,910	52,544,874	43,737,712	14,032,068	13,699,945	213,981	50,617	121,178,148	118,014,183
Elimination	-	-	-	-	-	-	(16,278)	(9,844)	(16,278)	(9,844)
Total Segmental Liabilities	54,387,225	60,525,910	52,544,874	43,737,712	14,032,068	13,699,945	197,703	40,773	121,161,870	118,004,339
Cash Flows from Operating Activities	2,062,713	109,146	1,988,941	78,817	515,074	24,705	(5,788)	(261,293)	4,560,940	(48,626)
Cash Flows from Investing Activities	2,245	3,764	2,164	2,718	1,121,629	1,243,315	-	-	1,126,039	1,249,798
Cash Flows from Financing Activities	(934,319)	(301,078)	(900,903)	(217,416)	(233,306)	(68,148)	111,856	-	(1,956,672)	(586,642)
Capital Expenditure	-	-	-	-	-	-	-	-	-	-
Property, Plant and Equipment	(421,976)	(1,189,300)	(406,884)	(858,824)	(105,370)	(269,196)	(4,757)	(2,685)	(938,987)	(2,320,005)
Intangible Assets	(8,060)	(4,729)	(7,772)	(3,415)	(2,013)	(1,070)	(11,822)	-	(29,666)	(9,215)

## Notes to the Financial Statements

### 6.5 COMMITMENTS AND CONTINGENCIES

#### ► Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

#### 6.5.1 Contingent Liabilities

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Guarantees Issued to Banks and Other Institutions	12,570	5,270	12,570	5,270
Counter Indemnity Issued to Banks for Guarantees*	188,058	-	76,202	-
Import LC and Ordinary Guarantees	83,753	-	83,753	-
<b>Total Contingent Liabilities</b>	<b>284,381</b>	<b>5,270</b>	<b>172,525</b>	<b>5,270</b>

\* Contingent liability as at 31 March 2020, on counter indemnity for letter of guarantee issued by Sampath Bank PLC on behalf of L B Microfinance Myanmar Company Limited favoring CB Bank Limited, Myanmar. Total of this sum relates to the term loan facility obtained by L B Microfinance Myanmar Company Limited.

#### 6.5.2 Commitments

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitment for Unutilised Facilities	1,644,424	1,815,586	1,644,424	1,815,586
<b>Total Commitments</b>	<b>1,644,424</b>	<b>1,815,586</b>	<b>1,644,424</b>	<b>1,815,586</b>
<b>Total Commitments and Contingencies</b>	<b>1,928,805</b>	<b>1,820,856</b>	<b>1,816,949</b>	<b>1,820,856</b>
Allowance for Impairment	(3,955)	(7,358)	(3,955)	(7,358)
<b>Net of Impairment</b>	<b>1,924,850</b>	<b>1,813,498</b>	<b>1,812,994</b>	<b>1,813,498</b>

#### 6.5.3 Litigation Against the Company

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. Based on the information currently available, the Board of Directors is of the opinion that the ultimate resolution of the litigations would not likely to have a material impact on the Group.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cases Pending Against the Company (Values Claimed)</b>	<b>83,260</b>	<b>39,260</b>	<b>83,260</b>	<b>39,260</b>

## 6.6 NET ASSET VALUE PER SHARE

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Amounts Used as the Numerators:</b>				
Total Equity Attributable to Equity Holders	22,999,549	18,427,151	23,159,781	18,466,967
<b>Number of Ordinary Shares Used as Denominators:</b>				
Total Number of Ordinary Shares in Issue	138,514,284	138,514,284	138,514,284	138,514,284
Net Asset Value per Share (Rs.)	166.04	133.03	167.20	133.32

## 6.7 ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Included Under	Carrying Amount Pledged			
			Company		Group	
			2020	2019	2020	2019
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Rentals Receivable and Stock out on Hire/ Loans and Receivables*	Debt Funding from Banks	Lease Rentals Receivable and Stock out on Hire	24,730,786	28,094,634	24,730,786	28,094,634
Freehold Land and Building	Term Loans	Property, Plant and Equipment	1,979,558	1,181,848	1,979,558	1,181,848
			26,710,344	29,276,482	26,710,344	29,276,482

\* The receivables and cash flows that have been included in bank loans, overdrafts, syndicated loans and securitisation loans are only available for payment of the debt and other obligations issued or arising in such transactions. However, the Group hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of such transactions. Gross amount of Lease Rentals Receivable, Stock out on Hire, Loans and Receivables which have been pledged as at reporting date is Rs. 32,470,082,916/- (2019 - Rs. 37,080,285,163/-).

## 6.8 COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to conform with the current year's classification in order to provide better presentation.

### 6.8.1 Income Statement

There were no reclassifications during the financial year.

### 6.8.2 Statement of Financial Position

There were no reclassifications during the financial year.

## Notes to the Financial Statements

### 6.9 EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen subsequent to the reporting date which would require adjustment to or disclosure in the Financial Statements.

### 6.10 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

#### ► Accounting Policy

Sri Lanka Accounting Standard - LKAS 07 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2020 are disclosed below together with the comparative figures for the year ended 31 March 2019.

The funds borrowed by the Company and the Group are given in Note 4.25 and Note 4.27.

	Company			
	Debt Funding from Banks		Debt Instruments Issued and Other Borrowed Funds	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	23,565,146	21,552,682	3,107,783	5,152,832
Net Cash Flows from Financing Activities	(2,575,836)	1,351,115	-	(2,000,000)
Non Cash Changes				
Foreign Exchange Movements			-	-
Net Accrual for Interest Expense	1,061,364	661,349	3,403	(45,049)
Balance as at the End of the Year	22,050,674	23,565,146	3,111,186	3,107,783
Within 12 Months	7,305,402	9,763,410	116,611	116,205
After 12 Months	14,745,272	13,801,736	2,994,575	2,991,578
<b>Total</b>	<b>22,050,674</b>	<b>23,565,146</b>	<b>3,111,186</b>	<b>3,107,783</b>

	Group			
	Debt Funding from Banks		Debt Instruments Issued and Other Borrowed Funds	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	23,565,146	21,552,682	3,107,783	5,152,832
Net Cash Flows from Financing Activities	(2,467,436)	1,351,115	-	(2,000,000)
Non Cash Changes				
Foreign Exchange Movements			-	-
Net Accrual for Interest Expense	1,064,820	661,349	3,403	(45,049)
Balance as at the End of the Year	22,162,530	23,565,146	3,111,186	3,107,783
Within 12 Months	7,363,058	9,763,410	116,611	116,205
After 12 Months	14,799,472	13,801,736	2,994,575	2,991,578
<b>Total</b>	<b>22,162,530</b>	<b>23,565,146</b>	<b>3,111,186</b>	<b>3,107,783</b>

# Decade at a Glance

Key Indicators		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Operating Results</b>											
Net Interest Margin	%	12.87	11.43	10.22	10.38	12.67	12.17	10.91	11.15	11.87	11.96
Cost to Income	%	41.27	41.75	42.30	41.29	35.88	35.89	39.01	37.37	34.22	33.44
Interest Spread	%	11.77	10.84	9.49	9.45	11.55	11.09	9.59	9.65	10.32	10.46
<b>Financial Position</b>											
Total Assets to Equity	No.of times	10.81	10.75	10.18	9.80	8.52	8.07	8.21	7.87	7.40	6.26
Debt to Equity	No.of times	9.64	9.48	8.89	8.54	7.15	6.73	6.89	6.58	6.02	5.01
Equity to Deposits	%	13.32	14.60	13.75	13.46	17.45	19.63	20.71	21.04	22.14	25.77
<b>Investor Information</b>											
Return on Equity (ROE)	%	47.45	52.64	36.62	23.23	30.88	40.40	34.09	30.52	29.93	25.04
Return on Assets (ROA)	%	4.51	4.85	3.51	2.33	3.40	4.89	4.18	3.80	3.93	3.70
Equity to Assets	%	9.08	9.31	9.83	10.21	11.74	12.40	12.17	12.70	13.51	15.98
Net Assets Value per Share	Rs.	18.37	28.65	38.47	44.81	57.23	75.66	90.31	110.81	133.03	166.04
Earnings per Share (EPS)	Rs.	7.37	12.37	12.29	9.67	15.75	26.84	28.29	30.69	36.49	37.45
Dividend per Share (DPS)	Rs.	3.50	5.00	6.50	6.50	10.00	7.50	9.00	11.00	12.00	-
Dividend Cover	No.of times	4.21	4.95	3.78	2.98	3.15	3.58	3.14	2.79	3.04	-
Dividend Yield	%	11.29	2.86	4.82	4.90	9.99	9.99	8.48	9.29	10.09	-
Dividend Payout	%	23.76	20.20	26.45	33.59	31.74	27.94	31.82	35.84	32.88	-
Price Earning Ratio (PE)	No.of times	5.94	5.45	5.40	5.17	4.77	3.95	4.19	3.87	3.29	3.22
Price to Book Value (PBV)	No.of times	4.77	2.35	1.72	1.12	1.31	1.40	1.31	1.07	0.90	0.73
Market Price per Share	Rs.	175.10	134.90	132.70	100.10	150.20	106.10	118.40	118.90	120.10	120.50
Market Capitalisation	Rs. million	12,127	9,343	9,190	6,933	10,402	14,696	16,400	16,469	16,636	16,691
Interest Cover	No.of times	1.69	1.66	1.42	1.26	1.56	1.92	1.72	1.56	1.60	1.56
<b>Growth</b>											
Income	%	33.19	44.26	43.23	19.88	8.51	5.81	23.76	29.35	16.90	6.64
Interest Income	%	29.99	42.01	44.25	20.78	7.65	5.42	24.13	30.62	16.97	6.57
Interest Expense	%	7.50	46.87	67.39	20.05	(16.65)	(2.96)	40.52	41.74	12.64	5.13
Net Interest Income	%	59.71	37.69	22.31	21.72	38.76	11.86	13.20	21.41	21.16	7.86
Profit Before Tax	%	89.89	46.19	3.63	(26.05)	78.33	59.81	10.33	10.26	19.50	(1.68)
Profit After Tax	%	104.01	67.98	(0.69)	(21.27)	62.84	70.37	5.39	8.49	18.91	2.62
Total Assets	%	62.93	52.15	27.17	12.16	11.06	25.13	21.59	17.57	12.89	5.55
Lending Portfolio	%	61.46	55.03	22.09	9.99	13.75	27.87	24.59	14.80	10.85	4.78
Deposit Base	%	62.23	34.10	42.58	18.98	(1.44)	17.50	13.16	20.76	14.08	7.26
Equity	%	44.85	55.97	34.29	16.48	27.72	32.20	19.37	22.70	20.06	24.81
<b>Employee</b>											
Profit Before Tax per Employee	Rs.'000	1,319	1,541	1,229	875	1,387	1,940	1,823	1,883	2,139	2,110
Profit After Tax per Employee	Rs.'000	807	1,020	828	627	908	1,354	1,216	1,235	1,397	1,438
Total Assets per Employee	Rs.'000	22,359	25,395	26,385	28,497	28,131	30,800	31,904	35,112	37,697	39,923
No. of Branches		34	65	89	97	100	110	118	123	127	129
No. of Gold Loan Centres		58	47	37	37	35	36	36	36	36	36
Total No. of Outlets		92	112	126	134	135	146	154	159	163	165
No. of Employees		1,264	1,679	2,055	2,134	2,401	2,744	3,221	3,441	3,618	3,606
Employees per Outlet		14	15	16	16	18	19	21	22	22	22

## DECADE AT A GLANCE

### FINANCIAL STATEMENTS PREPARED UNDER SLASs - COMPANY

	2010/11
	Rs '000
<b>INCOME STATEMENT</b>	
Gross Income	5,501,885
Interest Income	5,138,718
Interest Expenditure	2,418,480
Net Interest Income	2,720,239
Other Operating Income	353,647
Operating Expenditure	1,171,025
Profits Before Taxation	1,667,820
Tax on Financial Services	235,040
Provision for Taxation	647,452
Net Profits	1,020,368
<b>BALANCE SHEET</b>	
<b>Assets</b>	
Cash and Amounts Due from Banks	347,446
Placements with Other Banks	302,584
Treasury Bills and Other Bills Eligible for Re-Discounting with Central Bank	1,622,158
Real Estate Stock	237,520
Loans and Advances	7,543,231
Lease Rentals Receivable and Stock Out on Hire	16,332,007
Investment Securities	28,594
Trading Portfolio	211,818
Other Debtors, Deposits and Prepayments	675,235
Vehicle Stock	519,706
Intangible Assets	9,682
Property, Plant and Equipment	432,359
<b>Total Assets</b>	<b>28,262,340</b>
<b>Liabilities</b>	
Deposits from Customers	19,619,681
Borrowings	3,526,374
Debentures	450,000
Trade Payables and Accrued Charges	1,529,035
Tax Payable	396,413
Deferred Taxation	93,249
Provision and Other Liabilities	33,870
<b>Total Liabilities</b>	<b>25,648,622</b>
<b>Shareholders' Funds</b>	
Share Capital	838,282
Reserves	1,775,436
<b>Total Shareholders' Funds</b>	<b>2,613,718</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>28,262,340</b>

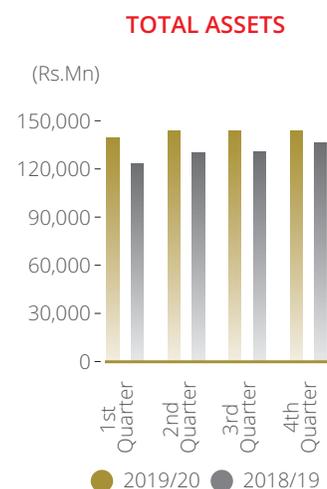
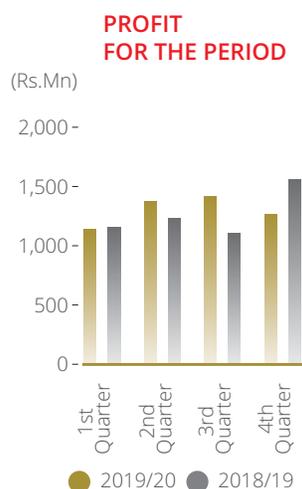
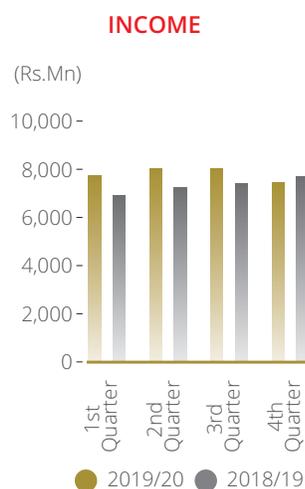
## FINANCIAL STATEMENTS PREPARED UNDER LKASs AND SLFRSs - COMPANY

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Rs '000	Rs '000	Rs '000	Rs '000					
<b>INCOME STATEMENT</b>									
Income	7,937,072	11,368,252	13,628,497	14,787,757	15,646,467	19,363,429	25,046,202	29,278,024	31,222,860
Interest Income	7,297,591	10,526,829	12,714,089	13,687,070	14,428,729	17,909,935	23,394,115	27,363,768	29,160,292
Interest Expenses	3,551,986	5,945,707	7,137,897	5,949,496	5,773,255	8,112,337	11,498,408	12,951,323	13,615,391
Net Interest Income	3,745,605	4,581,122	5,576,191	7,737,574	8,655,474	9,797,599	11,895,707	14,412,445	15,544,901
Other Operating Income	639,481	841,422	914,408	1,100,686	1,217,737	1,453,493	1,652,087	1,914,256	2,062,568
Total Operating Income	4,385,086	5,422,544	6,490,600	8,838,260	9,873,212	11,251,092	13,547,795	16,326,701	17,607,469
Impairment Charges and Other Losses	116,023	602,109	1,942,291	2,019,766	411,793	(40,064)	670,623	983,154	1,831,057
Total Operating Expenses	1,680,998	2,117,628	2,559,981	3,171,408	3,543,352	4,389,212	5,062,788	5,587,279	5,887,565
Profit Before Tax	2,588,065	2,526,559	1,868,390	3,331,853	5,324,615	5,874,843	6,477,691	7,740,649	7,610,287
Tax on Financial Services	149,952	176,249	119,936	315,232	593,452	1,027,101	1,336,693	2,015,619	2,278,560
Income Tax Expense	874,071	824,443	528,361	1,149,727	1,606,822	1,956,639	2,226,969	2,685,989	2,423,234
Profit for The Year	1,713,994	1,702,116	1,340,029	2,182,126	3,717,792	3,918,204	4,250,721	5,054,660	5,187,053
<b>STATEMENT OF FINANCIAL POSITION</b>									
<b>Assets</b>									
Cash and Cash Equivalents	1,954,237	4,019,673	1,865,100	6,067,670	6,051,898	2,895,085	5,874,375	4,040,586	6,162,637
Financial Assets Recognised through Profit or Loss									
- Measured at Fair Value	6,740	7,323	7,595	10,063	10,645	10,068	9,683	6,866	4,648
Financial Assets at Amortised Cost									
- Loans and Receivables	12,771,108	16,452,987	18,893,238	22,262,761	26,449,169	33,488,779	39,855,398	47,395,025	58,239,254
Financial Assets at Amortised Cost									
- Lease Rentals Receivable and Stock Out on Hire	23,686,392	28,271,347	30,299,455	33,695,516	45,104,836	55,660,963	62,489,686	66,050,429	60,626,670
Financial Assets Measured at Fair Value Through									
Other Comprehensive Income	128,068	473,739	1,468,602	140,587	138,411	118,021	121,624	89,710	59,141
Other Financial Assets	1,019,834	1,487,399	5,186,548	2,140,178	4,142,716	6,721,526	6,772,554	10,804,517	9,119,681
Other Non Financial Assets	1,066,622	1,205,230	817,629	1,206,275	538,898	305,047	815,808	1,067,360	967,469
Investment in Subsidiary	-	-	-	-	-	-	152,915	318,999	521,162
Property, Plant and Equipment	1,868,286	2,100,939	2,067,928	1,984,160	2,045,295	3,514,356	4,680,619	6,577,379	8,221,248
Intangible Assets	19,340	23,669	36,425	35,305	34,765	49,189	48,119	39,847	41,809
Deferred Tax Assets	117,779	180,551	171,857	-	-	-	-	-	-
Total Assets	42,638,405	54,222,859	60,814,380	67,542,519	84,516,636	102,763,035	120,820,780	136,390,718	143,963,719
<b>Liabilities</b>									
Due to Banks	8,910,255	6,366,217	1,423,642	7,703,265	14,577,233	23,778,147	22,838,038	24,633,508	22,771,085
Financial Liabilities at Amortised Cost									
- Due to Depositors	27,172,161	38,742,700	46,095,205	45,430,551	53,379,801	60,401,955	72,943,833	83,214,949	89,256,435
Debt Instruments Issued and Other Borrowed Funds	1,541,555	2,244,210	5,475,903	3,529,575	2,601,282	2,044,216	5,152,832	3,107,783	3,111,186
Other Financial Liabilities	-	638,011	1,165,526	1,776,066	1,869,940	2,007,402	1,761,418	1,974,490	2,766,410
Other Non Financial Liabilities	757,275	694,933	250,496	516,719	597,806	673,436	852,715	2,070,631	909,266
Current Tax Liabilities	244,831	147,956	103,717	534,744	741,251	691,091	633,058	1,395,971	766,752
Deferred Tax Liabilities	-	-	-	11,930	143,142	503,488	1,058,750	1,309,722	1,037,580
Post Employment Benefit Liability	44,231	60,230	93,198	112,574	126,858	153,621	231,240	256,512	345,456
Total Liabilities	38,670,307	48,894,257	54,607,691	59,615,427	74,037,317	90,253,356	105,471,884	117,963,567	120,964,170
<b>Equity</b>									
Stated Capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Retained Earnings	2,075,561	2,852,402	3,265,273	5,180,485	6,970,499	8,259,079	10,240,092	12,378,772	15,944,328
Reserves	1,054,254	1,637,917	2,103,132	1,908,324	2,670,537	3,412,318	4,270,522	5,210,097	6,216,939
Total Equity	3,968,097	5,328,601	6,206,688	7,927,091	10,479,319	12,509,680	15,348,896	18,427,151	22,999,549
Total Liabilities and Equity	42,638,405	54,222,859	60,814,380	67,542,519	84,516,636	102,763,035	120,820,780	136,390,718	143,963,719

# Quarterly Financial Statements

## INCOME STATEMENT - COMPANY

For the 3 months ended	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2019	30.06.2018	30.09.2019	30.09.2018	31.12.2019	31.12.2018	31.03.2020	31.03.2019
	Rs.'000							
<b>Income</b>	7,723,848	6,895,553	8,025,904	7,254,838	8,024,351	7,424,814	7,448,757	7,702,820
Interest Income	7,261,800	6,478,182	7,532,438	6,812,579	7,496,400	6,943,922	6,869,655	7,129,085
Less: Interest Expenses	3,439,702	3,069,291	3,445,264	3,211,669	3,325,575	3,315,125	3,404,850	3,355,238
<b>Net Interest Income</b>	<b>3,822,098</b>	<b>3,408,891</b>	<b>4,087,174</b>	<b>3,600,910</b>	<b>4,170,825</b>	<b>3,628,797</b>	<b>3,464,805</b>	<b>3,773,847</b>
Fee and Commission Income	432,995	385,706	452,567	401,297	496,259	437,671	559,806	557,397
Net Trading Income	(761)	(575)	52	(1,148)	978	408	(2,487)	(1,243)
Other Operating Income	29,814	32,240	40,849	42,110	30,714	42,813	21,782	17,580
<b>Total Operating Income</b>	<b>4,284,146</b>	<b>3,826,262</b>	<b>4,580,642</b>	<b>4,043,169</b>	<b>4,698,776</b>	<b>4,109,688</b>	<b>4,043,906</b>	<b>4,347,582</b>
Less: Impairment Charges and Other Losses	357,034	279,448	76,166	324,774	225,538	319,144	1,172,319	59,788
<b>Net Operating Income</b>	<b>3,927,112</b>	<b>3,546,814</b>	<b>4,504,476</b>	<b>3,718,394</b>	<b>4,473,238</b>	<b>3,790,544</b>	<b>2,871,587</b>	<b>4,287,794</b>
<b>Less: Operating Expenses</b>								
Personnel Expenses	703,354	640,484	766,062	691,296	766,610	711,223	769,163	650,561
Depreciation of Property, Plant and Equipment	110,225	99,161	113,499	101,750	116,546	103,652	357,238	113,325
Amortisation of Intangible Assets	4,140	4,801	3,994	4,506	3,890	4,179	3,858	4,001
Other Operating Expenses	663,473	604,519	690,950	596,412	639,850	627,932	174,713	629,477
<b>Operating Profit Before Tax on Financial Services</b>	<b>2,445,920</b>	<b>2,197,849</b>	<b>2,929,971</b>	<b>2,324,431</b>	<b>2,946,342</b>	<b>2,343,558</b>	<b>1,566,615</b>	<b>2,890,431</b>
Less: Tax on Financial Services	604,813	383,766	704,918	408,184	690,829	559,899	278,000	663,771
<b>Profit Before Taxation</b>	<b>1,841,107</b>	<b>1,814,083</b>	<b>2,225,052</b>	<b>1,916,246</b>	<b>2,255,513</b>	<b>1,783,659</b>	<b>1,288,615</b>	<b>2,226,660</b>
Less: Income Tax Expense	705,907	655,428	853,069	684,669	842,415	678,625	21,843	667,267
<b>Profit for the Period</b>	<b>1,135,200</b>	<b>1,158,655</b>	<b>1,371,983</b>	<b>1,231,578</b>	<b>1,413,098</b>	<b>1,105,033</b>	<b>1,266,772</b>	<b>1,559,394</b>



## STATEMENT OF FINANCIAL POSITION - COMPANY

As at	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2019	30.06.2018	30.09.2019	30.09.2018	31.12.2019	31.12.2018	31.03.2020	31.03.2019
	Rs.'000							
<b>Assets</b>								
Cash and Cash Equivalents	7,954,473	5,422,483	9,023,378	6,091,116	9,140,567	7,149,677	6,162,637	4,040,586
Financial Assets Recognised Through Profit or Loss								
- Measured at Fair Value	6,105	8,856	6,157	7,700	7,135	8,108	4,648	6,866
Financial Assets at Amortised Cost								
- Loans and Receivables	49,399,715	41,113,937	52,177,948	41,815,228	55,677,052	44,054,305	58,239,254	47,395,025
Financial Assets at Amortised Cost - Lease								
Rentals Receivable and Stock out on Hire	65,052,489	63,730,827	63,235,034	64,988,823	61,932,840	65,645,117	60,626,670	66,050,429
Financial Assets Measured at Fair Value Through								
Other Comprehensive Income	91,350	108,005	78,751	100,772	87,810	97,215	59,141	89,710
Other Financial Assets	8,578,324	6,483,133	11,155,069	10,095,329	8,336,199	6,217,674	9,119,681	10,804,517
Other Non Financial Assets	1,092,678	818,829	1,015,470	1,055,245	1,103,779	1,092,018	967,469	1,067,360
Investment in Subsidiary	318,999	152,915	318,999	318,471	521,162	318,471	521,162	318,999
Property, Plant and Equipment and								
Right-of-Use Assets	6,885,939	5,671,523	6,945,751	5,754,319	6,909,019	6,189,352	8,221,248	6,577,379
Intangible Assets	51,404	43,604	49,045	42,513	45,155	38,481	41,809	39,847
<b>Total Assets</b>	<b>139,431,474</b>	<b>123,554,112</b>	<b>144,005,601</b>	<b>130,269,516</b>	<b>143,760,717</b>	<b>130,810,418</b>	<b>143,963,719</b>	<b>136,390,718</b>
<b>Liabilities</b>								
Due to Banks	25,949,519	21,432,947	27,936,586	21,837,097	26,927,450	22,406,416	22,771,085	24,633,508
Financial Liabilities at Amortised Cost								
- Due to Depositors	85,038,452	75,602,031	87,062,879	77,960,292	86,322,649	78,742,024	89,256,435	83,214,949
Debt Instruments Issued and Other Borrowed Funds	3,010,696	5,051,961	3,110,397	8,218,807	3,013,310	6,123,393	3,111,186	3,107,783
Other Financial Liabilities	1,741,322	1,793,105	1,741,202	1,773,937	1,793,699	1,804,580	2,766,410	1,974,490
Other Non Financial Liabilities	1,113,615	985,384	1,253,125	953,941	1,178,695	805,644	909,266	2,070,632
Current Tax Liabilities	1,440,305	894,354	947,831	1,050,170	1,141,496	1,337,253	766,752	1,395,971
Deferred Tax Liabilities	1,309,721	1,058,750	1,309,721	1,058,750	1,309,721	1,058,750	1,037,580	1,309,722
Post Employment Benefit Liability	263,851	241,647	274,543	252,301	282,222	266,661	345,456	256,512
<b>Total Liabilities</b>	<b>119,867,482</b>	<b>107,060,179</b>	<b>123,636,284</b>	<b>113,105,295</b>	<b>121,969,244</b>	<b>112,544,721</b>	<b>120,964,170</b>	<b>117,963,567</b>
<b>Equity</b>								
Stated Capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Reserves	5,438,778	4,488,635	5,700,574	4,727,718	5,992,253	4,945,167	6,216,939	5,210,097
Retained Earnings	13,286,932	11,167,016	13,830,460	11,598,221	14,960,938	12,482,248	15,944,328	12,378,772
<b>Total Equity</b>	<b>19,563,992</b>	<b>16,493,933</b>	<b>20,369,317</b>	<b>17,164,221</b>	<b>21,791,473</b>	<b>18,265,697</b>	<b>22,999,549</b>	<b>18,427,151</b>
<b>Total Liabilities and Equity</b>	<b>139,431,474</b>	<b>123,554,112</b>	<b>144,005,601</b>	<b>130,269,516</b>	<b>143,760,717</b>	<b>130,810,418</b>	<b>143,963,719</b>	<b>136,390,718</b>
<b>Quarterly NPL Information</b>								
NPL Ratio - Gross	3.25%	2.67%	3.09%	2.78%	3.34%	3.11%	3.93%	2.69%
NPL Ratio - Net	0.08%	0.02%	-0.17%	0.06%	-0.07%	0.18%	-0.12%	-0.21%

# Income Statement (US Dollars)

Year ended 31 March	Company		Group	
	2020	2019	2020	2019
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Income</b>	164,331	166,352	165,050	166,717
Interest Income	153,475	155,476	154,195	155,800
Less: Interest Expenses	71,660	73,587	71,744	73,597
<b>Net Interest Income</b>	81,815	81,889	82,451	82,203
Fee and Commission Income	10,219	10,125	10,264	10,153
Net Trading Income	(11)	(15)	(11)	(15)
Other Operating Income	648	766	601	778
<b>Total Operating Income</b>	92,671	92,765	93,305	93,119
Less: Impairment Charges and Other Losses	9,637	5,586	9,771	5,607
<b>Net Operating Income</b>	83,034	87,179	83,533	87,511
<b>Less: Operating Expenses</b>				
Personnel Expenses	15,817	15,304	15,969	15,386
Depreciation of Property, Plant and Equipment	3,671	2,374	3,677	2,377
Amortisation of Intangible Assets	84	99	95	105
Other Operating Expenses	11,416	13,968	11,520	14,025
<b>Total Operating Expenses</b>	30,986	31,745	31,261	31,893
<b>Operating Profit before Tax on Financial Services</b>	52,048	55,434	52,272	55,618
Less: Tax on Financial Services	11,992	11,452	11,992	11,452
<b>Profit before Taxation</b>	40,055	43,982	40,280	44,166
Less: Income Tax Expense	12,754	15,261	12,854	15,306
<b>Profit for the Year</b>	27,301	28,721	27,426	28,860
<b>Profit Attributable to:</b>				
Equity Holders of the Company	27,300	28,721	27,426	28,861
Non-Controlling Interest	-	-	-	0
<b>Profit for the Year</b>	27,300	28,721	27,426	28,861
<b>Earnings per Share: Basic/Diluted (US\$)</b>	0.20	0.21	0.20	0.21
<b>Dividend per Share</b>				
Dividend per Share: Gross (US\$)	-	0.07	-	-
Dividend per Share: Net (US\$)	-	0.06	-	-

Exchange rate of US\$ was Rs. 190.00 as at 31 March 2020 (Rs. 176.00 as at 31 March 2019)

# Statement of Comprehensive Income (US Dollars)

Year ended 31 March	Company		Group	
	2020	2019	2020	2019
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Profit for the Year</b>	27,300	28,721	27,426	28,861
<b>Other Comprehensive Income that will be Reclassified to Income Statement</b>				
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	508	89
Less: Deferred Tax Charge/(Reversal) on above Items	-	-	-	-
<b>Net Other Comprehensive Income that will be Reclassified to Income Statement</b>	-	-	508	89
<b>Other Comprehensive Income that will never be Reclassified to Income Statement</b>				
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	(161)	(181)	(161)	(181)
Actuarial Gains/(Losses) on Defined Benefit Plans	(220)	136	(220)	136
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	(61)	38	(61)	38
Net Actuarial Gains/(Losses) on Defined Benefit Plans	(158)	98	(158)	98
<b>Net Other Comprehensive Income that will never be Reclassified to Income Statement</b>	(319)	(83)	(319)	(83)
<b>Other Comprehensive Income for the Year, Net of Tax</b>	(319)	(83)	190	6
<b>Total Comprehensive Income for the Year, Net of Tax</b>	26,982	28,638	27,615	28,867
<b>Attributable to:</b>				
Equity Holders of the Company	26,982	28,638	147,398	28,866
Non-Controlling Interest	-	-	-	1
<b>Total Comprehensive Income for the Year, Net of Tax</b>	26,982	28,638	147,398	28,867

Exchange rate of US\$ was Rs. 190.00 as at 31 March 2020 (Rs. 176.00 as at 31 March 2019)

# Statement of Financial Position (US Dollars)

As at 31 March	Company		Group	
	2020	2019	2020	2019
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Assets</b>				
Cash and Cash Equivalents	32,435	22,958	34,065	23,060
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	24	39	24	39
Financial Assets at Amortised Cost - Loans and Receivables	306,522	269,290	309,439	271,442
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	319,088	375,287	319,088	375,287
Financial Assets Measured at Fair Value Through Other Comprehensive Income	311	510	311	510
Other Financial Assets	47,998	61,389	47,925	61,333
Other Non Financial Assets	5,092	6,065	5,139	6,097
Investment in Subsidiary	2,743	1,812	-	-
Property, Plant and Equipment and Right-of-Use Assets	43,270	37,371	43,306	37,390
Intangible Assets	220	226	290	247
<b>Total Assets</b>	<b>757,704</b>	<b>774,947</b>	<b>759,588</b>	<b>775,405</b>
<b>Liabilities</b>				
Due to Banks	119,848	139,963	120,437	139,963
Financial Liabilities at Amortised Cost - Due to Depositors	469,771	472,812	470,079	472,969
Debt Instruments Issued and Other Borrowed Funds	16,375	17,658	16,375	17,658
Other Financial Liabilities	14,560	11,219	14,562	11,219
Other Non Financial Liabilities	4,786	11,765	4,873	11,794
Current Tax Liabilities	4,036	7,932	4,090	7,977
Deferred Tax Liabilities	5,461	7,442	5,461	7,442
Post Employment Benefit Liability	1,818	1,456	1,818	1,457
<b>Total Liabilities</b>	<b>636,654</b>	<b>670,247</b>	<b>637,694</b>	<b>670,479</b>
<b>Equity</b>				
Stated Capital	4,412	4,763	4,412	4,763
Reserves	32,721	29,603	33,339	29,721
Retained Earnings	83,918	70,334	84,143	70,442
<b>Total Equity Attributable to Equity Holders of the Company</b>	<b>121,050</b>	<b>104,700</b>	<b>121,894</b>	<b>104,926</b>
Non-Controlling Interest	-	-	-	-
<b>Total Equity</b>	<b>121,050</b>	<b>104,700</b>	<b>121,894</b>	<b>104,926</b>
<b>Total Liabilities and Equity</b>	<b>757,704</b>	<b>774,947</b>	<b>759,588</b>	<b>775,405</b>
<b>Commitments and Contingencies</b>	<b>10,152</b>	<b>10,346</b>	<b>9,563</b>	<b>10,346</b>
<b>Net Asset Value per Share (US\$)</b>	<b>0.87</b>	<b>0.76</b>	<b>0.88</b>	<b>0.76</b>

Exchange rate of US\$ was Rs. 190.00 as at 31 March 2020 (Rs. 176.00 as at 31 March 2019)

# Glossary of Terms

## A

### ACCOUNTING POLICIES

Accounting policies The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### ACCURAL BASIS

The system of accounting wherein revenue is recognised at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

### ALLOWANCE FOR IMPAIRMENT

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

### AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life. Amortised cost Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any deduction for impairment or uncollectability.

### ASSET AND LIABILITY COMMITTEE (ALCO)

The committee that is responsible for managing assets and liabilities of the Company.

### AVERAGE WEIGHTED DEPOSIT RATE (AWDR)

AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates. Average weighted prime lending rate (AWPLR) AWPLR is calculated by the Central Bank weekly based on commercial bank's lending rates offered to their prime customers during the week

## B

### BASIS POINT (BP)

One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

## C

### CAPITAL ADEQUACY RATIO

The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

### CASH EQUIVALENTS

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### CASH FLOWS

Cash equivalents are short-term, highly liquid investment that are readily convertible to know amount of cash and which are subject to an insignificant risk of changes in value.

### COLLECTIVE IMPAIRMENT

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant and to cover losses that have been incurred but has not yet been identified at the reporting date.

### COMMERCIAL PAPER (CP)

An unsecured, debt instrument issued by a company, to finance short-term funding requirements. The debt is usually issued at a discount, reflecting prevailing market interest rate.

### COMMITMENTS

Credit facilities approved but not yet utilised by the clients as at the reporting date. Compounded annual growth rate (CAGR) The rate at which it would have grown if it grew at an even rate compounded annually.

### CONTINGENCIES

A condition or situation existing at reporting date where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

### COST METHOD

A method of accounting where by the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profiles of the investee rising subsequent to the date of acquisition.

### CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### CORPORATE SUSTAINABILITY

Business approach that creates long-term consumer and employee value by creating a 'green' strategy aimed toward the natural environment and taking into consideration every dimension of how a business operates in the social, cultural and economic environment.

## GLOSSARY OF TERMS

### 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 field. GRI promotes the use of sustainability reporting as a way for organisations 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

---

### 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.

# GLOSSARY OF TERMS

## K

---

### KEY MANAGEMENT PERSONNEL (KMP)

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

## L

---

### LENDING PORTFOLIO

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

### LETTER OF CREDIT (LC)

Written undertakings by a Bank on behalf of its customers, authorising a third party to draw on the Bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

### LIQUID ASSETS

Assets that are held in cash or in a form that can be converted to cash readily.

### LOSS GIVEN DEFAULT (LGD)

The percentage of an exposure that a lender expects to lose in the event of obligor default.

### LOAN TO VALUE RATIO (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

---

## M

---

### MARKET CAPITALISATION

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

### MATERIALITY

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of financial statement.

## N

---

### NET ASSETS VALUE PER SHARE (NAV)

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

### NET INTEREST INCOME

The difference between interest income earned from interest earning assets and interest expenses incurred on interest-bearing liabilities.

### NET INTEREST MARGIN (NIM)

Net interest income expressed as a percentage of average interest earning assets.

### NON-PERFORMING LOANS/ ADVANCES (NPL)

The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.

### NON-PERFORMING LOANS COVER

Cumulative loan provision as a percentage of total non-performing loans (net of interest in suspense)

### NPL RATIO

Total non-performing loans as a percentage of the total lending portfolio.

### 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 equal the security's current price.

# Corporate Information

## NAME OF COMPANY

L B Finance PLC

## LEGAL FORM

Public Limited Liability Company  
Incorporated in Sri Lanka under the provisions of the Companies Ordinance No. 51 of 1938 (Cap 145) and reregistered as per the Companies Act No. 07 of 2007 on 6th June 2008.

A Licensed Finance Company under the Finance Business Act No. 42 of 2011.

A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

## STOCK EXCHANGE LISTING

The Company was admitted to the official List of the Colombo Stock Exchange on 30th December 1997. The ordinary shares and senior and subordinated unsecured, redeemable rated, debentures redeemable in 2022 of the Company are listed on the Colombo Stock Exchange.

## DATE OF INCORPORATION

30th May 1971

## COMPANY REGISTRATION NUMBER

PQ 156

## TAX PAYER IDENTIFICATION NUMBER

104033431

## VAT REGISTRATION NUMBER

104033431 7000

## CENTRAL BANK REGISTRATION NUMBER

RFC 1003

## PRINCIPAL ACTIVITIES

Acceptance of fixed deposits, maintenance of savings accounts, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, margin trading facilities, factoring and trade finance facilities, other credit facilities and value added services.

Company subsidiary, LB Microfinance Myanmar Company Limited carried on microfinance lending in Myanmar.

## REGISTERED OFFICE

No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07.  
Tel: 011- 2 200 000 Fax: 011-5 345 327

## CORPORATE OFFICE

No. 20, Dharmapala Mawatha, Colombo 03.  
Tel: 011-2 155 000 Fax: 011-2 575 098

## OUTLETS

Branches - 129  
Gold loan centres - 36

## WEBSITE

[www.lbfinance.com](http://www.lbfinance.com)

## FINANCIAL YEAR END

31 March

## CREDIT RATING

The Company has been assigned A- (lka) stable outlook by Fitch Ratings Lanka Limited

## BOARD OF DIRECTORS AND BOARD APPOINTED COMMITTEES

### Board of Directors

Mrs. Anandhiy Gunawardhana  
(Chairperson)

Mr. Dhammika Perera  
(Executive Deputy Chairman)

Mr. Sumith Adhihetty  
(Managing Director)

Mr. Nirosan Udage  
(Executive Director)

Mr. B D A Perera  
(Executive Director)

Mr. Ravindra Yatawara  
(Executive Director)

Mrs. Yogadinusha Bhaskaran  
(Non-Executive Director)

Mr. Ashane Jayasekara  
(Independent Non-Executive Director)

Mrs. Ashwini Natesan  
(Independent Non-Executive Director)

Mr. Dharmadasa Rangalle  
(Non-Executive Director)

### Audit Committee

Mrs. Yogadinusha Bhaskaran (Chairperson)

Mrs. Anandhiy Gunawardhana

Mr. Ashane Jayasekara

### Remuneration Committee

Mr. Ashane Jayasekara (Chairman)

Mrs. Anandhiy Gunawardhana

Mrs. Yogadinusha Bhaskaran

### Nomination Committee

Mr. Ashane Jayasekara (Chairman)

Mrs. Anandhiy Gunawardhana

Mr. Sumith Adhihetty

### **Related Party Transaction Review Committee**

Mrs. Ashwini Natesan (Chairperson)  
Mr. Ashane Jayasekara  
Mr. Dharmadasa Rangalle

### **Integrated Risk Management Committee**

Mr. Ashane Jayasekara (Chairman)  
Mrs. Anandhiy Gunawardhana  
Mrs. Ashwini Natesan  
Mr. Sumith Adhihetty  
Mr. Niroschan Udage  
Mr. B D A Perera  
Mr. Ravindra Yatawara  
Mr. Bimal Perera  
Mr. Malith Hewage  
Mrs. Zairaa Kaleel  
Mrs. Waruni Perera

### **SECRETARIES**

P W Corporate Secretarial (Pvt) Ltd.  
No. 3/17, Kynsey Road, Colombo 08  
Tel: 011- 4640360-3  
Fax: 011- 4740588  
Email: pwcs@pwcs.lk

### **EXTERNAL AUDITORS**

Ernst & Young

### **INTERNAL AUDITORS**

KPMG

### **BANKERS**

Bank of Ceylon  
Commercial Bank of Ceylon PLC  
DFCC Bank PLC  
Hatton National Bank PLC  
NDB Bank PLC  
Nations Trust Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank  
Sampath Bank PLC  
Seylan Bank PLC  
Standard Chartered Bank  
Union Bank of Colombo PLC  
Habib Bank Limited  
Public Bank Berhad  
Deutsche Bank

### **CORPORATE MEMBERSHIPS AND ASSOCIATIONS**

The Finance Houses Association of Sri Lanka  
Leasing Association of Sri Lanka  
The Ombudsman Sri Lanka (Guarantee) Limited  
Mercantile Cricket Association  
Mercantile Football Association

### **SUBSIDIARY COMPANY**

LB Microfinance Myanmar Company Limited (Company incorporated in the Union of the Republic of Myanmar)

### **COMPANY REGISTRATION NUMBER**

844 FC of 2016-2017 (YGN)

### **REGISTERED OFFICE**

Myawaddy Bank  
Luxury Complex, 4th Floor, Apt 401  
Bo Gyoke Road cnr, W a Dan Street,  
Lanmadaw Township, Yangon, Myanmar

### **BOARD OF DIRECTORS**

Mr. Dhammika Perera  
Mr. Sumith Adhihetty  
Mr. Niroschan Udage  
Mr. B D A Perera  
Mr. Ravindra Yatawara  
Mr. Dulan de Silva

# Notice of Annual General Meeting

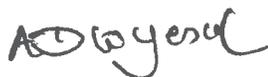
NOTICE IS HEREBY GIVEN that the Forty Seventh (47th) Annual General Meeting of L B Finance PLC will be held at the Corporate Office of the Company, No. 20, Dharmapala Mawatha, Colombo 3 on 30th July 2020 at 9.00 a.m. for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Financial Statements for the year ended 31st March 2020 and the Report of the Auditors thereon.
2. To re-elect Mr Moderage Ashane Joseph Waas Jayasekara as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.
3. To pass the ordinary resolution set out below to re-appoint Mr John Anthony Sunil Sumith Adhihetty who is 70 years of age, as a Director of the Company;

"IT IS HEREBY RESOLVED THAT the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not apply to Mr John Anthony Sunil Sumith Adhihetty who is 70 years of age and that he be and is hereby re-appointed a Director of the Company."

4. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants, as the Company's Auditors and to authorize the Directors to determine their remuneration.
5. To authorize the Directors to determine donations for the year ending 31st March 2021 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  
Secretaries

30 June 2020

## Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf.
2. A Proxy need not be a shareholder of the Company.
3. A Form of Proxy accompanies this Notice.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company No. 275/75, Professor Stanley Wijesundera Mawatha, Colombo 7, by 9.00 a.m. on 28th July 2020.

# Form of Proxy

I/We\* .....  
 (holder of NIC No. ....) of .....  
 shareholder/s of L B FINANCE PLC hereby appoint .....  
 (holder of NIC No. ....) of ..... or failing him\*

Mrs. Anandhiy Krisnajina Gunawardhana	or failing her *
Mr Dhammika Perera	or failing him*
Mr John Anthony Sunil Sumith Adihetty	or failing him*
Mr. Niroschan Udage	or failing him*
Mr. Biyanwilage Dudley Auburn Perera	or failing him*
Mr. Ravindra Shanaka Yatawara	or failing him*
Mrs. Yogadinusha Bhaskaran	or failing her*
Mr. Moderage Ashane Joseph Wass Jayasekara	or failing him*
Mrs Ashwini Natesan	or failing her*
Mr. Dharmadasa Rangalle	

as my/our\* proxy to represent me/us\* to speak and to vote as indicated hereunder for me/us\* and on my/our\* behalf at the Forty Seventh (47th) Annual General Meeting of the Company to be held on 30th July 2020 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To re-elect Mr Moderage Ashane Joseph Waas Jayasekara as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2. To pass the ordinary resolution set out below to re-appoint Mr John Anthony Sunil Sumith Adihetty who is 70 years of age, as a Director of the Company;	<input type="checkbox"/>	<input type="checkbox"/>
“IT IS HEREBY RESOLVED THAT the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 shall not apply to Mr John Anthony Sunil Sumith Adihetty who is 70 years of age and that he be and is hereby re-appointed a Director of the Company.”	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants as the Company's Auditors and authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorize the Directors to determine donations for the year ending 31st March 2021 up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our\* hands this ..... day of ..... Two Thousand and Twenty.

.....  
 Signature of Shareholder/s

\*Please delete what is inapplicable.

# FORM OF PROXY

## INSTRUCTIONS FOR COMPLETION

1. The full name, National Identity Card number and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The completed Proxy should be deposited at the Registered Office of the Company, No.275/75, Professor Stanley Wijesundera Mawatha, Colombo 07, by 9.00 a.m. on 28th July 2020.
3. The Proxy shall –
  - (a) In the case of an individual be signed by the shareholder or by his/her attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) In the case of a company or corporate/statutory body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the company or corporate/statutory body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
4. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy in his/her discretion will vote as he/she thinks fit.
5. Articles 59 to 62 of the Articles of Association of the Company dealing with voting are quoted below for information of the shareholders.

## 59 METHOD OF VOTING

At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by-

- i. the Chairman of the meeting; or
- ii. not less than three persons present in person or by Attorney or representative or by proxy and entitled to vote; or
- iii. a Member or Members present in person or by Attorney or representative or by proxy and representing not less than one tenth of the total voting rights of all the Members having the right to vote at the meeting; or
- iv. a Member or Members present in person or by attorney or representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right.

A demand for a poll may be withdrawn, unless a poll be demanded (and the demand be not withdrawn) a declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

## 60 HOW A POLL IS TO BE TAKEN

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may direct, and the results of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman may (and if so requested shall) appoint scrutinizers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

- 61 In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.
- 62 A poll demanded on the election of a Chairman of the meeting or on a question of 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 2019/20

We would like to hear thoughts, concerns or problems about this report so that we may take measures for improvement.

Please Mention Your Relationship With L B Finance – Please tick (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 2019/20 - Please tick (✓) the appropriate box.

Indicator	Excellent	Good	Bad	Poor
Design and layout	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Content and Disclosures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Theme and focus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please write details of your feedback here:

.....  
.....  
.....

Comments / Suggestions

.....  
.....  
.....

Please provide your contact details

Name :

Tel :

Email :

Thanking you for taking your time. You can post or Email your feedback to:

Assistant Manager – Integrated Reporting and Sustainability

LB Finance PLC

Corporate office

No. 20, Dharmapala Mawatha, Colombo 3.

Email : thusithaw@lbfinance.lk

Tel : 0112155504







Designed & produced by



Digital Plates & Printing by Nethu Print Solutions  
Photography by Taprobane Street & Dimitri Crusz

