

# LB FINANCE PLC

PUBLICATION OF FINANCIAL STATEMENT AS PER CENTRAL BANK GUIDELINES NO.02 OF 2006

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH	Company		Group	
	AUDITED 2019 Rs.('000)	AUDITED 2018 Rs.('000)	AUDITED 2019 Rs.('000)	AUDITED 2018 Rs.('000)
<b>Income</b>	29,278,024	25,046,202	29,342,212	25,046,339
Interest Income	27,363,768	23,394,115	27,420,842	23,395,887
Less: Interest Expenses	12,951,323	11,498,408	12,953,155	11,498,460
<b>Net Interest Income</b>	14,412,445	11,895,707	14,467,687	11,897,427
Fee and Commission Income	1,782,072	1,504,188	1,786,919	1,504,599
Net Trading Income	(2,558)	(299)	(2,558)	(299)
Other Operating Income	134,742	148,198	137,009	146,152
<b>Total Operating Income</b>	16,326,701	13,547,794	16,389,057	13,547,879
Less: Impairment Charges and Other Losses	982,111	667,628	985,849	668,005
Less: Gold Loan Auction Losses	1,043	2,995	1,043	2,995
<b>Net Operating Income</b>	15,343,547	12,877,171	15,402,165	12,876,879
<b>Less: Operating Expenses</b>				
Personnel Expenses	2,693,563	2,397,919	2,707,937	2,400,735
Depreciation of Property, Plant and Equipment	417,889	365,599	418,438	365,684
Amortisation of Intangible Assets	17,487	18,636	18,492	19,053
Other Operating Expenses	2,458,340	2,280,634	2,468,485	2,282,693
<b>Total Operating Expenses</b>	5,587,279	5,062,788	5,613,352	5,068,165
<b>Operating Profit before Tax on Financial Services</b>	9,756,268	7,814,383	9,788,813	7,808,714
Less: Tax on Financial Services	2,015,619	1,336,693	2,015,619	1,336,693
<b>Profit before Taxation</b>	7,740,649	6,477,690	7,773,194	6,472,021
Less: Income Tax Expense	2,685,989	2,226,969	2,693,771	2,226,969
<b>Profit for the Year</b>	5,054,660	4,250,721	5,079,423	4,245,052
<b>Profit Attributable to:</b>				
Equity Holders of the Company	5,054,660	4,250,721	5,079,349	4,245,069
Non-Controlling Interest	-	-	74	(17)
<b>Profit for the Year</b>	5,054,660	4,250,721	5,079,423	4,245,052
<b>Earnings Per Share: Basic/Diluted (Rs.)</b>	36.49	30.69	36.67	30.65
<b>Dividend Per Share</b>				
Dividend Per Share: Gross (Rs.)	12.00*	11.00		
Dividend Per Share: Net (Rs.)	10.32*	9.74		

\*Calculated based on interim dividend payable and proposed final dividend, which is to be approved at the Annual General Meeting.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH	Company		Group	
	AUDITED 2019 Rs.('000)	AUDITED 2018 Rs.('000)	AUDITED 2019 Rs.('000)	AUDITED 2018 Rs.('000)
<b>Assets</b>				
Cash and Cash Equivalents	4,040,586	5,874,375	4,058,610	5,990,295
Financial Assets Recognised Through Profit or Loss/ Financial Investments - Held for Trading	6,866	9,682	6,866	9,682
Financial Assets at Amortised Cost/Loans and Receivables	47,395,025	39,855,398	47,773,705	39,894,276
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire	66,050,429	62,489,686	66,050,429	62,489,686
Financial Assets Measured at Fair Value Through Other Comprehensive Income/Financial Investments - Available for Sale	89,710	121,624	89,710	121,624
Other Financial Assets	10,804,517	6,772,554	10,794,673	6,766,710
Other Non Financial Assets	1,067,360	815,808	1,073,065	816,463
Investment in Subsidiary	318,999	152,915	-	-
Property, Plant and Equipment	6,577,379	4,680,619	6,580,725	4,681,849
Intangible Assets	39,847	48,119	43,523	52,861
<b>Total Assets</b>	136,390,718	120,820,780	136,471,306	120,823,446
<b>Liabilities</b>				
Due to Banks	24,633,508	22,838,038	24,633,508	22,838,038
Financial Liabilities at Amortised Cost - Due to Depositors	83,214,949	72,943,833	83,242,617	72,946,011
Debt Instruments Issued and Other Borrowed Funds	3,107,783	5,152,832	3,107,783	5,152,832
Other Financial Liabilities	1,974,490	1,761,418	1,974,490	1,761,418
Other Non Financial Liabilities	2,070,632	852,715	2,075,791	853,165
Current Tax Liabilities	1,395,971	633,058	1,403,916	633,058
Deferred Tax Liabilities	1,309,722	1,058,750	1,309,722	1,058,750
Post Employment Benefit Liability	256,512	231,240	256,512	231,240
<b>Total Liabilities</b>	117,963,567	105,471,884	118,004,339	105,474,512
<b>Equity</b>				
Stated Capital	838,282	838,282	838,282	838,282
Reserves	5,210,097	4,270,522	5,230,876	4,275,753
Retained Earnings	12,378,772	10,240,092	12,397,809	10,234,440
<b>Total Equity Attributable to Equity Holders of the Company</b>	18,427,151	15,348,896	18,466,967	15,348,475
Non-Controlling Interest	-	-	-	459
<b>Total Equity</b>	18,427,151	15,348,896	18,466,967	15,348,934
<b>Total Liabilities and Equity</b>	136,390,718	120,820,780	136,471,306	120,823,446
<b>Commitments and Contingencies</b>	1,820,856	1,261,981	1,820,856	1,261,981
<b>Net Asset Value Per Share (Rs.)</b>	133.03	110.81	133.32	110.81

## CERTIFICATION:

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Sgd  
T Hasitha Athapattu  
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements. Approved and signed for and on behalf of the Board of Directors by,

Sgd  
J A S Sumith Adhithetty  
Managing Director  
21 May 2019  
Colombo

Sgd  
Mrs. Yogadinusha Bhaskaran  
Director



LB Finance PLC, 275/75, Prof. Stanley Wijesundara Mw., Colombo 7.

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Leasing | Personal and Business Loans | Fixed Deposits | Savings | Gold Loans | Microfinance  
Islamic Finance | Factoring | Margin Trading | Mortgage Loans | Education Loans | Housing Loans

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH	Company		Group	
	AUDITED 2019 Rs.('000)	AUDITED 2018 Rs.('000)	AUDITED 2019 Rs.('000)	AUDITED 2018 Rs.('000)
<b>Profit for the Year</b>	5,054,660	4,250,721	5,079,423	4,245,052
<b>Other Comprehensive Income that will be Reclassified to Income Statement</b>				
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	15,594	5,247
<b>Fair Value Gains and Losses arising on Re-measuring Available for Sale Financial Assets</b>				
<b>Equity Securities</b>				
Fair Value Gains/(Losses) on Re-measuring Equity Securities	-	3,604	-	3,604
Reclassification Adjustment for Impairment on Equity Securities	-	4,456	-	4,456
Net Fair Value Gains/(Losses) on Re-measuring Equity Securities	-	8,060	-	8,060
<b>Other Comprehensive Income that will be Reclassified to Income Statement</b>	-	8,060	15,594	13,307
Less: Deferred Tax Charge/(Reversal) on above Items	-	-	-	-
<b>Net Other Comprehensive Income that will be Reclassified to Income Statement</b>	-	8,060	15,594	13,307
<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	(31,913)	-	(31,913)	-
Actuarial Gains and Losses on Defined Benefit Plans	23,969	(47,807)	23,969	(47,807)
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	6,712	(13,386)	6,712	(13,386)
Net Actuarial Gains/(Losses) on Defined Benefit Plans	17,257	(34,421)	17,257	(34,421)
<b>Net Other Comprehensive Income that will never be Reclassified to Income Statement</b>	(14,656)	(34,421)	(14,656)	(34,421)
<b>Other Comprehensive Income for the Year, Net of Tax</b>	(14,656)	(26,361)	938	(21,114)
<b>Total Comprehensive Income for the Year, Net of Tax</b>	5,040,004	4,224,360	5,080,361	4,223,938
<b>Attributable to:</b>				
Equity Holders of the Company	5,040,004	4,224,360	5,080,240	4,223,939
Non-Controlling Interest	-	-	121	(1)
<b>Total Comprehensive Income for the Year, Net of Tax</b>	5,040,004	4,224,360	5,080,361	4,223,938

## SELECTED PERFORMANCE INDICATORS - COMPANY AS AT 31 MARCH

	2019	2018
<b>Capital Adequacy</b>		
Core Capital (Tier 1 Capital), Rs. '000	18,243,256	15,348,896
Total Capital Base, Rs. '000	20,752,197	17,517,446
Core Capital Adequacy Ratio, as a % of Risk Weighted Assets (Minimum 6%)	*15.53%	17.33%
Total Capital Adequacy Ratio, as a % of Risk Weighted Assets (Minimum 10%)	*17.67%	19.78%
Capital Funds to Deposit Liabilities Ratio (Minimum 10%)	22.14%	21.04%
<b>Profitability (%)</b>		
Return on Avg Shareholders' Funds (After Tax)	29.84%	30.52%
Return on Avg Assets (After Tax)	3.93%	3.80%
Interest Margin	11.87%	11.15%
<b>Asset Quality</b>		
Gross Non-Performing Accommodations, Rs. '000	3,773,333	3,003,175
Total Accommodations, Rs. '000	140,145,117	126,874,883
Gross Non-Performing Accommodations Ratio, %	2.69%	2.37%
Net Non-Performing Accommodations Ratio, %	-0.21%	-0.06%
<b>Regulatory Liquidity (Rs. '000)</b>		
Required Minimum Amount of Liquid Assets	8,761,987	7,879,377
Available Amount of Liquid Assets	13,353,654	11,387,536
Required Minimum Amount of Government Securities	5,284,295	4,207,664
Available Amount of Government Securities	6,740,000	6,540,000
<b>Memorandum Information</b>		
Number of Employees	3,618	3,441
Number of Branches	127	123
Number of Gold Loan Centers	36	36
* Calculated based on the new capital adequacy framework issued by Central Bank of Sri Lanka for licensed finance companies with effect from 1st July 2018.		

## EXTRACTED FROM THE STATUTORY FINANCIAL STATEMENTS

### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LB FINANCE PLC

Report on the audit of the consolidated financial statements

#### Opinion

We have audited the financial statements of LB 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 2019, 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 2019, 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 (SLAuS). 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.

Other information included in the Group's 2019 Annual Report  
Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance  
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements  
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuS 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 SLAuS, 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 control 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 be 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.



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**Key Audit Matter**

**Impairment allowance for loans & receivables and lease rentals receivable & stock out on hire including Group's transition to SLFRS 9:**

We considered the impairment allowance for loans & receivables and lease rentals receivable & 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. The higher level of estimation uncertainty involved, materiality of the amounts reported in the Group's financial statements, and impact of transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter.

Loans & receivables and lease rentals receivable & stock out on hire amounted to Rs. 47,773,705 (Rs. '000) and Rs. 66,050,429 (Rs. '000) after deducting an impairment allowance of Rs. 1,325,326 (Rs. '000) and 2,425,788 (Rs. '000) respectively.

The Note 4.18 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation. The impact on transition to SLFRS 9 on the Group's financial statements has been quantified and presented in Note 2.17 of the financial statements.

**How our audit addressed the key audit matter**

We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; these included the following procedures:

\*Focusing on the oversight, review and approval of impairment policies by the board audit committee and management, we evaluated the design effectiveness of controls over impairment allowance, in the light of the requirements in SLFRS 9.

\*We understood and evaluated the model used to calculate impairment allowance to assess its appropriateness.

\*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; underlying calculations were also re-checked.

\*We also considered reasonableness of macro-economic factors used, by comparing them with publicly available data and information sources.

\*By using a set of procedures similar to those enumerated above, we validated the quantitative impact of transition.

\*We assessed the adequacy of the related financial statement disclosures as set out in note(s) 2.17, 4.16 and 4.17 of the financial statements.

We communicated 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 identified 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 with publicly available data and information sources.

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.