

# NAVIGATING THE FUTURE





## NAVIGATING THE FUTURE

At L B Finance even amid a challenging business terrain, we kept moving steadily towards making our goals a reality. As this report demonstrates our commendable performance amid a year of change and uncertainty, the L B Finance team continued to develop and share long-term value through strategically improved initiatives – all focused on strengthening our capital positions, enhancing our business model, and expanding our potential in the years ahead.

Today, we believe that our unmatched experience, expertise and understanding of our business will enable us to keep delighting thousands of stakeholders across the island through any eventuality. And now as we approach our 50th year of successful operations in 2021 – we are leveraging our potential and resources to successfully navigate the next 50 years, with hopes of dominating the future of the financial services sector in Sri Lanka.



After reaching the summit of a mountain, a lion often looks back and ponders on the journey that led him to this point. It is a moment of enlightenment - one that gives him a deep awareness that it is indeed the past that drives him to aspire for an even more ambitious future.

Just like the mighty lion, LB Finance, having dedicated the past 50 years in service to the people of Sri Lanka, is now ready to embrace an even brighter vision. Our legacy spanning the past half century has enlightened us and given us the assurance to envision an even more vibrant future for all Sri Lankans for the next one hundred years and beyond.

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### Chairperson's statement



Sinhala



Tamil



English



Audio Version  
Scan and listen

### Managing Director's review



Sinhala



Tamil



English



Audio Version  
Scan and listen



Summarized Video  
with  
Sign Language



A Dedicated website  
for Annual Report and  
Integrated Reporting  
Information

Our progress for the year and  
prospects for the year ahead

Page :  
**102**

Discuss the LBF's governance  
approach and priorities

Page :  
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# ABOUT THE REPORT

## Our 9th Integrated Report

### WELCOME TO OUR 2020/21 INTEGRATED REPORT

#### INTEGRATED THINKING FORMS THE BASIS OF OUR ANNUAL REPORT

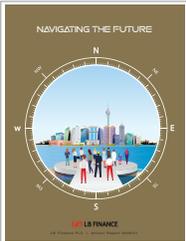
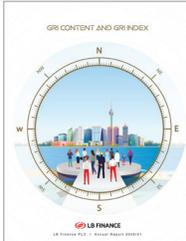
L B Finance PLC (LBF) produces and publishes an Annual Integrated Report to demonstrate how integrated thinking is applied across all core business activities to ensure they are able to deliver short, medium and long term value for all stakeholders.

Since embarking on LBF integrated reporting journey in 2012/13, we have been progressively expanding LBF reporting approaches in order to increase transparency and improve the quality of LBF disclosures. LBF latest Integrated Annual Report for 2020/21 marks the 9th installment in LBF's integrated reporting journey. The current report which has been prepared in accordance with the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC), is designed to inform LBF stakeholders how the LBF Group has systematically managed its core business activities to generate consistent financial results, create sustainable value and stay ahead of peers notwithstanding challenges in the year under review. The report also contains Standard Disclosures outlined by the GRI Sustainability Reporting Guidelines.

The 2020/21 report also carries a historical significance for it marks the culmination of 50 years of hard work and dedication that has brought the LBF Group to where it stands today - a top tier financial institution in Sri Lanka. To commemorate this important landmark, the release of the 2020/21 Integrated Annual Report is scheduled to coincide with LBF's 50th anniversary in May 2021.

### OUR REPORTING SUITES

LBF remain committed to provide transparent and honest reporting to LBF diverse set of stakeholders. Please visit LBF website to see the whole suite.

	<b>Integrated Report</b> LBF integrated report is the primary report to LBF stakeholders. It is structured to show the relationship between the interdependent elements involved in LBF value creation story over the short, medium and long term period	
	<b>Corporate Governance and Risk Management Report</b> The report involves a detail description of the LBF's corporate governance information, and also includes integrated risk management information for the year of 2020/21	
	<b>Sustainability GRI index</b> Report is covering sustainability information of environmental, social and governance elements and the report also includes GRI related information with the GRI navigating index	

### BOUNDARY AND SCOPE OF REPORTING



### TARGET AUDIENCE

This report which provides a comprehensive view of LBF economic, environmental and social performance for the period under review, is intended to fulfill the information needs of the Group's key stakeholders - individuals, groups and organisations that materially affect or could be materially affected by LBF strategy execution and how LBF conduct business activities.

## REPORTING FUNDAMENTALS

### Mandatory Reporting Frameworks and Guidelines

#### Financial reporting

- ❖ Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRSs)
- ❖ Sri Lanka Accounting Standards (LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka
- ❖ Companies Act No. 07 of 2007
- ❖ Finance Business Act No. 42 of 2011



#### Corporate Governance reporting

- ❖ Corporate Governance Direction No. 3 of 2008 (as amended) issued by the Central Bank of Sri Lanka
- ❖ Listing Rules of the Colombo Stock Exchange
- ❖ The Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka
- ❖ Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)



#### Assurance

- ❖ Sri Lanka Auditing Standards (SLAuSs)
- ❖ Sri Lanka Standard on Assurance Engagements (SLSAE) 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka

### Progressive action taken by LBF to improve the quality of reporting ;

#### Financial and Non-financial Reporting

The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value.

#### Integrated Sustainability Reporting

Using the GRI Standards as a point of reference, LBF maintains its own internally developed sustainability reporting index which consists of a series of targeted Sustainable Development Outcomes (SDOs) that define our key sustainability priorities. Relevant SDO's have been incorporated in our narrative on value creation (Page 62 to 65), to enable readers to measure LBF's actual performance outcomes against respective SDO's.

### Voluntary Reporting Frameworks and Guidelines

#### Integrated reporting

- ❖ International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework
- ❖ A Preparer's Guide to Integrated Reporting by the Institute of Chartered Accountants of Sri Lanka

## INTEGRATED REPORTING <IR>

#### Sustainability reporting

- ❖ GRI Standards
- ❖ UNGC Principles and Sustainable Development Goals
- ❖ AccountAbility – AA1000SES



# ABOUT THE REPORT

## Strategic realignment with the United Nations Sustainable Development Goals (SDGs)

LBF has taken a step forward in deepening its understanding of the opportunities the SDG framework presents towards creating value for our stakeholders, whilst contributing towards achieving these global goals. As part of this commitment, we completed an impact review of our value chain and used the results to assess the completeness of our material issues and facilitate the reorientation of our strategies if needed. In reviewing the SDGs with reference to international guidance, we have identified some emerging concerns that have been incorporated into the 'Future Focus' under the respective SDGs. This provides a sense of our future direction, including how we will deliver on outcomes that will bring us closer to our vision to become the leading financial services institution in Sri Lanka.

The below infographic illustrates how our sustainability strategy is aligned with our stakeholder needs and with the seventeen United Nations Sustainable Development Goals (SDGs) most relevant to our business.



## Revamping risk and governance reporting

To align with global best practices for reporting on our governance and risk management approaches, we have done away with stand-alone governance and risk sections and instead of having integrated these aspects into the narrative itself to bring a more holistic perspective to what is being discussed. To help our readers, we have introduced a series of icons that show the impact on the governance frameworks and the Group's risk profile. Detailed disclosures on these aspects are available in our supplementary reports.

### KEY CONCEPTS

#### Value creation means to LBF

The success of our business is determined by the ability to create value for our stakeholders. Value creation is therefore the key principle that underpins everything we do. Our value creation process is embedded in our Vision, Mission, Values and Goals (page 14) which forms an integral part of our business model (on pages 50 to 51). It is how we ensure that the way we think, our strategy and the decisions we make are all driven by the desire to create stakeholder value.

#### Value creation via the six capitals

Our relevance as a financial institution today and in the future is fundamentally depend on the capital inputs available to us and how we channel these resources into value-adding activities in order to generate results by the way of outputs and outcomes. Please refer to the Capital Management Report on page 116 to 204.

This value creation process often calls for some compromise. Such tradeoffs between our capital areas are discussed on Capital reports.

#### Materiality and material matters

We apply the principle of materiality in assessing what information should be included in our integrated report. This report therefore focuses particularly on those issues, opportunities and challenges that have a material impact on the LBF Group and its ability to consistently deliver value to shareholders and key stakeholders. The material matters applicable for 2020/21 reporting cycle described on pages 66 to 73.

## Material changes during the year

Segment	Material change	Value creation
Business expansion of L B Microfinance Myanmar Company Limited.	Added 04 new branches, total 12 branches.	Introduced a micro finance model, which is geared to support the growth and development of small-scale farmers in rural areas of Myanmar through the provision of much-needed financial assistance and business development advice that would enable them to develop stable livelihoods, raise their living standards and improve overall quality of life.

### COMMITMENT TO STAKEHOLDERS

Our stakeholders are those individuals, groups and organisations that materially affect or could be materially affected by our strategy execution and how we conduct our business activities. The LBF Group remains firmly committed to regularly engage with all key stakeholders (Page 52) to understand their concern and reorient our strategy, if needed. Our core values expressed in our culture which guide us in our interactions with stakeholders.

### STATEMENT OF PRECAUTIONARY APPROACH

The precautionary principle calls for preventive actions when an activity is believed to threaten human health or the environment, even if there is no scientifically established evidence. As part of our mandate as a responsible financial institution, the LBF Group applies the precautionary principle where necessary, including in the areas of;

#### Human health and well-being

As a financial services provider, the core business activities of the LBF Group poses little or zero risk to human health and well-being. However, the Group considers the health and well-being of all our stakeholders to be of paramount importance and as such has implemented a comprehensive framework of policies and procedures to ensure the safety and well-being of all stakeholders. Please refer to the Human Capital Report (Page 154) and the Social and Relationship Capital Report (Page 176) for more specific details.

### Balancing stakeholder interests

The LBF Group is constantly working to balance the interest of its various stakeholders, for we believe that doing so enhances the legitimacy of our business and strengthens our position against powers. In this regard, we aim to develop solutions that will not have a detrimental impact on the environment or the community. At the same time, we continue to undertake environmental and community-based initiatives for the benefit of society at large.

### Governance and ethics

As a provider of financial services, our business is subject to a risk in terms of ethical and transparent equitable practices. We comply with all applicable local legislation to safeguard our reputation and brand. At the same time, we continue to work towards greater transparency and accountability, by enhancing our ethical practices, stakeholder relationships and strengthening our Code of Ethics to ensure the protection of all stakeholder rights. Going forward, we will also focus on refining our governance framework to accurately track and address ethical transgressions will also remain a priority for the LBF.

### ASSURANCE

We have adopted a combined assurance approach to verify the accuracy and the completeness of the information contained in this Integrated Report. The contents included herein have been first approved by the respective business Heads with all financial information further reviewed by the Audit Committee prior to submission to the Board of Directors for approval. Moreover, Messers Ernst and Young, Chartered Accountants have

provided an independent assurance of the Consolidated Financial Statements on page 268 as well as the non-financial sustainability indicators as per the Global Reporting Initiative (GRI) Standards. This independent external assurance report on sustainability can be found on page 410 of this report.

### FORWARD LOOKING STATEMENTS

This Integrated Annual Report may contain forward-looking statements with respect to the LBF Group's future performance and prospects. While these statements reflect our future expectations at the time of publishing, it is important to remain mindful that a number of risks, uncertainties and other important factors could cause actual results to differ materially from our expectations. Hence the LBF Group does not accept any obligation to revise or update at a later date, the information expressed in these forward-looking statements.

# ABOUT THE REPORT

## FEEDBACK, FURTHER INFORMATION AND SUGGESTIONS

We appreciate the comments and suggestions received regarding our previous Annual Reports and have made every effort to bring in appropriate changes in the 2020/21 report. We welcome your comments and suggestions on this Report as well and request that you use the attached feedback form or raise your concerns directly to:

AGM – Finance/

Manager – Integrated Reporting and Sustainability

**L B Finance PLC** (Corporate office)

No. 20, Dharmapala Mawatha, Colombo 03.

Tel: 011 2155 504 Fax: 011 2575 096

## BOARD RESPONSIBILITY STATEMENT

The L B Finance PLC Board has applied its collective knowledge and expertise to ensure the integrity of the 2020/21 Integrated Report as well as any supplementary information referenced therein. The Board has considered the completeness of the material aspects addressed in the report, and the reliability of financial and non-financial information presented, based on the combined assurance process outlined above.

On this basis, the Board is satisfied that the 2020/21 Integrated Report provides a fair and accurate representation of the performance of the Company for the year under review. Further the Board is of the view that the report confirms to the guidelines set out under the International Integrated Reporting <IR> Framework. The 2020/21 Integrated Report was approved by the Board and signed on its behalf by:



Anandhiy Gunawardhana  
Chairperson



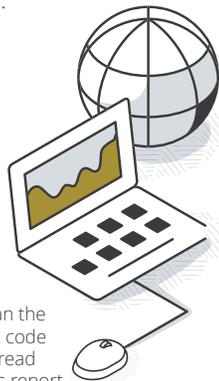
Sumith Adhihetty  
Managing Director

## OUR APPROACH TO ONLINE REPORTING

Our Integrated Annual Report is available online on the LBF's website at [www.lbfinance.lk](http://www.lbfinance.lk). Printed copies are available on request from our Company Secretaries, P W Corporates Secretarial (Pvt) Ltd, Tel: 0114640360-3

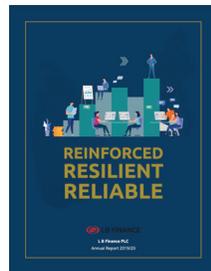
## Online and web disclosures

To assist in the reduction of the Company's carbon footprint, we urge our stakeholders to make use of our reporting site to view our reporting suite at [www.lbfinance.lk/reporting](http://www.lbfinance.lk/reporting) or scan the QR code to be directed to the page.



scan the QR code to read this report online

## MOST RECENT REPORTS



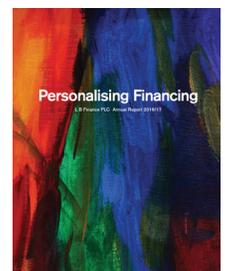
2019/20



2018/19



2017/18



2016/17



2015/16



2014/15



2013/14



2012/13

# HOW TO READ THIS REPORT

## Navigating through this report

The key objective of this report is to provide a comprehensive assessment of our Company and illustrate the strategies deployed to create value in the long run. It is centered around six capitals and our activities, held in place through the common thread of our focus on engaging with our stakeholders at a human level. Navigating through this report will require the reader to ask seven key questions:



Core questions to ask	Where to look	Page No.	What you will find
<b>Who governs the Company and how do they approach the evolving market dynamics ?</b>	a) Letter from the Chairperson	206	<ul style="list-style-type: none"> <li>• Broad overview of the Company's current position and future direction.</li> <li>• LBF's key success factors and incisive analysis of the existing business verticals.</li> <li>• The experience and competence of LBF's leadership.</li> <li>• In-depth review of the Governance and Control Framework.</li> </ul>
	b) Committees of the Board and Management	231	
	c) Statement of Corporate Governance	206	
	d) Performance analysis by the Managing Director	37	
<b>What are the broad risks facing the Company and how are they managed?</b>	a) Statement of Risk Management	241	<ul style="list-style-type: none"> <li>• Risk identification and measuring techniques.</li> <li>• Risk impacts and likelihoods, through heat maps.</li> <li>• Risk mitigating tools and techniques.</li> <li>• Breakdown of risk exposures in separate categories.</li> <li>• Stress testing.</li> </ul>
<b>What role does the Company have in the bigger picture and how does LBF structure its activities to optimise value creation?</b>	a) Value creation process	50	<ul style="list-style-type: none"> <li>• Bird's eye view of the Company's role in the big picture.</li> <li>• Key components of the business model that make it possible to transform resources.</li> <li>• The organisational structure designed to complement LBF's business model.</li> </ul>
	b) Business model	50	
	c) Operating structure	17	
<b>What are the various challenges within the operating environment and competitive landscape affecting LBF's business?</b>	a) Operating Environment and Strategic Response	88	<ul style="list-style-type: none"> <li>• Macroeconomic aspects that shape the industry.</li> <li>• Market forces and the competitive landscape that shape our business.</li> <li>• LBF's key competencies and scope of improvement.</li> </ul>

# HOW TO READ THIS REPORT



Core questions to ask	Where to look	Page No.	What you will find
<b>How are strategies formulated and resources allocated?</b>	a) Strategy and Resource Allocation	74	<ul style="list-style-type: none"> <li>Risks and opportunities identified through analysis of operating environment and stakeholder engagement.</li> <li>Business model adaptability and change requirements.</li> <li>Responses to issues raised through stakeholder engagement.</li> <li>Resource allocation strategies to meet growth objectives.</li> <li>Interdependencies, complexities and trade-offs between capitals.</li> <li>Measuring the efficiency of objectives.</li> </ul>
<b>How are resources transformed through the various capitals - in order to create value for stakeholders?</b>	a) Financial Capital b) Manufactured Capital c) Human Capital d) Intellectual Capital e) Social and Relationship Capital f) Natural Capital	116 144 154 166 176 196	<ul style="list-style-type: none"> <li>Financial resources.</li> <li>Tangible inputs.</li> <li>People.</li> <li>Knowledge-based intangibles.</li> <li>Key relationships and engagement with stakeholders.</li> <li>Environmental resources.</li> </ul>
<b>How did the different segments of the business contribute towards the overall results of the Company?</b>	a) Business Segment Review	102	<ul style="list-style-type: none"> <li>Performance reviews.</li> <li>Influential trends affecting business segments and subsidiaries.</li> <li>Risks and outlook.</li> </ul>

## QUICK READERS TO UNDERSTAND OUR REPORT

If you need a quick snapshot or brief of our Annual Report, please go through the following pages:

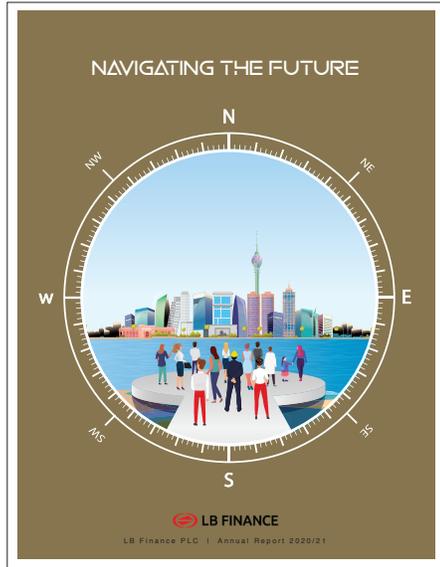


# LEADING THE WAY FOR VALUE CREATION THROUGH NEW REPORTING ERA

## 1st Time in Sri Lanka

Accessibility via equity design

We differentiate ourselves by placing stakeholders at the heart of what we do.



Printed Annual Reports are available on request



### BOOK MARK

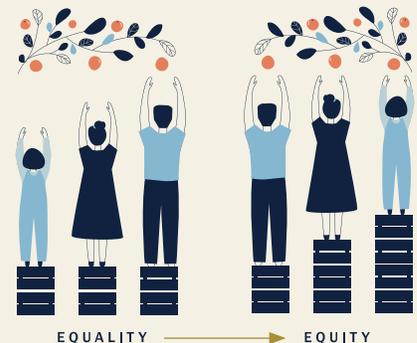
We have introduced user-friendly icons as a quick reference guide to our Annual Report and have also included a book mark to help you easily navigate through the pages.



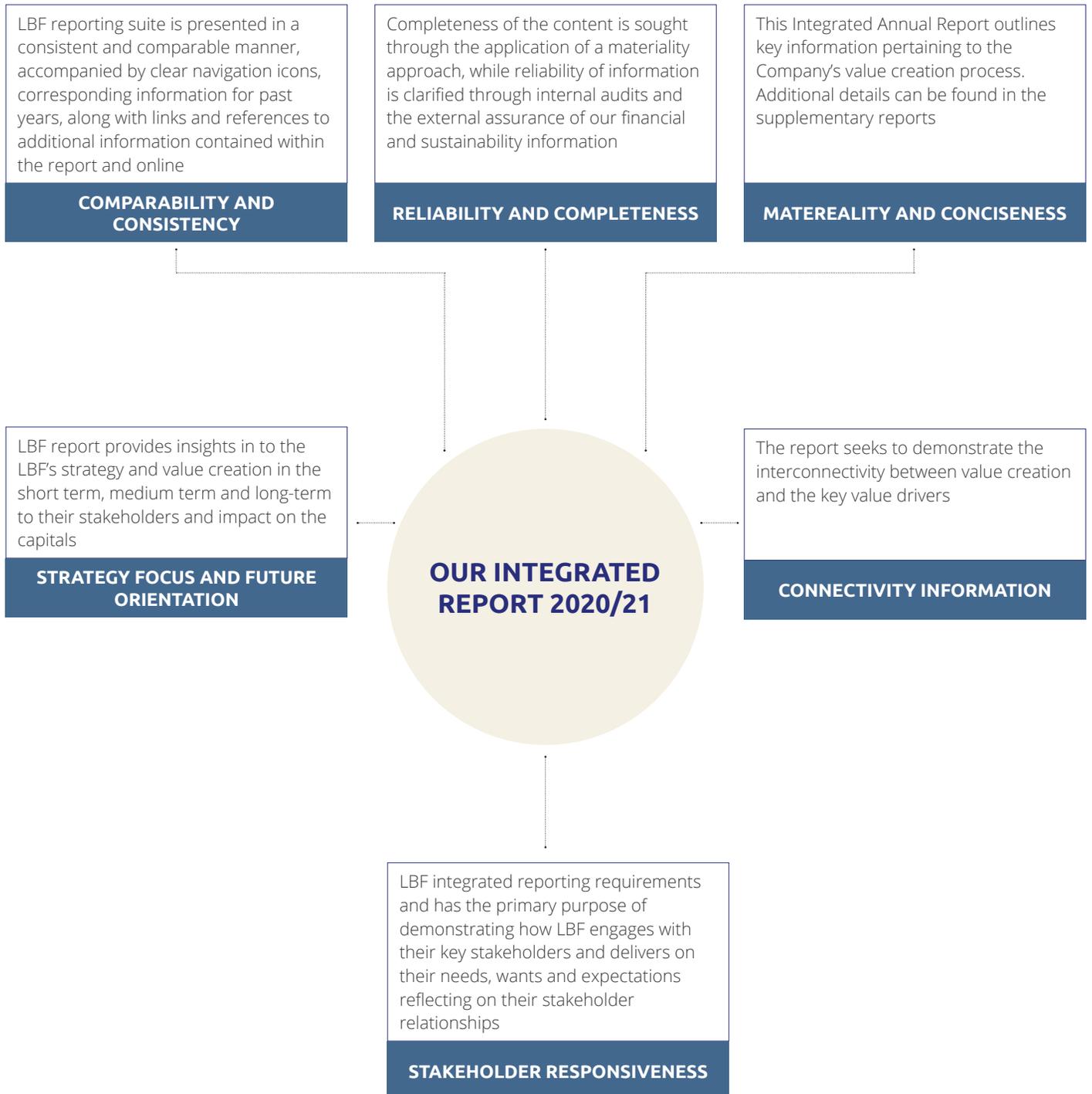
<b>Trilingual</b>	
 <b>Summarized Video with Sign Language</b>	 <b>Chairperson and Managing Director Statements</b>
 <b>Audio Version</b> <b>Chairperson and Managing Director Statements</b>	 <b>Web Site</b> <b>A dedicated website for Annual Report and integrated reporting information</b>
<b>Digital Version</b>	
 <b>Mobile Optimized PDF Version</b>	 <b>High Quality PDF Version</b>
<b>Accessibility</b>	
 <b>Sign Language for multimedia users</b>	 <b>Colorblind - Friendly Design</b>

## TRANSFORMING REPORTING STYLE - EQUALLY REPORTING DESIGN TO EQUITABLE REPORTING DESIGN

We have always made a concerted effort to make our reports more inclusive and equally accessible to all stakeholders. This year we have taken a further step to ensure equitable access to reach out to an even wider audience. We have used softer design elements and special tones that make it easier on the eye for those who are sensitive to sharp colours. We have introduced some new, unique features in our online report as well to make it more accessible. We have incorporated a trilingual video presentation summarising our report and added audio versions of our Chairperson's Statement and Managing Director's Review. Fully translated versions of both these statements are also available online.



# OUR INTEGRATED REPORTING PRINCIPLES





# ABOUT US

## LBF AT A GLANCE

### Being a purpose-driven financial institution

At L B Finance PLC, we aim to be purpose-driven in everything we do. Our strategy and business model to our corporate culture, all reflect our desire to go beyond a mainstream financial services institution to touch the lives of people, support businesses and help the country to embrace the progress.

#### Where we want to go

### 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.

#### What we need to do

### MISSION

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

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

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

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.

#### Who we are

### VALUES

Excellence	Transparency
Ethics	Innovation
Professionalism	Quality

### GOAL

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

**STRATEGIC PRIORITIES**

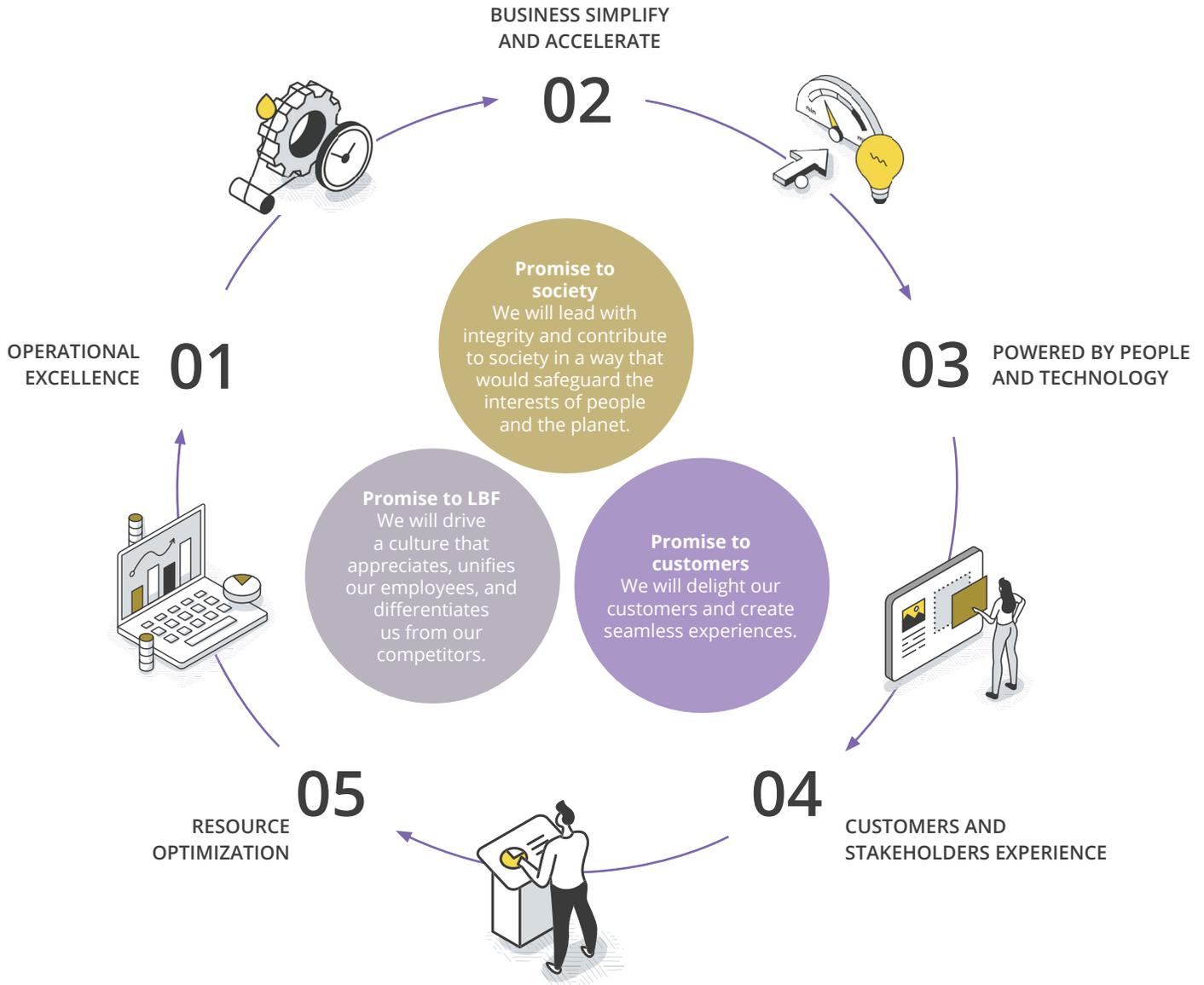
The retail financial services landscape in Sri Lanka is rapidly changing and we continue to concentrate on being a pioneer in this process. LBF wish to offer customers modern and creative financial services, using technology for simplification, transparency and safety. In order to create a viable finance company, LBF continues to serve consumers and stakeholders with empathy and dignity. LBF knows that finance companies cannot be used at the

same time by only a narrow part of society. There must be a long term solution for all, even insecure consumers who may need extra security or want to access banking products in a different manner.

LBF wants to provide customers with quick, timely, appropriate offerings and proposals, with greater choice and access to financial management capability. LBF helps customer to handle their money

properly and make sound financial choices with the help of insights. LBF continues to invest in digital technologies, upgrade infrastructure, move to cloud technology and quickly introduce manual process automation. This encourages LBF to have a more personalized digital service, to save costs and to provide extra assistance for more of LBF customers.

LBF is concentrating their efforts in the following areas:



# ABOUT US

## OUR PROFILE

L B Finance PLC (LBF) was incorporated in May 1971 as a private limited liability Company and in 1982 converted into a public limited liability Company. Several years later, in 1997, the Company was listed on the Colombo Stock Exchange and again in June 2008 re-registered under the new Companies Act No. 7 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, after which L B Finance PLC became part of the Vallibel One PLC Group, a highly diversified local conglomerate with interests in; lifestyle, finance, aluminium, plantation, leisure, consumer and investments.

L B Finance PLC's journey over the past 50 years is marked by a long list of accomplishments that places the Company as one of the top tier financial institutions in Sri Lanka today.

### LBF in context

Backed by a strong financial tradition spanning 50 years, coupled with our local experience, has gained the trust of corporates, SMEs, micro entrepreneurs and individuals alike. LBF's footprint is marked by a network of 152 branches and 17 gold loan centres across Sri Lanka. In 2017, LBF strategically expanded its operations beyond the shores of Sri Lanka to Myanmar, where the Company has setup 12 branches in Bago and Magway regions with the aim of bringing prosperity to the people of that country as well.

### Our motivation

At LBF, our ambition is to help customers to improve their quality of life by providing them with financial solutions to assist them to interact with the world as it evolves. At the same time, we believe that these financial services should not cost to our customers excessive amounts of money. Our aim is therefore to make financial services simpler, more affordable, accessible and personalised.

As a testament to our approach, we succeeded in onboarding new customers in the twelve months ending 31st March 2021, a commendable achievement in a challenging year. The numerous awards and accolades, LBF continues to receive also further confirms the versatility of our value proposition and customer centric approach.

### How we do business

At LBF, we committed to act ethically and with integrity in everything we do. Through our approach, we seek to build long term relationships with stakeholders based on trust. The LBF Board of Directors set the tone from the top to promote a culture of ethics and transparent behaviour across the Group. This is supported by a range of policies that specify the ethical conduct expected from all employees including specific actions to deal with corruption and bribery, guidelines on receiving and giving gifts and the exclusion of political party sponsorships. Frequently we communicate these policies to our employees and also continuously reiterate the importance of legal and regulatory compliance.

### The market opportunity

While we accept that although financial services are a necessity, it is the first priority for many Sri Lankans. LBF see this scenario as an opportunity to create financial solutions that make it possible for people to choose a unique and most affordable way to control their money.

We have also identified that millions of underprivileged Sri Lankans are not part of the formal financial system. Current research indicates that, some of Sri Lankans do not have even a savings account. This creates an opportunity for LBF to bridge the gap through the provision of basic financial services that will enable rural communities to gain access to much needed financial resources.

### Key attributes that gives LBF its competitive edge in the market

- ④ A unique corporate culture that supports the creation of a highly engaged and motivated workforce
- ④ Experienced management teams that brings together the best minds in the industry
- ④ Managed evolution and digital focus that enables the delivery of more agile and dynamic solutions
- ④ Prudent cost management to enable a reduction in our cost-to-income ratio overtime
- ④ Strong captive market share representing an opportunity for consistent revenue growth
- ④ Robust risk management practices coupled with a prudent lending strategy that has resulted in the lowest NPL in the industry
- ④ Long standing reputation that reflects the continuous and ongoing commitment to excellence in governance, transparency in corporate reporting and carbon neutral focus

## Doing business according to four fundamentals

### The LBF way describes how we do business according to four fundamentals:

We apply these fundamentals in how we behave and how we think about our business. This includes product and branch design, pricing, processes and communication. Financial services are complex, but we design for simplicity and transparency in the eyes of the customers and always adhere to our fundamentals.

#### Simplicity

Simplicity is the hallmark of our value proposition and the essence of how LBF operates. We apply the principle of simplicity to the way we behave and how we think about our business. This includes product and pricing structures, branch design, back-end systems and communication. We now increasingly rely on technology as an enabler of simplicity.

#### Affordability

Affordability means ensuring that our customers always get value for money. We achieve this by consciously controlling our costs and pursuing efficiency improvements that would translate into value for money for our customers.

#### Accessibility

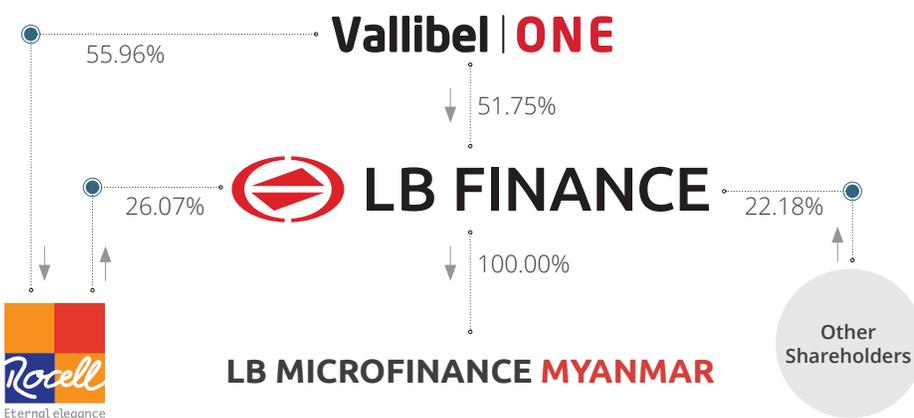
Our aim is to empower our customers by enabling them to access our financial solutions from anywhere, at any time. Premised on this, we provide our customers with a range of options from physical touch-points such as branches, gold loan centres and CDMs to digital platforms such as CIM mobile wallet and e-connect online financing solutions that facilitate 24/7 - 365 days access from anywhere in the world.

#### Personalised experience

We see every LBF customer as unique and try to create customized solutions to meet their specific financial needs. Combining digital tools with one-on-one personal relationships, we aim to understand the unique financial needs and goals of each customer and help our customers to manage their money in the best way possible.

## OUR ORGANISATIONAL STRUCTURE

Vallibel One PLC is an innovation driven diversified conglomerate which operates 46 subsidiaries across 7 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, L B Microfinance Myanmar Company Limited with 100% stake held by L B Finance PLC.



### LBF competitive advantage as a financial solutions provider is based on:

- ④ A culture of ethics and integrity
- ④ A strong captive market share
- ④ Solid risk management fundamentals
- ④ A prudent lending strategy

# ABOUT US

## PRODUCT PORTFOLIO

<p><b>INVESTING</b></p> <p><b>Key areas of strength and differentiation</b> Customer confidence and financial stability</p> <p><b>Presence</b> Sri Lanka</p> <p><b>Key performance indicators</b> More information on page 102</p>	<p><b>Strategic goals</b></p> <ul style="list-style-type: none"> <li>Grow faster than the market through active customer retention and focus on new customer acquisition</li> <li>Support the customer to achieve their financial goals at different stages throughout their lifetime</li> <li>Drive cost efficiencies to enhance competitive position</li> </ul>	<p><b>Our products and services</b></p> 
<p><b>FINANCING</b></p> <p><b>Key areas of strength and differentiation</b> Market leader with strong expertise and relationships</p> <p><b>Presence</b></p> <ul style="list-style-type: none"> <li>Sri Lanka</li> <li>Myanmar</li> </ul> <p><b>Key performance indicators</b> More information on page 106</p>	<p><b>Strategic goals</b></p> <ul style="list-style-type: none"> <li>Continue to diversify the offerings to achieve leadership in all segments of the market</li> <li>Proactive management of credit risk to safeguard the balance sheet</li> <li>Focus on regional operations by optimising returns in Myanmar</li> <li>Pursue market opportunities that present attractive growth and return prospects</li> </ul>	<p><b>Our products and services</b></p> 
<p><b>VALUE ADDED SERVICES</b></p> <p><b>Key areas of strength and differentiation</b> Innovative customised digital solutions</p> <p><b>Presence</b> Sri Lanka</p> <p><b>Key performance indicators</b> More information on page 113</p>	<p><b>Strategic goals</b></p> <ul style="list-style-type: none"> <li>Become digital-centric at the core</li> <li>Implement innovative and low-cost digital platforms to deepen the penetration into selected market segments</li> <li>To build digitally enabled end-to-end infrastructure to improve accessibility and serviceability to retain while at the same time attracting new customers</li> </ul>	<p><b>Our products and services</b></p> 

We seek to be a leading financial institution in sustainable performance and customer satisfaction. The purpose of our brand is to promote positive changes in the lives of people and society. Our products and services seek to meet the needs of our customers, reflecting our continuous efforts to provide the best experience to everyone who interacts with us.

### OUR COMPETITIVE ADVANTAGES

Here are the main characteristics that distinguish us from our peers and defend us against them.

### PURPOSE-ORIENTED COMPANY

"Where solution begins", we are committed to driving sustainable, inclusive growth across Sri Lanka diversified customer base, unmatched service offerings.

Our businesses and revenue streams are well-diversified across client, sector, product and geography, which provides protection in times of volatility.

### HIGH OPPORTUNITIES FOR GROWTH

Our future growth prospects are driven by regional economic fundamentals and growing financial inclusion and penetration, which provide an opportunity to boost market share, particularly where we have relatively small market shares in some large markets.

Our strong and liquid balance sheet provides flexibility to manage uncertainty, change, innovation and growth.

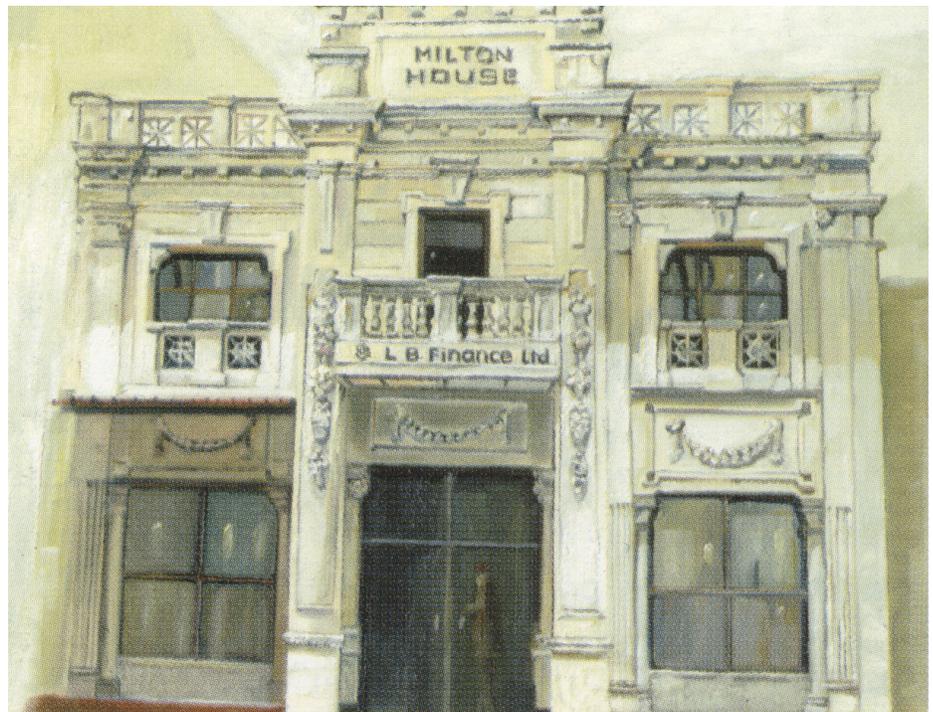
### INTEGRATED PLANNING TO CREATE SUSTAINABLE VALUE

Leading the way as a responsible corporate citizen, LBF has embraced sustainability as a high priority item in its corporate agenda. Having understood the importance of being sustainable in all aspects of our operations, values of sustainability are embedded in our strategy, product development process as well as across operations at all levels. We drive our sustainability values with commitment and dedication, and necessary board oversight to focus on creating value for stakeholders. It is our firm belief, that a sustainable business model is the key to ensure that the Company and its stakeholders continue to grow and thrive in the long term.

### RECOGNIZED, STRONG BRAND

We seek to be a leading financial institution in sustainable performance and customer satisfaction. The purpose of our brand is to promote positive changes in the lives of people and society. Our products and services seek to meet the needs of our customers, reflecting our continuous efforts to provide the best experience to everyone who interacts with us.

We encourage people to have a good relationship with money, making better choices and planning their investments on a more effective way. The responsibility for the development of the nation is the core of our brand and encourages us to invest and work for great causes, such as culture, education, sports and community development.



One of our oldest branches

### OUR BRAND EVOLUTION

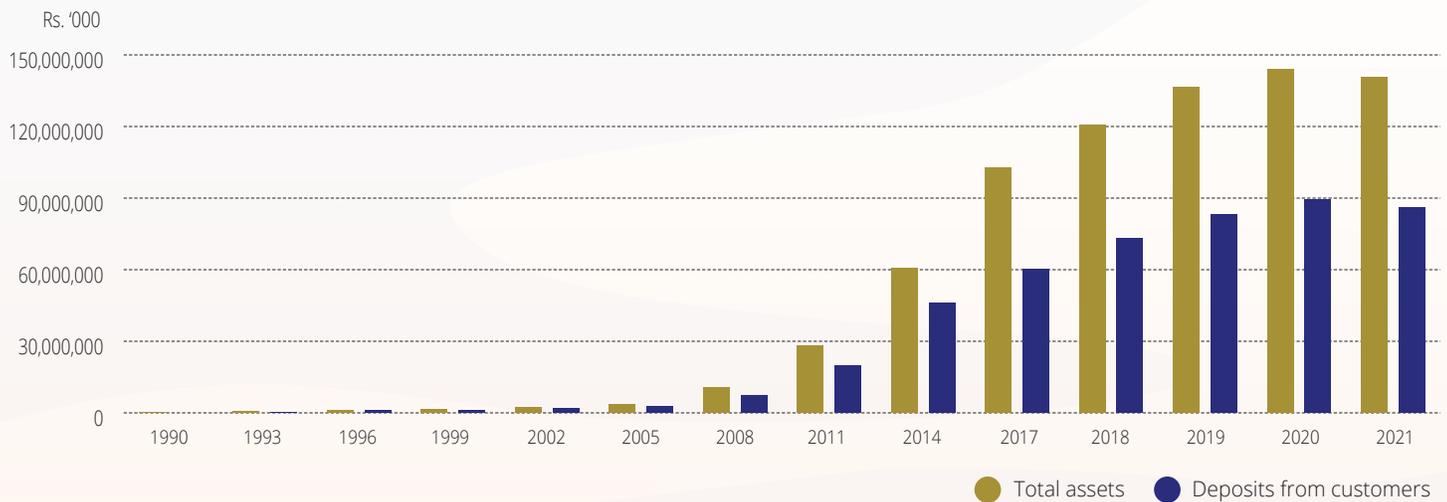


 L B FINANCE

 L B FINANCE

# OUR STRATEGIC JOURNEY

2021 marked the 50th year of LBF. Our customers, shareholders, employees, business partners, regulators, and the community at large, have each been an integral part that made us whole and who we are today; one of the most recognized and the largest financial institution of the country. Hand-in-hand we have trekked over mountains and have attained new heights. Despite many challenges along the way we, as a



## 1971-1981

- Established as a private company on 30th May 1971 with its registered office at No. 101, Vinayalankara Mawatha, Colombo 10. Majority shareholding of 94.9% was held by Lewis Brown & Company Limited
- Mr. K D D Perera took over a stake of 58.74% to turn around the loss-making Company into a profitable venture
- Registered in terms of Section 2 of the Finance Companies Act No. 78 of 1988
- The Company re-registered under the new Companies Act No. 07 of 2007
- Developed a new website with online payment and vehicle trade-in facility
- Profits doubled and reached over Rs. 1 billion for the first time in the history
- North and East market presence for the first time
- Became a part of Vallibel One umbrella which is a diversified company
- Upgraded the ratings from BBB+/P2 to A-/P2 by RAM Ratings (Lanka) Limited
- Company has emerged as the second largest Licensed Finance Company (LFC) in Sri Lanka introducing Global Reporting Initiative (GRI) to the Annual Report

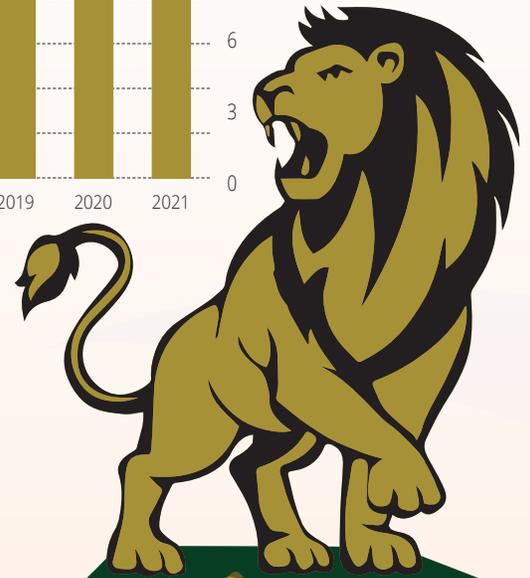
## 2002-2011

## 1982-2001

- Changed its status as a public company
- Vanik Incorporation Limited's shareholding increased to 83.26%
- Listed on the Colombo Stock Exchange
- Commence pawn broking
- First pawning centre opened in Maradana
- Moved Head Office to Prof. Stanley Wijesundera Mawatha, Colombo 7
- Introduced lottery based deposit scheme "Siya Savi"
- Moved to our new corporate office located at Dharmapala Mawatha, Colombo 03
- Introduced LB Savings to customers
- Largest expansion drive within the industry with 20 new outlets
- Recorded the largest deposit base among the NBFi sector
- Launched Pay Hub facility
- Global Banking and Finance Review UK awarded us as the 'Best Retail Finance in Sri Lanka for 2013'
- Opened first Premier branch in Mount Lavinia
- Staff strength surpassed 2,000
- Became the first carbon conscious finance company in Sri Lanka.
- Became the 1st finance company in Sri Lanka to comply with ISO 27001:2013
- Interbank Payment System (SLIPS)
- CSR re-branded as LB Sustainability
- Started 24 hours service call center
- Opened the 100th branch in Jaffna
- Introduced the VISA shopping card
- Became the first carbon neutral finance institution in Sri Lanka.
- LB Finance ranked 26 among the top 100 brands in the country by Brand Finance

## 2012-2015

family, grew together. Thus, at this milestone we reflect on the lives we have touched, gave us a reason to exist and provided us the opportunity to give back to the community. This year we are sharing with you the stories which we consider as our achievements and inspiration for our journey ahead..... Navigating future.



## 2016-2020

- ❖ Successfully completed 45 years in the finance Industry with a profit growth of 70%, profit of Rs. 3.7 billion (PAT)
- ❖ Launched LB e-connect online platform to saving customers
- ❖ Obtained MoneyGram agentship for international money transfer
- ❖ Integrated with Common Electronic Fund Transfer Switch (CEFTS)
- ❖ Exceeded Rs. 100 billion asset base
- ❖ Launched of LB Gift Store
- ❖ Mortgage loan product was re-branded and re-launched as 'Mulgala'
- ❖ Launched of 'Krutha Hastha' senior citizens loan scheme
- ❖ First overseas expansion of L B Finance to Myanmar
- ❖ Going into cloud based IT platform
- ❖ Ranked among the top 20 brands in Sri Lanka by Interbrand
- ❖ Launched Cash Deposit Machine (CDM) facility
- ❖ A-(Ika) credit rating assigned by Fitch Ratings Lanka Limited
- ❖ Revamped sustainability website
- ❖ Profits reached over Rs. 5 billion for the first time in the history
- ❖ Successfully launched ORACLE Fusion finance module
- ❖ Established a Digital Financial Services (DFS) unit
- ❖ Introduced digital wallet, paperless credit approval process and launched Eclipse credit module
- ❖ Commenced planting 50,000 trees under 'Thuru Wawamu' project
- ❖ Opened LBFs' 3rd and 4th Premier centres at Colombo 07 and Negombo
- ❖ Shifted Disaster Recovery data centre to Sri Lanka Telecom dedicated 'Data Centre' in Pitipana
- ❖ Launched the CIM (Cash In Mobile) wallet
- ❖ Introduced Cash Recycle Machines (CRM) for cash withdrawals
- ❖ Implemented Artificial Intelligence technology for leasing module

## 2021

Chatbot was introduced to the corporate website and social media platforms

Automation of the credit verification process

Automation of the insurance renewal process

Fully automated risk assessment scorecard for branches and gold loan centers

# OUR CONTRIBUTION TO THE ECONOMY

As a leading financial services institution, LBF makes an impactful contribution to Sri Lankan economy even in the COVID-19 pandemic. Our core business activities help to reduce inequalities and minimize inherent socioeconomic discrepancies within the country. The mainstream financial services we offer to create opportunities for individuals to enhance their lifestyle and living standards, while our efforts to promote digital and financial inclusion focus on empowering grass root level entrepreneurs and strengthening the country's SME sector. Being an authorized agent for Western Union Money transfer systems, we also facilitate the inflow of foreign currency to the country.

As a responsible corporate steward, LBF pays its share of taxes and levies applicable to the business. In addition, we employ 3,564 men and women from all across the island and strive to maintain a 1: 0.65 local hiring ratio to ensure that the benefits of stable employment are channeled back into the provincial economies.

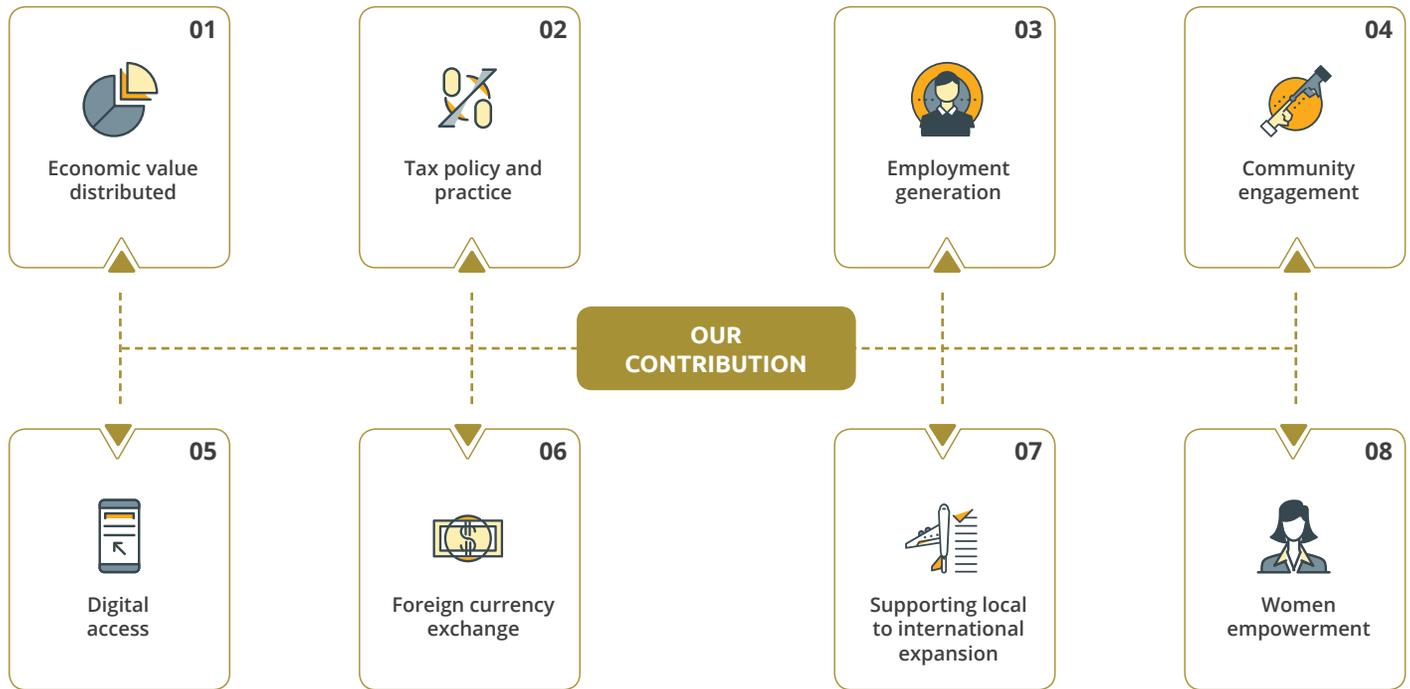
Furthermore, we invest in CSR projects that focus on addressing key national issues such as uplifting health and education standards and also undertake environmental sustainability initiatives for the benefit of future generations of Sri Lankans.

## Global trends

Given the nature of our business as a financial solutions provider, the single most influential global trend continues to affect our operations, is the rapid pace of digital advancement in recent years. The COVID-19 pandemic has significantly intensified the global appetite for digital technology solutions especially in the financial domain.

While early adoption of technology is the key to gain a competitive advantage in this evolving landscape, we believe it is equally important to remain mindful of the consequences that arise as a result of our decision to embrace digital technology, especially the impact on our workforce. The grid below depicts our efforts to strike a balance between the digital technology transition and human capital outcomes.





01

### ECONOMIC VALUE DISTRIBUTED

The creation of positive economic value is a prerequisite for the sustainability of our business. It not only measures the effectiveness of our operations, but also serves as an indicator of our contribution towards the economy. Over the years, we have succeeded inconsistently improving the economic value generated for the benefit of LBF's stakeholders.

### Direct economic value generated

(Rs. Mn)	2020/21	2019/20	2018/19
Interest income	27,457.74	29,160.29	27,363.77
Fee and commission income	2,184.95	1,941.63	1,782.07
Net gain from trading	6.32	(2.10)	(2.56)
Other operating income	117.11	123.04	134.74
<b>Economic value generated</b>	<b>29,766.12</b>	<b>31,222.86</b>	<b>29,278.02</b>

### Direct economic value distributed

(Rs. Mn)	Mechanism	2020/21	2019/20	2018/19
To employees	Employee salaries and benefits	2,955.81	2,986.63	2,682.61
To depositors and lenders	Interest expenses	11,125.01	13,218.85	12,361.66
Payments to providers of capital	Dividend to shareholders	1,662.17	-	1,662.17
	Interest to debenture holders	397.79	396.55	589.66
Payment to government	Tax payment	4,651.00	5,014.32	4,508.35
To community	Social responsibility projects	37.29	22.52	26.95
	Donations	-	-	-
Operating costs		4,206.81	4,657.40	3,808.82
Economic value retained		4,730.24	4,926.60	3,637.79
<b>Economic value distributed</b>		<b>29,766.12</b>	<b>31,222.86</b>	<b>29,278.02</b>

## OUR CONTRIBUTION TO THE ECONOMY

### Market Value Added (MVA)

Market value added statement reflects the Company's performance evaluated by the market through LBF's share price. This statement shows the difference between the Company's market value and the capital contributed by investors. In other words, it is the sum of all capital claims held against the Company plus the market value of debt and equity.

A high MVA indicates substantial wealth creation for the shareholders and vice versa. A negative MVA means that the value of management's actions and investments have not succeeded in achieving the desired growth objectives.

(Rs. Mn)	2020/21	2019/20	2018/19
Market capitalisation	26,262.30	16,690.97	16,635.57
Book value of equity	28,189.29	22,999.55	18,427.15
Market value added/(destroyed)	(1,926.98)	(6,308.58)	(1,791.58)

**02**

**0%**  
**20**

**OUR TAX POLICY AND PRACTICE**

LBF's tax policy and practices are in-line with the regulatory requirements outlined by the regulatory body. LBF remains one of the largest tax payers among the Non-Bank Financial Institutions in the country.



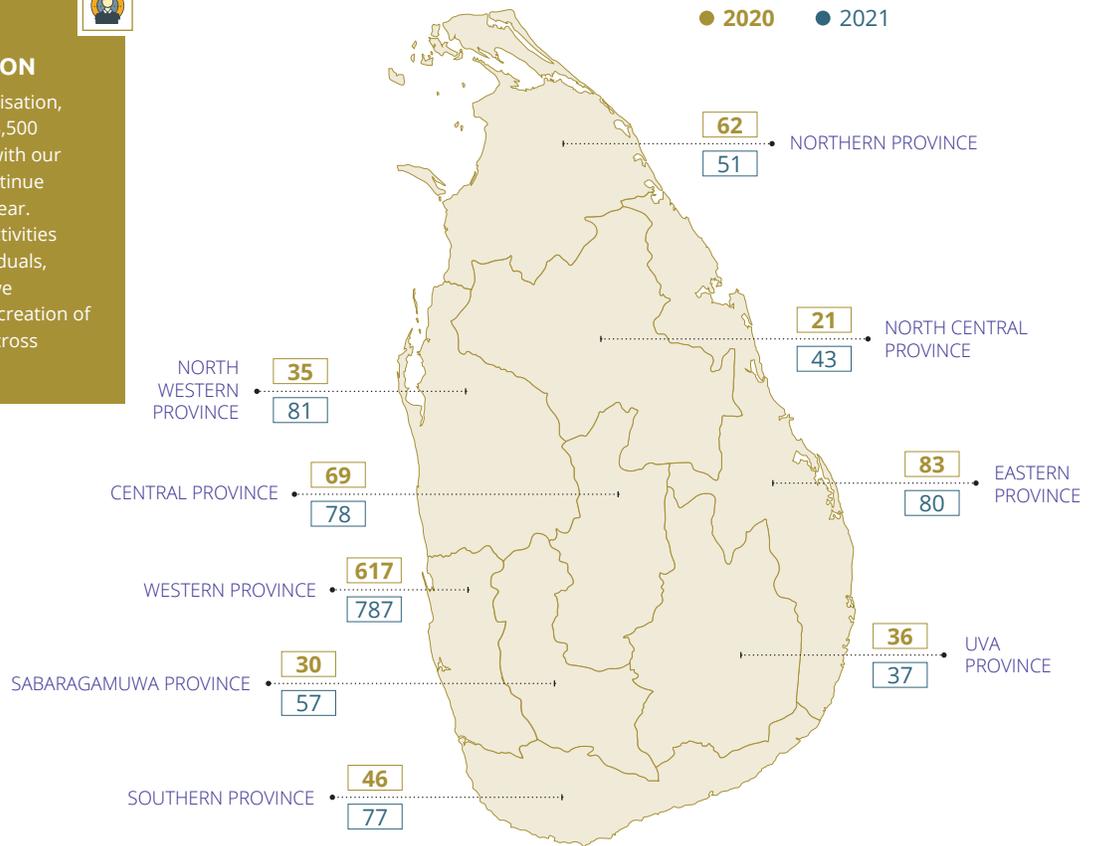
(Rs. Mn)	2020/21	2019/20	2018/19
<b>Direct Taxes</b>			
Income Tax	2,017.68	2,875.24	1,588.32
Value Added Tax on Financial Services	1,473.11	1,607.38	1,402.28
Nation Building Tax on Financial Services	-	157.17	186.5
Debt Repayment Levy on Financial Services	-	749.18	337.06
Crop Insurance Levy	52.44	54.79	47.32
Economic Service Charge	-	157.33	142.41
<b>Indirect Taxes (Collected and Paid)</b>			
Value Added Tax	161.61	255.96	292.98
Nation Building Tax	-	31.40	36.5
Stamp Duty	179.71	324.98	411.3
Withholding Tax on Dividend and Interest	2.14	508.60	360.32
PAYE Tax/Advanced Personal Income Tax	82.13	102.61	106.61
<b>Total Taxes Paid during the Financial Year</b>	<b>3,968.85</b>	<b>6,824.68</b>	<b>4,911.63</b>

03



### EMPLOYMENT GENERATION

As a large financial services organisation, we provide employment to over 3,500 individuals across Sri Lanka and with our accelerated growth trajectory continue to offer new opportunities each year. Moreover, through our lending activities that support self-employed individuals, SMEs and micro entrepreneurs, we contribute indirectly towards the creation of thousands of job opportunities across Sri Lanka.



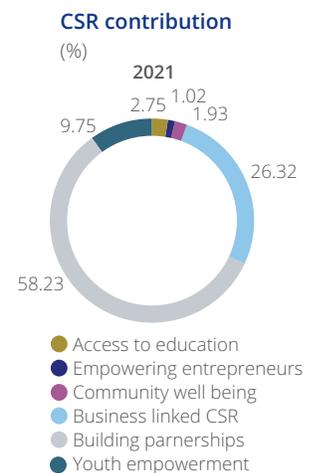
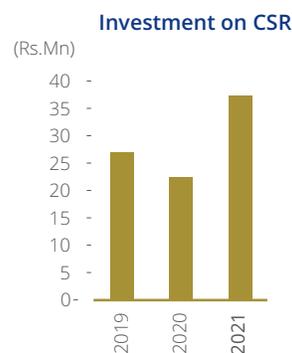
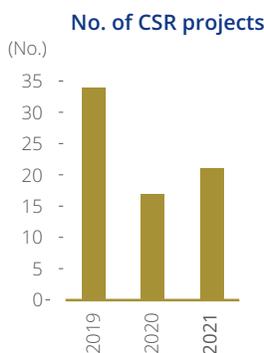
04



### COMMUNITY ENGAGEMENT

The commitment to social welfare and community development is an integral part of our value culture. To bring greater focus to the community work we undertake, we now use the SDGs (Sustainable Development Goals) announced by the United Nations as part of their 2030 sustainability development agenda. On this basis we have progressively increased our investment towards more meaningful and impactful CSR projects that have the capacity to benefit a larger cross section of the community.

(Rs. Mn)	2020/21	2019/20	2018/19
Investment on CSR	37.29	22.52	26.95



# OUR CONTRIBUTION TO THE ECONOMY

**05**

**DIGITAL ACCESS**

Reinforcing its commitment to support the national initiative to promote a cashless society, LBF launched the 'CIM' (Cash In Mobile) mobile wallet in 2019. In 2020/21, the 'CIM' wallet gained considerable traction in the market as a versatile and highly effective digital money management solution.



**Over 60,000**  
LB CIM app downloaded



**Over 1 Mn**  
transactions generated

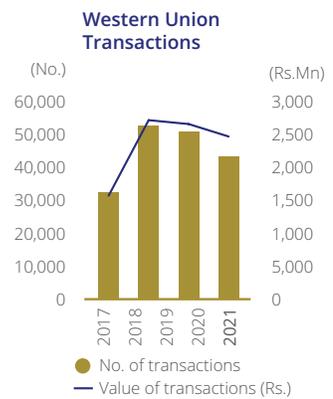
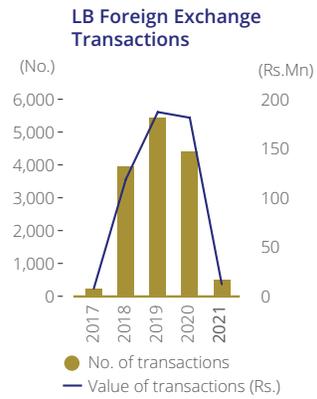


**Over 4,000**  
merchant acquisition

**06**

**FOREIGN CURRENCY EXCHANGE**

As an authorized agent for Western Union Money Transfer Systems, LBF facilitates the inflow of foreign currency to the country from Sri Lankans living and working around the world. In addition, we also offer foreign currency trading services to meet the needs of the tourism and trade sectors.



**07**

**SUPPORTING LOCAL TO INTERNATIONAL EXPANSION**

LBF assists businesses seeking to expand internationally. Demonstrating our commitment to SDG 17, we work closely with our counterparts at LBF Myanmar, to facilitate cross border trade and also support local organizations seeking venture into new markets to set up operations in Myanmar.

**Business operations in Myanmar**

	2020/21	2019/20	2018/19
Profit After Tax (Rs. Mn)	4.20	23.80	24.71
Lending portfolio (Rs. Mn)	688.39	554.09	378.68
No. of facilities granted	12,633	16,717	14,680

**08**

**WOMEN EMPOWERMENT**

We are committed to transform as an economic imperative not only essential to the growth of the Company, but also to the Sri Lankan economy. We are determined to contribute towards the transformation of the economy by proactively enabling the meaningful participation of women in the mainstream economy. We do this in a way that has a valuable impact on employment, income redistribution, structural readjustment and economic growth.

**Success stories of our women empowerment programme**



Sarojini - Kahapola

I have been running this business since I started this CIM Mittreis business.



Sarojini's success story



Samantha - Bombyla

I have been running a business since I started this CIM Mittreis business.



Samantha's success story



Kalyani - Grandpass

I work for Grandpass.



Kalyani's success story



Priyanka - Alagoda

I have always been very excited to work for LBF.



Priyanka's success story

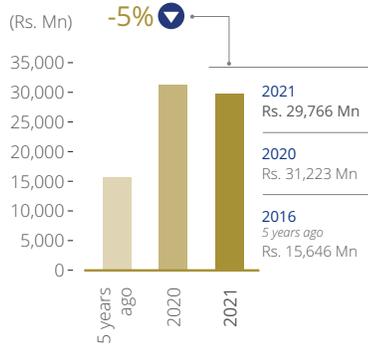
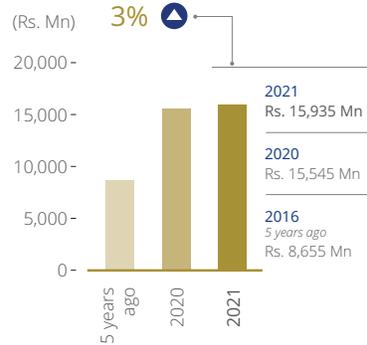
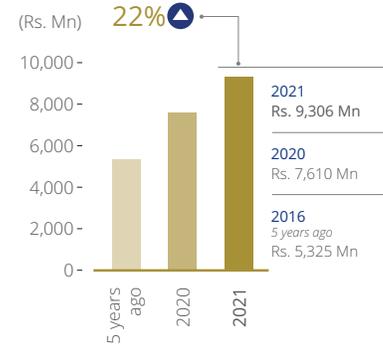
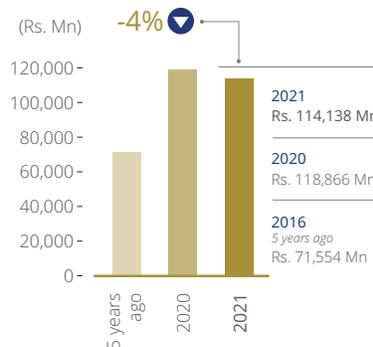
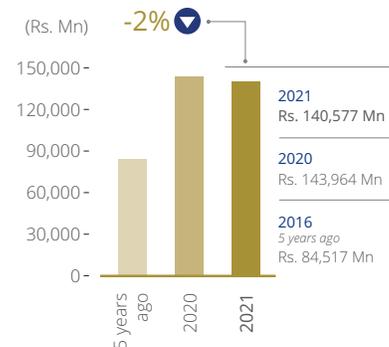
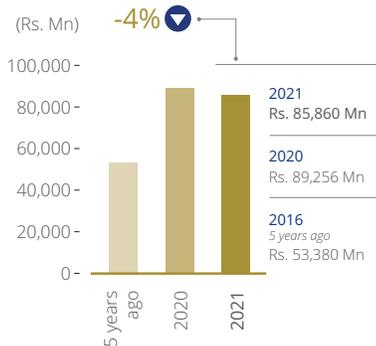
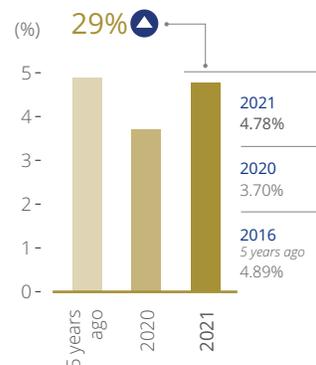
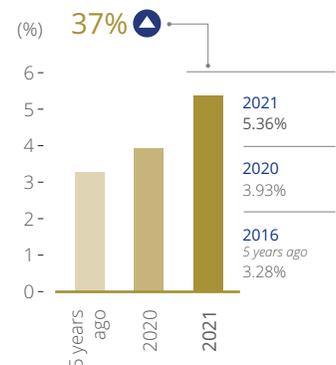


# FINANCIAL HIGHLIGHTS

Indicator		2020/21	2019/20	Change (%)
<b>Operating results</b>				
Income	Rs. Million	29,766.12	31,222.86	(4.67)
Interest income	Rs. Million	27,457.74	29,160.29	(5.84)
Net interest income	Rs. Million	15,934.94	15,544.90	2.51
Profit before taxation (PBT)	Rs. Million	9,306.37	7,610.29	22.29
Profit after taxation (PAT)	Rs. Million	6,802.60	5,187.05	31.15
<b>Financial position</b>				
Total assets	Rs. Million	140,576.52	143,963.72	(2.35)
Lending portfolio	Rs. Million	114,137.82	118,865.92	(3.98)
Deposits	Rs. Million	85,860.07	89,256.43	(3.81)
Borrowings	Rs. Million	19,581.09	25,882.27	(24.35)
Shareholders' funds	Rs. Million	28,189.29	22,999.55	22.56
<b>Share information</b>				
Market price per share**	Rs.	47.40	120.50	(60.66)
Market capitalisation	Rs. Million	26,262.31	16,690.97	57.34
Net asset value per share*	Rs.	50.88	41.51	22.56
Earnings per share (EPS)*	Rs.	12.28	9.36	31.15
Price earning ratio (PE)	Times	3.86	3.22	19.98
Dividend per share (DPS)	Rs.	7.00	-	100.00
Dividend yield	%	23.24	-	100.00
Dividend payout ratio	%	57.01	-	100.00
<b>Statutory ratios</b>				
Core capital to risk weighted assets ratio (Tier I) (Minimum 7%)	%	23.87	19.04	25.38
Total risk weighted capital ratio (Tier I & II) (Minimum 11%)	%	25.32	20.75	22.00
Equity to deposits (Minimum 10%)	%	32.83	25.77	27.41
Liquidity ratio	%	17.89	15.65	14.31
<b>Other ratios</b>				
Return on assets (ROA)	%	4.78	3.70	29.22
Return on equity (ROE)	%	26.58	25.04	6.14
Net interest margin (NIM)	%	12.15	11.96	1.65
Cost to income	%	30.56	33.44	(8.59)
Loan to deposits	Times	1.33	1.33	(0.18)
Gross non-performing loans ratio (Gross NPL)	%	5.36	3.93	(36.51)
Net non-performing loans ratio (Net NPL)	%	0.10	(0.12)	>(100.00)

\*2019/20 Ratios have been restated based on the post sub-division of shares.

\*\*Market price per share of 2019/20 represents the share price before the sub-division.

**Income****Net Interest Income****Profit before Tax****Profit after Tax****Lending Portfolio****Total Assets****Due to Depositors****Equity****Earnings per Share****Market Capitalisation****Return on Assets (ROA)****Non-Performing Loans Ratio (NPL)**

# NON FINANCIAL HIGHLIGHTS

Macro dimension	Indicator	Measurement	2016/17	2017/18	2018/19
Economic wellbeing	Economic value created	Rs. Million	2,341.15	3,090.42	3,716.34
	Economic value distributed to:				
	Depositors and Lenders	Rs. Million	7,766.75	11,077.1	12,361.66
	Employees	Rs. Million	2,324.85	2,389.35	2,682.61
	Government	Rs. Million	2,660.77	3,038.17	4,508.35
	Shareholders	Rs. Million	1,246.63	1,523.66	1,662.17
Social wellbeing	Community development programmes	Number	17	26	28
	Staff volunteered hours	Hours	2,302	9,079	14,195
Environment and landscape	Environment related projects	Number	9	6	6
	Water consumption	m3	30,388.00	29,891.91	43,007.00
	Water consumption per Rs. million of profit	m3	7.76	7.03	8.51
	Trees planted/distributed	Number	400	612	20,194
	Trees saved from recycling	Number	122	68	92
	Investment on green initiatives	Rs. Million	3.29	3.51	16.49
	Paper recycled	Kg	7,938	2,943	5,432
	Energy consumption	GJ	23,720.00	18,231.87	20,020.70
	Energy per Rs. million of profit	GJ	6.05	4.29	3.96
	Total carbon footprint	tCO2e	4,361	3,223	3,997
	Total carbon footprint per Rs. million of profit	tCO2e	0.14	0.11	0.09
Business sophistication	Total outlets	Number	154	159	163
	Total branches	Number	118	123	127
	CDM machines	Number	0	3	23
	Branches outside western province	Number	80	82	83
	Gold loan centres	Number	36	36	36
	New outlets opened	Number	8	5	4
Infrastructure and quality of services	Investment on ICT	Rs. Million	79.25	197.2	150.52
	Online transactions	Number	44	1,738	7,274
	Investment on freehold land and building	Rs. Million	1,385.97	1,002.96	1,894.80
Employee wellbeing	Total workforce	Number	3,221	3,441	3,618
	Employees hired	Number	1,096	1,313	1,407
	Employment opportunities created	Number	477	220	177
	Training programs carried out	Number	88	113	195
	Investment on training and development	Rs. Million	8.04	8.56	10.95
	Total training hours	Hours	20,672	25,846	38,832
	Average hours of training per employee	Hours	6.42	7.52	10.73
	Staff remuneration and benefits	Rs. Million	2,254.00	2,305.87	2,693.56
Reputation	Brand value (Brand Finance)	Rs. Million	3,853	4,236	5,021
	Brand ranking (Brand Finance)	Number	80	28	30
	Credit rating (fitch rating)	Rating	A- (lka)	A- (lka)	A- (lka)
Customers	Total customer base	Number	Over 500,000	Over 500,000	Over 600,000
	Customer financial solutions	Number	27	28	29

**H** High    **M** Medium    **L** Low

**FC** - Financial Capital | **MC** - Manufactured Capital | **HC** - Human Capital | **IC** - Intellectual Capital

2019/20	2020/21	Our priority	Capital	GRI
4,330.14	6,148.39	●	SC	201-1
			SC	201-1
13,218.85	11,125.01	●	SC	
2,986.63	2,955.81	●	SC	
5,014.32	4,651.00	●	SC	
0	1,662.17	●	SC	
12	22	●	SC	
20,131	5,764	●	SC	
5	15	●	HC	
39,793.00	31,013.00	●	HC	303-1
7.67	4.56	●	HC	
34,853	6,180	●	HC	
94	68	●	HC	
9.54	1.01	●	HC	
5,501	3,986	●	HC	
20,538.00	15,418.08	●	HC	302-1
3.96	2.27	●	HC	
4,484	3,110	●	HC	305
0.11	0.10	●	HC	305
165	169	●	MC	102-4
129	152	●	MC	
23	24	●	MC	
84	88	●	MC	
36	17	●	MC	
2	4	●	MC	
115.65	46.40	●	MC	203-1
Over 400,000	Over 1,000,000	●	IC	
230.13	481.96	●	MC	
3,606	3,536	●	MC	102-7
1,291	999	●	MC	401-1
-	-	●	MC	
137	19	●	MC	404-2
18.56	4.01	●	MC	
52,788	7,737	●	MC	404-1
14.73	2.17	●	MC	404-1
3,005.18	2,959.82	●	MC	
5,133	6,237	●	IC	102-16
29	25	●	IC	
A- (lka)	A- (lka)	●	IC	
Over 600,000	Over 600,000	●	SC	
30	31	●	SC	

SC - Social and Relationship Capital | NC - Natural Capital



**Carbon Neutral**  
Company for 6th  
consecutive year

**+41,000**

Trees planted under  
50 to 50,000 tree  
planting programme

**Saved 68**

fully grown trees

**Rs. 37.29 Mn**

Invested in CSR

**A- (lka)**

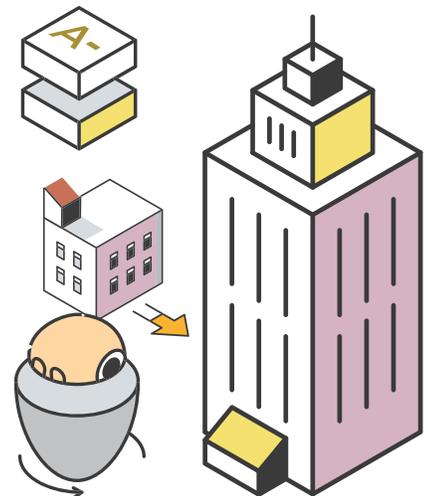
Fitch ratings  
reaffirmed

**04** New branches

**04** Branches  
relocated

**Chatbot**

Introduce for social  
media and corporate  
website



**+60,000**

CIM wallet  
downloaded

CIM wallet  
transactions grew by  
**253.78%**

**Automated**

credit verification system

**Dedicated**

Technology and  
innovation Centre



# CHAIRPERSON'S STATEMENT



The year under review was unique. Consequent to the detection of the first COVID-19 case in Sri Lanka, the pandemic has had a widespread deleterious effect on persons, families and communities - impacting key sectors of the economy and culminating 3.6% contraction in the country's GDP in 2020.

*Anandhiy Gunawardhana.*

**Anandhiy Gunawardhana**  
Chairperson

## DIGITAL VERSION



English



Sinhala



Tamil



**AUDIO VERSION**  
SCAN AND LISTEN

## MEASURING SUCCESS

### Sustained dialogues

LBF aims to create value for everyone we serve, balanced across the short, medium and the long term

**Female representation at the Board level 30%**

**Dividend per share Rs. 7/-**



### Leveraging digital capabilities

We are strengthening our digital capabilities and integrating our business to transform customer experiences and to drive operational efficiency

**Investment on IT infrastructure Rs. 46.40 Mn**

**CIM wallet transaction volume growth 337.78%**



### Strong growth prospects

Our prospects for future growth are driven by regional economic fundamentals and increasing financial inclusion, penetration providing opportunities to increase our market share

**Market capitalization Rs. 26.26 Bn**

**A- (Ika) Fitch rating reaffirmed**

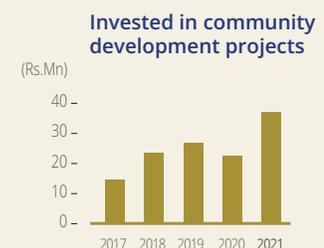


### Employing our strengths

Delivering long term value depends on deep and thoughtful engagement with the numerous stakeholders who represent wider society

**Certified as carbon neutral company for 6th consecutive year**

**Brand value Rs. 6,327 Mn by Brand Finance 2020**



# CHAIRPERSON'S STATEMENT

I am pleased to report that our share split too achieved its desired objectives both for the Company and its shareholders. The 1 into 4 share split declared in January 2021, increased LBF's market capitalisation and also saw our share price soaring to a record high.

The year under review was unique. Consequent to the detection of the first COVID-19 case in Sri Lanka, the pandemic has had a widespread deleterious effect on persons, families and communities - impacting key sectors of the economy and culminating in a 3.6% contraction in the country's GDP in 2020. This is not a situation that any one of us could have envisioned at the end of the previous financial year. I am, therefore, especially pleased to report that L B Finance PLC stayed on course to deliver a PAT of Rs. 6.80 billion for FY 2020/21. We are proof that a resilient and well-managed organisation can succeed even in the most trying of circumstances. LBF's credit rating too was reaffirmed at A-(lka), by Fitch ratings, which I feel points to the stability of our Company.

It is against this backdrop that I present to you the Annual Report and financial statements of L B Finance PLC for the year ending 31st March 2021.

## **NAVIGATING THROUGH WHAT HAS BEEN AN UNPRECEDENTED YEAR**

The COVID-19 pandemic posed significant unforeseen challenges for all businesses, including L B Finance PLC. Nevertheless, I am glad to say that the transformative organisational changes we have been implementing consistently over past few years, in particular, the increased adoption of digital technology, provided a sound foundation enabling us to face and overcome these challenges with confidence.

Beginning the year under lockdown, we found ourselves in a situation that we had not encountered in our 50-year history. Our first priority was to ensure we could continue to service our customers, which led to the immediate activation of our BCP framework. Virtually overnight, we empowered our entire workforce of 3,536 employees to work remotely. Concurrently, the Board continued to work closely with corporate management to define and implement measures to safeguard the business and strengthen the Company's resilience.

Having recognised that technology can play a vital role in contingency planning and business continuity, as part of our overall resilience building programme, we prioritized and expedited key facets of our digital transformation strategy. It was a busy year for our IT teams who were tasked with simplifying our internal process architecture. This enabled LBF to maintain its service delivery timelines notwithstanding pandemic related challenges. We leveraged technology to further broaden our risk outlook and to keep LBF's risk profile under constant review vis-a-vis the evolving external scenario.

As a precaution against the risk of an extended lockdown, we acted decisively to put in place measures to protect the Company's cash flows, while simultaneously clamping down on costs at all levels of

operations. It must be noted that our decision regarding cost control did not affect employee remuneration. In fact, very early on in our cost containment discussions, it was resolved that no salary cuts will be made. Moreover, being fully appreciative of the disquiet our employees were likely feeling due to the pandemic, bonus entitlements under the 2019/20 performance cycle were also paid in full in April 2020.

Shareholder interest was another focal point during our Board deliberations. It was decided to pay an interim dividend of Rs. 12/- per share, which was paid in full immediately after the government-imposed restriction on cash dividends was removed in 2021.

I am pleased to report that our share split too achieved its desired objectives both for the Company and its shareholders. The 1 into 4 share split declared in January 2021, increased LBF's market capitalisation and also saw our share price soaring to a record high.

## **COMMITMENT TO ACTING RESPONSIBLY**

At LBF we pride ourselves on our determination to act fairly and ethically. Over the past 50 years, we have remained true to our values and have succeeded in building a reputation based on our collective commitment to act with integrity at all times. Going forward, we reaffirm our commitment to the highest standards of behaviour based on industry practice, laws and regulations as well as good corporate citizenship.

Our pledge to uphold these principles were reinforced during the pandemic, with the Board playing an active role in promoting the values embedded in LBF's mission. As many of our employees were working remotely for a good part of the year, we focused on tightening due diligence controls and oversight procedures at all levels of the business.

### LOOKING AHEAD

While our journey this past year has been challenging, there are many positives that give me reason to believe that LBF is well situated to tackle the road ahead.

The success we achieved this past year together with our 50-year track record of excellence, puts LBF at a considerable advantage to reap the benefits of the post-pandemic recovery as it materializes.

In the meantime, I want to reassure all our stakeholders that LBF will continue to approach every challenge that comes its way with the same dynamism and energy as in the past twelve months. This is by staying true to our long term vision - "to contribute to the quality of life of 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".

### APPRECIATIONS

First and foremost, I would like to thank all employees of LB Finance PLC for their dedication and support. I greatly admire the tenacity with which you responded to the crisis and continued to work tirelessly despite some major disruptions to your customary work practices.

I would also like to express my appreciation to my fellow Board members for their unwavering commitment and untiring efforts.

Finally, on behalf of all at LBF, I want to express our deep appreciation of the work being done throughout the country by healthcare workers, the emergency services, community groups, volunteers and all others on the frontline of efforts to combat the pandemic. Thank you and stay safe.



**Anandhiy Gunawardhana**  
Chairperson

19 May 2021

# MANAGING DIRECTOR'S REVIEW



I am sure we can all agree that this past year has been uniquely challenging for everyone - countries, business, people and communities. It was no different for LB Finance PLC. We too, like most businesses around the world, found ourselves dealing with disruptions on a level never seen before in most of our lifetimes.

**Sumith Adihetty**  
Managing Director

**DIGITAL VERSION**



English



Sinhala



Tamil



**AUDIO VERSION**  
SCAN AND LISTEN

**MEASURING SUCCESS**

**Focus on customers center of the business**

Putting them at the heart of the decisions we make about running our business and shaping it for the future

**Surpassed profit after tax of Rs. 6 Bn**

**NPL ratio 5.36%**  
(Industry NPL 13.9%)  
As at 31st December 2020



**Digital market place**

Enable our customers to interact as they want and improve the efficiency through the digital platforms

**Over 60,000 LB CIM app downloaded**

**Over 4,000 merchants registered for CIM wallet**



**Strengthen our footprint**

Diversify our Company by business, geography and income type to be more resilient to economic headwinds and future trends

**Established 4 new branches in Myanmar**

**Profit per outlet Rs. 40.25 Mn**  
(2019/20 Rs. 31.44 Mn)

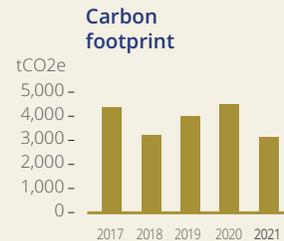
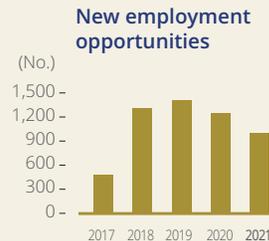


**Our unique culture**

Draw on our purpose and values to guide our choices as employees and as the Company

**Investment on CSR Rs. 37.29 Mn**

**Total employees 3,536**  
(2019/20 3,606)



# MANAGING DIRECTOR'S REVIEW

## OPERATING CONTEXT

It is perhaps the first time since world war II that the entire world was thrown into chaos as no country was spared by the rapid surge of the COVID-19 virus throughout 2020 and over into 2021. With nations around the world focused on controlling the spread of the virus, global trade and economic activity took a back seat, even coming to a virtual standstill in many parts of the world. In Sri Lanka, the first signs of COVID-19 emerged just after the local economy was regaining its balance after the Easter Sunday attacks had shaken the country to its core. Government efforts to lockdown the country in a bid to curb the spread of the first wave of age virus, while commendable, had far reaching consequences which saw Sri Lanka's economy contracting by 3.6% in 2020.

The SME sector, despite recording good growth in recent years, continues to remain highly vulnerable to economic shocks and as such was among the worst affected by the pandemic induced economic downturn. The impact on the SME had a cascading effect on the NBFIs, which have long been the key enablers of the SME sector growth. Seeing as SMEs were unable to service their debt commitments, NBFIs were confronted with the prospect of higher non-performing loans.

To add to this the NBFIs sector's core leasing model also came under pressure owing to the vehicle import ban introduced by the government as part of its fiscal control measures aimed at softening the impact of the economic downturn. Burdened by higher NPL's on one hand and limited opportunities for credit expansion on the other, the NBFIs sector recorded a highly diluted performance in 2020.

## TAKING DECISIVE ACTION

Although we entered the current financial year in lockdown, I am pleased to say that thanks to swift action taken at the onset of the shutdown in mid-March 2020, our people including our call centre teams were geared to work remotely and continued with business as usual.

As a dynamic organisation, we continued exploring potential opportunities. Observing a robust demand for gold loans on the back of higher world gold prices, we moved quickly to expand our bandwidth in this space.

Meanwhile seeing our lending activities hampered during the lockdown months, we quickly shifted gears to focus on recoveries. Recovery efforts began in earnest at the start of the lockdown with all frontline teams being called in to drive the effort. The momentum was maintained throughout the year with the support of the recoveries unit and the call centre teams. These collective efforts helped to stabilise NPLs to a great extent and it is indeed very encouraging to note that at 5.36%, LBF's NPL ratio was well below the sector average as at 31st March 2021 and also among the lowest recorded in the NBFIs sector as of the same date.

Noting a gradual revival in economic activity during post-lockdown, we resumed many of our lending activities. In our core auto finance business, we redirected our attention to capitalise on the strong demand for registered vehicles, which had ballooned overnight following the complete ban on unregistered vehicle imports. I must admit that while the consistently low interest rate would have been an excellent opportunity for LBF to grow its loan book, we nonetheless decided to maintain a prudent lending strategy in light of the underlying market weakness. The ongoing repossession ban was another key factor that influenced our decision to be ultra cautious in our lending this year.

As a dynamic organisation, we continued exploring potential opportunities. Observing a robust demand for gold loans on the back of higher world gold prices, we moved quickly to expand our bandwidth in this space. As part of this overall effort, we invested in strengthening LBF's island-wide gold loan footprint.

As always we remained firm that deposit mobilization activities should reflect the Company's liquidity requirements. With

the Company's liquidity at healthy levels throughout the current financial year, we did not pursue aggressive deposit mobilisation activities and instead looked to consolidate our deposit base. We are however quite proactive in our efforts to leverage on the low interest rate to streamline our deposit mix, and benefit from lower funding costs.

It is very pleasing to see our overseas operation - L B Microfinance Myanmar Company (LBMF), making excellent progress in the year under review, notwithstanding pandemic related challenges. Having first started up in the small town of Pyay in the Bago region, LBFM has since been deepening its penetration into the Magway region. In the year under review, LBFM further cemented its presence in the region with 4 new branches being added to the network, bringing the total branch count to 12 as at 31st March 2021.

## KEY FINANCIAL HIGHLIGHTS

### Supporting stakeholders to navigate the pandemic

Having entered the current financial year in the midst of the nation-wide lockdown, our priority was to ensure our customers would be supported during these critical times. We began by assisting eligible customers to benefit from the debt moratorium scheme announced by the government to bring relief to COVID-19 affected individuals and businesses. Beyond this we also accommodated customer requests for reschedulements, fee waivers and grace periods on a case by case basis.

Moreover determined to ensure our customers stay at home and stay safe, we rolled out a series of upgrades to the LB CIM mobile wallet. Some of the new features include: the mobile reload option

and the settlement facility both for retail customers and the direct debit facility for business users.

The safety and welfare of our valued employees took on a whole new meaning during the pandemic. As you know we issued strict instructions that all employees should work from home during the lockdown. To help our employees adjust to this new normal, we launched "SMILE", a 24/7 counselling hotline for employees to reach out in confidence, should the need arise. Meanwhile all recommended health guidelines were implemented to enable employees safely return to work in batches from June 2020 onwards, while a health declaration form was introduced and all employees asked to update their safety status on a daily basis. I am also very pleased to announce that no COVID related retrenchments or pay cuts were declared at any point during the year and all LBF employees were paid their full salary entitlement throughout the financial year. Despite strict cost containment measures deployed across the business, employees' bonus entitlements for the previous year were paid in full while medical expenses were also fully reimbursed.

### Building resilience for the future

With many things around us changing, we looked inward to strengthen our systems and processes which helps to face the future with confidence. Despite the constraints imposed by the pandemic, I am happy to report we made progress on many fronts. A new Credit Policy Framework was developed and rolled out to create a foundation to promote more high quality lending. We were able to complete our data warehousing project and increase the degree of automation across the business in order to promote greater cost discipline at a business unit level.

We also began working on a new Data Protection procedure in readiness to comply with the CBSL's proposed new Data Protection Act due to be gazetted in 2021 and went ahead with new protocols

to strengthen our information security architecture aimed at building our defences against cyber attacks. In parallel, our primary data center was shifted to the Sri Lanka Telecom tier III data center located at Pitipana, while a secondary backup data center was created at the Dialog facility in Pothuarawa.

Commissioning of the LB Center for Technology and Innovation (CTI) was another huge milestone for the current financial year. The CTI is resourced with a team of specialist data scientists focusing on developing customised solutions to boost our operational capability and network capacity, which I believe will play a vital role in strengthening LBF's resilience in the years to come.

### GOING FORWARD

With Sri Lanka now in the throes of a fully blown third wave of COVID-19 infections, it seems obvious that the pandemic is something we will have to live with for some time. On this basis it can be assumed that more challenges are likely to materialise in the coming months. Nonetheless, having emerged relatively unscathed from the pandemic impact thus far, definitely puts LBF on a firmer footing to tackle what lies ahead.

One thing I can already foresee is the fierce competition LBF will probably face in the medium term as NBF's rush to take advantage of the record low interest rates to capture a larger share of the SME market. This is where I believe LBF's solid credentials and track record 50 years will prove to be a distinct advantage.

Going forward, we expect to remain fully focused on supporting SME sector growth. We have set out ambitious plans in this regard and have even commenced talks to secure a special USD credit line to empower the SME sector to reach its true potential and position itself as the backbone of the Sri Lankan economy in the years ahead.

### APPRECIATIONS

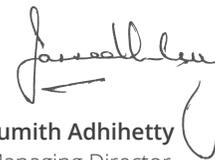
While readily admitting that the strategic choices made last year have underpinned LBF's progress, the ability of our people to adapt to innovations. I believe, it has made all the difference in our helping the Company to ride out the difficult times. On this note, I wish to extend my deep appreciation of all LBF employees for the unity and strength shown during these unprecedented times.

My sincere thanks also go to the Chairman and Board of Directors as well as the Board and committees whose decisiveness and vision have contributed to the resilient organisation we are today.

I am deeply grateful to LBF's loyal customers who have been a pillar of strength not only in this past year but over the past 50 years. On behalf of everyone at LBF, let me say that we consider it an absolute privilege to serve you.

I wish to 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 during the course of this year as well as in the past.

Finally, I would like to express my appreciation to our shareholders, bankers and other stakeholders for their unwavering support. I look forward to your patronage in the years ahead as well.



**Sumith Adihetty**  
Managing Director

19 May 2021

# BOARD OF



MRS. ANANDHIY GUNAWARDHANA



MR. DHAMMIKA PERERA

<b>Appointed to the Board</b>	On 1st March 2013	On 22nd October 2002, appointed as the Chairman on 7th October 2010 and Executive Deputy Chairman on 21st October 2011
<b>Role</b>	Chairperson/Independent Non-Executive Director	Executive Deputy Chairman
<b>Skills, experience</b>	She is 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 (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.	Mr Dhammika Perera is a quintessential strategist and a business leader with interests in a variety of key industries including manufacturing, banking and finance, leisure, plantations, and hydropower 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 unquoted companies.
<b>Current appointments</b>	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.	Mr Perera is the Chairman of Vallibel One PLC, Royal Ceramics Lanka PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resort PLC, Vallibel Power Erathna PLC, Greener Water Limited, Delmege Limited, and LB Microfinance Myanmar Company Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC and Singer (Sri Lanka) PLC, 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. Also, a Director of Dhammika and Priscilla Perera Foundation.
<b>Former appointments</b>	Director of the The Colombo Fort Land and Building PLC	Chairman of Sampath Bank PLC
<b>Board committee membership</b>	   	None
<b>Expertise</b>	<b>BLD, SM, FSE, FA, RM, CC, PR, CG, LC</b>	<b>BLD, SM, FSE, FA, RM, CC, PR, TD, CG, LC</b>

- Audit Committee
- Integrated Risk Management Committee
- Nomination Committee
- Remuneration Committee
- Related Party Transactions Review Committee

# DIRECTORS



**MR. SUMITH ADIHETTY**



**MR. NIROSHAN UDAGE**



**MR. B D A PERERA**

On 10th December 2003	On 1st January 2007	On 1st January 2007
Managing Director	Deputy Managing Director	Executive Director
He is a well-known professional in the marketing field, counts over 42 years of experience in the finance sector.	He holds Bachelor's Degree in Science from the University of Colombo and possesses 30 years of experience in the field of leasing and finance, including 10 years at Lanka Orix Leasing Company PLC and 03 years at Mercantile Investments Limited prior to joining L B Finance PLC in 2004.  He has undergone extensive training in Strategy and Management in Banking conducted by Intentional Development Ireland Ltd in Dublin and London and also successfully completed High Potentials Leadership Program at Harvard Business School in Boston, MA, USA in 2012.	He is an Associate Member of the Chartered Institute of Management Accountants ACMA, CGMA (UK) and holds a BSc (Business Administration) Special Degree from the University of Sri Jayewardenapura, successfully completed High Potentials Leadership Program in 2012 at Harvard Business School in Boston, MA, USA. Counts over 23 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.
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.	Director of L B Microfinance Myanmar Company Limited, Chairman of the Finance Houses Association of Sri Lanka (FHA), Director of Credit Information Bureau of Sri Lanka (CRIB), Member of the Financial System Stability Consultative Committee established by the Central Bank of Sri Lanka.	Director of L B Microfinance Myanmar Company Limited, Director of Pan Asia Banking Corporation PLC
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.	Director of Hayleys Fibre PLC	Director of Hayleys Fibre PLC
 		
<b>BLD, SM, FSE, FA, RM, CC, PR, TD, CG, LC</b>	<b>BLD, SM, FSE, FA, RM, CC, PR, TD, CG, LC</b>	<b>BLD, SM, FSE, FA, RM, CC, PR, TD, CG, LC</b>

**BLD** - Business leadership and development    **CC** - Culture and conduct    **CG** - Corporate governance    **FA** - Financial acumen    **FSE** - Financial services experience  
**LC** - Legal and compliance    **PR** - People and remuneration    **RM** - Risk management    **SM** - Strategic management    **TD** - Technology and digital

# BOARD OF



MR. RAVINDRA YATAWARA



MR. ASHANE JAYASEKARA

Appointed to the Board	On 15th March 2016	On 30th October 2017
Role	Executive Director	Independent Non-Executive Director
Skills, experience	He 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.	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 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 Master Degree in Business Administration from the University of Southern Queensland. He is a Certified Internal Auditor, Certified Fraud Examiner, a Certified Information Systems Auditor and a Computer Hacking Forensic Investigator - USA. At CA Sri Lanka he currently serves as a Member of the Governing Council, Corporate Governance Faculty, 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.
Current appointments	Director of L B Microfinance Myanmar Company Limited.	Director - BDO Partners (Pvt) Ltd, Member of the Governing Council - Institute of Chartered Accountants of Sri Lanka, Member of the Governing Council/Chairman Audit Committee - Open University of Sri Lanka, Member - Digital Forensics Advisory Board of the EC Council - USA, Director of the Information Systems Audit and Control Association (USA) Sri Lanka.
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).	Director of B T Communications Lanka (Pvt) Ltd., Director of BDO BPO Services (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).
Board committee membership		
Expertise	<b>BLD, SM, FSE, FA, RM, CC, PR, TD, CG, LC</b>	<b>BLD, FA, RM, PR, TD, CG, LC</b>

- Audit Committee
- Integrated Risk Management Committee
- Nomination Committee
- Remuneration Committee
- Related Party Transactions Review Committee

# DIRECTORS



MRS. YOGADINUSHA BHASKARAN



MRS. ASHWINI NATESAN



MR. DHARMADASA RANGALLE

On 15th March 2016	On 1st September 2018	On 10th April 2019
Non-Executive Director	Independent Non-Executive Director	Non-executive Director
<p>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</p>	<p>She is a qualified legal practitioner from India, specialising 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.</p> <p>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.</p> <p>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).</p>	<p>He is a retired Senior Commissioner of the Department of Inland Revenue (Special Grade). He has over 34 years of experience in the Government (Public) Sector, including 31 years of experience of Tax Administration as an Assessor, a Deputy Commissioner, a Commissioner, and a Senior Commissioner. He obtained the Master of Commerce (M. Com) Degree from the University of Kelaniya, the Bachelor of Commerce (B. Com) Special Degree-Second Class Upper Division (Honours) from the University of Kelaniya. He has completed all course work relating to the Doctoral Degree Programmer at the Open University of Malaysia. He is also a fellow member of the Sri Lanka Institute of Taxation, Sri Lanka. He was a visiting Lecturer at the University of Kelaniya, Malambe Campus (SLIIT), Business School of Institute of Chartered Accountants of Sri Lanka, and the Sri Lanka Institute of Taxation-Sri Lanka.</p>
<p>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.</p>		<p>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 DHS Holdings (Pvt) Ltd, He is also a member of the Executive Council-Sri Lanka Institute of Taxation-Sri Lanka.</p>
<p>Assistant General Manager (Finance &amp; Planning) of Pan Asia Banking Corporation PLC, Financial Controller of several Australian companies in Melbourne</p>		<p>Senior Commissioner of the Department of Inland Revenue (Special Grade)</p>
 	 	
<b>BLD, SM, FSE, FA, RM, CC, PR, CG</b>	<b>SM, RM, CC, TD, CG</b>	<b>BLD, SM, FSE, FA, RM, CC, PR, CG, LC</b>

**BLD** - Business leadership and development    **CC** - Culture and conduct    **CG** - Corporate governance    **FA** - Financial acumen    **FSE** - Financial services experience  
**LC** - Legal and compliance    **PR** - People and remuneration    **RM** - Risk management    **SM** - Strategic management    **TD** - Technology and digital

## SENIOR MANAGEMENT



01

We believe that ethical leadership is the foundation of long term value creation. The commitment, experience, and diversity of our senior management exemplify the caliber of our leadership across our organization.



11



02



05



08



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07



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14

**1 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

**2 MR. BIMAL PERERA****Deputy General Manager  
– Strategy and Digital Finance**

Joined LBF in 2013

CFA Charter holder, Certified FRM

Over 17 years in the areas of risk management, strategic planning, treasury and fintech solutions in the financial service domain

**3 MR. AINSLEY MOTHA****Deputy General Manager  
– Credit and Branch Operations**

Joined LBF in 2013

MBA (Aus.), MABE (UK)

Over 30 years of experience in the field of banking, leasing and finance industry

**4 MR. CHETHANA KAHANDUGODA****Deputy General Manager  
– Information Technology**

Joined LBF in 2010

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

Over 22 years of experience in the field of information technology, information security, project management, software development, business intelligence, infrastructure and data communications predominantly in finance sector

**5 MR. ROSHAN JAYAWARDENA****Senior Assistant General Manager  
– Microfinance**

Joined LBF in 2007

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

Over 31 years of experience in the fields of banking, leasing, finance, marketing and business development

**6 MR. PRASANNA KALINGA****Assistant General Manager  
– Human Resources**

Joined LBF in 2016

BA (MGM), KDA/IPMA certified professional

Over 21 years of industry experience both locally and overseas

**7 MR. WICKRAMA PUNCHIHEWA****Head of Legal (Assistant General Manager)**

Joined LBF in 2017

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

Over 19 years as an Attorney-at-Law and experience in non-banking finance sector and commercial law sector

**8 MR. KALPA SANJEEWA****Assistant General Manager  
– Credit and Branch Operations**

Joined LBF in 2005

MBA (UK).

Over 20 years of experience in the areas of credit, marketing, recovery and branch operations

**9 MR. MALITH HEWAGE****Assistant General Manager – Finance**

Joined LBF in 2013

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

More than 11 years of experience in the fields of financial reporting, accounting and auditing

**10 MR SUNETH DABARERA****Chief Internal Auditor**

Joined LBF in 2019

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

Over 18 years of experience in the fields of auditing and finance in banking and finance sectors

**11 MR. KENNETH DANIEL****Senior Chief Manager  
– Credit and Branch Operations**

Joined LBF in 2011

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

Over 26 years of experience in the leasing, finance and banking industry

**12 MR. CHINTHAKA CHANDRASENA****Chief Manager  
– Credit and Branch Operations**

Joined LBF in 1996

MBA (UK).

Over 25 years of experience in the areas of credit, marketing, recovery and branch operations

**13 MR GIHAN DE SILVA****Chief Manager – Recoveries**

Joined LBF in 2004

AMDP (PIM University of Sri Jayewardenepura)

Over 19 years of experience in the finance industry

**14 MR. GAYAN AYUWARDANE****Chief Manager – Central Region**

Joined LBF in 2015

MBA (UK)

Over 19 years of experience in the leasing, finance and banking industry

# SENIOR MANAGEMENT



**15 MR. SURAJ KARUNANAYAKA****Chief Manager – Gold Loan**

Joined LBF in 2016

BSc. Physical Science (University of Kelaniya)

Over 11 years of experience in the banking and finance industry

**16 MS. DESHIKA YATAWARA****Chief Manager – Treasury**

Joined LBF in 2008

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

Over 12 years of experience in the field of finance

**17 MS. NIROSHA AMANULLA****Senior Manager – Kandy Branch**

Joined LBF in 1985

Over 35 years of experience in the financial industry and features many managerial positions

**18 MR. DINUDAYA ABEYWARDENA****Senior Manager – Corporate Lending**

Joined LBF in 2016

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

Over 16 years of experience in the banking and finance industry

**19 MR. SHANAKA PERERA****Senior Manager – Administration**

Joined LBF in 1998.

Over 23 years of experience in the fields of administration and procurement

**20 MR SEBENSTAIN PULLE****Compliance Officer**

Joined LBF in 2020

ACM (UK),CGMA.

Over 40 years of experience in the fields of finance and auditing in manufacturing and finance sectors

**21 MR. DINUSHA MUDUNKOTUWA****Senior Manager – Business Analysis**

Joined LBF in 2017

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

Over 11 years of experience in the fields of information technology, accounting and auditing, specializing in banking and finance sector

**22 MR. SUDEEP PERERA****Head of Marketing**

Joined LBF in 2017

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

Over 17 years of marketing experience in the fields of travel, automobile, consumer trade, banking and finance

**23 MR WARUNA PERERA****Country Manager – Myanmar**

Joined LBF in 2019

Diploma in Microfinance -University of Colombo

Over 17 years of experience in the areas of microfinance and recovery in both locally and overseas

**24 MR DAYAN PRASANNA****Senior Manager – Finance**

Joined LBF in 2020

ACMA, CGMA, MBA (PIM-USJ)

Over 11 years of experience in the fields of finance reporting, accounting and auditing

**25 MR SAMEERA WANNINAYAKE****Senior Manager – Business Process Development**

Joined LBF in 2008

BSc in Physical Science (University of Kelaniya), MSc in Financial Mathematics (University of Moratuwa), Business Continuity Certified Specialist, Business Continuity Certified Planner (BCMI, Singapore)

Over 12 years of experience in business process development and re-engineering, business continuity managements, system process and product development

**26 MS WARUNI PERERA****Senior Manager – Risk Management**

Joined LBF in 2013

ACMA(UK), CGMA, MA in financial economics (University of Colombo), BSc (Hons) in accounting (Sp) (University of Sri Jayawardenepura)

Over 11 years of experience in the fields of risk management, corporate planning and equity research

**27 MR MAHESHAN KARUNARATHNA****Senior Manager – Credit & Branch Operations**

Joined LBF in 2019

Dip. in Marketing - ACHE

Over 16 years of experience in the areas of leasing, credit, finance and banking industry

**28 MR. PRASAD SURENDRA****Senior Manager – Credit & Branch Operations**

Joined LBF in 2006

MBA – UK BSc, Physical Science (University of Kelaniya) AMDP (PIM University of Sri Jayawardhanapura)

Over 17 years' experience in finance industry

**29 MR CHANAKA ALEXANDER****Senior Manager – Credit & Branch Operations**

Joined LBF in 2010

ABE (UK)

Over 20 years of experience in the areas of leasing, credit, finance and banking industry

# WE ARE CARBON NEUTRAL FOR 6TH CONSECUTIVE YEAR

Our commitment to protect and preserve the environment by continuously refining our policies and procedures and improving our products and services through the use of technology has enabled L B Finance PLC to be certified as a Carbon Neutral Company.

LB Finance's commitment towards nature and sustainability by promoting environment-friendly business practices to the various business segments of the country as well as reducing carbon footprints from our organisational framework.

## 2012/13

Introduced Environmental Management Policy  
Identified the importance of carbon footprint

## 2013/14

Joined hands with Sri Lanka Carbon Fund  
Became the first carbon conscious finance company in Sri Lanka  
Carbon footprint **2,006 tCO<sub>2</sub>e**

## 2014/15

Carried out energy audits with assistance from Sri Lanka Carbon Fund  
Promoting the importance of knowing the carbon footprint  
Carbon footprint **2,343 tCO<sub>2</sub>e**

## 2015/16

**Became the first carbon neutral financial institution in Sri Lanka**  
Implemented a Carbon Management Policy  
Neutralised carbon footprint **2,717 tCO<sub>2</sub>e**

## 2016/17

Neutralised carbon footprint **4,361 tCO<sub>2</sub>e**



## 2017/18

Neutralised carbon footprint **3,223 tCO<sub>2</sub>e**



## 2018/19

Neutralised carbon footprint **3,997 tCO<sub>2</sub>e**



## 2019/20

Neutralised carbon footprint **4,484 tCO<sub>2</sub>e**



## 2020/21

Neutralised carbon footprint **3,110 tCO<sub>2</sub>e**



CHAPTER

# 03

## Strength

### Management Discussion and Analysis

#### Driven by Strength

We are built on a model of excellence and strength that propels us into a future designed for every single stakeholder we serve

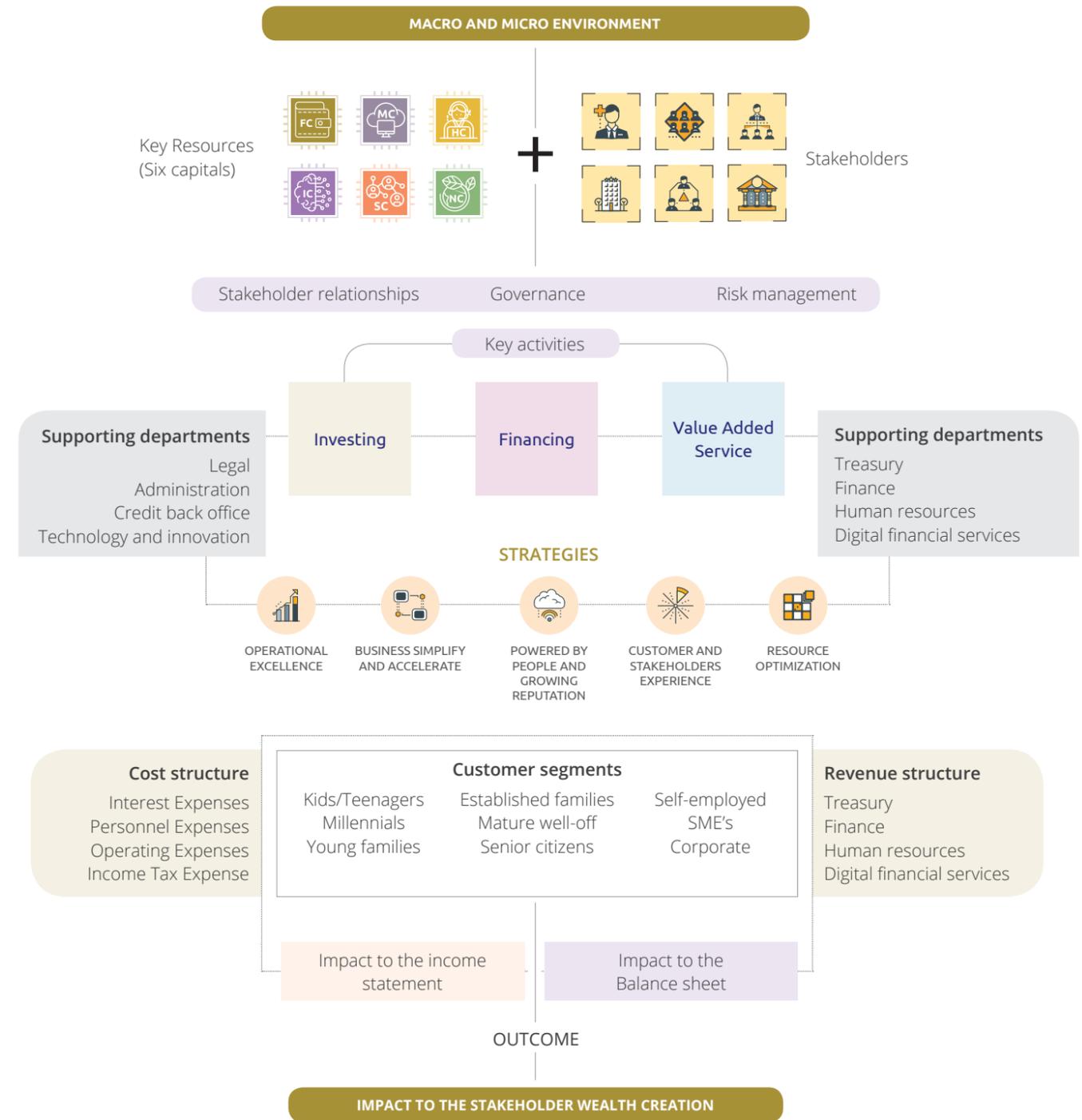
Business model	50
Integrated stakeholder engagement	52
Materiality determination	66
Delivering on our strategy and resource allocation	74
Operation in overseas	84



## LBF BUSINESS MODEL

For long-term sustainability, LBF business model magnets from the six capitals and Scorecard delivers us with the framework against which we reflect how we transform, increase or decrease capitals in generating value creation outputs.

The diagram illustrates each of our core activities and how they translate into products and services to meet the needs of our Stakeholders.

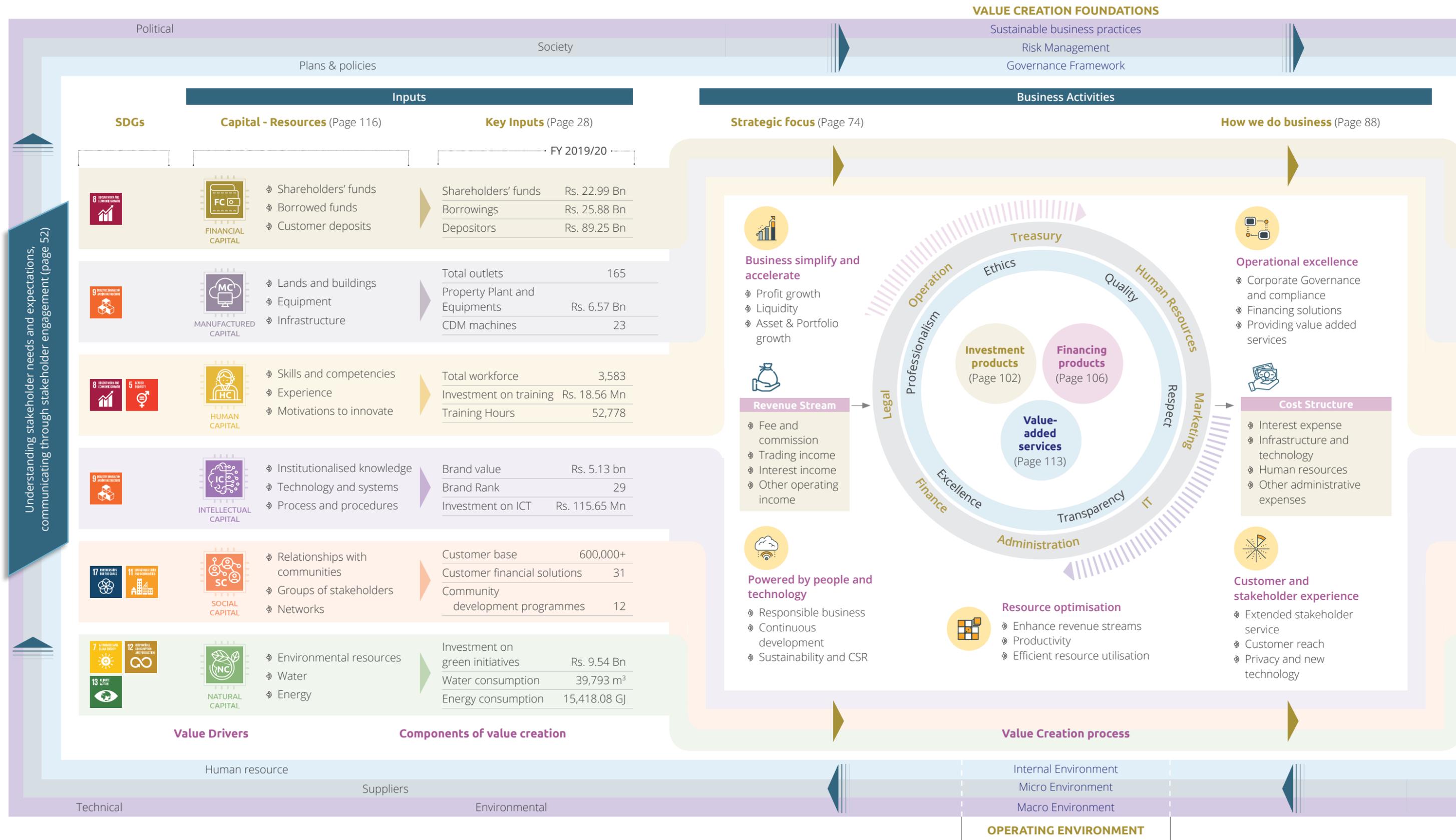


# OUR VALUE CREATING - BUSINESS MODEL

Vision & Mission

Goals

Values



Legal

Economic

Society

Corporate image

## Outputs

## Key results (Page 28)

FY 2020/21

## Financial Capital

Profit after tax	Rs. 6.80 Bn
Return on equity	26.58%
Earning per share	LKR 12.28

## Manufactured Capital

Total outlets	169
Investment on PPE	Rs. 836.21 Mn
New Branches	4

## Human Capital

Salaries and benefits	Rs. 2,955 Mn
Training cost	Rs. 4.01 Mn
Employees hired	999

## Intellectual Capital

Brand value	Rs. 6.23 Bn
Brand Rank	25
Investment on ICT	Rs. 46.40 Mn

## Social and relationships Capital

Tax payments	Rs. 3.96 Bn
CSR investment	Rs. 37.29 Mn
Total customer base	600,000+

## Natural Capital

Total carbon footprint	3,110 tCO <sub>2</sub> e
Energy consumption	15,418.08 Gj
Investment on environment	Rs. 1.01 Mn

## Value created

## Outcomes

## Impact on Capitals (Page 116)

## Enhanced

- Financial growth and stability
- Competitive pricing on short term debt
- Shareholder value appreciated

## Strengthened

- Established premium branches
- System to streamline back-end systems
- Further expansion of reach

## Reinforced

- Motivated employees
- Efficient workforce
- New blood

## Optimised

- Brand name enhanced
- Sophisticated systems
- New solutions

## Improved

- Contribution to Government
- Community development contribution
- Better stakeholder relations

## Conserved

- Reduced energy consumption
- Carbon neutral
- Conserved nature

## Value derived

## Impact on stakeholders &amp; partnerships (Page 52)



SHAREHOLDERS



CUSTOMERS



EMPLOYEES



BUSINESS PARTNERS



SOCIETY/ COMMUNITY



REGULATORS

## Managing trade offs

Informing the stakeholders on company performances and manage the trade offs, through stakeholder engagement (page 62)

Relationships

Competitors

Social

# OUR STAKEHOLDERS

## Integrated stakeholder engagement

### IDENTIFYING OUR KEY STAKEHOLDERS

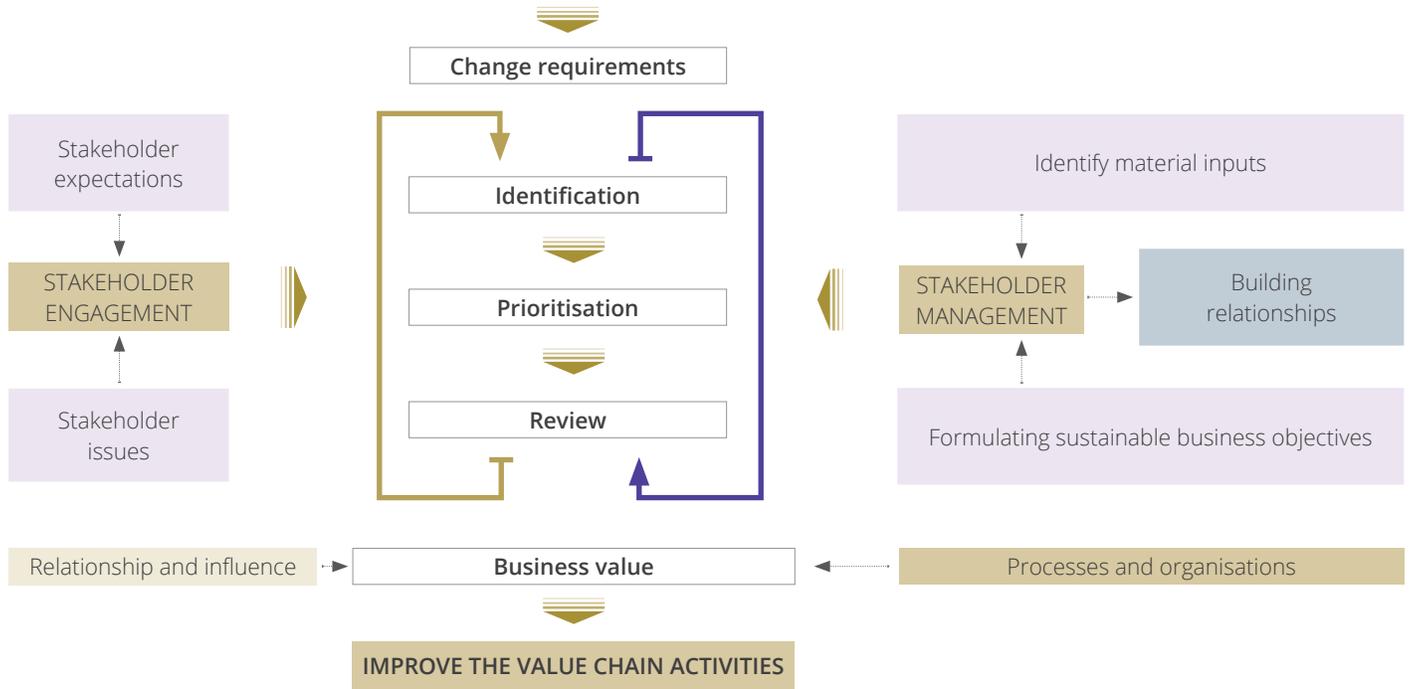
We identify our key stakeholders according to their ability to influence our business and decision-making processes. To promote greater stakeholder inclusivity and ensure meaningful engagement with all stakeholder groups, we have set out specific stakeholder goals that set the thematic focus for defining the scope and scale of the relationship and the degree of engagement needed, be it to; This scale represents our internal assessment of the quality of our relationship.

Level of engagement	Relationship	
<p><b>● Involve</b> – To work directly with the Company throughout the process to ensure that stakeholders’ issues and concerns are taken into consideration</p>	No existing relationship	★☆☆☆☆
	Relationship established but much work to be done to improve quality of relationship	★★☆☆☆
<p><b>● Consult</b> – To obtain stakeholders’ feedback for the decision making</p>	Relationship established, value-generating connection, but still room for improvement	★★★☆☆
	Good-quality, mutually-beneficial relationship, with some room for improvement	★★★★☆
<p><b>● Collaborate</b> – To partner with stakeholders in all aspects, develop alternatives and identify preferred solutions</p>	Strong relationship with mutual benefit	★★★★★

Our stakeholder goals drive us forward, articulating the value we seek to deliver for each of our key stakeholders, and therefore serve to inform our strategy.

Key stakeholders	Goals	Icon	Level of relationship	Level of engagement
Shareholders	Sustained growth and wealth maximization		★★☆☆☆	● Consult
Customers	Customer at the center of the business		★★★★★	● Involve
Employees	Career progress and best place to work		★★★★☆	● Collaborate
Communities	Empowering communities through CSR		★★☆☆☆	● Collaborate
Regulators	Full statutory compliance		★★★☆☆	● Collaborate
Business partners	Sustainable business practices		★★☆☆☆	● Collaborate

**STAKEHOLDER IDENTIFICATION AND MANAGEMENT FRAMEWORK**



**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**

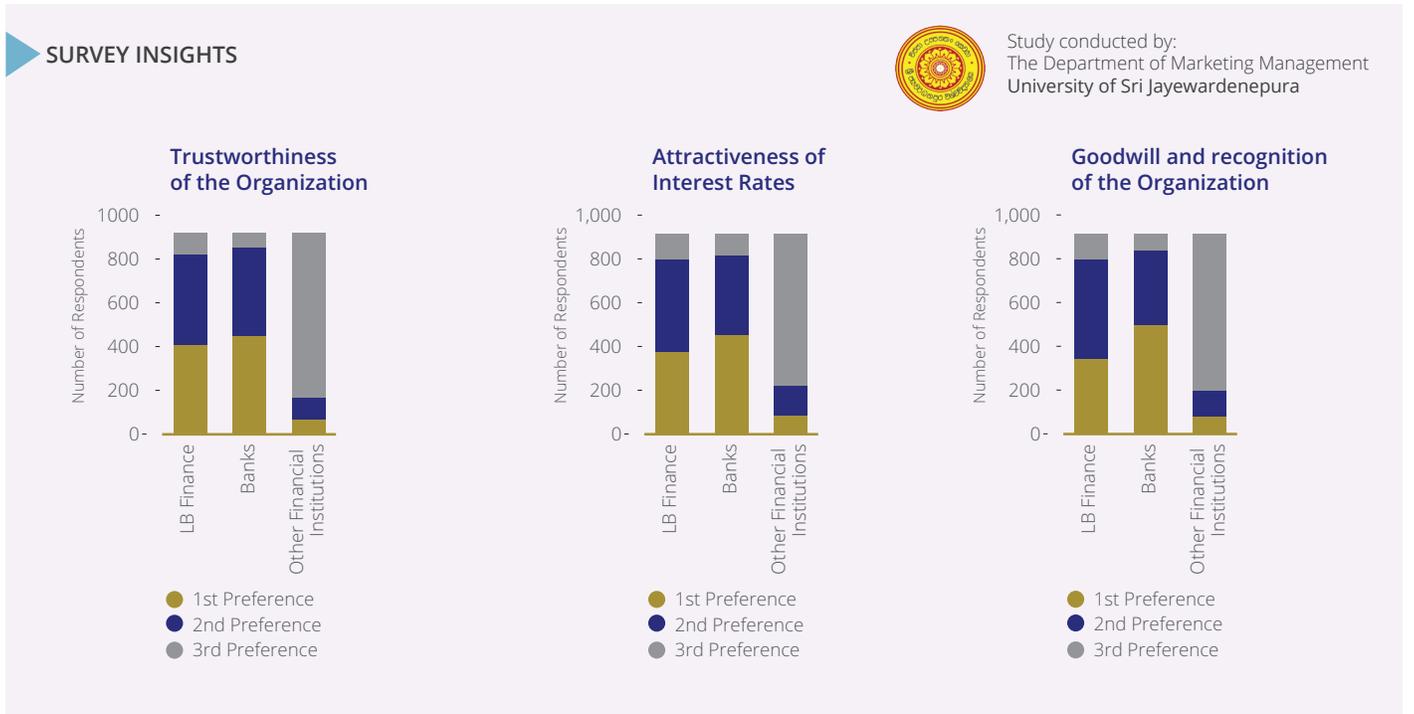
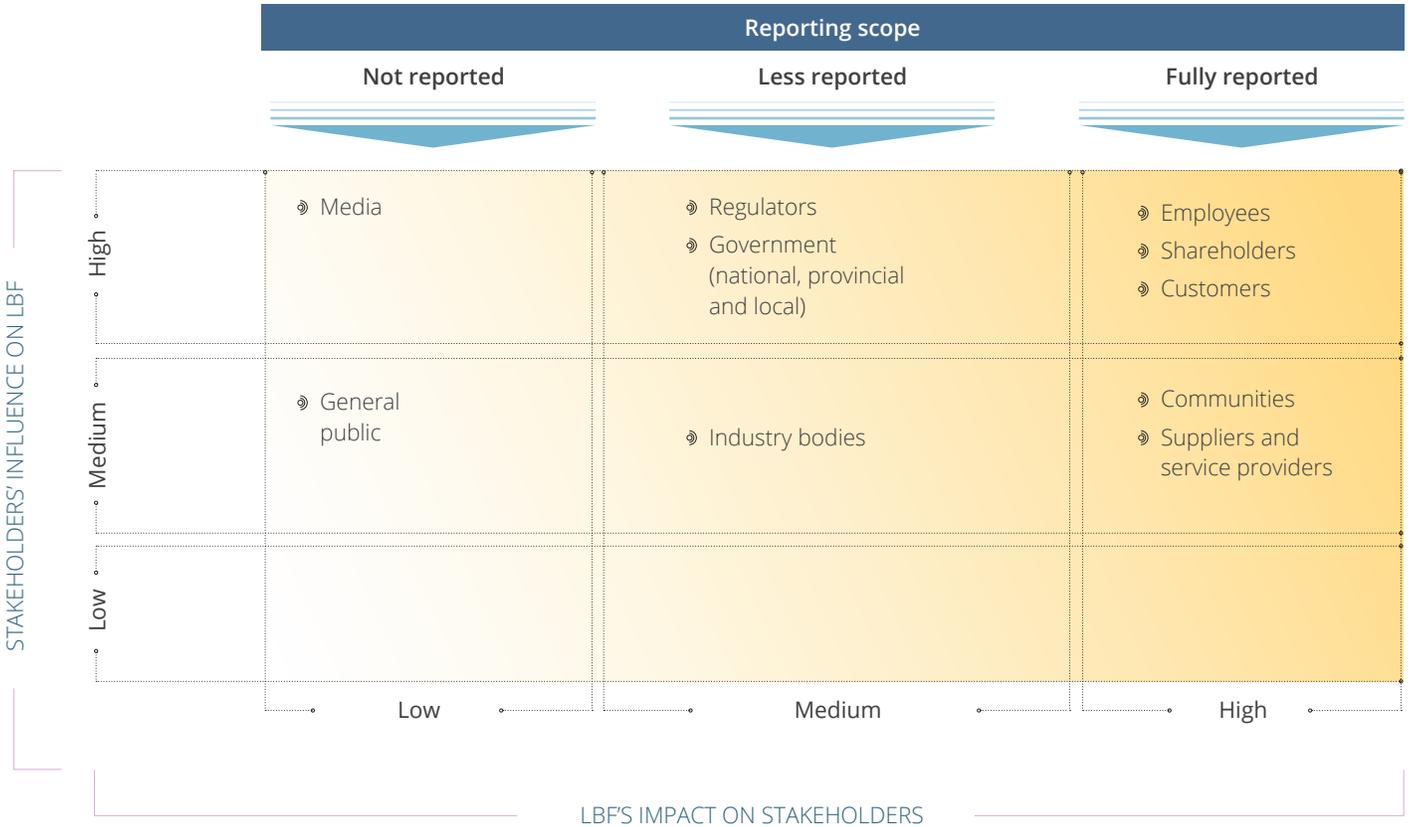
Proactively acknowledging and addressing stakeholders' needs and concerns and responding to stakeholders in a timely manner.

Visit web page for more information on the stakeholder engagement framework



# OUR STAKEHOLDERS

## STAKEHOLDER MAPPING



### INTEGRATED STAKEHOLDER ENGAGEMENT REPORTING PROCESS

Our stakeholder engagement process is effectively integrated into every step of our value creation process and thus serves as a key source of informing our strategy.

**ANALYSE**

- ⌚ The impact we have on our stakeholders, and our impact on them
- ⌚ Stakeholder influence on our business decisions and the level of management
- ⌚ What value means for them and what value means for us

**IDENTIFY**

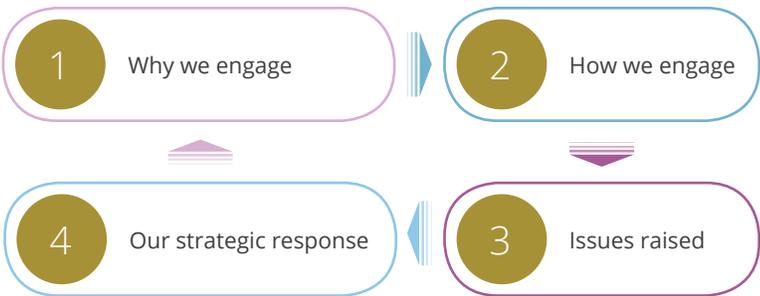
- ⌚ Identify our key stakeholders
- ⌚ Our key stakeholder goals
- ⌚ Key risks and opportunities arise from these relationships

**FORMULATE STRATEGY**

- ⌚ Determining material matters for the business, as well as our short, medium and long-term strategies and goals
- ⌚ Develop business initiatives to improve engagement and achieve our goals
- ⌚ Formulate an integrated stakeholder engagement strategy

**IMPLEMENT**

- ⌚ Business initiatives
- ⌚ Engagement strategies for key stakeholders



<b>KEY OUTCOME</b> The quality of our relationships	<b>KEY OUTPUT</b> Economic value added for the year
--	--

Managing stakeholder relationships	Addressing key stakeholder concerns
------------------------------------	-------------------------------------

**KEY INPUTS**

- ⌚ Positive and inclusive relationships between management and employees
- ⌚ Maintaining sustained confidence of shareholders in our business
- ⌚ Constructive engagement with government representatives and regulators
- ⌚ Collaborative relationships with customers and suppliers, based on mutually agreed
- ⌚ Open channels of communication and positive relationships with communities, non-governmental organisations and the media
- ⌚ Effective partnerships with business peers, sector organisations and research bodies

**ACTIVITIES**

- ⌚ Understanding and being responsive to our stakeholders' interests
- ⌚ Developing and enhancing markets for our products and services
- ⌚ Creating and sustaining an enabling environment for investment
- ⌚ Continually seek opportunities to strengthen relationships
- ⌚ Collaborative partnerships to find solutions to collective challenges, and drive needs based development
- ⌚ Prioritising social investment, partnering with business peers and fosters positive employee relationships

Value creation to stakeholders

Stakeholder review Page 62	Capital review Page 64
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# OUR STAKEHOLDERS

## MANAGING STAKEHOLDER RELATIONSHIPS

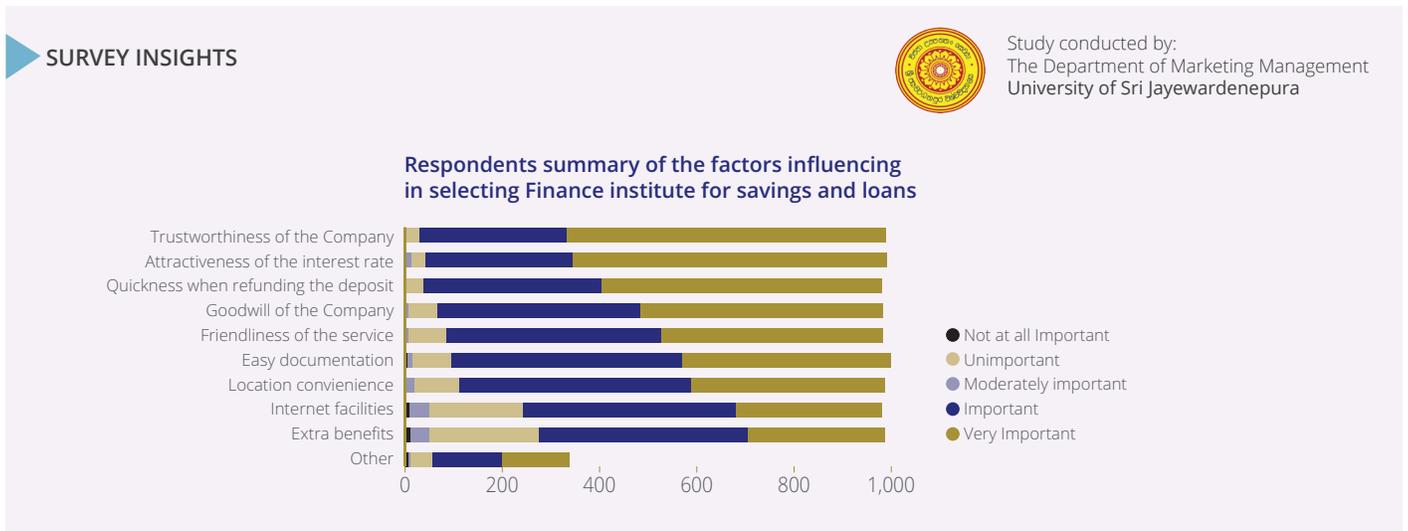
LBF's stakeholder management framework provides clear guidelines that help to streamline stakeholder engagement and communication activities and ensure they are undertaken in a coordinated manner in order to generate the desired mutually beneficial outcomes. The ownership of the stakeholder management framework lies with LBF's Sustainability Committee.



Visit web page for more information on Stakeholder management framework

	Newsletters	AGM	Extra ordinary meeting	Emails	Meetings	Social media	Events	Reports	Phone calls	websites	Formal letters	Media release	Digital channels	Annual report	One to one	Survey	Site visits
<b>Internal</b>																	
Shareholder		A	W						W	Ah		A	Ah	A			
Board of Directors		A	W		W	R	Ah	M		W	P	W	R		W		
Management		A	W	W	W	R	Ah	R		W	P	W	R		W		
Employees	Q			W	W	R	Ah	W		R	W		R		W	A	
<b>External</b>																	
Customers				W	W	R	Ah		R	W		W	R		W	A	W
Business partners				W	W				R	W	W		W		W	A	W
Communities				W			Ah			W		W	W				
Regulators				W				M	W	W		Q	W				

R Regular basis   M Monthly   Q Quarterly   A Annual   W When necessary   Ah Ad hoc   P Periodic



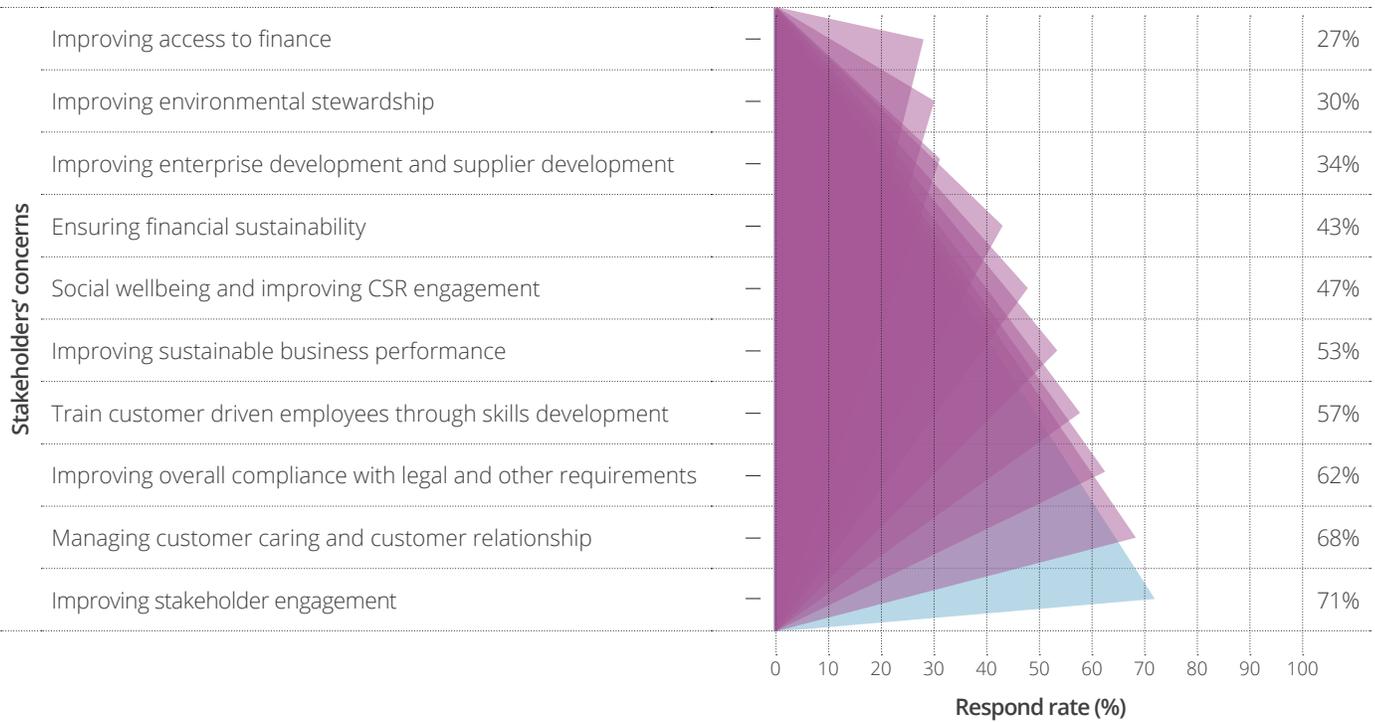
### ADDRESSING KEY STAKEHOLDER CONCERNS

Results from the 2019/20 stakeholder engagement survey conducted by University of Sri Jayewardenepura, indicated that following key concerns raised by the stakeholders.

Shown below are the results of the survey conducted by University of Sri Jayewardenepura. The illustration depicts the key concerns outlined by the 800 respondents (based on their priority levels) who participated in the survey.



Visit web page for more information on detail stakeholder concerns



#### Stakeholders' concerns

Improving stakeholder engagement



#### Why we engage with them

To encourage stakeholders to be part of our corporate journey

#### Stakeholder expectations

To enquire about LBF's contribution to the Sri Lankan economy

#### Value creation principle

Maximize value distribution to all stakeholders

#### Outcome

- ⦿ Economic value generated – Rs. 29,766.12 Mn
- ⦿ Economic value retained – Rs. 4,730.24 Mn

#### Risk identified

Increasingly strict rules and regulations governing the NBFi sector

#### Opportunity identified

Active participation and contribution to industry and regulatory working groups

#### Strategic focus



#### Capital invested



#### SDG linked



# OUR STAKEHOLDERS

## Stakeholders' concerns

Managing customer care and customer relationship



## Why we engage with them

To create top-of-mind recall regarding LBF's value proposition

## Stakeholder expectations

To seek out a trusted financial partner

## Value creation principle

Providing innovative solutions covering the full gamut of financial services, including investing, financing and value added services

## Outcome

- Customer base – Over 0.6 Mn
- No. of financial solutions – 31

## Risk identified

Stiff competition among mainstream financial service providers leading customers to switch frequently between brands

## Opportunity identified

Creating a differentiation through multiple product propositions combined with an omni-channel environment and data-driven solutions to enhance the overall customer experience

## Strategic focus



## Capital invested



## SDG linked



## Stakeholders' concerns

Improving overall compliance with legal and other requirements



## Why we engage with them

To understand and interpret the complex regulatory frameworks applicable within which LBF operates

## Stakeholder expectations

To gauge LBF's ability to respond proactively to the fast-changing regulatory environment

## Value creation principle

Achieve compliance leadership by meeting all regulatory requirements including the timely payment of taxes and other dues and also through the early adoption of new regulatory changes

## Outcome

- Total tax paid to the Government – Rs. 3,968.85 Mn
- Comply with capital adequacy requirements

## Risk identified

Increasingly strict rules and regulations governing the NBFi sector

## Opportunity identified

Active participation and contribution to industry and regulatory working groups

## Strategic focus



## Capital invested



## SDG linked



**Stakeholders' concerns**

Train customer centric employees through skills development

**Why we engage with them**

To unite and guide employees to work as a team towards a common purpose, that being to put the customer at the center of everything they do

**Stakeholder expectations**

To understand the future direction of the Company and sync their personal career aspirations to the Company's strategic objectives

**Value creation principle**

Attract and retain the best in-class talent on the basis of fair and equitable remuneration, effective performance management, ongoing training and development as well as continuous recognition and rewards

**Outcome**

- Total no. of promotions – 1,237
- Investment on training – Rs. 4.01 Mn

**Risk identified**

The competitive nature of the local financial service industry leading to the possibility of high labour turnover among certain employee segments

**Opportunity identified**

Demonstrate LBF's credibility as an employer of choice

**Strategic focus****Capital invested****SDG linked****Stakeholders' concerns**

Social wellbeing, community support and improving CSR engagement

**Why we engage with them**

In search of collaborative value adding partnerships to facilitate our CSR and sustainability activities

To create awareness, gain insights and advice on how to maximize the outcomes of our integrated sustainability initiatives

**Stakeholder expectations**

To find solutions that will enable them to improve their livelihood and uplift living standards for themselves, their families, with cascading benefits for their community

**Value creation principle**

Promoting socio economic transformation by enabling entrepreneurship, job creation and poverty alleviation

**Outcome**

- Investment on CSR – Rs. 37.29 Mn
- No. of job opportunities provided – 999

**Risk identified**

Failure of projects to achieve desired outcomes, which could adversely impact the Company's reputation

**Opportunity identified**

Leverage on the connections made to carve out new markets to grow LBF's core business

**Strategic focus****Capital invested****SDG linked**

# OUR STAKEHOLDERS

## Stakeholders' concerns

Ensuring financial sustainability



### Why we engage with them

To identify profitable business/product segments and test the market for new financial solutions

### Stakeholder expectations

To seek out solutions to meet their immediate financial needs

To learn about investment and wealth management opportunities that will help them to achieve their long term financial goals

### Value creation principle

An agile business model capable of responding quickly to market opportunities coupled with strong risk management fundamentals to build resilience against challenges

### Outcome

- Return on equity – 26.58%
- Return on assets – 4.78%

### Risk identified

Lack of investor confidence due to market vulnerabilities in the NBFI sector

### Opportunity identified

Ability to leverage our financial strength, to raise the necessary capital and funding at the best possible rates

### Strategic focus



### Capital invested



### SDG linked



## Stakeholders' concerns

Improving enterprise development and supplier development



### Why we engage with them

To ensure continuity and sustainability of the business over time

### Stakeholder expectations

To be able to correlate their growth prospects in tandem with LBF's growth trajectory

### Value creation principle

Develop a strong supplier network based on mutual trust and shared values

### Outcome

- Registered business partners – Over 3,000
- Payment to the business partners – Rs. 10.13 Bn

### Risk identified

Lack of supplier diversity may lead to a breakdown in the supply chain

### Opportunity identified

Promote local suppliers

### Strategic focus



### Capital invested



### SDG linked



**Stakeholders' concerns**

Improving environmental stewardship



**Why we engage with them**

To raise awareness regarding LBF's environmental initiatives, commitment to lean resource management and green business practices

**Stakeholder expectations**

To partner with like minded institutions and environmental preservation and conservation activities

**Value creation principle**

Support the country's transition to the low carbon economy over time through the ongoing focus on carbon neutral business operations

**Outcome**

- Certified as carbon neutral entity for 6th consecutive year
- Carbon footprint – 3,110 tCO<sub>2</sub>e

**Risk identified**

Adverse impact of climate change leading to tighter regulatory controls that may affect certain aspects of the conventional business model

**Opportunity identified**

Focus on increasing the exposure to large scale clean energy projects

**Strategic focus**



**Capital invested**



**SDG linked**



**Stakeholders' concerns**

Improving access to finance and improving sustainable business



**Why we engage with them**

To deliver benefits of the formal financial system to low income households

**Stakeholder expectations**

To reduce their dependence on informal channels

**Value creation principle**

Focus on underserved market segments, especially grass root level communities, and small-scale rural enterprises to access structured financial solutions

**Outcome**

- Merchants registered for CIM wallet – Over 4,000
- Micro leasing customer base – Over 50,000

**Risk identified**

High level of default risk

**Opportunity identified**

Expand the micro finance business segment

**Strategic focus**



**Capital invested**



**SDG linked**



# OUR STAKEHOLDERS

## VALUE CREATION SCORECARD - STAKEHOLDER VIEW

The table below demonstrates how LBF's integrated strategy is generating positive outcomes for the Company, through its holistic efforts to create stakeholder value.

Stakeholder	Value for the stakeholder	Value for the Company	Indicator	
CUSTOMERS	<ul style="list-style-type: none"> <li>☛ Innovative, efficient, cost-effective financial solutions that meet customers' needs</li> <li>☛ Improved access to markets and financial services including access to information and advice</li> <li>☛ A safe and trustworthy financial services provider</li> </ul>	<ul style="list-style-type: none"> <li>☛ More satisfied customers</li> <li>☛ Enhances LBF's reputation as a trusted financial services institution</li> <li>☛ Increased customer loyalty</li> <li>☛ Higher revenue from existing and new customers</li> </ul>	<ul style="list-style-type: none"> <li>☛ Growth in customer base (%)</li> <li>☛ No. of complaints solved</li> <li>☛ No. of financial solutions offered</li> <li>☛ CIM app downloaded</li> </ul>	
	EMPLOYEES	<ul style="list-style-type: none"> <li>☛ A robust and challenging work environment where all employees can achieve their full potential</li> <li>☛ Performance-based culture that recognizes and rewards high performance</li> <li>☛ Self-led development and opportunities for career progression</li> </ul>	<ul style="list-style-type: none"> <li>☛ Highly motivated and engaged workforce as a key competitive advantage</li> <li>☛ A dynamic and experienced talent pool equipped to meet current and future needs of the Company</li> </ul>	<ul style="list-style-type: none"> <li>☛ Employee voluntarism (hours)</li> <li>☛ Total headcount broken down by:                             <ul style="list-style-type: none"> <li>- Full time</li> <li>- Contract</li> </ul> </li> <li>☛ Female</li> <li>☛ Male</li> <li>☛ Investment on training (Rs. Mn)</li> </ul>
		SOCIETY	<ul style="list-style-type: none"> <li>☛ Support for economic growth</li> <li>☛ Increased access to, and funding for, education opportunities</li> <li>☛ Lower environmental footprint</li> </ul>	<ul style="list-style-type: none"> <li>☛ Access to new markets</li> <li>☛ Confirms LBF's status quo as a responsible corporate steward</li> </ul>
SHAREHOLDERS			<ul style="list-style-type: none"> <li>☛ Sustainable return on investment through attractive dividends</li> <li>☛ Increased earning potential due to the upwards movement in the share price</li> </ul>	<ul style="list-style-type: none"> <li>☛ Strong capital base to fuel growth</li> <li>☛ Public trust in the brand</li> </ul>
	REGULATORS AND BUSINESS PARTNERS		<ul style="list-style-type: none"> <li>☛ Fair and ethical engagement when dealing with the Company</li> <li>☛ Contribution towards the overall stability of the Country's financial system</li> </ul>	<ul style="list-style-type: none"> <li>☛ Sound corporate values, high ethical standards, market integrity and good conduct practices</li> <li>☛ Sustainable operations</li> </ul>

Outcomes				Managing the outcomes
	2020/21	2019/20	Trend	
	8.81	8.59	▲	<ul style="list-style-type: none"> <li>➤ Ongoing work to stem customer losses; re-shape the customer profile and restore trust and confidence</li> <li>➤ Driving innovation and articulation of a digital strategy to reshape the group</li> </ul>
	100%	100%	—	
	31	30	▲	
	over 36,000	over 26,000	▲	
	5,764	20,131	▼	<ul style="list-style-type: none"> <li>➤ Culture reset</li> <li>➤ Delivering a target culture and new corporate values</li> <li>➤ Implementation of multiple engagement forums</li> <li>➤ Focus on employee turnover</li> </ul>
	3,515	3,558	▼	
	49	25	▲	
	1,407	1,393	▲	
	2,157	2,190	▼	
	4.01	18.56	▼	
	15,418.08	20,538.00	▼	<ul style="list-style-type: none"> <li>➤ Ongoing stakeholder engagements informed by a revised group policy and engagement framework</li> <li>➤ Continuous improvement of corporate governance, compliance and risk management practices</li> <li>➤ Establishment of a group wide sustainability programme</li> </ul>
	3,083.30	4,448.90	▼	
	22	17	▲	
	37.29	22.52	▲	
	41,083	34,853	▲	
	26.58	25.04	▲	<ul style="list-style-type: none"> <li>➤ New strategy and medium term performance targets alongside a focused separation programme</li> <li>➤ Amended remuneration approach to address shareholder concerns</li> </ul>
	4.78	3.70	▲	
	3.74	5.01	▼	
	30.56	33.44	▼	
	2	3	▼	<ul style="list-style-type: none"> <li>➤ Continued engagement with regulators across all presence countries with a focus on the separation</li> <li>➤ Ongoing engagement/contribution to legislative developments</li> </ul>
	None	None	—	

▲ Increase ▼ Decrease — Neutral

# OUR STAKEHOLDERS

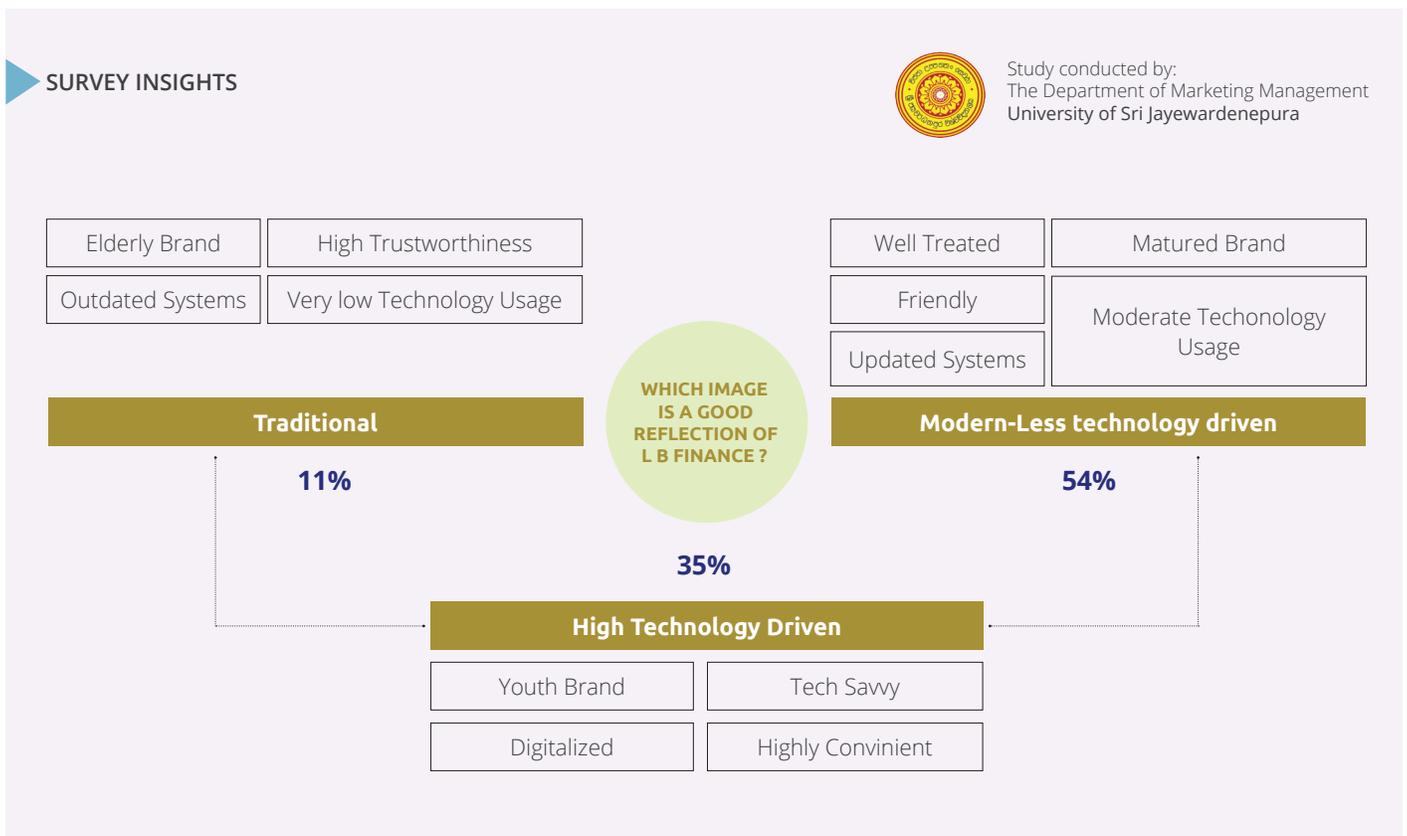
## VALUE CREATION STAKEHOLDER SCORECARD – SIX CAPITAL VIEW

Capitals	Stakeholders	Key indicators of capital management	Unit	Outcome on the capital		Trend
				2020/21	2019/20	
 FINANCIAL CAPITAL	Shareholders Lenders Employees (Management KMPs)	Income growth	%	(4.67)	6.64	▼
		PAT growth	%	31.15	2.62	▲
		Assets growth	%	(2.35)	5.55	▼
		Market price per share	Rs.	*47.40	120.50	▲
		Dividend yield	%	23.24	-	—
		Market capitalization	Rs. Mn	26,262	16,691	▲
		Dividend per share	Rs.	7.00	-	▲
 MANUFACTURED CAPITAL	Shareholders Employees (Management KMPs)	Branches in Myanmar	number	12	8	▲
		Profit per outlet	Rs. Mn	40.25	31.44	▲
		Income per outlet	Rs. Mn	184.75	180.40	▲
		Gold loan centre converted to branches	number	18	-	▲
		Freehold land and building	Rs. Mn	181.79	230.13	▼
 HUMAN CAPITAL	Employees	Investment on training and developments	Rs. Mn	4.01	18.56	▼
		No. of promotions		1,237	854	▲
		Remuneration and benefit paid	Rs. Mn	2,959.82	3,005.18	▼
 INTELLECTUAL CAPITAL	Customers	Investment on software development	Rs. Mn	0.65	17.84	▼
		Re-certification of 27001:2013		Done	Done	—
		Investment of IT	Rs. Mn	46.40	115.65	▼

\*Price per share represents the share price after the share sub-division.

Capitals	Stakeholders	Key indicators of capital management	Unit	Outcome on the capital		Trend
				2020/21	2019/20	
 SOCIAL CAPITAL	☞ Employees ☞ Regulators ☞ Community	☞ Projects to uplift the communities wellbeing	number	22	17	▲
		☞ Taxes paid to government	Rs. Mn	3,968.85	6,824.68	▼
		☞ Corporate social investment	number	37.29	22.52	▲
		☞ Economic value distributed	Rs. Mn	29,766.12	31,222.86	▼
 NATURAL CAPITAL	☞ Community ☞ Employees	☞ No. of trees planted at present (50 to 50,000 tree planting programme)	number	41,083	34,583	▲
		☞ Paper recycle	Kg	3,986	5,501	▼
		☞ Energy consumption	GJ	15,418	20,538	▼
		☞ Carbon footprint	tco2e	3,110	4,484	▼

▲ Increase ▼ Decrease — Neutral



# MATERIALITY DETERMINATION

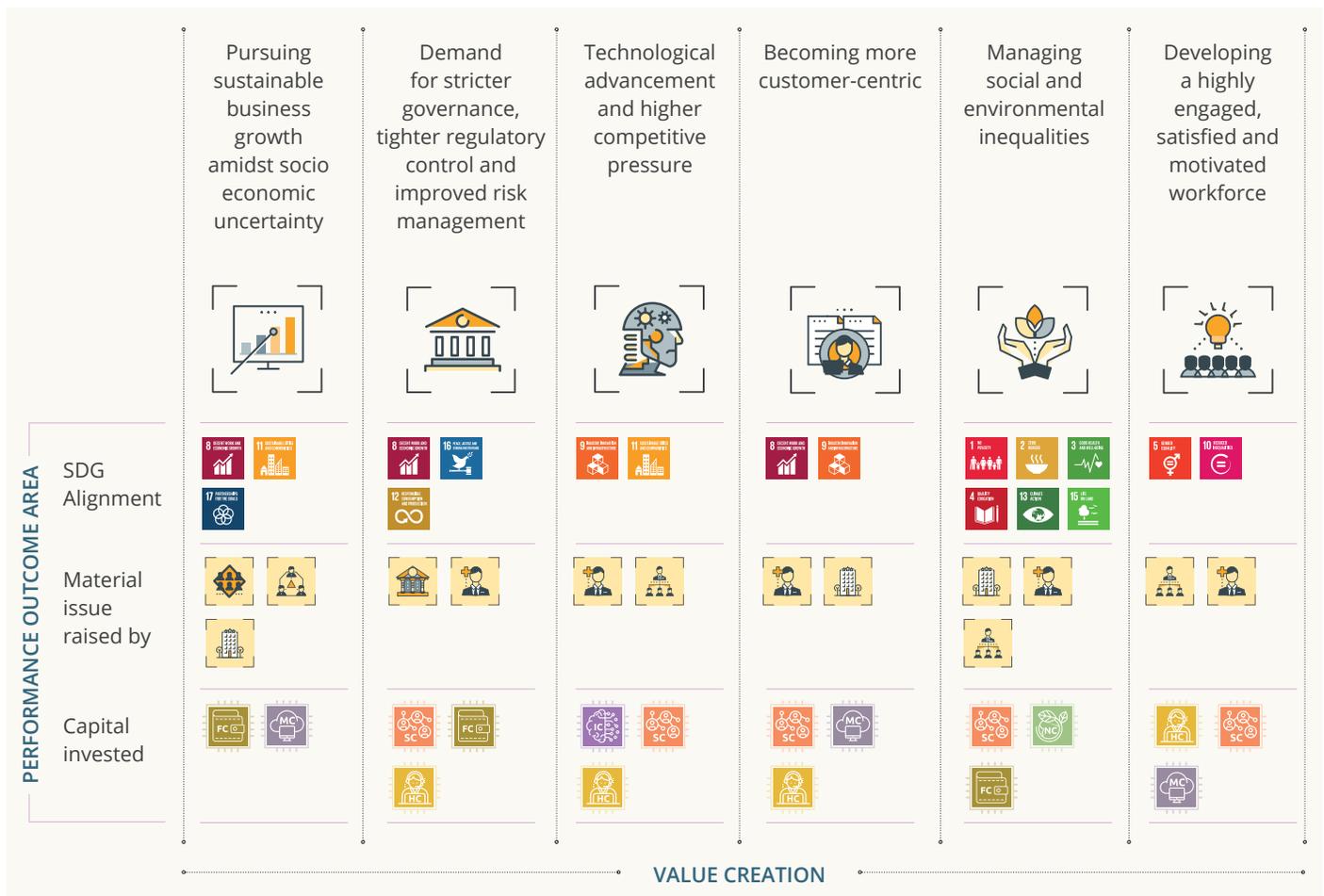
## OUR APPROACH

Our material issues relate how LBF creates value for stakeholders, our business and our wider community in the short, medium and long term. These material issues therefore form the foundation of LBF's strategy.

Our materiality assessment for the FY 2020/21 was carried out with due consideration of the guidelines issued by the International Integrated Reporting Council's (IIRC) <IR> Framework, the Global Reporting Initiative (GRI) Standards and with reference to the AccountAbility- AA1000SES.

## EXPECTED OUTCOME THROUGH ADDRESSING MATERIAL ISSUES

Addressing our most material issues are our main priorities. To achieve this task, we have linked each material issue with six key performance outcomes. Throughout this report we make reference to these performance outcomes, where each relevant material issue is discussed.



Visit web page for more information on detail material determination

**S** Short term    **M** Medium term    **L** Long term

Material issue	Why it matters most	Risk associate
 <p>Pursuing sustainable business growth amidst socio economic uncertainty</p>	<p>As a leading financial institution in Sri Lanka, we believe that there is a need to strike a balance between our financial performance and our ability to provide appropriate business outcomes. This will ensure LBF's long term sustainability, improve trust in the financial system and safeguard the Company against future shocks</p>	<ul style="list-style-type: none"> <li>④ CREDIT RISK</li> <li>④ MARKET RISK</li> </ul>

Material themes	Strategic objectives	Target set in 2020/21	Progress	Opportunities for future value creation
Sustainably growing revenue	<ul style="list-style-type: none"> <li>④ Improve our business margins and create shareholder value in a sustainable way</li> <li>④ Demonstrate sector leadership by creating a more innovative and sustainable business</li> <li>④ Lead the way in understanding and managing our risk profile</li> </ul>	Focus on productivity and efficiency improvements in order to achieve cost leadership <b>M</b>	Ongoing Digitization and process automation	<ul style="list-style-type: none"> <li>④ Identify most appropriate financial requirements to tap into under-served market segments</li> <li>④ Pursue continuous innovation to develop and launch groundbreaking solutions to gain first mover advantage in the mainstream financial solutions market</li> <li>④ Improve the agility of the business model to effectively respond to macroeconomic variables such as shifts in interest rates, credit demand and credit risk</li> </ul>
Risk and capital management		Continue to implement and support a comprehensive enterprise risk management approach <b>S</b>	Achieved Enterprise risk process plans have been implemented by ongoing review and reporting	
Delivering appropriate shareholder returns		Remain focused on achieving sustainable, long term earnings growth in order to generate consistent dividend returns for shareholders <b>L</b>	Ongoing Dividend per share Rs. 7/- (2020/21)	
Process excellence		Bring NIM on par with the historical average level <b>S</b>	Achieved NIM recorded at 12.15%	

### Respond to special key material matter - COVID-19 and its impact

Material aspects	Actions taken	Progress	Opportunities for future value creation
Our COVID-19 response focused on ensuring the health and safety of our employees, customers, broader stakeholders and community at large. In addition, through our immediate actions, we ensured the continuity of our business operations in every corner of Sri Lanka	<ul style="list-style-type: none"> <li>④ Effective remote working practices</li> <li>④ Introducing strict hygiene health guidelines and sanitization facilities</li> <li>④ Providing employee support and help desk for those infected with or exposed to the virus</li> </ul>	<ul style="list-style-type: none"> <li>④ Further strengthening of Business Continuity Plans (BCP) and Disaster Recovery plans (DR)</li> <li>④ Reviewing business and strategic imperatives with business Heads</li> </ul>	<ul style="list-style-type: none"> <li>④ Use data analytics to increase efficiency of compilation, application evaluation, improvements in the behaviour and requirements of customers</li> <li>④ Enhancing organizational service quality and connectivity by automating and using emerging channels</li> </ul>

#### Risk associate

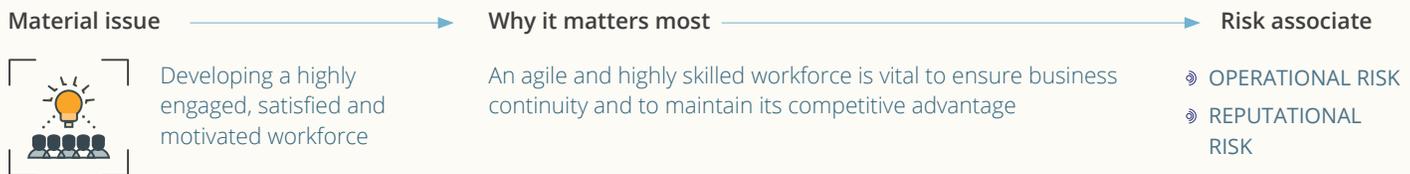
- ④ Remote working practices could increase exposure to information security risks and lead to data breaches
- ④ Widespread infections can adversely affect health and safety and operational continuity of employees

# MATERIALITY DETERMINATION

**S** Short term    **M** Medium term    **L** Long term



Material themes	Strategic objectives	Target set in 2020/21	Progress	Opportunities for future value creation
Corporate governance	<ul style="list-style-type: none"> <li>Maintaining high ethical standards, responsible lending practices, proactive risk management and fair treatment of employees, customers and other stakeholders in compliance with legal and regulatory frameworks and other best practices applicable to the non-bank financial services sector</li> </ul>	Implement the mandates included in the new enterprise wide risk management policy introduced in 2019 <b>S</b>	<b>Achieved</b> Upgraded the enterprise wide risk management framework to strengthen the LBF's resilience against external shocks	<ul style="list-style-type: none"> <li>Early adoption of new regulatory requirements to achieve compliance leadership</li> <li>Seamless integration of new regulatory requirements as part of the operating processes to minimise compliance lapses</li> <li>Create a suitable environment that promotes responsible risk taking at all levels of the business</li> </ul>
Ethics and transparency		Champion the value culture set out in under LBF's Code of Business Conduct <b>L</b>	<b>Ongoing</b> Continue with culture shaping initiatives to reinforce the importance of ethics and integrity among employees	



Material themes	Strategic objectives	Target set in 2020/21	Progress	Opportunities for future value creation
Employee engagement	<ul style="list-style-type: none"> <li>Develop human capital to complement the Company's long term aspirations</li> <li>Increase motivation levels in order to reduce employee turnover</li> </ul>	Increase employee engagement in CSR activities by 5% <b>S</b>	<b>Not achieved</b> 370 employees engaged in the CSR activities	<ul style="list-style-type: none"> <li>Position LBF as an employer of choice in the NBFI sector</li> <li>Branch expansion to create new employment opportunities especially at a provincial level</li> <li>Achieve gender equality</li> </ul>
Occupational health, safety and wellbeing		Maintain safe work environment to ensure zero accidents <b>L</b>	<b>Ongoing</b> Continuous monitoring of occupational health and safety environment	
Retention, training and development		Systematically increase training hours based on the Company's requirements and to promote personal growth of employees <b>M</b>	<b>Ongoing</b> 19 training programmes conducted for 2020/21	
Compensation and incentives		Expand the special schemes to recognize high performers <b>L</b>	<b>Achieved</b> Performance-based bonus for employees	

S Short term   M Medium term   L Long term

Material issue → Why it matters most → Risk associate



Technological advancement and higher competitive pressure

Technology is at the heart of LBF's business approach and defines the way we think and act. We use technology driven platforms as a key differentiator to achieve business excellence in a fiercely competitive market

④ INFORMATION SECURITY RISK

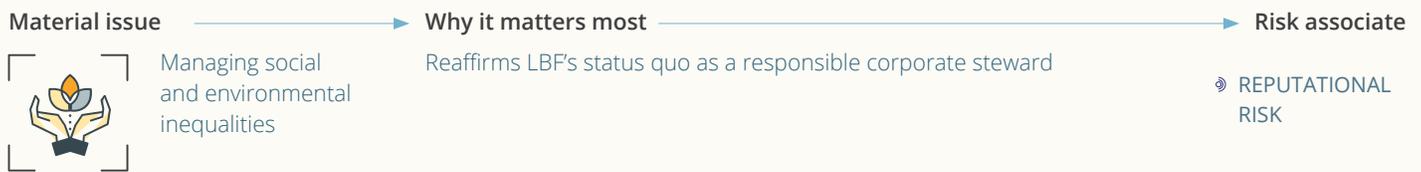
Material themes	Strategic objectives	Target set in 2020/21	Progress	Opportunities for future value creation
Innovation		Streamline the product development process, from ideation to commercial deployment S	<b>Achieved</b> Launch of CIM (Cash In Mobile) an industry-leading digital wallet solution	<ul style="list-style-type: none"> <li>④ Capitalise on digital technology to deliver first to market products and services that secure captive market share</li> <li>④ Use digital technology to create a parallel ecosystem to serve alongside the conventional brick and mortar branch model</li> </ul>
Information security	<ul style="list-style-type: none"> <li>④ Leverage on technology and innovation to remain competitive and lead the industry in the creation of value</li> </ul>	Strengthen information security architecture through targeted investments, including an Information Security Operation Centre (ISOC) to identify external cyber attacks, intrusion and threats L	<b>Ongoing</b> Continuous and ongoing monitoring to detect areas for further enhancement	
Technological advancement	<ul style="list-style-type: none"> <li>④ Pursue collaborative and value adding partnerships to strengthen LBF's overall capabilities</li> </ul>	Continue to build IT capacity with incremental improvements and new tactical solutions to strategically enhance core IT platforms S	<b>Achieved</b> Roll out of the new gold loan system (Eclipse) to speed up processing times, ultimately leading to improved service delivery	
Industry trends		Foster and promote new ideas that have the potential to generate viable business outcomes M	<b>Ongoing</b> Evaluation of business diversification strategies	

# MATERIALITY DETERMINATION

**S** Short term   **M** Medium term   **L** Long term



Material themes	Strategic objectives	Target set in 2020/21	Progress	Opportunities for future value creation
Customer satisfaction	<ul style="list-style-type: none"> <li>➤ Effective and efficient management of customer complaints, including taking responsibility to address the root cause and thereby eliminate the possibility of recurrence</li> <li>➤ Create brand awareness through clear transparent communication to enable customers to make informed decisions</li> </ul>	To take immediate actions for customer complaints/inquiries <b>S</b>	<b>Achieved</b> Received 1,170 customer complaints/inquiries satisfactorily resolved 100%. Recurring complaints increased by 2.63% due to pandemic	<ul style="list-style-type: none"> <li>➤ Higher customer satisfaction creates an opportunity to grow the customer base through cross selling activities</li> </ul>
Brand loyalty and Company reputation		To become the best brand in the brand ranking <b>L</b>	<b>Ongoing</b> Declared one of Sri Lanka's top 10 Most respected entities in 2019 by Nielsen	
Regional expansion		Expand the branch footprint in Myanmar <b>M</b>	Opened 04 branches in Addalaichenai, Vaddukoddai, Athurugiriya and Mallavi	



Material themes	Strategic objectives	Target set in 2020/21	Progress	Opportunities for future value creation
Financial literacy and digital financial inclusion	<ul style="list-style-type: none"> <li>➤ Leverage on LBF's expertise as a financial solutions provider to offer rural communities the benefits of the formal financial system</li> <li>➤ Consider the impact of our operational decisions on society and work to strike a balance that will ensure our everyday actions deliver positive outcomes for all our stakeholders over time</li> </ul>	3,000 merchant registrations for the digital wallet <b>M</b>	<b>Achieved</b> +4,000 merchant registrations	<ul style="list-style-type: none"> <li>➤ Provide financial assistance to promote investment in alternative energy and renewable energy in-line with the national sustainable energy initiative</li> <li>➤ Take action to combat climate change</li> </ul>
Corporate citizenship		10% of CSR budget allocated for educational development <b>S</b>	<b>Not achieved</b> 2.75% spend on educational development via CSR activities	
Supply chain management		Implement a comprehensive supplier on-boarding mechanism <b>S</b>	<b>Achieved</b> On-boarded +3,000 suppliers via the new system	
Environment management		Plant 50,000 trees under the "Thuru Wawamu" project in 2021 <b>M</b>	<b>Ongoing</b> +42,000 trees planted island wide up to now	

**MATERIALITY RADAR**

We seek to ensure that our reporting continues to reflect our response to the material issues raised by our stakeholders and hence have plotted these issues on a materiality radar. The materiality radar presents the results of the materiality process in a different way. The gold and blue lines show the business and external stakeholders' views and illustrates the synergy for most of our issues.

We regularly review our material issues in the context of the rapidly changing business and societal context, as well as stakeholder feedback and emerging trends.



**Way forward**

The Stakeholder Engagement survey for 2020/21 - the third consecutive study commissioned by LBF was conducted with the expertise of several leading state universities. As in the past, the recent survey too provided the opportunity to mine stakeholder views, exchange ideas as well as to understand their needs and expectations. Based on the findings of the survey, we have learnt that there are certain issues that show a divergence between the business and external

stakeholders' views. We feel that such issues require more attention, particularly where they are more important to external stakeholders than they are to the business. Accordingly, we are now taking steps to refine our strategies to address these issues more holistically in the future. Going forward, we are also planning to expand the scope of our next stakeholder survey by focusing on a larger sample size under each stakeholder group, which we hope would provide a broader situational assessment of our material issues.

# MATERIALITY DETERMINATION

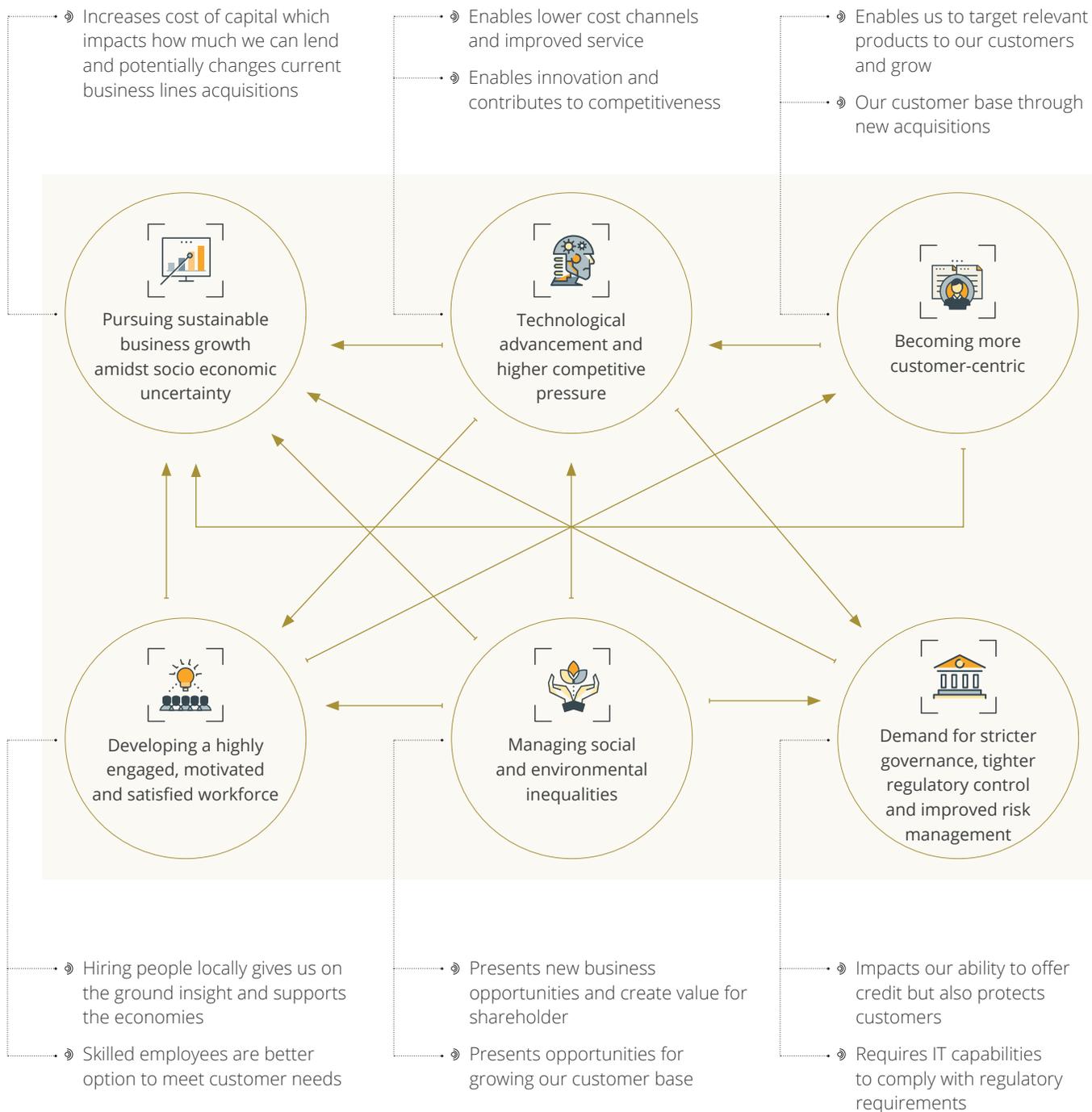
H High impact  
 M Medium impact  
 L Low impact

## MATERIALITY IMPACT MATRIX

Material matters	Material themes	Impact to the capital						Strategic focus				Stakeholders						
		FINANCIAL CAPITAL	MANUFACTURED CAPITAL	INTELLECTUAL CAPITAL	HUMAN CAPITAL	SOCIAL AND RELATIONSHIP CAPITAL	ENVIRONMENT CAPITAL	OPERATIONAL EXCELLENCE	BUSINESS SIMPLIFY AND ACCELERATE	POWERED BY PEOPLE AND TECHNOLOGY	CUSTOMER AND STAKEHOLDERS EXPERIENCE	RESOURCE OPTIMIZATION	SHAREHOLDERS	CUSTOMERS	EMPLOYEES	COMMUNITIES	REGULATORS	BUSINESS PARTNERS
Pursuing sustainable business growth amidst socio economic uncertainty	Sustainably growing revenue	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Risk and capital management	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Delivering appropriate shareholder returns	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Process excellence	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Technological advancement and higher competitive pressure	Innovation	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Information security	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Technological advancement	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Industry trends	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Demand for stricter governance, tighter regulatory control and improved risk management	Corporate governance	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Ethics and transparency	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Becoming more customer-centric	Customer satisfaction	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Brand loyalty and Company reputation	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Regional expansion	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Managing social and environmental inequalities	Financial literacy and digital financial inclusion	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Corporate citizenship	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Supply chain management	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Environment management	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Developing a highly engaged, satisfied and motivated workforce	Employee engagement	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Occupational health, safety and wellbeing	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Retention, training and development	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
	Compensation and incentives	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

### INTERRELATIONSHIP BETWEEN MATERIAL ISSUES

Our analysis of how we manage these material issues and their impact on our operations revealed the intricate interrelationships that exist between them.



# DELIVERING OUR STRATEGY AND RESOURCE ALLOCATION

## OUR VALUE BASED STRATEGY

It is clear that global trends will continue to drive increased demand in the markets we serve. Hence in developing our strategy, we consider both opportunities and risks, informed by local and global developments. Through this approach we are looking to refine our strategy to improve LBF's responsiveness to these trends and thereby remain competitive and relevant.

Our strategy keeps us focused, setting a clear path to deliver sustainable growth, accelerate shareholder returns and create ongoing value for all our stakeholders over the short, medium and long term.



Visit our web page for more information on strategic formulation

## OUR STRATEGIC PROMISE

### Promise to LBF



#### Shared identity

- Individually responsible for our organisation's success
- Stronger together, than the sum of our individual parts
- Embrace individual uniqueness and diversity
- Transformed and diverse workforce



#### Common purpose

- Each colleague has a role in achieving our purpose
- Bringing to life the 'art of the possible'
- People united in serving customers and humanity



#### Meaningful experiences

- Actively promote learning and growth
- Create organisation-wide development opportunities
- Enabled working environments

### Promise to customers



#### Caring

- We genuinely care about the communities we serve
- We will form a strong bond with our customers



#### Connected

- We will understand and anticipate our customers' needs and aspirations
- We will empower our customers to make their future better
- We will provide integrated solutions that address customer needs



#### Simple, but not basic

- We will deliver seamless service to our customers
- We will create solutions that continuously aim to make our customers' lives better and easier
- We will make financial services possible anytime and anywhere

### Promise to society



#### Contributing and empowering

- We will provide thought leadership regarding the development of new and innovative solutions to societal challenges
- We will aim to promote inclusive growth in the societies in which we operate
- We will contribute by caring for our environment and by helping others to do the same



#### Do the best for people and planet

We will test our decisions against the promise of:

- 'Best' as the most desirable and sustained standard
- 'People' are individuals, communities and society
- 'Planet' is the natural environment

## OUR STRATEGIC AGENDA

Our strategy is implemented through our key drivers, which take into account stakeholder aspiration, influences arising from our immediate operating environment, including the risks and opportunities that could potentially impact our business model. Our strategic agenda consists of three interconnected components: strategic planning, strategic matrix and strategic opportunities, which collectively help to optimise the use of capitals and achieve our objectives enrooted to our ultimate goal of sustainable income and capital growth.

To support the systematic allocation of capital resources, we have established three distinct planning cycles; short term strategies, medium term strategies and long term strategies.



## STRATEGIC PLANNING

Long term planning focus beyond 2025/26	Medium term planning focus beyond 2020/21	Short term planning focus for 2020/21	
From expertise financial services by operating a deep Sri Lankan insights from our local operations	Access to technologies and products and our ability to connect our customers seamlessly	By embodying shared growth as a business ethos and a sustainable way of conducting business	
<b>Strategic Intent</b>	<b>Strategic Thrust</b>	<b>Strategic Enablers</b>	
<b>Company Growth</b>	<b>Business Integration</b>	 Operational excellence  Business simplify and accelerate  Powered by people and growing reputation  Customers and stakeholders experience  Resource optimization	
New customers and value creation Business expansion	Capturing new products Capturing new markets		Maximize speed and front-line vitality by developing motivated human resources and cutting-edge IT
<b>Business Differentiation</b>	<b>Market Penetration</b>		
Competitiveness through innovation Adapting sustainable business practices	Product differentiation Market differentiation		Competitiveness by creating innovative technologies using our key devices and establishing industry standards
<b>Long term Profitability</b>	<b>Grow with Human and Digital</b>		
Solid the earning base Resource utilization sustainably	Profitability to support future growth Commitment to the community operate in		Develop businesses with an awareness of the SDGs and ESG in order to create a sustainable society

# DELIVERING OUR STRATEGY AND RESOURCE ALLOCATION

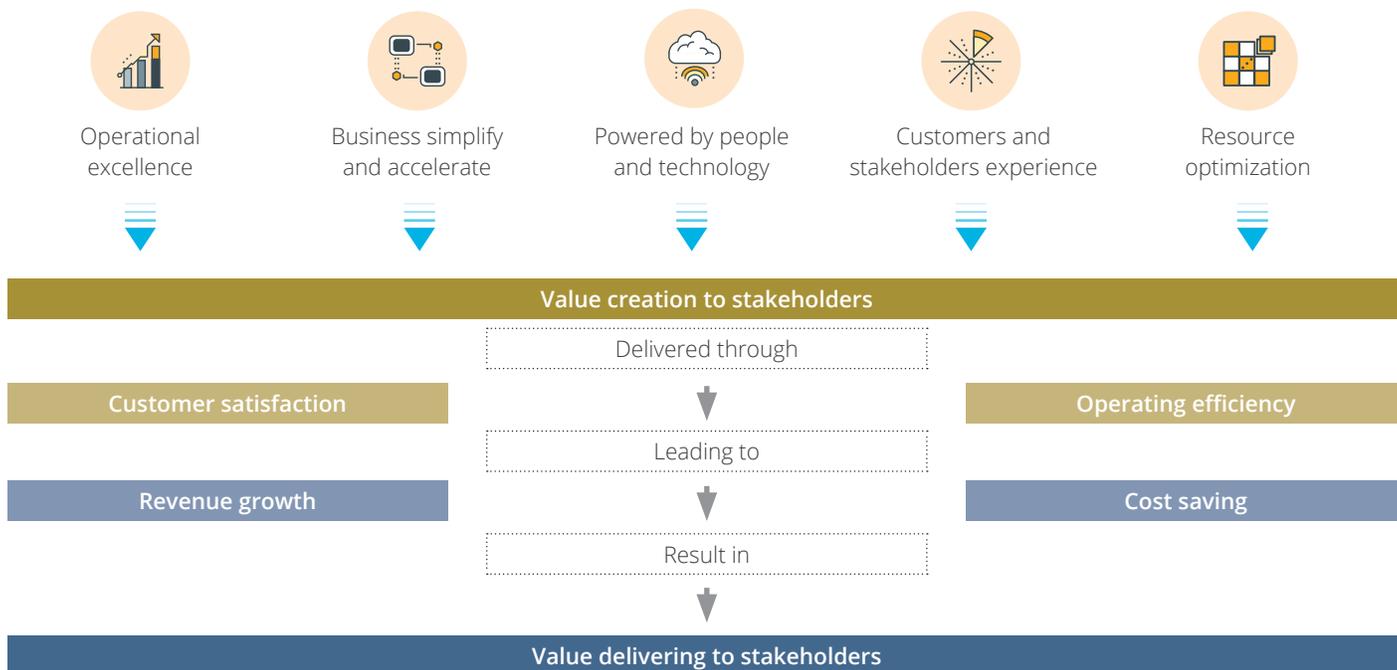
## STRATEGIC MATRIX

		TIME FRAME				
		10 – 20 Years	05 – 10 Years	01 – 05 Years	01 Year	Day/Week/Month
	Purpose	Align with country goals and SDGs	Long term business capacity development	Achieve strategic targets	Resource planning	Resource allocation
	Focus (What)	Contribution to the economy	Value creation for all stakeholders	Company overall profitability	Business line growth	Business targets
	Focus (Where)	National economy	Entire company	Main business domains	Individual product lines	Business units
	Plan	National level strategies	Long term strategies	Corporate level strategies	Business level strategies	Operational level strategies
		Level 01	Level 02	Level 03	Level 04	Level 05

LEVELS OF PLANNING

## VALUE CREATION THROUGH OUR STRATEGIC FOCUS

We aim to leverage our extensive experience and expertise developed through our leadership position in Sri Lanka's NBF sector over the past 50 years, to continue to grow our market share. In response to the rapidly changing operating environment, needs and expectations of our stakeholders, we have developed five strategic focus areas that drive the activities in our value creating business model. These strategic focus areas are the key catalysts in achieving the desired objectives to deliver our strategy.



**STRATEGIC PROGRESSION OF LBF**



**Operational excellence**

**Related stakeholders**

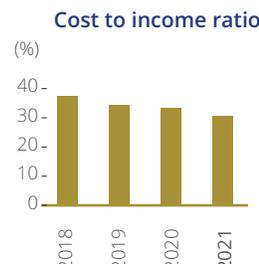


**Why it matters most**

Our strategic approach to cost management is to invest sustainably to unlock future growth potential, while at the same time managing our expenses to reduce our cost-to-income ratio over time. Over the past few years we have invested significantly in long-term growth, and have benefited from some notable cost synergies to be able to maintain expenses growth in-line with that of our peers. Some of the investments we have made include; several foundation projects as part of the managed evolution to automate processes and investments to strengthen our core systems

**Unpacking our progress**

KPI	2015/16 (5 years back)	2018/19	2019/20	2020/21	Trend	Medium term trend	Long term trend	Responsibilities assigned to
Net interest income (Rs.Mn)	8,655.47	14,412.44	15,544.90	15,934.93	▲	▲	▲	Finance Department
ROE	40.40	29.93	25.04	26.58	▲	▲	▲	



**Key risks implantation the strategy**

The COVID-19 pandemic restricted business expansion, while the ban on vehicle imports affected our ability to canvas new leasing business

**Resource allocation**

We are allocating an increasing amount of financial and human capital in-line with our objective to grow the business and maintain operating margins

**Related material theme and capital relevance**

For more information on how we are managing our various material matters, please see the discussion within our materiality section and the capital sections



**SDG impacted**

We believe that this is a business imperative in ensuring the sustainability of our business, which is reliant on the wellbeing of our planet



**Value creation activities**

Cost efficiency programmes and adoption of digital financing solutions enabled us to enhance the digital transaction by 337%

Deployed new employees to strengthen the IT based solutions

Introduce the new gold loan system "Eclipse" to increase the productivity of the transactions

**Looking ahead**

Evolving our physical distribution networks to become more digitally and technology focused

Increasing the number of self-service solutions available to the customer

# DELIVERING OUR STRATEGY AND RESOURCE ALLOCATION



## Business simplify and accelerate

## Related stakeholders

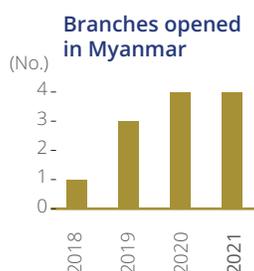
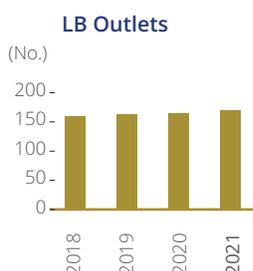


### Why it matters most

Offering a complete range of financial solutions stems from our commitment to customer centricity. To achieve this, our field teams, branch staff and administrative support functions are required to work together in a seamless way to serve the needs of the customer. In this regard we want to simplify our processes in order to accelerate service delivery to the customer

### Unpacking our progress

KPI	2015/16 (5 years back)	2018/19	2019/20	2020/21	Trend	Medium term trend	Long term trend	Responsibilities assigned to
CIM wallet downloads	-	-	26,915	36,819	▲	▲	▲	DFS and IT
CDM transactions	-	212,415	291,488	215,813	▲	▲	▼	



### Key risks implantation the strategy

Unsustainable products and services that fail to deliver market leading customer experiences

### Resource allocation

We devote financial resources to cater to the needs of the market. Our aim is to assign financial capital to enhance, increase and safeguard internal services in order to attract and maintain a loyal base of high quality customers

### Related material theme and capital relevance

For more information on how we are managing our various material matters, please see the discussion within our materiality section and the capital sections



### SDG impacted

To achieve our purpose, our capital allocation decisions must take the long term consequences of our investments into consideration



### Value creation activities

With conventional income sources under strain, we are seeking new opportunities for revenue growth

The launch of the LB CIM wallet to enable customers to perform business transactions and find merchant through merchant locator

### Looking ahead

In the next few business cycles, our emphasis on marketing big data will pick up as we seek to personalize our customers' offer of goods and pursue cross-selling

We will also increase the use of AI based predictive analysis tools to preempt customer behaviour



## Powered by people and growing reputation

## Related stakeholders



### Why it matters most

We believe there are strong links between employee engagement, customer engagement and business performance. This is why we continually improve our performance culture by creating a differentiating employee experience and enhancing the capabilities of our leaders and teams. By focusing on offering a superior employee experience we are looking to enhance LBF's reputation as an employer of choice among Sri Lanka's financial sector institutions

### Unpacking our progress

KPI	2015/16 (5 years back)	2018/19	2019/20	2020/21	Trend	Medium term trend	Long term trend	Responsibilities assigned to
Brand ranking (by Brand Financin)g	26	23	29	25	↑	↑	↑	Marketing and HR
Employees	2,744	3,618	3,606	3,536	↑	↑	↓	



### Key risks implantation the strategy

Skill obsolescence and change management issues that arise due to employees resisting digital adoption

### Resource allocation

Facilitate succession planning by allocating additional financial capital to create the necessary infrastructure, training and skill management initiatives to help maximize organizational sustainability

### Related material theme and capital relevance

For more information on how we're managing our various material matters, please see the discussion within our materiality section and the capital sections



### SDG impacted

We are taking the steps to help our employees to raise the payroll through acquiring useful knowledge, education, public relation and expertise through our internal programs, by building identities, developing competencies and generating opportunities



### Value creation activities

Continued with our ongoing training initiatives across the middle, senior and executive cadre to build a stable talent pipeline for the future

Specific trainings for employee skills development and to build critical skills in areas such as IT, customer services and marketing

### Looking ahead

Creating a compelling and differentiated Employer Value Proposition (EVP) to attract and retain talent in the highly competitive financial services sector

# DELIVERING OUR STRATEGY AND RESOURCE ALLOCATION



## Customers and stakeholders experience

## Related stakeholders



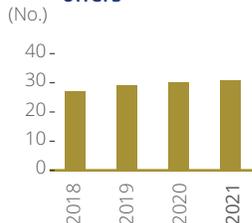
### Why it matters most

Being a financial services provider, our business depends largely on stakeholder relationships, making it vitally important to engage meaningfully with all stakeholder groups. We strive to manage our relationships effectively in order to deliver the best outcomes for our shareholders, customers, employees, and other stakeholders. We follow an integrated stakeholder management framework in order to build strong and rewarding relationships with all stakeholders which we expect will pave the way to achieve LBF's vision

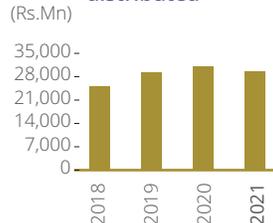
### Unpacking our progress

KPI	2015/16 (5 years back)	2018/19	2019/20	2020/21	Trend	Medium term trend	Long term trend	Responsibilities assigned to
Branches opened	10	4	2	4	▲	▲	▲	Marketing
Customer base	>500,000	>600,000	>625,000	>650,000	▲	▲	▲	

**Financial solution offers**  
(No.)



**Economic value distributed**  
(Rs.Mn)



**Investment on CSR**  
(Rs.Mn)



### Key risks implantation the strategy

Unethical behaviour of certain NBFIs leaving to the formation of negative stakeholder perceptions about the entire sector

### Resource allocation

We dedicate considerable resources towards obtaining feedback from our stakeholders to enable the creation of value for stakeholders in-line with their expectations

### Related material theme and capital relevance

For more information on how we are managing our various material matters, please see the discussion within our materiality section and the capital sections



### SDG impacted

To transform society and highlight investment opportunities that will meaningfully address these challenges. However, this will require courageous leadership with a focus on long term value creation



### Value creation activities

Shareholder value creation through share price appreciation and an attractive and sustainable dividend stream (Rs. 7/- dividend per share 2020/21) by attractive and sustainable growth strategy

Conducted a stakeholder satisfaction survey collaborating with University of Sri Jayawardenepura to identify the service gaps, strong and weak areas

### Looking ahead

Use of AI to enable continuous data driven analytics and real time insights into stakeholder behaviour



Resource optimization

Related stakeholders

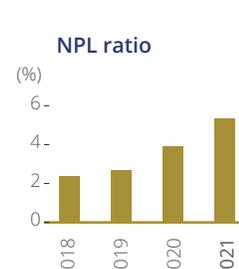
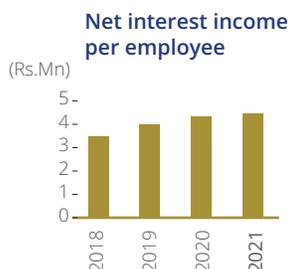


Why it matters most

We understand that responsible resource utilisation cascades down to benefit the environment over time, and thereby contributing towards lowering the global risk of climate change. Large corporate entities like LBF can play a leading role in bringing about this change

Unpacking our progress

KPI	2015/16 (5 years back)	2018/19	2019/20	2020/21	Trend	Medium term trend	Long term trend	Responsibilities assigned to
Green lending (Rs. Mn)	1,081.61	8,566.00	5,401.45	3,515.66	↓	↓	↓	Finance and business units
Return on asset (%)	4.89	3.93	3.70	4.78	↑	↑	↑	



Key risks implantation the strategy

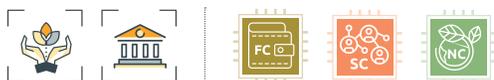
Adverse economic conditions that were seen in 2020 might result in a shift in resource utilisation priorities

Resource allocation

We continue to measure and monitor our progress against global benchmarks to recalibrate the use of existing resources to drive the business and drive revenue

Related material theme and capital relevance

For more information on how we are managing our various material matters, please see the discussion within our materiality section and the capital sections



SDG impacted

Strengthening the balance sheet to build a diversified and sustainable capital structure through disciplined allocation of scarce capital ensures that we have the resources at our disposal to support our long term ambitions



Value creation activities

Maintained interest cover ratio at 1.81 (2019/20: 1.56)

Monitored and oversaw the Group's high-quality credit portfolio, despite prolonged, adverse macroeconomic environment while maintain NPL at 5.36% (industry average 13.9% as at 31st December 2020)

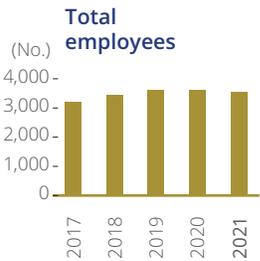
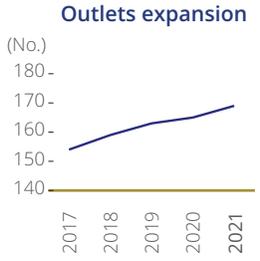
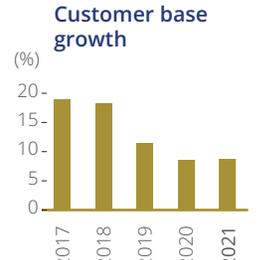
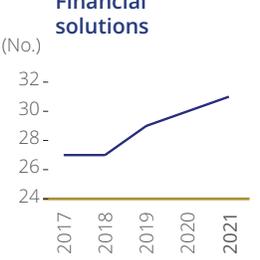
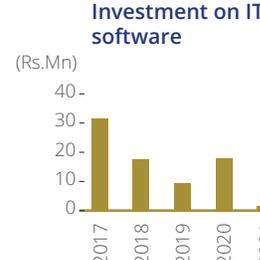
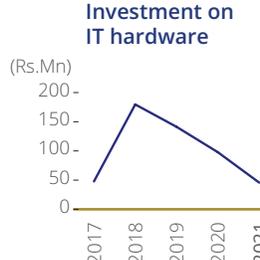
Looking ahead

Develop and implement to a sustainable resource utilization framework to ensure systematic progress regardless of external challenges

# DELIVERING OUR STRATEGY AND RESOURCE ALLOCATION

## STRATEGIC FOCUS MAKING TRADE OFF WITH CAPITALS

We continue to allocate our capital and resources efficiently through our strategic enablers to our five strategic focus areas to create long-term value for shareholders. This requires making tradeoffs, assessing the availability and quality of capital inputs, balancing the short and the long term, and taking tough decisions. Below are the primary tradeoffs we made and the rationale behind our decisions.

Strategic focus area	Tradeoffs, quality and impact on capitals	Capitals	Tradeoffs in action
 <p><b>Operational excellence</b></p>	<p><b>Digital banking versus traditional banking</b></p> <p>As services and products are increasingly digitised there is a trade off between staff, physical outlets and digital innovations. Through automation and customer adoption of digital solutions that drive better customer experiences and the need for direct human interaction is reduced</p>	  	<p><b>Total employees</b></p>  <p><b>Outlets expansion</b></p> 
 <p><b>Business simplify and accelerate</b></p>	<p><b>Penetrating across all customer segments</b></p> <p>As a large financial institution, LBF is present in all customer segments, including entry level and youth segments which are typically driven by low risk low return products. However, the same high service standards will need to be maintained</p>	 	<p><b>Customer base growth</b></p>  <p><b>Financial solutions</b></p> 
 <p><b>Powered by people and technology</b></p>	<p><b>Migrating to a digital workplace</b></p> <p>Introduction of digital work models are intended to improve employee productivity. However, the resistance to change may have a negative impact on employee satisfaction levels</p>	 	<p><b>Investment on IT software</b></p>  <p><b>Investment on IT hardware</b></p> 

Strategic focus area	Tradeoffs, quality and impact on capitals	Capitals	Tradeoffs in action
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**Customers and stakeholders experience**

**Balancing stakeholder expectations**

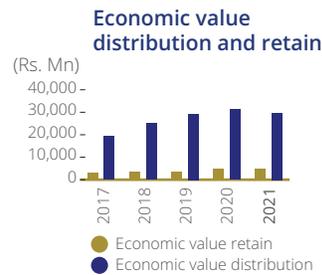
Managing short term stakeholder performance expectations whilst operating in a long term asset class. Therefore, we seek to manage our impacts and trade-offs vigorously to improve the long term outcomes of our activities, while meeting the short term expectations of our stakeholders, where possible



**Resource optimization**

**Portfolio tilt**

The strategic portfolio tilt, in the context of scarce capital and liquidity is an ongoing and conscious trade off between business and product opportunities that are highly capitalized and liquidity consuming with low economic profit. We are realigning our portfolio in areas that will optimize risk-adjusted returns



## OPERATION IN OVERSEAS

LBMF caters to the needs of its customers through a wide range of innovative and customer-centric products and services. LBMF's robust microfinance model is geared to support the growth and development of small-scale farmers in rural Myanmar through the provision of much-needed financial assistance and business development advice that would enable them to develop stable livelihoods, raise their living standards and overall quality of life.

Since its inception in 2017, LBMF has continued to make significant investments in infrastructure, technology, processes and human resources in order to further deepen its penetration into this key market.



**Mr. Niroshan Udage**  
Deputy Managing Director

### L B MICROFINANCE MYANMAR

LBF's L B Microfinance Myanmar (LBMF) is a 100% fully owned subsidiary of L B Finance PLC. LBMF started its journey in 2017 with a view to developing the SME segment of Myanmar.

#### Core competencies

- ④ Strong distribution network
- ④ Quick and effective end to end solutions
- ④ Highly skilled credit team

## VISION

To contribute to the development of sustainable and socially-significant enterprises that improve the lives of the entire nation.

## MISSION

## VALUES

- ④ Excellence
- ④ Ethics
- ④ Professionalism
- ④ Transparency
- ④ Respect
- ④ Quality

The mission of LB Microfinance Myanmar is to bridge the gap between ambition and achievement of the low income individuals of Myanmar by providing financial assistance to creative entrepreneurs, value-demanding consumers and innovative business partners, through a robust microfinance model leading to the creation of businesses and markets which mutually benefit LB Microfinance Myanmar and the poor communities of Myanmar.

## SWOT ANALYSIS



### Strengths

- String regional branch footprint
- Skilled employee base



### Weaknesses

Highly competitive environment



### Opportunities

Technological advancement and increasing popularity of digital financial solutions



### Threats

Political instability in the country

In line with its mission, LBMF's microfinance model is geared to support the growth and development of small-scale farmers in rural Myanmar through the provision of much-needed financial assistance and business development advice that would enable them to develop stable livelihoods, raise their living standards and overall quality of life. As part of a broader strategy, the Company has also undertaken to improve the level of financial literacy among community stakeholders through grass-root level training and knowledge sharing workshops aimed at developing a strong credit culture

## REGIONAL FOOTPRINT



Region	Branch	Number of employees	
		Sri Lankan	Burmese
Magway	Sinbaungwe	-	7
	Magway	2	7
	Aunglan	-	7
	Minbu	-	4
	Thyet	-	5
Bago	Pyay	3	20
	Paukkaung	-	8
	Shwedaung	-	9
	Paungde	-	10
	Letpadan	-	6
	Okeshitpin	-	8
	Nattalin	-	8



Branch openings



# OPERATION IN OVERSEAS

## PERFORMANCE REVIEW

	2020/21	2019/20	2018/19
Total Equity (Rs. '000)	719,116	681,391	358,816
Total Assets (Rs. '000)	909,935	895,372	409,431
Income (Rs. '000)	164,197	136,811	57,074
Profit After Tax (Rs. '000)	4,208	23,805	24,712
ROA	2.37%	6.58%	11.38%
ROE	0.6%	4.58%	9.66%
Lending portfolio (Rs. '000)	688,394	554,090	378,680

## BUILDING FOR FUTURE

Term	Objectives	Related strategic focus	Related material drivers	Related stakeholders	SDGs impact	
GOALS	<b>Short term</b>	New customer acquisition to grow the lending portfolio			  	 
	<b>Medium term</b>	Customer capacity building through regular and ongoing financial literacy programmes			  	 
	<b>Long term</b>	Adopt advanced technologies in business to drive operational efficiencies and expand the customer base			 	 



# OUR BUSINESS ENVIRONMENT AND OUTLOOK



## GLOBAL ECONOMIC HIGHLIGHTS

As COVID-19 continued to spread around the world with rapid escalation of the virus in some countries, the global economy tipped into a recession, the severity of which has not been seen for three quarters of a century. On the back of weak global trade, anemic investment and the collapse of international tourism, the global economy is estimated to have contracted by an unprecedented 4.3% in 2020.

While advanced economies appear to have exhibited a greater degree of resilience to stave off the recessionary pressures, emerging economies seem to have been slipping into a deepening slump as the year progressed. Meanwhile, as corporations around the world began facing the reality of high debt burdens amidst sluggish growth, the strength of the global financial system was put to the test as the balance sheets of banks and financial institutions over the

world came under pressure due to falling profitability and asset quality deterioration. However on a positive note, aggressive policy actions by Central Banks helped to prevent the global financial system from falling into crisis year under review.

Source: Global Economic Prospects - January 2021

## SRI LANKAN ECONOMIC HIGHLIGHTS AND ITS IMPACT

### PESTEL Analysis

#### Political

##### Operating environment

Relative stability on the political front enabled targeted policies to be implemented to help Sri Lanka in overcoming initial pandemic related setbacks and ensure the rapid restoration of normal economic activity. Fiscal policy was reoriented towards supporting the ailing economy. However, pressures on the fiscal sector were aggravated by constrained access to foreign financing in 2020 amidst unfavourable global financial market conditions and downgrades of Sri Lanka's rating by sovereign rating agencies. Heightened global uncertainties and the

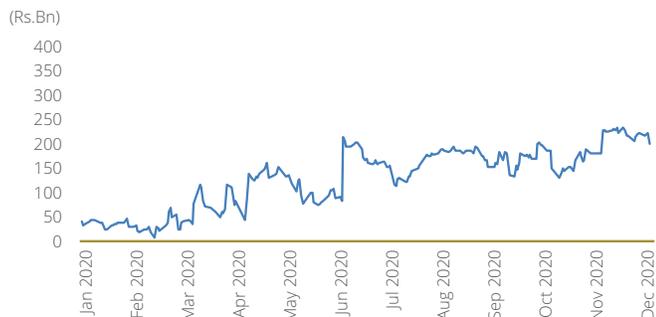
cautious approach adopted by investors towards Foreign Direct Investment (FDI) led to a moderation in the country's financial account.

Meanwhile subdued inflationary pressures and well-anchored inflation expectations provided the necessary impetus for the Central Bank to significantly relax its monetary policy stance during 2020. Key monetary policy easing measures implemented by the Central Bank in 2020, included the reduction of the key policy interest rates to historic lows with a downward adjustment of 250 basis points

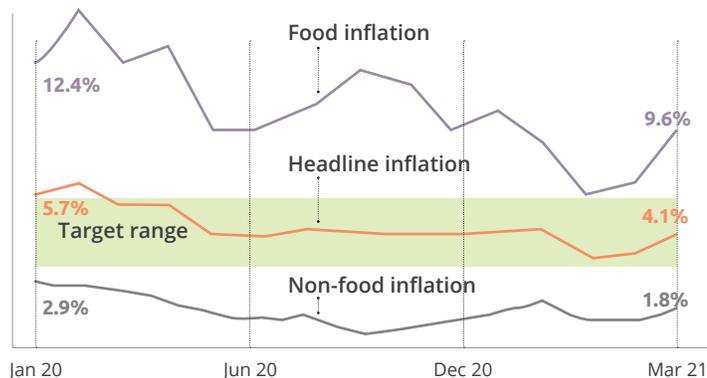
in total, and lowering of the Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of Licensed Commercial Banks (LCBs) by a total of 300 basis points and the bank rate by 650 basis points. These monetary policy easing measures were focused on lowering costs of funds for businesses and individuals, ensuring adequate liquidity in the money market and facilitating the smooth functioning of the financial system under the challenging circumstances caused by the pandemic.

Source: CBSL AR 2020

Overnight Liquidity



Headline, food and Non-food inflation based on the CCPI (2013=100, YoY)

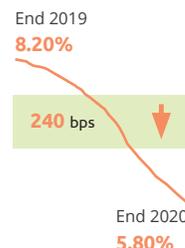


Market interest rates declined notably responding to Monetary Easing measures in 2020

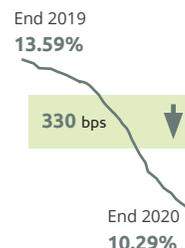
Weekly AWPR



AWDR

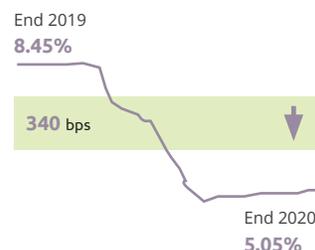


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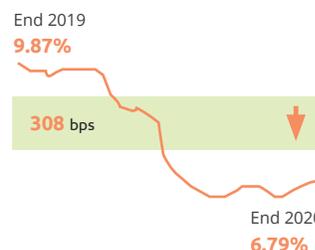


Yields on government securities recorded a notable decline during 2020, reflecting the impact of monetary easing

364 days Treasury Bill Yeild Rate



5 year Treasury Bond Yeild Rate



Source: CBSL AR 2020

Impact on the NBFi sector

Backed by the monetary policy easing measures implemented by the Central Bank, the NBFi sector maintained adequate liquidity buffers well above the regulatory minimum levels by end December 2020. The overall regulatory liquid assets available in the sector indicated a surplus of Rs. 89.0 billion as against the stipulated minimum requirement of Rs. 50.7 billion. The Central Bank's decision to relax the liquid asset requirements also facilitated the sector to escalate the liquidity surplus.

Impact



Short to medium term strategy

- ☞ Maintain liquidity levels in-line with regulatory benchmarks

Related strategies



Impact to LBF and the Company's response

LBF experienced a temporary increase in liquidity levels at the start of the financial year, mainly on account of inability to lend during the lockdown period. However, with the resumption of lending activities on a prudent basis from mid-2020 together with the Company's robust liquidity management strategy ensured that liquidity levels were well managed and always above the regulatory limits for the remainder of the financial year.

Risk associate

Liquidity risk

Long-term strategy

- ☞ Ensure adequate liquidity buffers to meet emergency requirements of customers, if needed

Related material matters



Business segment reviews on page 102

High Medium Low

# OUR BUSINESS ENVIRONMENT AND OUTLOOK

## Economic

### Operating environment

Alongside the global economic downturn induced by the pandemic, the Sri Lankan economy contracted by 3.6% in real terms in 2020, recording the deepest recession since independence. Mobility restrictions and other containment measures imposed locally and internationally, with a view to prevent the spread of COVID-19, hampered real economic activities across all sectors. Consequently all sectors of the economy contracted during 2020 - agriculture by 2.4%, industry by 6.9% and services by 1.5% compared to the previous year. Within the services sector, the tourism industry was severely affected by both local and global travel restrictions. A culmination of these factors saw the overall size of the Sri Lankan economy shrink to US dollars 80.7 billion in 2020 from US dollars 84.0

billion in the previous year and per capita GDP to decline to US dollars 3,682 in 2020 from US dollars 3,852 in 2019.

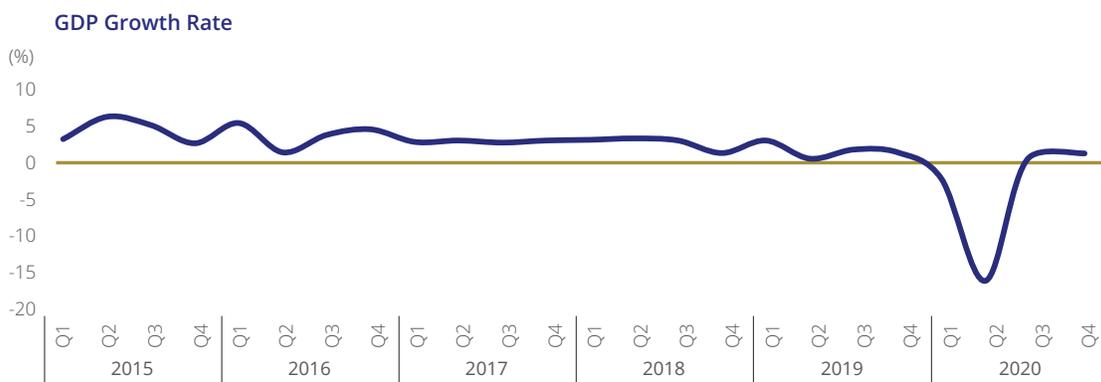
Meanwhile taking into account the difficulties faced by borrowers due to the pandemic, the government declared a debt moratorium to bring relief to COVID-19 affected individuals and businesses. The moratorium which came into effect in April 2020, was to end in September 2020, but was further extended for certain sectors considering the longer recovery period of those sectors affected by the pandemic.

On a positive note, Sri Lanka's external sector performed reasonably well even amidst COVID-19 related uncertainties, supported by a resilient export sector coupled with timely measures taken by the Government and the Central Bank. After

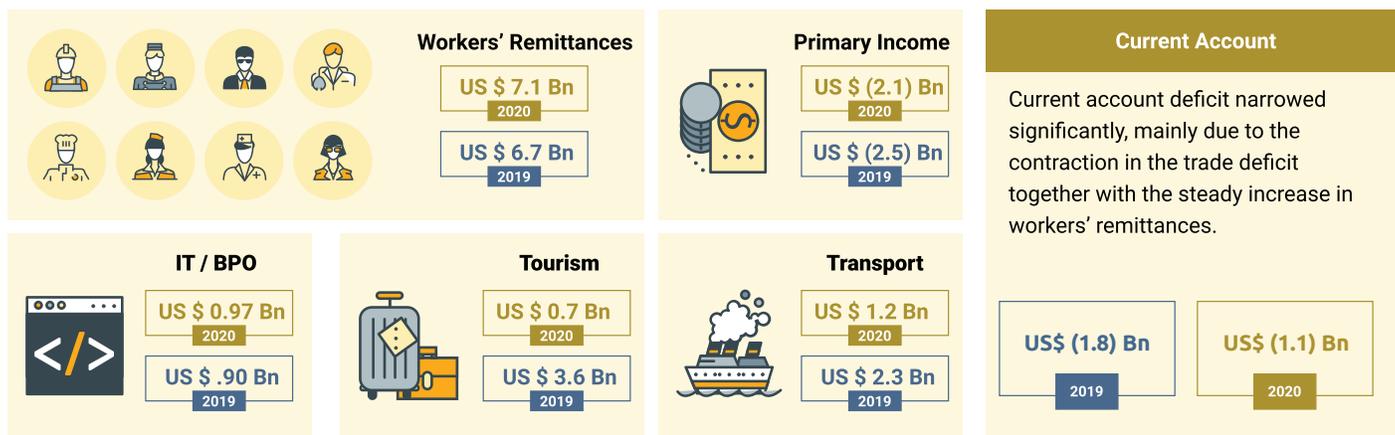
experiencing a slump at the onset of the pandemic, export earnings rebounded strongly within a relatively short span of time to reach pre-pandemic levels, while measures to curtail non-essential imports (including vehicles), together with the significantly low global petroleum prices, helped to reduce the import expenditure in 2020, leading to a notable reduction in the country's trade deficit.

Despite pressures experienced during March-April 2020, and in late 2020, significant volatilities in the exchange rate too were prevented thanks to timely interventions by the Central Bank, ensuring that the depreciation of the Sri Lankan rupee against the US dollar was contained at 2.6% in 2020.

Source: CBSL AR 2020



Source: CBSL AR 2020



Source: CBSL AR 2020

### Impact on the NBFi sector

Lending by the NBFi sector slowed considerably during 2020 as business activities continued to contract amidst the COVID-19 lockdowns and curtailment of vehicle imports. Credit provided by the sector contracted by 5.7 % compared to the contraction of 3.0% in 2019. Consequently, sector assets recorded negative growth of 2.2% during the year reaching Rs. 1,401.6 billion by end December 2020.

Sector-wide asset quality deteriorated significantly in 2020. With the NBFi sectors' main target market - self employed individuals and MSME's being among the worst affected pandemic induced economic downturn, the NBFi sector gross NPL ratio shot up to 13.9% by end December 2020 from 10.6 % reported as at end December 2019, showing a severe deterioration in the sector-wide asset quality. It should also be noted that NPLs of the sector could be underestimated due to debt moratorium together with other concessions and NPL levels may increase further after the end of the debt moratorium.

A combination of weak credit growth and higher NPL's saw the NBFi sector reporting a significant deterioration in profitability for 2020. Net interest income - the key measure of sector profitability declined by 5.3% to Rs.111.2 billion from the figure reported in 2019.

The sector continued to be funded mainly through public deposits in 2020 as well. However, given the muted interest in deposits amidst the record low interest rates, the sectors' deposit base contracted by 1.1% in 2020 compared to the previous year.

Source: CBSL AR 2020

### Impact to LBF and the Company's response

The inability to lend during the two months lockdown period as well as the CBSL's decision to ban the import of vehicles, had a sizable impact on LBF's core auto finance business. However quick action by the Company to reorient its focus towards available opportunities from mid-2020 helped to ensure consistent lending throughout the remainder of the year.

The ambiguity surrounding the announcement of the debt moratoriums caused a spike in the Company NPL's in the Q1 of the financial year. However, proactive recovery action ensured LBF's NPL ratio was brought under control by end September 2020 and remained consistent from that point on.

LBF's performance for the current financial year was also somewhat affected. However, proactive lending along with strict recovery action ensured the Company's performance was more or less on par with the previous year.

With the low interest rate environment proving to be a deterrent in attracting new deposits, LBF's deposit mobilization activities were driven primarily with the intention of minimizing the Company's asset and liability mismatch and also lowering the cost of funds.

#### Impact

H

#### Risk associate

Credit risk

Interest rate risk

#### Short to medium term strategy

- Keep satisfactory control of recoveries to minimise the impact at the end of the moratorium
- Leverage on market opportunities to pursue organic and inorganic growth

#### Long-term strategy

- Focus on further lowering funding costs

#### Related strategies



#### Related material matters



MD's statement on page 37, Business segment reviews on page 102

H High M Medium L Low

# OUR BUSINESS ENVIRONMENT AND OUTLOOK

## Social

### Operating Environment

In the midst of the adverse impact of the COVID-19 pandemic, average disposable income was subject to erosion as organisations began declaring pay cuts and laying off employees as part of cost control initiatives aimed at managing the pandemic impact. As a result, Sri Lanka's unemployment rate rose above 5% for the first time since 2009. Unemployment rate amongst females, youth and educationally qualified persons increased considerably in

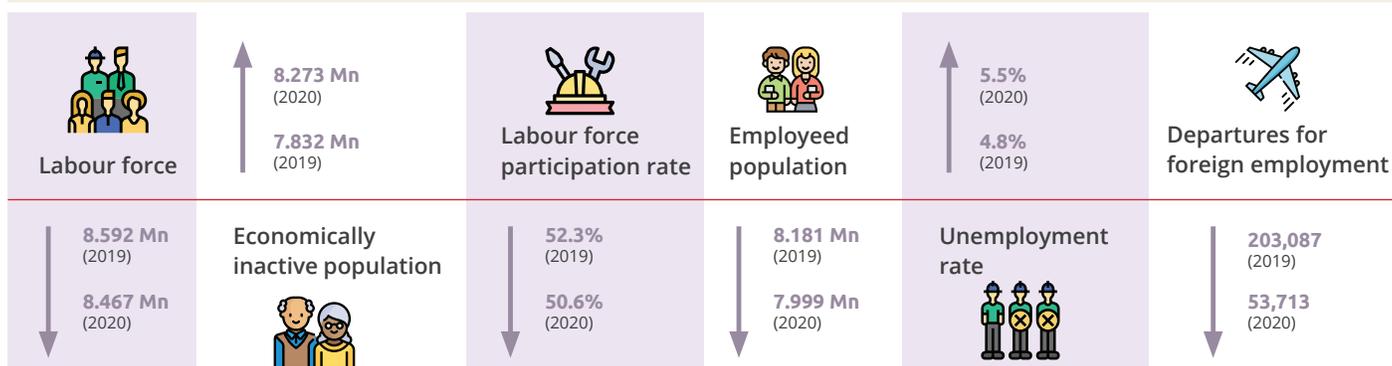
2020 aggravating the inequalities further, while a marked decline in labour force participation rate was also observed with pandemic related mobility restrictions and isolation orders preventing employees from reporting to their workplaces.

The Government continued to provide relief via the financial sector, to the businesses and individuals facing severe hardships stemming from the pandemic. And, given the disproportionately

high impact of COVID-19 on low-income segments of the population, the Government paid an allowance and provided other relief measures to vulnerable families and individuals enabling them to meet their daily needs.

Source: CBSL AR 2020

### Labour market indicators



Source: CBSL AR 2020

### Impact on the NBFi sector

With the entire social fabric of the country disrupted due to the pandemic, the NBFi sector had to reconsider its approach towards stakeholder value creation, with special focus on minimising their financial stress in these uncertain times.

### Impact to LBF and the Company's response

A large majority of LBF's customers are individuals and SME's, who were among the worst hit by the pandemic induced economic slowdown. Taking a proactive approach to support these customers, LBF took immediate action to assist eligible customers to benefit from the debt moratorium scheme. Other customers were supported by way of reschedulement plans, fee waivers and additional grace periods for the repayment.

To provide employees a sense of financial security during these uncertain times, no salary cuts or retrenchments were announced in the FY 2020/21. All LBF employees were paid their full salary throughout the pandemic period. All bonus entitlements were also paid in full, while field staff who were unable to earn their other benefits during the lockdown period, were provided the opportunity to recommence earning other benefit upon the resumption of normal business activities.

### Impact

M

### Risk associate

Reputational risk

H High M Medium L Low

**Short to medium term strategy**

- Develop new technology based solutions tailored to meet the needs of different customer segments

**Related strategies****Long-term strategy**

- Track customer satisfaction and loyalty as a more frequent indicator across business units, channels, product interactions and customer journey moments

**Related material matters**

MD's statement on page 37, Strategic & resource allocation on page 74, Business segment reviews on page 102, Social and relationship capital on page 176

**H** High   **M** Medium   **L** Low

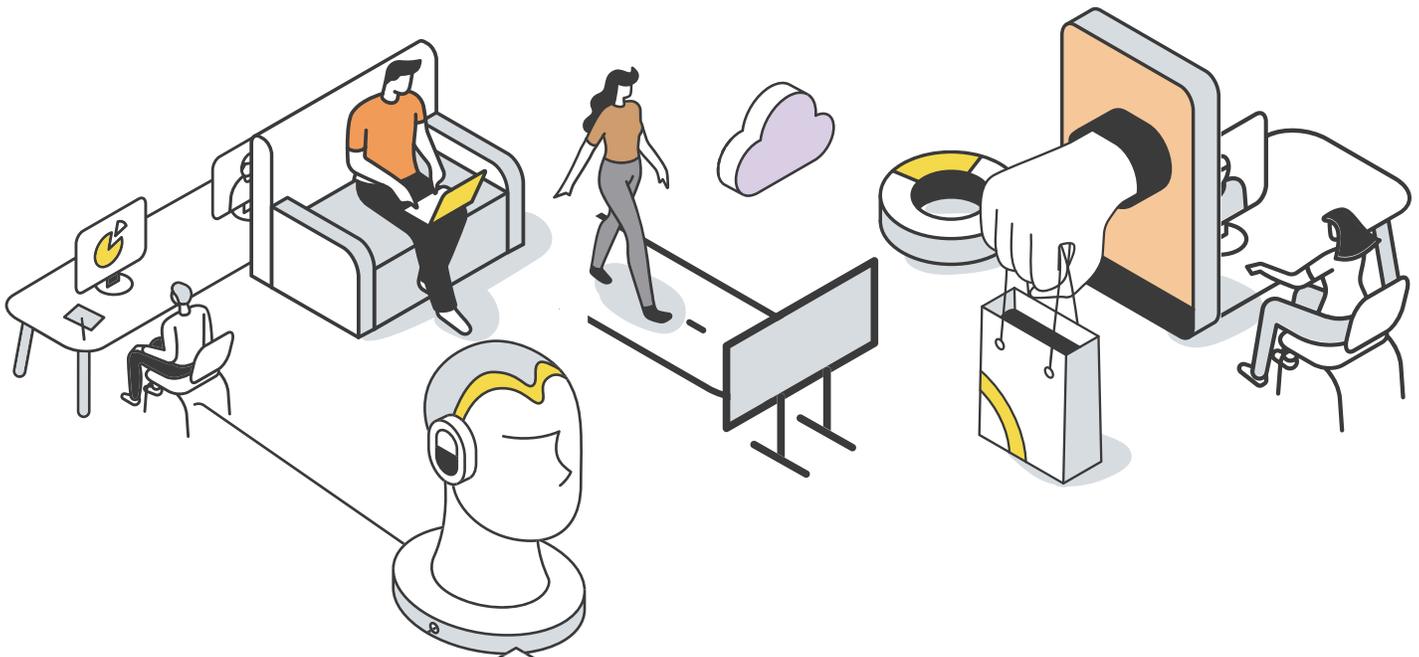
**Technological****Operating environment**

During 2020, COVID-19 created an unprecedented change in the lifestyles of people around the world. Demand for traditional goods and services changed significantly with need for Information

Technology related services becoming the top priority. E-commerce became the new norm as merchants who had previously relied on conventional sales through physical outlets quickly adopted online sales platforms. At the same time,

customers also rapidly shifted to online shopping due to lockdowns and travel restrictions imposed to prevent the rapid spread of COVID-19.

Source: CBSL AR 2020



# OUR BUSINESS ENVIRONMENT AND OUTLOOK

<p><b>Impact on the NBF sector</b></p> <p>For the NBF sector, the surge in demand for digital technology was the ideal opportunity to accelerate its digital strategy. Most NBFs were seen encouraging their customers to use online financial services to minimise their visits to branches. This resulted in increased usage of online banking websites and mobile banking applications. In yet another interesting development, even those with low levels of IT literacy were seen using these online financial services for their daily needs.</p> <p>On the other hand, the boom of e-commerce poses a growth threat to information security, including customers' sensitive data.</p>	<p><b>Impact to LBF and the Company's response</b></p> <p>As was the case across the industry, LBF too, saw a massive increase in the use of its digital platforms. A total of over one million transactions were channeled through LB CIM, the Company's wallet application during the FY 2020/21, a 253.78% fold increase compared to the previous year.</p> <p>As part of its ongoing efforts to build cyber resilience, LBF successfully completed its 3rd consecutive re-certification of the ISO 27001:2013 Information Security Standard for a further three-year period. A comprehensive new due diligence programme was also rolled out during the year in-line with industry best practices set under the IT audit framework by ISACA.</p>
<p><b>Impact</b></p> <p><b>H</b></p> <p><b>Short to medium term strategy</b></p> <ul style="list-style-type: none"> <li>Further strengthen information security architecture by implementing the data protection protocol and by investing in the latest DLP (Data Leakage Prevention) and PAM (Privilege Access Management) software</li> </ul>	<p><b>Risk associate</b></p> <p>Cyber security risk</p> <p><b>Long-term strategy</b></p> <ul style="list-style-type: none"> <li>Further enhance the reliability of the BCP model by moving to a cloud-based environment</li> </ul>
<p><b>Related strategies</b></p> 	<p><b>Related material matters</b></p> 

 MD's statement on page 37, Strategic & resource allocation on page 74, Intellectual capital on page 166

**H** High    **M** Medium    **L** Low

## Environment

**Operating environment**

While climate change issues may have taken a back seat in 2020 due to pandemic, such environmental concerns are ongoing both locally and in the global context. In the Global Climate Risk Index 2019, Sri Lanka was ranked 30 out of 180 countries in 2019 and was ranked 23 out of 180 countries in terms of overall performance over the period 2000 – 2019. While it seems the country has moved out of the 10 most affected countries' category in the index, climate change related vulnerabilities still persist.

Clear examples include the decline in the country's forest cover. According to the forest cover assessment survey – 2015 (published in 2020) by the Department of Forest Conservation, the estimated total forest cover of the country was 1,865,671 hectares representing 28.4% of the land in Sri Lanka. The sizable decline from previously noted figures is attributed to population growth and rapid urbanisation in recent years.

Source: CBSL AR 2020

**Impact on the NBFi sector**

The most impactful way in which the NBFi sector can contribute towards reducing the country's climate change risk, is by financing environmentally friendly projects. Many of the large NBFi's in Sri Lanka have already entered the green lending sphere through products that focus on leasing hybrid vehicles and renewable energy financing

**Impact**

L

**Short to medium term strategy**

- Establish green buildings and digital branches
- Process automation

**Related strategies****Impact to LBF and the Company's response**

As part of its auto finance business, LBF maintains a special green lending line which offers concessionary terms for the lease of hybrid vehicles and electric vehicles, which are deemed to have a significantly lower carbon footprint compared to traditional diesel or petrol vehicles

**Risk associate**

Liquidity risk

**Long-term strategy**

- Expanded the coverage of green lending line to include renewable energy projects

**Related material matters**

Strategy & resource allocation on page 74, Natural capital on page 196, Business segment reviews on page 102

**Legal****Operating environment**

The Financial Sector Consolidation Master Plan (FSCMP) was introduced in 2020 to address non-compliance with the

minimum core capital requirement and/or the minimum capital adequacy ratios by NBFi's. The Central Bank also continued to introduce law reforms to major legislations during the year, key among them

amendments to the Finance Business Act to augment the regulatory and supervisory powers on non-bank financial institutions.

Source: CBSL AR 2020

**Impact on the NBFi sector**

The FSCMP and the revisions to the Finance Business Act are primarily aimed at maintaining the stability of NBFi's in order to safeguard the interest of depositors, thereby enhancing the overall credibility of the sector as a whole

**Impact**

H

**Short to medium term strategy**

- Maintain liquidity levels in line with regulatory benchmarks

**Related strategies****Impact to LBF and the Company's response**

LBF has always been a keen proponent of early adoption of regulations. In this year too, the Company continued to review and reorient itself to take cognizance of the latest regulatory developments as well as proposed changes come into effect in due course

**Risk associate**

Liquidity risk

**Long-term strategy**

- Early adapted the new regulations which are imposed by the regulatory bodies

**Related material matters**

MD's statement on page 37, Strategy & resource allocation on page 74

H High M Medium L Low

# OUR BUSINESS ENVIRONMENT AND OUTLOOK

## INFLUENCING MARKET DRIVERS, RISKS AND OPPORTUNITIES

There are a number of distinct factors that are shaping the financial services industry now and will continue to do so into the future. Linked to these market drivers are risks and opportunities, both general to

the external environment and a number that are specific to LBF. These are actively assessed and appropriate responses implemented, with the performance monitored both against our strategic

ambitions as well as through our principal and key risks as defined in our Risk Management Framework. Read more about on our Risk Management Report.



### Competition and technological change

Increasing competition, technology and the pace of change, impacts our ability to remain relevant to our customers as well as our competitiveness and the associated operational risk

#### LBF context

Launch L B finance CIM (Cash In Mobile) digital wallet to engage our customers to digital transactions

#### Market drivers

- Disruption through new digitally-led competitor platforms which have the capacity to influence customer preferences
- The need for threat detection software to safeguard against security breaches, and the possibility of data leakage
- Ever increasing sophistication of cybercrime, fraud risk and financial crime requires continuous monitoring and ongoing investment to protect customers and the Group

#### Opportunities

- Focus on creating innovative products and solutions to cater to maintain top of mind recall across a broader spectrum of customer segments
- Leveraging on AI tools to strengthen resilience and protect against cyber crime

#### Key risks

- Reputational risk (specifically brand risk) and people risk

#### Mitigation activities

- Ongoing employee education on the prevention of cyber related risks
- Ongoing investment in technology platforms, processes and controls including monitoring



### Regulatory oversight

New and emerging regulations impact on our operations as well as our products and services

#### LBF context

Early adapted the new regulations which are imposed by the regulatory bodies

#### Market drivers

- The increasing pace and evolving complexity of regulatory and statutory requirements across the Group's operation

#### Opportunities

- Maintaining a coordinated, comprehensive and forward-looking approach to evaluate regulatory change and respond through early adoption

#### Key risks

- Market risk

#### Mitigation activities

- Participating in regulatory and statutory advocacy groups across all stakeholder groups



### Focus on social, governance and environmental matters

Social and climate change risk impact on the Group, its customers and other stakeholders

#### LBF context

Promoting corporate social initiatives within the organization and outside the organization

#### Market drivers

- ⌚ Persistent inequality, increasing activism as well as emerging regulation and reporting requirements focused on a broader range of ESG (Environmental, Social and Governance) matters
- ⌚ Adverse weather conditions resulting in extreme environmental events (e.g. floods) impacting community sustainability

#### Opportunities

- ⌚ Engaging internally and with external stakeholders through Group-wide strategic sustainability programmes, to understand and assess impacts and opportunities on the Group, for customers and other stakeholders
- ⌚ Engaging with communities and supporting initiatives as part of the Group's commitment to play a role in society

#### Key risks

- ⌚ Credit risk

#### Mitigation activities

- ⌚ Continuously assessing the suitability and strategic alignment of products and customer value propositions against changing environmental factors and the impact on the Group's risk profile



### Macroeconomic, socio and political flux

The macroeconomic environment impacts on our ability to sustain business and achieve our strategic objectives while the social and political environments impact on our ability to deliver on stakeholder commitments

#### LBF context

Provide highest contribution to the economy in numerous ways

#### Market drivers

- ⌚ Increasing cost and scarcity of capital, funding and liquidity across Sri Lankan and global markets
- ⌚ Subdued economic growth, high unemployment, increased inequality and low business and consumer confidence impacting the Sri Lankan economy

#### Opportunities

- ⌚ Strengthening the Group's position in key growth markets while seeking opportunities to diversify into new markets

#### Key risks

- ⌚ Political risk

#### Mitigation activities

- ⌚ Monitoring and managing risk strategy and appetite based on the ongoing evaluation of global and Sri Lankan developments to identify and mitigate risks as they arise, while enabling business to pursue opportunities

# OUR BUSINESS ENVIRONMENT AND OUTLOOK

## SWOT ANALYSIS



### Strengths

- 50 years track record of excellence
- Best brand amongst NBFIs
- Widest geographical reach
- A-(Ika) credit rating from Fitch Ratings
- Sustained financial stability (profitability, capital adequacy and low NPLs)
- Vastly experienced qualified top leadership



### Opportunities

- Promote financial inclusion among the lower middle income bracket
- Untapped gold loan customer base of banks
- Huge demand for working capital financing from the informal sector



### Weaknesses

- Lack of product diversification
- High attrition among front office and field staff
- Non availability of fully fledged digital approval system



### Threats

- Stiff competition from banks/NBFIs in the vehicle financing market
- Emerging competitive pressure from Telco's and Fintech's entering the financial services domain
- Policy uncertainty disrupting overall vehicle financing demand

## MARKET FORCES AND COMPETITIVE LANDSCAPE



### Power of the customer

Big ticket loans (mainly leasing) customers' are highly price sensitive and also have a higher bargaining power, whereas MSMEs have traditionally been less rate sensitive and have less bargaining power. However, as they become more financially savvy, it is quite likely that they will also be more price sensitive and consequently more demanding

#### Strategic response

Focus on relationship building among existing customer base and channel resources towards finding new opportunities

#### Impact

H

MD's statement on page 37, Social and relationship capital on page 176, Business segment reviews page 102



### Threat of new entrants

Even though the local financial sector consists of several banks and an even greater number of NBFIs, the possibility of new entrants cannot be ruled out. The likelihood of new entrants is also based on the decision by authorities to grant new licenses

#### Strategic response

Build a strong and credible brand that stands out among peers

#### Impact

L

MD's statement on page 37, Business segment reviews on page 102

H High M Medium L Low

### Competitive rivalry

#### Number of competitors

The financial sector of Sri Lanka consists of 33 banks and 43 NBFIs operating in the space



#### Switching cost

The switching cost for a customer is low due to a high concentration of service providers

#### Customer loyalty

Traditionally Sri Lankan customers have been reasonably loyal; however, competitive tactics among entities have greatly reduced loyalty levels especially across high net worth customer segments

#### Strategic response

Improve product mix, customer service and process efficiency to attract and retain customers. Explore new ways of delivering value and innovative means of utilising existing resources to extend our range of offerings

#### Impact

H

MD's statement on page 37, Social and relationship capital on page 176, Business segment reviews on page 102

### Power of the business partners



As a financial institution, our major suppliers comprise of support services. Given that they only provide support services, the bargaining power of business partners are low

#### Strategic response

Focus on a diversified pool of support service providers to reduce risk of over-dependence on any specific group of service providers

#### Impact

M

Social and relationship capital on page 176, Business segment reviews on page 102

### Threat of substitute products



Low threat within the NBFIs industry. However, if we consider loan and leasing products from banks and the leasing companies as substitute products, then the threat is high. Additionally, for some segments, there exists a high threat of substitute products; for instance, in vehicle loans where some of the vehicle suppliers themselves offer the vehicles in installments, removing the need of getting a financier involved. There is a material threat in the medium and long run, with the potential for innovating alternative ways of creating value in meeting lending needs of businesses and individuals

#### Strategic response

Stay updated with industry best practices and new opportunities offered through technology and incentives

#### Impact

H

Social and relationship capital on page 176, Business segment reviews on page 102

H High M Medium L Low

# OUR BUSINESS ENVIRONMENT AND OUTLOOK

## TACKLING COVID-19

Actions taken	Future actions
<ul style="list-style-type: none"><li>• Introduced the WFH (Work-from-home) model at the onset of the two months island-wide lockdown in compliance with mandatory stay at home orders by the government</li><li>• Implemented innovative IT solutions to support the WFH model</li><li>• Virtual and online platform to ensure proper credit assessment even during the lockdown</li><li>• Online knowledge sharing sessions were arranged between directors to share their business insight and awareness regarding industry trends</li><li>• Increased focus on liquidity management to bring relief to customers</li><li>• Providing digital solutions to customers</li><li>• Focused on safeguarding the LBFs' wellbeing of employees operating through the WFH model</li></ul>	<ul style="list-style-type: none"><li>• Continue prioritization of the health and safety of employees</li><li>• Enable customers to receive real time transaction updates via App based solution</li><li>• Invest in improving digital ecosystems with a view to enhancing customer convenience</li><li>• Maintain a strong liquidity buffers to support the emergency requirements of customers if needed</li></ul>

## PANDEMIC INDUCED TRENDS AMONG GLOBAL BANKS AND FINANCIAL INSTITUTIONS

### Focus on the digital customer experience

The year 2020 will go down in history as the turning point for the digital revolution, especially in the financial services industry. Banks and financial institutions everywhere were seen clamouring to deliver their products and services via digital channels to support customers who were unable to access physical branches due to strict economic lockdowns and other COVID-19 related mobility restrictions. Online platforms, wallet apps, credit/debit cards and other digital-enabled mediums became the mainstay of the global financial sector in 2020 amidst the biggest ever digital migration that saw all customer

segments from youth, millennials to the generation X and even retirees all embraced digital financial solutions as part of the new normal lifestyle.

### Use of AI based tools to strengthen MIS

AI tools became a game changer in past years especially for financial institutions, in the face of deteriorating asset quality were searching for more preemptive solutions to boost their decision making capability. AI based predictive analytics in particular gathered momentum as a vital source to support recovery action and strengthen liquidity management processes.

### Information security risk due to the reliance on the WFH (Work-from-home) model

With no option but to direct most of its employees to work from home, financial institutions were faced with the risk of internal system breaches as well the exposure to external cyber attacks. Unlike at any time in the past, financial institutions were seen increasing their investment in building their information security architecture to safeguard against both internal data leakages and protect their information security assets from being exposed to external cyber attacks.

# AWARDS AND ACCOLADES

Our commitment to report on our journey to deliver sustained value creation to all our stakeholders through a purpose driven strategy in a transparent and accessible way continued to receive recognition. After consistently placing in the top in the CA Sri Lanka Integrated Reporting Awards, LBF was awarded overall third place in the 2019 CA Sri Lanka Integrated Reporting Awards and overall second place in CMA Sri Lanka Integrated Reporting Awards for excellence in integrated reporting.



RECENT CA SRI LANKA INTEGRATED REPORTING AWARDS



RECENT CMA SRI LANKA INTEGRATED REPORTING AWARDS



SLIM NEILSEN PEOPLES' FINANCIAL SERVICES PROVIDER OF THE YEAR



OTHER AWARDS

# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS



## INVESTING | SAFE PLACE TO SAVE AND INVEST YOUR MONEY

In light of the pandemic induced economic uncertainty, our deposit mobilization activities for the FY 2020/21 were driven primarily with the intention of minimizing the Company's asset and liability mismatch as well as to lower the cost of funds.

While our efforts for the year were focused predominantly on customer retention, we did nonetheless take some measured steps to broad our deposit base. We also took advantage of the prevailing low interest rate environment, to reinforce our savings franchise.



**Mr. Niroshan Udage**  
Deputy Managing Director

### SWOT ANALYSIS



#### Strengths

Having over 50 years of experience in the marketplace, track record as a responsible, stable, proactive and customer-focused financial service provider in investment products and services segment



#### Opportunities

Ability to promote financial inclusion through the release of targeted solutions, including alternative channels



#### Weaknesses

Non-availability of a fully integrated process capability to facilitate seamless end-to-end solutions for the customer



#### Threats

Increased pressures from competitors who resort to price wars and other unethical business practices

### Core competencies

- ④ A diverse range of highly customer centric products
- ④ Convenient process for deposit account opening any one of LBF's 152 branches across the country
- ④ Additional support including greater flexibility and improved visibility through the CIM wallet

### Product offerings



### RESPONDING TO COVID-19

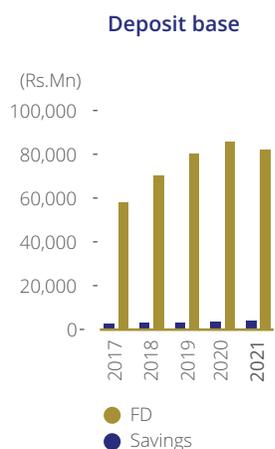
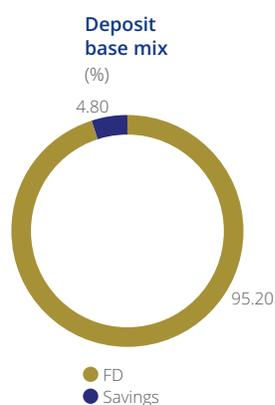
Actions taken	For next financial years
Online service portal was developed to provide our customers all necessary services from the safety of their homes	Focus on creating more online channels and modules for depositors by leveraging technology to minimize the need for physical interactions
Work from home facility from the beginning of pandemic to ensure the interact with the customers in safety manner	Explore and expand in less crowded customer segment and geographical locations

## BUSINESS PERFORMANCE

Indicator	2016/17	2017/18	2018/19	2019/20	2020/21
Growth in customer base (deposit) (%)	27.16	18.25	13.48	13.48	3.52
ATM transaction growth (%)	6.57	4.13	4.98	(12.26)	6.76
CIM wallet transaction growth (%)	-	-	-	-	253.78

### DEPOSITS

Offering competitive interest rates and a broad range of tenure options, LBF's term deposits cater to all segments of the market. Similarly, LBF's savings proposition too serves all main segments of the market.



### Fixed deposit



It was a tough year for mobilising deposits, especially with the investing public showing great reluctance to tie up their funds in fixed deposits, in light of the economic uncertainty triggered by the COVID-19 pandemic. Furthermore, with deposits perceived as a less attractive investments option in a low interest rate environment, many high networth investors were seen diverting their funds towards more lucrative avenues of investment.

Amidst this backdrop, LBF's deposit mobilization activities were driven primarily with the intention of maintain proper assets, liability ratio and lowering the cost of funds.

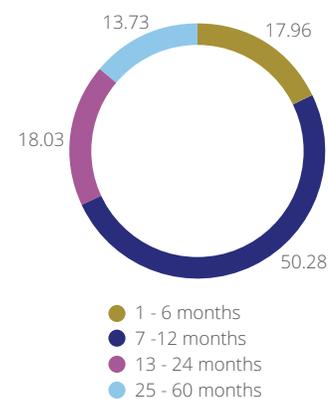
Taking a strategic approach to consolidate the deposit base, customer retention was declared the key priority for the year. While no specific promotional activities were conducted in this regard, a mass media campaign on LBF's long standing reputation and credibility over the past 50 years, was run a campaign to create top of mind awareness and thereby encourage customers to retain their deposit with the Company.

### Impact on LBF's Risk Profile Liquidity Risk (H)

Refer Risk Management Report on page 241

Taking a cue from the low interest rate environment, strong emphasis was also placed on capturing a larger number of smaller ticket retail deposits to help stabilise the deposit base over the long term. At the same time it was decided to allow high cost term deposits to move out on maturity.

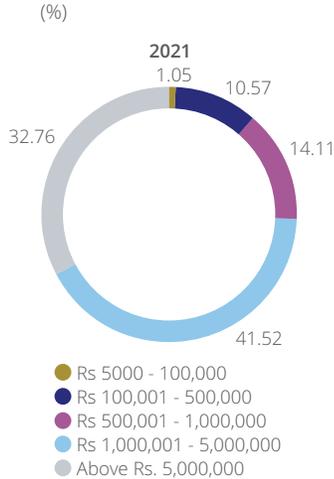
### Tenure wise FD mix (%)



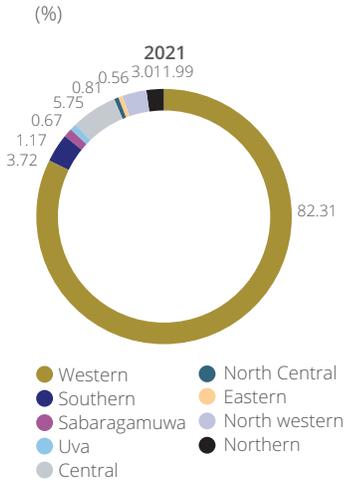
# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS

## Investing

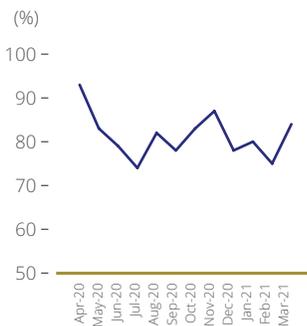
### Amount wise fixed deposit mix (volume) (%)



### Province wise fixed deposit base (%)



### FD renewal ratio (%)



## Savings



BEST THINGS | AT THE RIGHT PLACE | WITH SAFETY

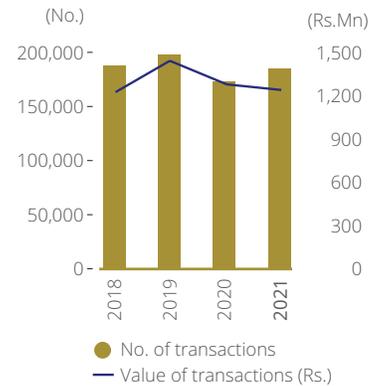
Prompted by the marginal gap between the savings and FD rates for much of 2020 and the uncertain economic scenario, many retail investors appeared to show a strong inclination to retain funds in the form of savings. Having identified this trend very early on, LBF took swift action to encourage customers to convert their FDs to the savings format. In parallel, the LB CIM wallet application was also upgraded to improve functionality in order to give savings customers greater visibility and control over their day to day financial position.

A strong push was also made to grow its savings base through new customer acquisitions. To support this endeavor, a highly focused banner campaign was rolled out on all social media platforms in 2020, followed by a series of broad based digital marketing initiatives aimed at promoting LBF's mainstream savings proposition.

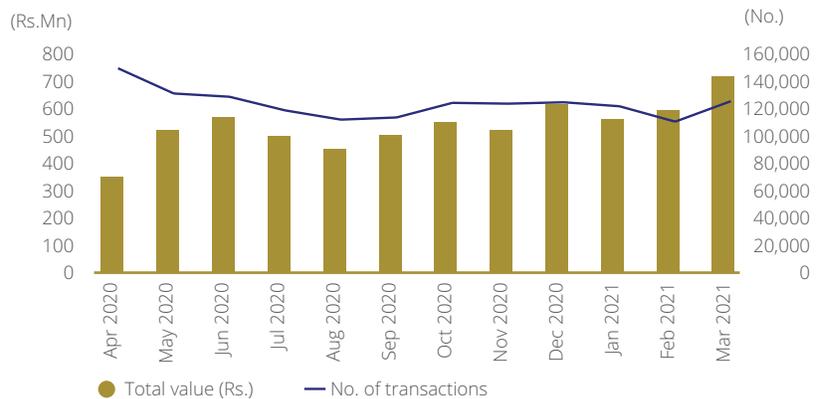
## Performance outcome

LBF overall portfolio recorded a year on year decline of 3.81%, which was only to be expected given the depressed market conditions during the FY 2020/21. On a positive note however, aggressive efforts to promote savings appear to have paid off as evidenced by the shift in the deposit mix for the year which indicates a greater skew towards savings.

### ATM transactions



### CIM wallet transactions



### Developing your savings habit with us



Reason to start investing young



Cultivate your habit of saving money



5 Timeless rules about saving money



### Outlook for the future

Given that the low interest rate environment is likely to continue for the foreseeable future, LBF's deposit mobilization strategy will remain more or less unchanged. Going forward, the Company will focus on further strengthening its retention ratio, while strategically pursuing opportunities to secure lower the cost of funding via the FD proposition. As always building up the savings base will also be a key priority in the years ahead. In this regard LBF will strive for differentiation through structured savings products coupled with advanced technology-based solutions to secure a definite competitive advantage over peers.

### BUILDING FOR FUTURE

	Term	Objectives	Related strategic focus	Related material drivers	Related stakeholders	SDGs impact
GOALS	Short term	Digitalization of deposit products under the LB CIM digital wallet			  	 
	Medium term	Explore alternative channels to on-board customers			  	 
	Long term	Interactive digital platform to facilitate real time customer engagement			  	 

# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS



## FINANCING | BEST PLACE TO OBTAIN FINANCING FACILITIES

With the economic crisis that arose on the back of the COVID-19 pandemic setting the backdrop for the year, the entire financial services sector found itself challenged by the sluggish credit appetite in the market. Not willing to let this scenario define LBF's prospects for the FY 2020/21, the Company's lending teams swung into action in a bid to seize available opportunities in the market.



**Mr. Ravindra Yatawara**  
Executive Director

Tactical strategies were deployed with the aim of retaining LBF's captive market in the auto finance segment - the Company's core business.

### SWOT ANALYSIS



#### Strengths

Strong physical and digital presence and the diverse product portfolio coupled with the Company's long standing reputation for service excellence provides a clear competitive advantage over peers



#### Opportunities

Increased automation and digitization to enhance the customer experience



#### Weaknesses

Non-availability of a fully integrated process capability to facilitate seamless end-to-end customer relationship management



#### Threats

Unscrupulous behaviour by some NBFIs could tarnish the reputation of the sector as a whole

### Core competencies

- ③ A diverse product suite to cater all customer segments
- ③ Flexible and tailored solutions to match customer needs
- ③ Robust multi channels environment for convenient access
- ③ Best in-class service that includes guaranteed quick turnaround times and continuous support

### Product offerings



### RESPONDING TO COVID - 19

#### Actions taken

Implemented innovative IT solutions, which facilitated all employees to work from home

Virtual customer visit to ensure proper credit assessment even during the lockdown

Ensuring the readiness of the company to completely operate virtually in case of any pandemic situation where physical movement might be restricted

#### For next financial years

Close monitoring of customers who have been highly affected by pandemic

There is a chance that the pandemic would have a slow effect on customer sales and subsequent cash flows. Special consideration must be given to those companies and their potential cash flows in order to retain a stable asset portfolio

Launch online onboarding for customers

## BUSINESS PERFORMANCE

Portfolio growth (%)	2016/17	2017/18	2018/19	2019/20	2020/21
Lease	28.70	13.62	6.01	(8.18)	(21.88)
Vehicle loan	(17.95)	(3.10)	40.91	107.63	40.55
Mortgage loan	66.75	12.49	(10.56)	(18.15)	(28.85)
Personal loan	173.24	190.57	38.76	29.09	6.44
FD loan	37.56	34.94	10.69	15.98	(10.10)
Power draft	45.52	25.54	38.50	4.33	0.59
Gold loan	23.84	23.61	27.89	20.02	17.32
Other	(21.74)	(42.78)	(58.55)	(48.57)	(8.13)

## AUTO FINANCE



The year under review was a challenging one for LBF's auto finance business. Despite myriad challenges presented by the COVID-19 pandemic, focused strategies and early actions to capitalise market opportunities enabled the auto finance business to register satisfactory for the FY 2020/21.

The two months island-wide lockdown period declared by the government at the onset of the COVID-19 pandemic in Sri Lanka made the Q1 of the current financial year particularly tough for LBF's auto finance business. With the entire country under curfew orders and many sectors forced to shut down, there was very little opportunity to grow the leasing business during this period. Around the same time, LBF also began seeing higher NPLs purely because customers found it difficult to meet their repayment obligations due to ongoing mobility restrictions in place. Taking immediate actions to bring the situation under control, LBF intensified recovery efforts during the lockdown period with all branch teams being mobilised to lend support to the recoveries unit and call centre. Continuing to maintain a focus on recoveries, after giving consideration to moratorium requests even after lockdown restrictions were lifted enabled LBF to gradually lower the NPL ratio.

Furthermore, with the demand for unregistered vehicles disappearing virtually overnight after the announcement of the vehicle import ban, the auto finance unit moved swiftly to seize available opportunities in the registered vehicle market. Despite this change in market dynamics, it was resolved to work towards achieving pre-COVID volume targets set for the year under review. Consequently a tactical realignment of the marketing strategy saw a broad based promotional campaign being rolled out from May 2020 onwards aimed at expanding the Company's registered vehicle finance portfolio. As part of this same effort, a series of dealer engagement activities were also carried out to strengthen ties with dealer networks. These well timed initiatives coupled with strategic repricing to reflect the low interest environment that prevailed throughout the year, helped drive a month-on-month improvement in auto finance volumes from Q2 onwards. Notably while a slight volume drop was seen in the aftermath of Sri Lanka's COVID-19 second wave in October 2020, this proved to be only a temporary setback as consistent volume growth was registered thereafter. With the trend continuing until end March 2021, LBF's auto finance unit succeeded in achieving the pre-COVID leasing targets for the current financial year.

**Impact on LBF's Risk Profile**  
 Credit Risk (H)  
 Liquidity Risk (M)  
 Refer Risk Management Report

### Key macroeconomic challenges

- ④ COVID-19 pandemic impact
- ④ Ongoing tightening of LTV rules
- ④ Additional regulatory controls to restrict import of vehicles
- ④ Currency depreciation
- ④ Poor performance of certain key sectors leading to weak economic conditions



LB Auto Finance

# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS

## Financing

Given that the vehicle import ban is likely to remain in force for the foreseeable future, the prospects for LBF's auto finance business will depend on the demand for the unregistered vehicles.

### Performance outcome

The overall vehicle finance portfolio registered a year-on-year decline of 11.66%. This was partly due to the volume shortfall for the year. The drop was also due to the higher number of settlements during the year as customers were taking advantage of the current price driven by demand and supply dynamics to dispose of their vehicles.

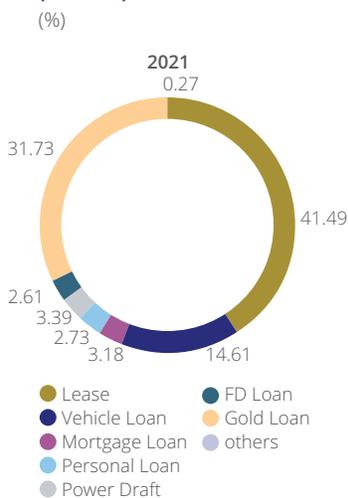
Despite the drop in portfolio value, interest income attributed to auto finance was on par with the previous year, which points to the success of LBF's fundamental yield management strategy.

### Outlook for the future

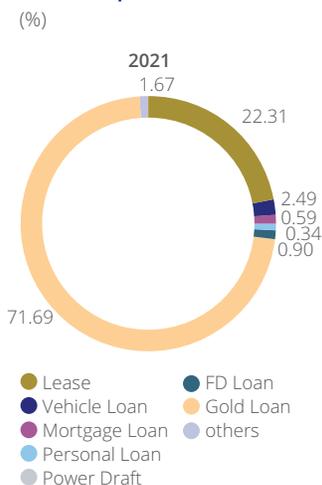
Given that the vehicle import ban is likely to remain in force for the foreseeable future, the prospects for LBF's auto finance business will depend on the demand for the unregistered vehicles.

Having made some good headway in this market in the current financial year, LBF's auto finance unit will look to further expand captive market share and consolidate its position in this space in the year ahead. The key to achieving this would cautiously enhance the Company's risk appetite to facilitate solid loan growth, combined with proactive yield management and strict control over credit quality at all times.

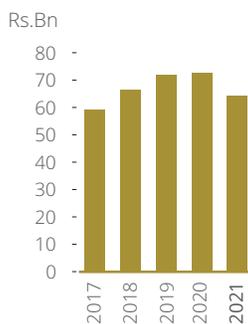
Lending portfolio (volume)



Lending customer base composition



Auto finance



### Key macroeconomic challenges

- ④ COVID-19 pandemic impact
- ④ Pursue alternative lending strategies as a counter measure for the LTV challenge
- ④ Proactive NIM management
- ④ NPL management

### MICRO LEASING



After successfully navigating the challenges of the previous financial year, it was hoped that the year under review would offer a fresh perspective for LBF's micro leasing business to resume its growth trajectory. Regrettably the COVID-19 pandemic impact made the FY 2020/21 even more challenging for the micro leasing business as its mainstay operation, three wheeler leasing once again came under pressure.

The demand for unregistered three wheelers which for years had been on the decline due to LTV restrictions, vanished completely in the year under review following the vehicle import ban declared by the government at the onset of the COVID-19 pandemic in March 2020.

Meanwhile with several factors affecting the demand for registered three wheelers, the micro leasing unit kicked off a two-pronged strategy to consolidate the portfolio and maintain market share. Customer retention was declared a key priority in light of the severe economic downturn in the first six months of the financial year and its adverse impact on self employed individuals and micro entrepreneurs, the micro leasing segments' key target markets. Consequently pre-approved refinance facilities were



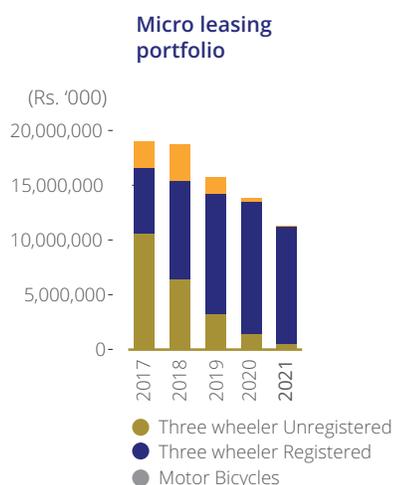
Tuk Mahaththaya

offered to existing customers to help them tide over the difficult times. Eligible customers were also given the opportunity to benefit from the debt moratorium scheme announced by the government to bring relief to COVID-19 affected individuals and businesses. At the same time recovery actions were strengthened in bid to minimize NPL's among customers who were not eligible for the moratorium.

The demand for registered three wheelers remained sluggish in the second half of the year as well. This was primarily due to the higher LTV requirements associated with the upward movement in the market price of registered three wheelers. The price of registered three wheelers increased immediately following the government decision to indefinitely extend the import ban, effectively halting the import of unregistered three wheelers for the foreseeable future.

Faced with these multiple challenges, LBF's micro leasing operation refreshed its rate structures and rolled out several focused campaigns to appeal to the target market. This was followed by "Tuk Mahaththaya", a social media awareness campaign launched in 2020 across all digital platforms, with the aim of further expanding the customer base. Dealer promotional activities also continued throughout the year.

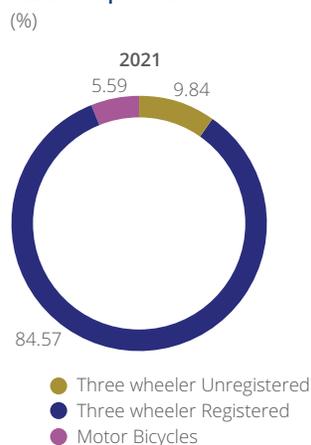
### Performance outcome



### Key macroeconomic challenges

- ④ COVID-19 pandemic impact
- ④ Movements in world gold prices
- ④ Tough competition in the market

### Micro leasing customer base composition



### Outlook for the future

The micro leasing segment will move forward based on the assumption that the import ban will remain in place for at least the next twelve months. Amidst this backdrop it would be imperative for the segment to improve the competitiveness of its offering in order to target the broader island-wide market for registered three wheelers.

### GOLD LOAN



LBF's gold loan business recorded good results for the FY 2020/21, despite facing some notable challenges at the start of the year - Q1 in particular, where the opportunity to generate new business was lost due to the two months island-wide lockdown.

However, moving swiftly to take advantage of the high world gold prices and the low interest rate environment, LBF gold loan

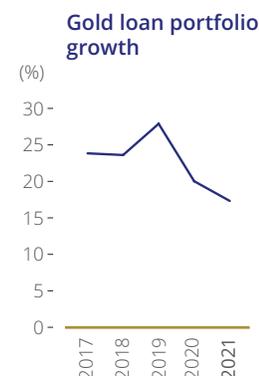
business was able to significantly accelerate its growth trajectory from Q2 onwards. Given the consistently high demand for gold loans throughout the year, LBF took wide ranging action to secure a competitive advantage. Seeing a strong demand for gold loans from all market segments, LB Gold, a new high value gold loan offering was launched several times in 2020.

At the same time promotional activities were stepped up. Prevented from conducting face to face campaigns due to COVID-19 restrictions, island-wide promotional activities were done mostly with the use of the mobile propaganda vehicle. A sizable portion of the activities were also moved to digital mediums, a move that has helped LBF to make inroads into yet untapped market segments.

A concerted effort was also made to strengthen LBF's island-wide gold loan footprint, which saw new branches being opened to deepen the presence. Four branches were relocated to bring greater visibility in the areas. The ongoing counter expansion programme was also rolled out across more branches in the year under review.

### Performance outcome

Despite the fact that no new business was generated during the two months lockdown period, overall volume targets for the year were successfully met, enabling the gold loan portfolio to even record a slight year on year growth of 17.32%. The customer base too grew compared to the previous year.



# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS

## Financing

### Key macroeconomic challenges

- ④ COVID-19 pandemic impact
- ④ Rising trend in interest rates
- ④ Regulatory controls
- ④ Poor performance of certain key sectors leading to weak economic conditions



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LB Gold loan – Supreme, speedy and courteous service

### Outlook for the future

As it stands now, the short term outlook for LBF's gold loan operation appears to indicate the potential for solid growth over the next 6 -12 months. However, given that the prospects of the gold loan operation remains largely predicted on the movement in world gold prices, LBF will continue to exercise greater vigilance to proactively realign its strategy and safeguard the gold loan portfolio against adverse price movements in the months ahead.

### MORTGAGE LOAN



LBF's mortgage loan portfolio consists of lending through the "Mul Gala" product. "Mul Gala" which is essentially a consumption loan, designed to facilitate the home improvement needs of customers. In recent times, it has also been promoted as an easily accessible working capital loan for self-employed individuals and micro entrepreneurs. The mortgage loan product suite was further expanded in mid-2019 with the introduction of the mortgage-backed educational loan.

The COVID-19 pandemic impacted the mortgage loan portfolio in multiple ways, starting with the sharp increase in NPL's owing to the widespread economic uncertainty. Moreover the market demand for "Mul Gala" more or less disappeared during the two months lockdown period. Demand stayed muted for the remainder of the year as well amidst a visible lack of interest in construction activity after the second wave of the pandemic in October 2020.

Nonetheless taking advantage of the prevailing low interest rates, promotional activities were accelerated on digital mediums in a bid to stimulate demand for the "Mul Gala" product. While the campaign succeeded in generating notable interest for the product, LBF continued to face practical challenges due to restricted operations across many regulatory bodies. Processing delays of this nature meant conversion was at a much slower pace than usual, which in turn affected overall portfolio growth during the year.

After showing promising results following its launch in 2019, the demand for the mortgage-backed educational loan also fizzled out due to pandemic related challenges in the year under review.

### Performance outcome

The mortgage loan portfolio recorded a year-on-year decline of 28.85%

### Outlook for the future

As the economic environment regains a sense of normalcy over the coming months, construction activity is thought to be one of the first to restart. This scenario presents some clear opportunities for the mortgage loan operation to drive growth of its "Mul Gala" product in the FY 2021/22.

### Key macroeconomic challenges

- ④ COVID-19 pandemic impact
- ④ Competition among peers
- ④ Regulatory controls

### PERSONAL LOANS



It was a highly successful year for LBF's personal loan operation, which reported solid growth on the back of a compelling demand for its core product the "Krutha Hastha" pension loan offered to senior citizens. The robust demand for pension loans in the current financial year was attributed to the nature of the product which makes it a highly practical and manageable borrowing proposition during uncertain economic conditions.

Taking preemptive action to combat emerging competitive pressure in this growth conducive environment, LBF initiated a series of targeted promotional campaigns to make inroads into several untapped market segments. The main aim of these focused efforts was to enable LBF's "Krutha Hastha" pension loan product to claim first mover advantage among these segments. These promotional strategies were further supported by extensive training to enhance product knowledge of frontline branch teams.

Improvements to backend systems were also expedited, with steps being taken to introduce a greater degree of automation to reduce procedural complexity and improve the efficiency of end-to-end processes, leading to faster service delivery.

### Performance outcome

Quick action to capitalize on the market demand led to an incremental growth in the monthly volumes. On this basis LBF's personal loan portfolio as at 31st March 2021, succeeded in registering a commendable 6.44% year on year growth over the previous year. Similarly the customer base too reported growth compared to the previous year.

### Outlook for the future

Going forward LBF will seek to further build on the success of this past year to ensure the "Kruttha Hastha" pension loan product can make a steady contribution to the Company's performance. Strengthening island-wide product coverage is seen as the key catalyst in achieving these objectives.

### FACTORING



LBF offers flexible, tailor-made factoring solutions catering mainly to the SME sector by offering cheque and invoice discounting facility at very competitive rates. The key differentiator that sets apart LBF's factoring solution is the Company's undertaking to follow up debtor collections, thereby freeing the customer to focus entirely on executing their business plans. Despite stiff competition from the banking sector, LBF's factoring solutions continue to experience a strong market uptake especially in the Western Province.

Given the challenging economic environment, no aggressive promotional activities were carried out in the year under review. Instead all efforts were focused on managing the existing portfolio, with specific control policies being implemented to minimise LBF's risk exposure in the cheque discounting operation. Accordingly cheque discounting was only undertaken on condition that the customer maintains a lien over savings account balance with LBF, with a stipulated monthly amount assigned to the lien account from their savings account. In addition discounting of higher value cheques was undertaken only on the strength of an asset mortgaged to

LBF. Continuing with the strategy adopted for the past few years, the main thrust for this year too was to improve the quality of the portfolio.

### Outlook for the future

The focus for the immediate future would be to consolidate the cheque discounting portfolio in order to minimise potential default risk to the Company. Meanwhile should there be an improvement in the macroeconomic conditions, LBF would also likely recommence Invoice discounting on a selective basis.

- ◆ Maintain a quality portfolio
- ◆ Actively promote the product in other regions of the country

### POWER DRAFT



The power draft was introduced in April 2011 to enable individuals and SMEs to obtain an overdraft facility against asset-backed collateral, with the value of the facility being used to determine the duration, usually up to maximum twelve months.

### Performance outcome

The power draft portfolio grew from Rs. 3,841.50 million in 2019/20 to Rs. 3,864.17 million in 2020/21.

### Outlook for the future

- ◆ Portfolio growth of 30% in 2021/22
- ◆ Increase market share to achieve market leadership

# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS

## Financing

### BUILDING FOR FUTURE

	Term	Objectives	Related strategic focus	Related material drivers	Related stakeholders	SDGs impact
GOALS	Short term	Differentiate LBF's value proposition through a more personalised, relationship based approach			  	 
	Medium term	Enhance the customer experience through the CIM wallet integration			 	 
	Long term	Holistically improve the customer relationship management model			  	 



## VALUE ADDED SERVICES

### CONVENIENT PLACE FOR NON-FINANCIAL SERVICES

Continue to uphold our image in the community by continuing as a responsible, transparent and trust-worthy operator while focus will be on continuous innovation in value added services to cater to the evolving needs of the new niches that are identified.

As a direct result of the economic downturn, the demand for most value added services declined sharply with the notable exception of the PayHub which recorded exponential growth in the FY 2020/21.



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

#### SWOT ANALYSIS



##### Strengths

Reliability, credibility and long standing track record



##### Opportunities

Increased automation and digitization to improve service delivery and thereby enhance the customer experience



##### Weaknesses

Low visibility and lack of public awareness regarding the value added services offered by the Company



##### Threats

Rise of the informal sector

#### Core competencies

- ④ Versatile customer-focused solutions
- ④ Consistent and uninterrupted service delivery

#### Product offerings



#### RESPONDING TO COVID – 19

##### Actions taken

The rapid evolution of customers' needs brought about by an increasing number of competitors and better technological innovations

Extensive knowledge sharing and functional training arrangements via online platform for LBF Group employees to motivate for value added services

Focus on rising wealth of mid and high income people

Provide assistance to consumption of financial products and services and it increases in financial literacy

##### For next financial years

Become more responsive to the rapid evolution of customer needs by undertaking process reengineering and IT infrastructure development initiatives

Extensive drive for improving digital eco-system and offer more convenience to customers

Offer competitive returns on-board customers

Incorporate the improving technology into the business model and leverage it to further enhance business transformation and provision of services

# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS

## Value Added Services

### FOREIGN CURRENCY OPERATION



The FY 2020/21 was a particularly challenging one for LBF's foreign currency operation. With tourist arrivals at a standstill in 2020 due to COVID-19 mobility restrictions, currency circulation in the market plummeted to an all time low, leaving the unit to look for alternative market segments. This too proved to be a tough task amidst weak economic conditions. Therefore, foreign currency unit was unable to pursue currency trading activities as many banks began scaling back on their dealing operations in light of the economic crisis.

#### Performance outcome

On a positive note however, LBF's currency stock was revalued following the depreciation of the Rupee against the US Dollar in 2020. On this basis, the Foreign Currency unit was able to record a sizable capital gain for the FY 2020/21.

#### Outlook for the future

The foreign currency operation remains cautiously optimistic regarding the future. It is hoped that reopening of the airport will slowly pave the way for tourist arrivals to start trickling into the country, thus providing a much needed boost for LBF's currency exchange business.

### PAYHUB



PayHub which was first introduced as a value added service to provide a hassle free solution for existing LBF customers to settle their utility bills through the Company's island-wide branch network. Since then PayHub has gained considerable momentum, prompting LBF to extend it as a structured product for the mainstream market.

In the year under review, PayHub gained further traction. Demand which surged sharply during the lockdown period, remained consistently high even after mobility restrictions were lifted, leading to month on month increase in transaction volumes for the remainder of the year.

Amidst the upswing demand, LBF took immediate action to further expand the bandwidth of the PayHub model with the inclusion of a number of leading educational institutes and insurance companies.

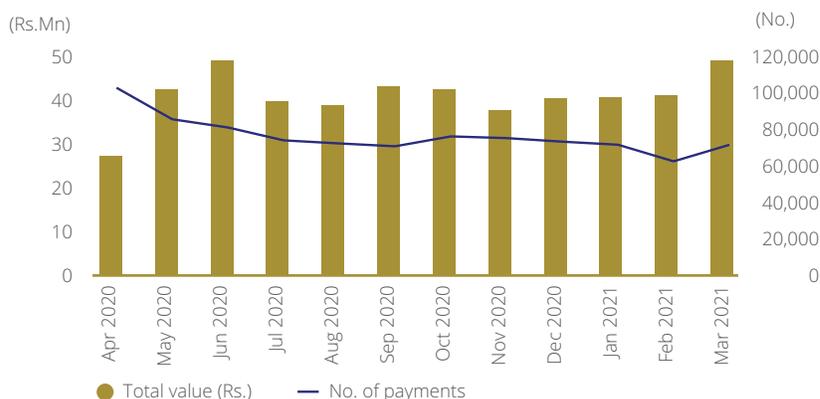
#### Performance outcome

A series of system modifications were also performed to facilitate the payment lease rentals as well using PayHub facility.

#### Outlook for the future

Going forward, the focus for PayHub would be to build on the success achieved in the FY 2020/21. This means ensuring PayHub remains the most versatile solution in the market at any given time. Creating top of mind awareness will also be a key priority in the year ahead.

PayHub transactions



## WESTERN UNION



Baked by a broad based approach to tackle challenges and mobilise available opportunities, LBF's money transfer operation concluded the current financial year on a positive note. After experiencing a sizable contraction in volumes during the two months lockdown period, a favourable increase in inward remittances to the country from mid 2020 presented the opportunity to grow volumes. Consequently promotional activities were intensified to bring greater visibility for LBF's offering and also to reinforce LBF's reputation and credibility as a long standing sub-agent of the Western Union (WU) money transfer network.

In parallel, efforts to augment the overall value proposition also continued with a range of versatile solutions to give beneficiaries quick access to their dues notwithstanding pandemic restrictions, most notably the remote unlock feature and the CIM wallet integration with the beneficiaries savings account.

Meanwhile, leveraging on its track record as a sub agent for the past years, LBF commenced negotiations with WU in pursuit of a direct tie up which would change the Company's status quo from that of a sub agent to a WU principal agent. As a principal agent, LBF will have the authority to appoint its own network of sub agents, thus expanding its island-wide coverage. A direct tie up with WU will also make it possible for LBF to receive direct dollar remittances.

## Performance outcome

Consistent efforts to build volumes from Q2 onwards helped to make up for the volume decline in Q1 and in turn enabling LBF to retain its position as one of the top sub agents (on volume based market share) in the local WU network in Sri Lanka.

## Outlook for the future

The future prospects for LBF's money transfer operation look promising especially with the direct tie up with WU likely to materialize at the start of the next financial year. The appointment as a principal agent is seen as a good starting point for LBF's money transfer operation to build the scale required to differentiate its value proposition, and thereby drive consistent revenue growth over the medium to long term.

## BUILDING FOR FUTURE

	Term	Objectives	Related strategic focus	Related material drivers	Related stakeholders	SDGs impact
GOALS	Short term	Increase targeted promotional activities to create top of mind awareness across all relevant customer segments for foreign currency exchange			 	 
	Medium term	Enhance the customer experience through digital integration for money transferring			  	 
	Long term	Financial education and awareness building to enhance for digital utility payments			  	  

# CAPITAL REPORTS



## 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 customer 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.

### 1 INPUT

- Shareholders' funds
- Deposits base
- Other income sources
- Long and short-term borrowings
- Earnings retained after dividend distribution

### 2 STRATEGIC DRIVERS

- Focus more on core business
- Grow exposures prudently, aligned to risk appetite
- Maintain the NIM at different market conditions
- Continuation of cost optimisation
- Improved operating efficiency through process optimisation and automation
- Maintain the lowest Non-performing loan ratio in the industry
- Be cost efficient while investing for growth
- Deliver consistent return on equity

### 3 CHALLENGES

- Lackluster macroeconomic conditions
- Elevated credit risk exerted pressure on earnings
- Maintaining the NIM when market interest rates are volatile and uncertain
- Continuation of revenue generating activities with the COVID-19 restrictions

**A- (Ika)**

Fitch rating reaffirmed

**5.36%**

NPL

**Rs. 3.96 Bn**

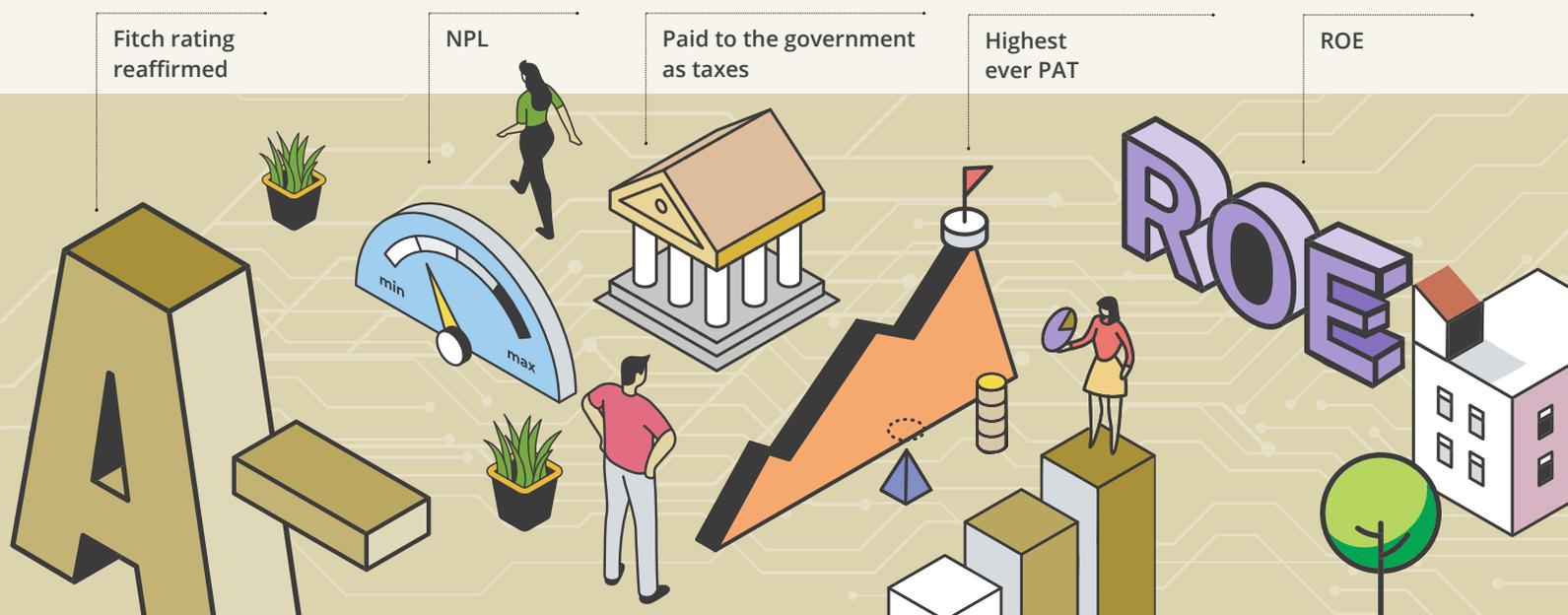
Paid to the government as taxes

**Rs. 6.80 Bn**

Highest ever PAT

**26.58%**

ROE



### 4 TRADE OFF

The software and infrastructural investments into our core systems, that we make towards achieving process efficiency, in turn, helps us to maintain our low cost to income ratio and quicker service in the form of

turnaround times, which enables us to operate competitively in the market. While monetary investments in our manufactured, intellectual, human, social and relationship and natural capitals are key to the development of these capitals

in themselves, these investments also translate to utilisation of the capitals to be transformed back to financial capital in the form of material returns to these various stakeholders.

**5 SPACE FOR DEVELOPMENT**

- Portfolio growth opportunities through new business locations and relocation of existing outlets align with business expansion strategy
- Enhance credit evaluation and collection efforts to reduce the NPLs to pre COVID-19 levels

**7 KEY OUTPUT**

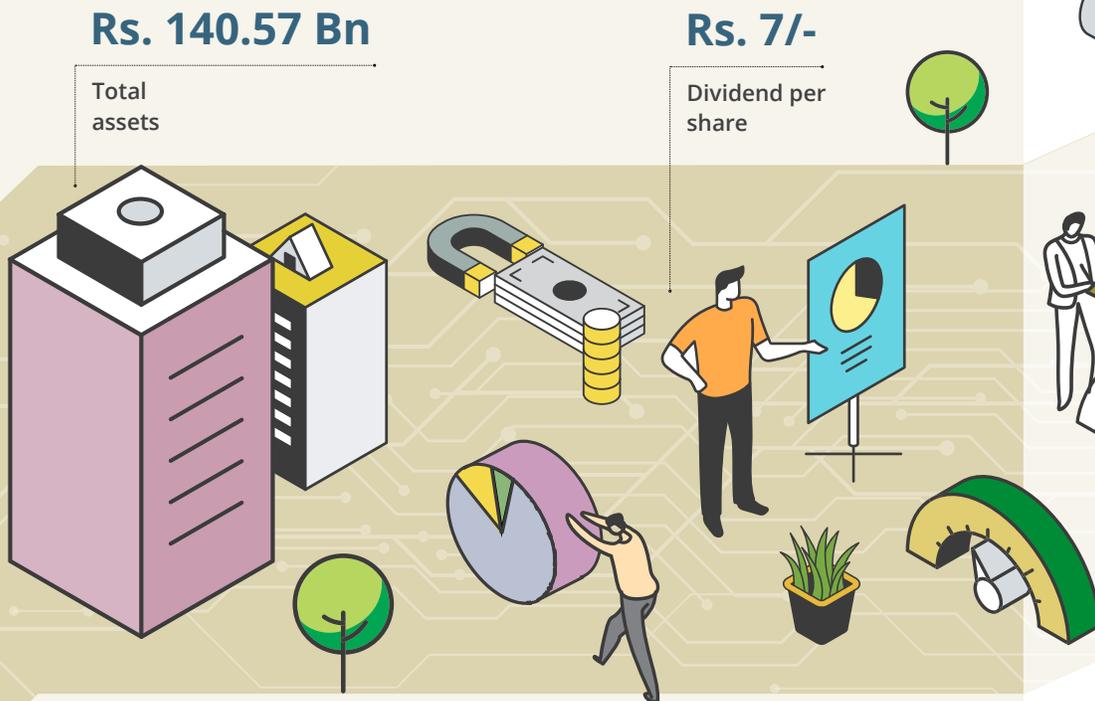
- Highest ever profit after tax in LBF history
- Lowest cost to income ratio in LBF history
- Dynamic impairment model powered by machine learning to improve the accuracy of forecasting

**6 APPROACHES TO MANAGING FINANCE CAPITAL OUTCOMES**

- Budgetary controls and monthly management accounts
- Branch and product profitability through Oracle profitability and cost management cloud service
- Cash flow and liquidity management
- Sound risk management, compliance framework and internal policies and procedures

**8 FUTURE**

- Introduce business intelligent platforms and use of artificial intelligence for credit decisions
- Achieve sustainable growth



**Related material themes and drivers**

- Sustainably growing revenue
- Delivering appropriate shareholder returns
- Regional expansion
- Process excellence

**Related stakeholders and concerns**

- Improving sustainable business performance
- Ensuring financial sustainability
- Improving stakeholder engagement

**SDG impact**



Visit web page for our philosophy, Management approaches and analysis of Financial Capital

# CAPITAL REPORTS

## Financial Capital

Despite the pandemic creating a challenging business environment underpinned by high uncertainty, L B Finance PLC navigated the year with resilience and closed it with strong business momentum, by delivering a profit after tax of Rs. 6.80 Billion which reflected 31.15% growth over the previous financial year.

In assessing the financial performance of the Group, management uses a range of Key Performance Indicators (KPIs) which focus on the Company's financial strength, delivery of sustainable returns and cost management. We believe that the performance given in below KPIs which are not part of SLFRSs would provide valuable information to our stakeholders.

The framework used in the analysis of the KPIs is the CAMEL rating system. CAMEL is a rating system that is used to rate banks and financial institutions according to five factors. The five factors are represented by the acronym "CAMEL – Capital Adequacy, Assets Quality, Management's Efficiency, Earnings and Liquidity".

KPI	Definition
<b>C</b> CAPITAL ADEQUACY	<p><b>Tier I and Tier II</b></p> <p>Capital requirements are part of the regulatory framework to ensure banks and non-banking financial institutions are supervised. Capital ratios express the capital as a percentage of its Risk Weighted Assets (RWA) as defined by the Central Bank of Sri Lanka (CBSL). Capital requirements are measured at two tiers, namely Tier I and Tier II.</p>
<b>A</b> ASSETS QUALITY	<p><b>Non-Performing Advances (NPA)</b></p> <p>Gross NPA indicates the amount of defaulted loans granted by an institution beyond a defined period. This ratio aims to identify NPA as a percentage of its total advances.</p> <p>On the other hand, Net NPA ratio indicates the outstanding amount of gross NPA, net of provisioning for the NPA as a percentage of its total advances. Provisioning is the recognition of potential losses arising from NPA.</p>
<b>M</b> MANAGEMENT'S EFFICIENCY	<p><b>Cost to Income Ratio</b></p> <p>Cost to income ratio is a financial measure derived through operating expenses divided by total operating income.</p>
<b>E</b> EARNINGS	<p><b>Return on Equity (ROE)</b></p> <p>ROE is calculated by dividing the profit after tax from the average total equity.</p>
<b>L</b> LIQUIDITY	<p><b>Liquid Assets Ratio</b></p> <p>Liquid assets ratio is calculated by dividing the liquid assets from total deposit liabilities and relevant borrowings.</p>

## Its Importance and How L B Finance Performed

L B Finance's capital management objective is to maximise the shareholder value by prudently managing the level and mix of its capital.

L B Finance Tier I and Tier II capital adequacy ratios as at the end of the financial year stood at 23.87% and 25.32% respectively compared to the minimum regulatory requirement of 7% (Tier I) and 11% (Tier II). This reflects the resilient capital generation through the profits of the Company. Capital generation during the year was partially offset by the Rs. 1.66 Billion interim dividend paid during the financial year.

**Tier I Ratio**  
**23.87%**  
2020 : 19.04%

**Tier II Ratio**  
**25.32%**  
2020 : 20.75%

L B Finance aims to prevent undue concentration and tail-risks (large unexpected losses) by maintaining a diversified credit portfolio, client, industry and product-specific concentrations are assessed and managed against its risk appetite.

Gross NPA ratio slightly increased to 5.36% in 2020/21 from 3.93% in 2019/20. Deterioration of Gross NPA ratio during the year was driven by the unprecedented economic impact and disruption from COVID-19. Nevertheless the Net NPA ratio in year 2020/21 is only 0.10% which reflects that the Company has provided for NPAs with a strong provision coverage close to 100%.

Even during the lackluster macroeconomic conditions Company was able to maintain its record of NPA ratios substantially lower than the NBFI sector.

**Gross NPL**  
**5.36%**  
2020 : 3.93%

**Net NPL**  
**0.10%**  
2020 : (0.12%)

This is a measure L B Finance uses to assess the productivity of the business operations. Managing the cost base is a key execution priority for management and includes a review of all categories of spending and an analysis of how we can run the business more efficiently to ensure that costs are increasing at a slower rate than income.

L B Finance's cost to income ratio improved to 30.56% in year 2020/21 compared to 33.44% in year 2019/20 which demonstrates improved management efficiency.

**Cost to Income**  
**30.56%**  
2020 : 33.44%

Return on Equity (ROE) is the most common internal performance measure of a Company's profitability from the shareholder's point of view. This measure indicates how well the management generates return from the shareholder's equity.

L B Finance achieved ROE of 26.58% in the year 2020/21 compared to 25.04% in the previous year which demonstrates L B Finance's ability to execute its strategies to maximise the shareholder wealth.

**Return on Equity**  
**26.58%**  
2020 : 25.04%

CBSL required minimum amount of liquid assets remain at 6% of time deposits, 10% of savings deposits and 5% of outstanding borrowings excluding secured borrowings. The Company has maintained its liquidity levels well above the required liquid assets as per CBSL Requirement.

The Company's overall objective is to maintain the adequate liquidity while managing the trade off with the profitability. The Company's overall liquid assets as a percentage of total deposit liabilities and borrowings hovered around 16% during the year ended 2020/21 and 2019/20 which indicates that L B Finance is in a strong position in terms of its liquidity.

**Liquidity Ratio**  
**17.89%**  
2020 : 15.65%

# CAPITAL REPORTS

## Financial Capital

### INCOME STATEMENT

#### Net Interest Income

**Definition:** Interest income recognised from our lending products that we offer to our customers, less interest expense on the deposits that our customers place with us and debt funding source from our lenders.

**Drivers:** Lending base, NPL ratio, product pricing, market volatility, market interest rates.

#### Non-Interest Income

**Definition:** Also known as other income, consisting of fee and commission income, net trading income and other operating income.

**Drivers:** Capital market activities, market volatility, other income recognise on credit granting.

#### Impairment Charges and Other losses

**Definition:** Expected losses arising due to the inability of customers to repay their debt to the entity.

**Drivers:** Customer repayment behavior, loss given default rate, probability of default rate, macroeconomic factors, exposure at default.

#### Operating Expenses

**Definition:** Costs incurred to generate current and future revenues. Consisting of personnel expenditure, depreciation and amortisation and other operating expenses.

**Drivers:** Inflation, head count, investments in branches and IT infrastructure, general costs to operate, marketing and promotional activities.

#### Taxes

**Definition:** Include direct taxes such as income tax, debt repayment levy, VAT and NBT on financial services. Tax is a compulsory financial charge or some other type of levy imposed on taxpayers.

**Drivers:** Level of operational profitability, government policies, applicable tax rates, allowable credits and exempt income.

Year ended 31 March	2021	2020	Change %
	Rs. '000	Rs. '000	
<b>Income</b>	29,766,124	31,222,860	(5)
Interest Income	27,457,741	29,160,292	(6)
Less: Interest Expenses	11,522,802	13,615,391	(15)
<b>Net Interest Income</b>	15,934,939	15,544,901	3
<b>Non-Interest Income</b>			
Fee and Commission Income	2,184,947	1,941,626	13
Net Trading Income	6,323	(2,099)	>100
Other Operating Income	117,113	123,041	(5)
<b>Total Operating Income</b>	18,243,322	17,607,469	4
<b>Less: Impairment Charges and Other Losses</b>	1,691,734	1,831,057	(8)
<b>Net Operating Income</b>	16,551,588	15,776,412	5
<b>Less: Operating Expenses</b>			
Personnel Expenses	2,959,823	3,005,189	(2)
Depreciation of Property, Plant and Equipment	728,793	697,508	4
Amortisation of Intangible Assets	16,446	15,882	4
Other Operating Expenses	1,870,828	2,168,986	(14)
<b>Total Operating Expenses</b>	5,575,890	5,887,565	(5)
<b>Operating Profit before Tax on Financial Services</b>	10,975,698	9,888,847	11
<b>Less: Tax on Financial Services</b>	1,669,323	2,278,560	(27)
<b>Profit before Taxation</b>	9,306,375	7,610,287	22
<b>Less: Income Tax Expense</b>	2,503,778	2,423,234	3
<b>Profit for the Year</b>	6,802,597	5,187,053	31

## Net Interest Income

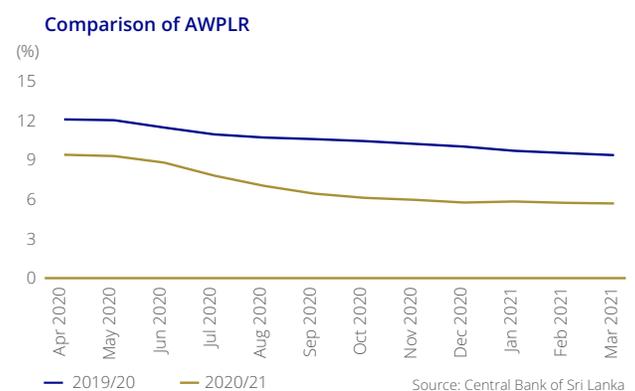
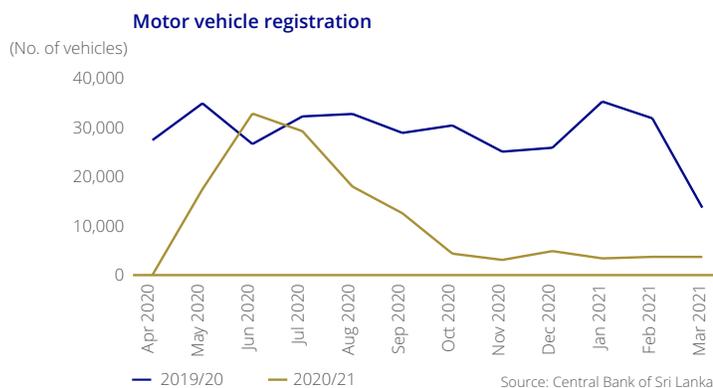
Our interest income was Rs. 27.45 Billion for the year 2020/21 compared to Rs. 29.16 Billion, for the year 2019/20, decline of Rs. 1.71 Billion or 5.84%. The decline was primary due to the reduction in interest rates and the monetary easing provided to our customers in compliance with the directions issued by the Central

Bank of Sri Lanka (CBSL). Moreover, decline in the interest income was affected with the degrowth in our lease rentals receivable and stock out on hire due to the restrictions imposed on importation of motor vehicles which in turn diminished the number of vehicle registrations.

On the other hand, interest expenses reduced by Rs. 2.09 Billion which was 15.37% less than the previous year. This was driven by the continuous decline in maximum interest rates to be paid in respect of deposits and debt instruments as published by the CBSL in line with the government policies.

	2020/21 Rs. '000	2019/20 Rs. '000	Increase/(Decrease) Rs. '000	Change %
Interest Income	27,457,741	29,160,292	(1,702,551)	(5.84)
Interest Expenses	11,522,802	13,615,391	(2,092,589)	(15.37)
Net Interest Income	15,934,939	15,544,901	390,038	2.51
Average Interest-Earning Assets	131,110,968	130,007,658	1,103,310	0.85
Average Interest-Bearing Liabilities	111,671,145	113,708,200	(2,037,055)	(1.79)

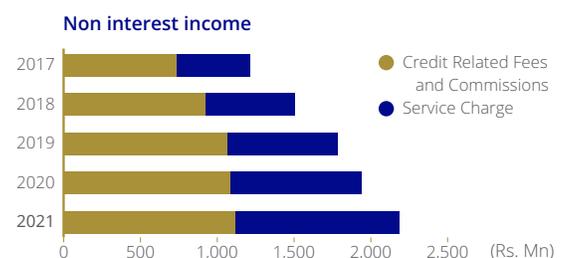
	2020/21 %	2019/20 %	Change %
Interest Yield on Average Interest Earning Assets	20.94	22.43	(1.49)
Cost of Funds on Average Interest Bearing Liabilities	10.32	11.97	(1.65)
Interest Spread	10.62	10.46	0.16
Net Interest Margin (NIM)	12.15	11.96	0.19



Despite the decline in the interest income, our net interest income grew by 2.51% to Rs. 15.93 Billion due to high frequency of re-pricing in deposit base as against loans, especially leases with longer term tenure, impacted positively on our net interest margin.

## Non Interest Income

Fees and commission income grew by 12.53% to Rs. 2.18 Billion as a result of higher transaction volumes through loans and receivables particularly the growth in gold loan. Further, our net trading income recorded a gain of Rs. 6.32 Million due to the favorable market volatility of equity securities held for trading. It was also noted that there was a marginal decline in our other operating income to Rs. 117.11 Million or 4.82% during the year.



# CAPITAL REPORTS

## Financial Capital

### Impairment Charges and Other Losses

Impairment charges and other losses were Rs. 1.69 Billion for the year 2020/21. This was primarily driven by negative impacts from COVID-19 which resulted in extreme macroeconomic downturn.

However, the management of the Company continued to provide oversight to the credit monitoring, management and recovery of finance receivables in managing credit risk and improving asset quality helped to reduce the impairment charges for the current financial year compared to the previous financial year.

In addition the decrease of impairment charges and other losses of 7.61% was also contributed by the additional impairment provisions in the year 2019/20 as management overlay to flatten the high amplitude of the future impairment with the expected adverse macroeconomic condition due to COVID-19 crisis. Further, the reduction in impairment charges and other losses were contributed by the overall reduction in the lending base due to,

- The slower growth than expected in the lending volumes

- Pre-termination of credit facilities resulting from the improved vehicle prices in the market
- Inherent early terminations that are witnessed when the market interest rates are reducing

It should be taken into consideration that the reduction in the impairment charges and other losses, also demonstrates the asset quality of the Company which was evident with the one of the lowest NPA ratios in NBFIs sector.



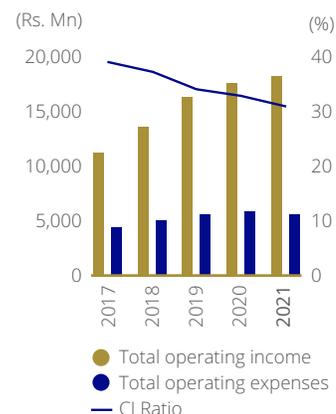
### Operating Expenses

Operating expenses decreased by 5.29% to Rs. 5.57 Billion for the year 2020/21, due to reduction in general and administrative expenses compared to the previous year following a disciplined cost management with reductions in cost across all major cost categories.

Advertising and business promotions included in the other operating expenses plummeted by 55.81% in the year 2020/21 compared to prior year as a consequence of subsidizing our advertising and business promotion.

Moreover, the Company managed to maintain its cost per employee within the budgeted levels demonstrating its ability to align with the Company strategy in unprecedented timeframes. It is also noteworthy that the cost to income ratio of the Company improved by 2.88% from 33.44% to 30.56% during the year by reporting the lowest cost to income ratio in L B Finance history indicating the effective and efficient cost management efforts of the Company.

**Total operating expenses vs total operating income**



## Taxes

L B Finance tax expense consists of two main elements namely taxes on financial services and income tax.

Tax on financial services reduced to Rs. 1.66 Billion, which was 26.74% less than the prior year. This was mainly due to tax reforms to abolish the debt repayment levy and NBT on financial services with effect from 1 January 2020.

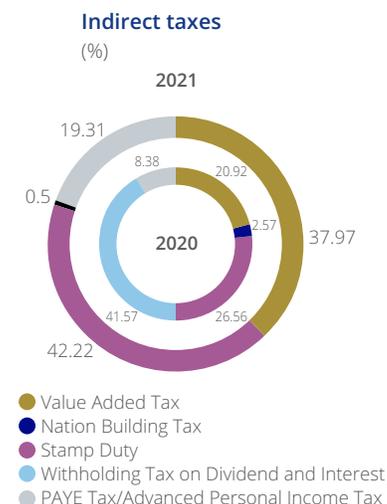
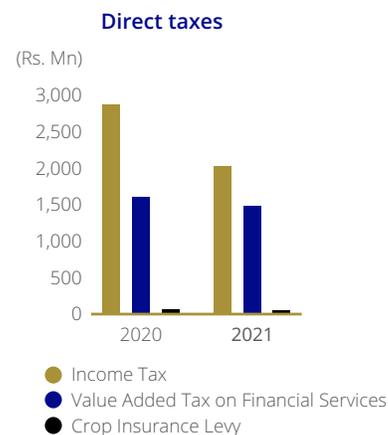
Similarly, indirect tax collected from Value Added Tax (VAT), Withholding Tax (WHT), PAYE and stamp duty amounted to Rs. 425.60 Million compared to the Rs. 1,223.56 Million paid in the prior year which represents a 65.22% reduction due to the tax reforms introduced.

Financial Highlights	2020/21	2019/20	2018/19
	Rs.'000	Rs.'000	Rs.'000
Profit before Tax on Financial Services	10,975,698	9,888,847	9,756,268
Tax on Financial Services	1,669,323	2,278,560	2,015,619
Profit after Tax on Financial Services	9,306,375	7,610,287	7,740,649
Current Income Tax (A)	2,913,969	2,683,698	2,441,729
Deferred Taxation Charge/(Reversal)			
- Income statement (B)	(410,191)	(260,464)	244,260
Taxation Charge - Income Statement C=(A + B)	2,503,778	2,423,234	2,685,989
Deferred Taxation Charge/(Reversal)			
- Other Comprehensive Income (D)	9,684	(11,678)	6,712
Total Tax Expense for the Financial Year E=(C+D)	2,513,462	2,411,556	2,692,701
Effective Tax Rate (Taxation Charge/Profit after Tax on Financial Services)	27.01%	31.69%	34.79%
Effective Tax Rate (Taxation Charge/Profit before Tax on Financial Services)	22.90%	24.39%	27.60%

The effective income tax rate of the Company decreased to 27.01% during the year from 31.69% reported in the previous year. This was mainly due to following downward tax adjustments effected during the last quarter of 2019/20.

- Corporate tax rate revision from 28% to 24% had a favorable impact to the reduction in effective income tax rate.
- Decrease in taxes on financial services due to the abolition of the debt repayment levy (effective from 1 January 2020), nation building tax (effective from 1 December 2019) enabled the Company to post an increase in the operating profit after tax on financial services.

The Company as a responsible taxpayer has a tax strategy that outline 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 from the Company amounted to Rs. 3.54 Billion compared to the Rs. 5.60 Billion in the prior year down by Rs. 2.06 Billion due to the above said tax reforms introduced.



## Profit After Tax

Despite the disruptions on operations caused by COVID-19 pandemic the Company was able to deliver a resilient performance. The Company reported profit after tax of Rs. 6.80 Billion which is Rs. 1.62 Billion or 31.15% higher than the previous year. The rise in profit primarily reflecting the impact of the increase in net interest income, effective credit cost management resulting in manageable impairment charges, reduction in operating expenses and the savings resulting from the tax regulatory reforms.

### PROFIT AFTER TAX

For the year ended 31 March 2021

FY 21 Rs. 6.8 Bn

FY 20 Rs. 5.1 Bn

Rs. 1.7 Bn ↑ 31%

### PROFIT BEFORE TAX ON FINANCIAL SERVICES

For the year ended 31 March 2021

FY 21 Rs. 10.9 Bn

FY 20 Rs. 9.8 Bn

Rs. 1.1 Bn ↑ 11%

# CAPITAL REPORTS

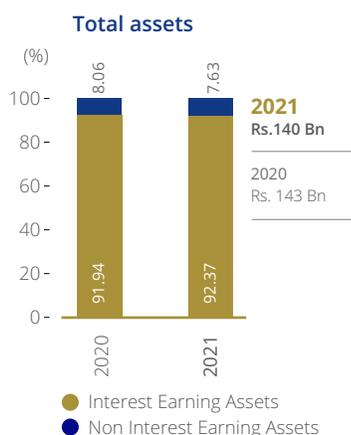
## Financial Capital

### STATEMENT OF FINANCIAL POSITION

	As at 31 March		Change %	
	2021 Rs. '000	2020 Rs. '000		
<b>Cash and Cash Equivalents</b>				
<b>Definition:</b> Value of a Company's assets that are cash or can be converted into cash immediately. Includes cash in hand, bank balances and treasury bills/bonds repurchase agreements.				
<b>Drivers:</b> Liquidity requirements (Company and CBSL), credit granting, recoveries and funding from deposits and other sources.				
<b>Lending Portfolio</b>				
<b>Definition:</b> Main interest earning assets to the Company which consists of loans and receivables, lease rentals receivable and stock out on hire.				
<b>Drivers:</b> Market interest rates, Companies risk appetite, market competition, lending volumes, pre-terminations and repayments.				
<b>Other Financial Assets</b>				
<b>Definition:</b> Consists of treasury bills repurchase agreements, investment in fixed deposits, insurance premium receivable and sundry debtors.				
<b>Drivers:</b> Liquidity requirements, market interest rates, excess funds.				
<b>Due to Banks</b>				
<b>Definition:</b> Consists of the external borrowings from banks including overdrafts, securitisations, term loans and syndications.				
<b>Drivers:</b> Market growth, funding requirements, market interest rates, repayments, gearing ratio.				
<b>Financial Liabilities at Amortised Cost - Due to Depositors</b>				
<b>Definition:</b> Comprise of interest bearing savings deposits and term deposits.				
<b>Drivers:</b> Funding requirements, market growth, market interest rates, deposit renewal ratio.				
<b>Debt Instruments Issued and Other Borrowed Funds</b>				
<b>Definition:</b> Consist of listed unsecured debentures.				
<b>Drivers:</b> Funding requirements, market interest rates, Company stability, Tier II capital adequacy requirements.				
	<b>As at 31 March</b>	<b>2021</b>	<b>2020</b>	<b>Change</b>
		<b>Rs. '000</b>	<b>Rs. '000</b>	<b>%</b>
<b>Assets</b>				
Cash and Cash Equivalents	6,187,300	6,162,637	0	
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,862	4,648	>100	
<b>Financial Assets at Amortised Cost</b>				
- Loans and Receivables	66,778,188	58,239,254	15	
<b>Financial Assets at Amortised Cost - Lease</b>				
Rentals Receivable and Stock out on Hire	47,359,635	60,626,670	(22)	
Financial Assets Measured at Fair Value Through Other Comprehensive Income	77,789	59,141	32	
<b>Other Financial Assets</b>	10,453,903	9,119,681	15	
Other Non Financial Assets	920,406	967,469	(5)	
Investment in Subsidiary	521,162	521,162	-	
Property, Plant and Equipment and Right-of-Use Assets	8,241,259	8,221,248	0	
Intangible Assets	26,021	41,809	(38)	
<b>Total Assets</b>	<b>140,576,525</b>	<b>143,963,719</b>	<b>(2)</b>	
<b>Liabilities</b>				
Due to Banks	16,467,179	22,771,085	(28)	
<b>Financial Liabilities at Amortised Cost</b>				
- Due to Depositors	85,860,070	89,256,435	(4)	
<b>Debt Instruments Issued and Other Borrowed Funds</b>	3,113,916	3,111,186	0	
Other Financial Liabilities	3,043,526	2,766,410	10	
Other Non Financial Liabilities	1,028,054	909,266	13	
Current Tax Liabilities	1,872,154	766,752	>100	
Deferred Tax Liabilities	637,073	1,037,580	(39)	
Post Employment Benefit Liability	365,265	345,456	6	
<b>Total Liabilities</b>	<b>112,387,237</b>	<b>120,964,170</b>	<b>(7)</b>	
<b>Equity</b>				
Stated Capital	838,282	838,282	-	
Reserves	7,596,106	6,216,939	22	
Retained Earnings	19,754,900	15,944,328	24	
Total Equity Attributable to Equity Holders of the Company	28,189,288	22,999,549	23	
Non-Controlling Interest	-	-	-	
<b>Total Equity</b>	<b>28,189,288</b>	<b>22,999,549</b>	<b>23</b>	
<b>Total Liabilities and Equity</b>	<b>140,576,525</b>	<b>143,963,719</b>	<b>(2)</b>	

## Total Assets Overview

As at 31 March 2021, the assets of L B Finance balance sheet amounted to Rs. 140.57 Billion, down 2.35% from 31 March 2020 (Rs. 143.96 Billion). The Company's assets include cash and cash equivalents, loans and receivables, lease rentals receivable and stock out on hire and other financial assets which together account for 93.09% of total assets as at 31 March 2021 (93.23% at 31 March 2020). Total interest earning assets of the Company accounted for 91.94% as at 31 March 2021 compared to 92.37% as at 31 March 2020.



## Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances of Rs. 2.78 Billion as at 31 March 2021 compared to Rs. 4.62 Billion as at 31 March 2020. The repurchase agreements included in cash and cash equivalents amounted to Rs. 3.39 Billion as opposed to Rs. 1.54 Billion as at 31 March 2020.

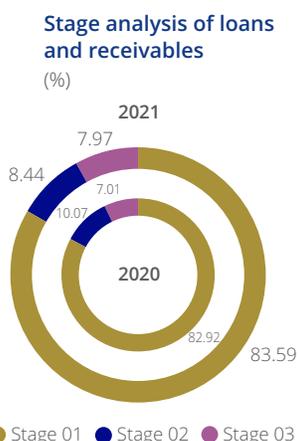
### Total Equity

**Definition:** Total equity equals total assets minus total liabilities and consists of the amount of money investors have invested in the Company and the earnings a Company has accumulated from its operations.

**Drivers:** Profits, statutory requirement on reserves, dividend payout, capital adequacy requirements and share holder expectations.

## Loans and Receivables

Loans and receivables amounted to Rs. 66.77 Billion (net of impairment) as at 31 March 2021 compared Rs. 58.23 Billion as at 31 March 2020, increasing by 14.66%. This is due to the increase in gold loan and vehicle loans by 18.18% and 40.90% respectively compared to the prior year. Moreover, the increase in loans and receivables are partially offset with the decrease in mortgage loans and term loans by 15.08% and 1.96% respectively. Impairment provisions were Rs. 3.37 Billion as at 31 March 2021 compared to Rs. 2.34 Billion as at 31 March 2020 due to ongoing macroeconomic uncertainty and increase in our loans and receivables.



## LOANS AND RECEIVABLES

As at 31 March 2021

**Rs. 66,778 Mn**

% change 2020/21 ↑ 15%

### Impairment Provision

FY 21 Rs. 3,370 Mn

FY 20 Rs. 2,349 Mn

**Rs. 1,021 Mn** ↑ 43%

## Lease Rentals Receivable and Stock out on Hire

Lease rentals receivable and stock out on hire decreased by Rs. 13.26 Billion to Rs. 47.35 Billion from 60.62 Billion. This contraction was mainly impacted by COVID-19 outbreak together with the restrictions imposed on the importation of vehicles which eventually resulted a shrinkage in number of vehicle registrations. Allowances for impairment charges (ECL) increased from Rs. 2.90 Billion to Rs. 3.16 Billion due to the negative impact cause by the COVID-19 pandemic despite the decline in the lease rentals receivable and stock out on hire.

## LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

As at 31 March 2021

**Rs. 47,359 Mn**

% change 2020/21 ↓ -22%

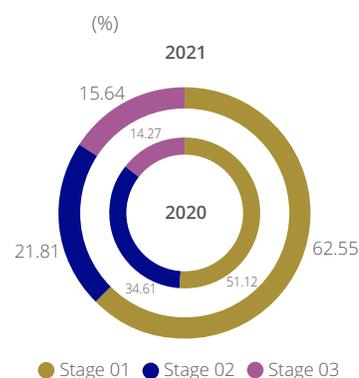
### Impairment Provision

FY 21 Rs. 3,161 Mn

FY 20 Rs. 2,908 Mn

**Rs. 253 Mn** ↑ 9%

## Stage analysis of lease rentals receivable and stock out on hire



# CAPITAL REPORTS

## Financial Capital

### Credit Quality

Credit quality of the Company was affected with the disruption to economic activities which had an adverse impact on increase in our impairment provision by Rs. 1.28 Billion from Rs. 5.25 Billion as at 31 March 2020 to Rs. 6.53 Billion as at 31 March 2021.

We identify counterparties that, demonstrate the likelihood of defaults and made provisions based on the ECL model of the Company, which factors in the forward economic outlook. L B Finance uses a dynamic impairment model powered by machine learning techniques developed with Colombo Science and Technology CELL of University of Colombo to improve the accuracy of forecasting which ensures that the Company adequately provided for the delinquent facilities.

Credit Quality of Assets	Gross Carrying Value		Allowance for Impairment	Allowance by Categories	
	Defaulted Exposures	Non-Defaulted Exposures		Individual	Collective
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>As at 31 March 2021</b>					
Loans and Receivables	5,590,002	64,558,907	3,370,721	2,339,239	1,031,482
Lease Rentals Receivable and Stock out on Hire	7,903,567	42,617,339	3,161,271	2,487,333	673,938
<b>Total</b>	<b>13,493,569</b>	<b>107,176,246</b>	<b>6,531,992</b>	<b>4,826,572</b>	<b>1,705,420</b>
	11.18%	88.82%			

<b>As at 31 March 2020</b>					
Loans and Receivables	4,249,210	56,339,350	2,349,306	1,915,499	433,807
Lease Rentals Receivable and Stock out on Hire	9,069,309	54,465,394	2,908,033	2,223,973	684,060
<b>Total</b>	<b>13,318,519</b>	<b>110,804,746</b>	<b>5,257,339</b>	<b>4,139,472</b>	<b>1,117,867</b>
	10.73%	89.27%			

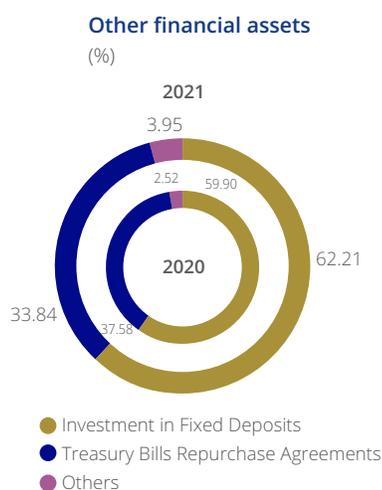
Financial Highlights	2021	2020	2019
	Rs. '000	Rs. '000	Rs. '000
Gross Loans (With Unearned Income)	134,801,208	143,625,411	140,149,944
Unearned Income	14,131,393	19,502,148	22,950,300
Gross Loans	120,669,815	124,123,263	117,199,644
Gross Non-Performing Loans (With Unearned Income)	7,232,046	5,648,464	3,773,333
Unearned Income of Non-Performing Loans	575,528	536,198	276,867
Gross Non-Performing Loans	6,656,518	5,112,266	3,496,466
SLFRS 09 ECL Provision	6,531,992	5,257,339	3,746,911
Regulatory Provision	5,194,045	3,897,772	2,642,510
Excess/(Shortfall) ECL Provision Compared to Regulatory Provision	1,337,947	1,359,567	1,104,401
ECL Provision as a Percentage of Gross Loans	5.41%	4.24%	3.20%
ECL Provision as a Percentage of Non-Performing Loans	98.13%	102.84%	107.16%
Regulatory Provision as a Percentage of Gross Loans	4.30%	3.14%	2.25%
Regulatory Provision as a Percentage of Non-Performing Loans	78.03%	76.24%	75.58%
NPL: Gross Loans	5.52%	4.12%	2.98%
NPL: Gross Loans-Unearned Income Basis	5.36%	3.93%	2.69%
Net Non-Performing Loans	0.10%	-0.12%	-0.21%

The regulatory provisions are made on loans and advances under the Direction No 03 of 2006 on "Provision for bad and doubtful debts" (and subsequent amendments thereof) issued by the CBSL.

The ECL as per SLFRS 09 - Financial Instruments is Rs. 1,337.94 Million excess as at the end of 31 March 2021 (Rs. 1,359.56 Million as at 31 March 2020) over the regulatory provision required as per the said directions issued by the Central Bank of Sri Lanka.

## Other Financial Assets

Other financial assets mainly composed of treasury bills repurchased agreements and investments in fixed deposits to meet statutory liquidity requirements. Other financial assets increased by 14.63% to Rs. 10.45 Billion from Rs. 9.11 Billion. This was driven by the increase in investments in fixed deposits from Rs. 3.42 Billion to Rs. 6.50 Billion which overshadowed the decline in treasury bill repurchased agreements by Rs. 1.92 Billion as at 31 March 2021.



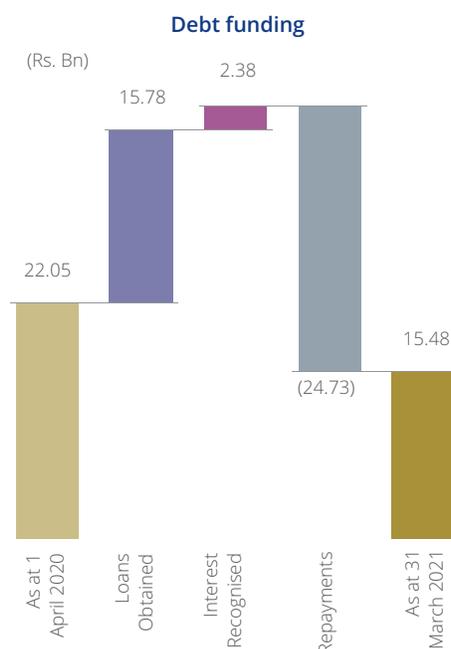
## Liability Overview

The Company's liabilities amounted to Rs. 112.38 Billion as at 31 March 2021 down 7.09% from Rs. 120.96 Billion as at 31 March 2020. The Company's main liabilities consist of due to banks, due to depositors and debt instruments issued and other borrowed funds. These items together represented 93.82% of our total liabilities as at 31 March 2021 (95.18% as at 31 March 2020). The 7.09% decrease in liability was mainly due to the 27.68% drop or Rs. 6.30 Billion decrease in due to banks compared to prior year of Rs. 22.77 Billion in line with the lending portfolio contraction.

## Due to Banks

Due to banks declined by 27.68% to Rs. 16.46 Billion as at 31 March 2021 from Rs. 22.77 Billion as at 31 March 2020. While the decrease is mainly due to the settlement of the amounts due to banks with its strong liquidity position. The Company has borrowed Rs. 15.78 Billion in the year 2021 (2020 - Rs. 14.58 Billion) to manage the maturity mismatch of assets and liabilities and maintain the existing funding mix of the Company.

	2021 Rs. '000	2020 Rs. '000
Bank Overdrafts	988,099	720,411
Debt Funding from Banks	15,479,080	22,050,674
Due to Banks	16,467,179	22,771,085



## Due to Depositors

Due to depositors amounts to Rs. 85.86 Billion down Rs. 3.39 Billion from 31 March 2020. This was primarily driven by the 4.48% drop in the fixed deposits easing the concentration on larger value deposits while maintaining healthy levels of liquidity for business operation.

## Debt Instruments Issued and Other Borrowed Funds – Debentures

This category includes Rs. 3.00 Billion listed debentures issued in December 2017 of which Rs. 2.00 Billion were subordinated debentures to strengthen Tier II capital. Debt instruments issued and other borrowed funds remained at Rs. 3.11 Billion as at 31 March 2021 and 2020.

## Shareholders' Equity

Shareholders' equity amounts to Rs. 28.18 Billion as at 31 March 2021 compared with Rs. 22.99 Billion as at 31 March 2020. This Rs. 5.18 Billion increase is mainly attributable to the profit of the year which amounted to Rs. 6.80 Billion and partially offset by the Rs. 1.66 Billion interim dividends paid in respect of the year ended 31 March 2021.

It is also noteworthy that the Company sub-divided its shares on 10 March 2021 whereby every share was sub-divided into four shares without any change to the stated capital of the Company thereby increasing the number of shares in issue from 138,514,284 shares to 554,057,136 shares.

### SHAREHOLDERS' EQUITY As at 31 March 2021

**Rs. 28.2 Bn**

2020 Rs. 23.0 Bn

Rs. 6.8 Bn Profits

(Rs. 1.6 Bn) Interim Dividends

Change 2020/21

**Rs. 5.2 Bn**



23%

# CAPITAL REPORTS

## Financial Capital

### Commitments and Contingencies

Commitments and contingencies mainly consist of import letter of credits, guarantees issued to banks and other institutions and financing commitments given to customers.

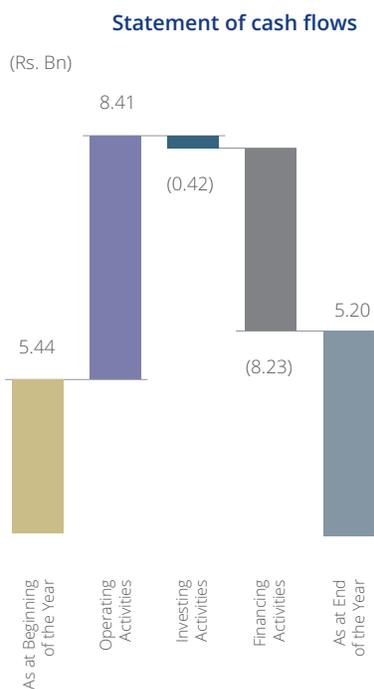
Commitments and contingencies balances declined by 53.15% from Rs. 1.92 Billion as at 31 March 2020 to Rs. 0.90 Billion as at 31 March 2021 mainly due to the decline in financing commitments given to customers.



### Statement of Cash Flows

We actively manage the Company's liquidity and funding to support our business strategy and meet regulatory requirements at all times, including under stress. This is evident with the increase in our operating cash flow from operating activities from Rs. 5.67 Billion to Rs. 8.42 Billion with the increase in profits demonstrating its ability to turnout the profits generated by the Company into cash. The cash generated through the operations are being mainly used to settle the amounts due to banks and to pay interim dividend to our shareholders.

This reflects an additional way of viewing our performance that we believe is useful to investors because it represents cash that has been generated by the company through its operations.



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

Profit before tax of LBM operation decreased 50.03% to Rs. 21.44 Million from Rs. 42.90 Million reflecting a challenging operating environment and increased credit impairment charges. Net interest income of LBM increased 9.83% to Rs. 132.71 Million despite the COVID-19 pandemic due to the higher transactional volumes during the first three quarters of the financial year. Our operations at Myanmar during the last quarter of the financial year was disrupted due to the risks associated with political instability, civil unrest and military conflict prevailed.

Impairment charges and other losses increased to Rs. 36.17 Million (2020 - Rs. 25.43 Million) due to the deterioration in economic outlook driven by the COVID-19 pandemic and current political tension.

Operational expenses increased 64.74% to Rs. 86.06 Million from Rs. 52.23 Million reflecting the LBM's expansions into the new regions.

Total assets of LBM amounted to Rs. 909.93 Million as at 31 March 2021 primarily consist of loans and receivables balance which accounts for 75.74% of the total assets of LBM.

Gross loans and receivables increased to Rs. 688.39 Million from Rs. 554.09 Million or 24.24% increase predominantly due to the continued customer support of LBM to the customers as well as strong customer retention. Due to depositors increased 36.62% to Rs. 80.14 Million from Rs. 58.66 Million aligning with the increase in loans and receivables.

## HORIZONTAL ANALYSIS OF FINANCIAL STATEMENTS

Horizontal analysis is used in the review of a Company's Financial Statements over multiple periods. It is usually depicted as percentage growth over the same line item in the base year. Our horizontal analysis allows financial statement users to easily spot trends and growth patterns.

Statement of Financial Position As at 31 March	CAGR*	Current Year Rs. '000		Percentage Change				Base Year Rs. '000
		2021	2021	2020	2019	2018	2017	2016
<b>Assets</b>								
Cash and Cash Equivalents	0%	6,187,300	2%	2%	(33%)	(3%)	(52%)	6,051,898
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	0%	10,862	2%	(56%)	(36%)	(9%)	(5%)	10,645
Financial Assets at Amortised Cost - Loans and Receivables	20%	66,778,188	152%	120%	79%	51%	27%	26,449,169
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock Out on Hire	1%	47,359,635	5%	34%	46%	39%	23%	45,104,836
Financial Assets Measured at Fair Value Through Other Comprehensive Income	(11%)	77,789	(44%)	(57%)	(35%)	(12%)	(15%)	138,411
Other Financial Assets	20%	10,453,903	152%	120%	161%	63%	62%	4,142,716
Other Non Financial Assets	11%	920,406	71%	80%	98%	51%	(43%)	538,898
Investment in Subsidiary	100%	521,162	100%	100%	100%	100%	0%	-
Property, Plant and Equipment	32%	8,241,259	303%	302%	222%	129%	72%	2,045,295
Intangible Assets	(6%)	26,021	(25%)	20%	15%	38%	41%	34,765
<b>Total Assets</b>	<b>11%</b>	<b>140,576,525</b>	<b>66%</b>	<b>70%</b>	<b>61%</b>	<b>43%</b>	<b>22%</b>	<b>84,516,636</b>
<b>Liabilities</b>								
Due to Banks	2%	16,467,179	13%	56%	69%	57%	63%	14,577,233
Financial Liabilities at Amortised Cost - Due to Depositors	10%	85,860,070	61%	67%	56%	37%	13%	53,379,801
Debt Instruments Issued and Other Borrowed Funds	4%	3,113,916	20%	20%	19%	98%	(21%)	2,601,282
Other Financial Liabilities	10%	3,043,526	63%	48%	6%	(6%)	7%	1,869,940
Other Non Financial Liabilities	11%	1,028,054	72%	52%	246%	43%	13%	597,806
Current Tax Liabilities	20%	1,872,154	153%	3%	88%	(15%)	(7%)	741,251
Deferred Tax Liabilities	35%	637,073	345%	625%	815%	640%	252%	143,142
Post Employment Benefit Liability	24%	365,265	188%	172%	102%	82%	21%	126,858
<b>Total Liabilities</b>	<b>9%</b>	<b>112,387,237</b>	<b>52%</b>	<b>63%</b>	<b>59%</b>	<b>42%</b>	<b>22%</b>	<b>74,037,317</b>
<b>Equity</b>								
Stated Capital	0%	838,282	0%	0%	0%	0%	0%	838,282
Reserves	23%	7,596,106	184%	133%	95%	60%	28%	2,670,537
Retained Earnings	23%	19,754,900	183%	129%	78%	47%	18%	6,970,499
<b>Total Equity</b>	<b>22%</b>	<b>28,189,288</b>	<b>169%</b>	<b>119%</b>	<b>76%</b>	<b>46%</b>	<b>19%</b>	<b>10,479,319</b>
<b>Total Liabilities and Equity</b>	<b>11%</b>	<b>140,576,525</b>	<b>66%</b>	<b>70%</b>	<b>61%</b>	<b>43%</b>	<b>22%</b>	<b>84,516,636</b>

\*CAGR - Compound Annual Growth Rate

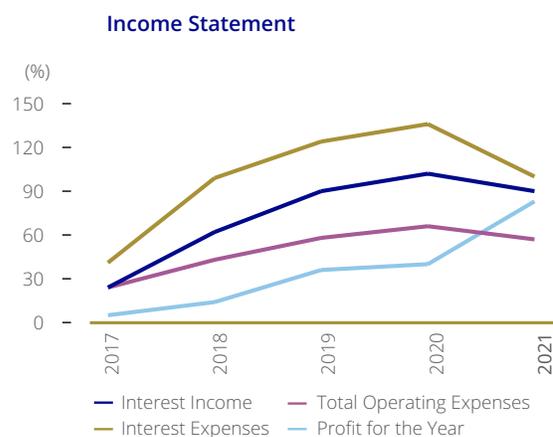
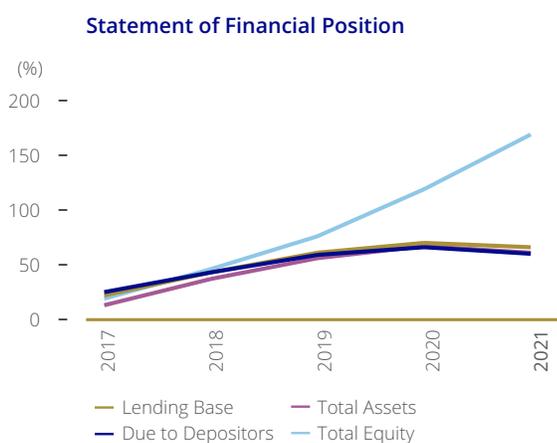
# CAPITAL REPORTS

## Financial Capital

Income Statement Year ended 31 March	CAGR*	Current Year Rs. '000		Percentage Change				Base Year Rs. '000
		2021	2020	2021	2020	2019	2018	2017
Income	14%	29,766,124	90%	100%	87%	60%	24%	15,646,467
Interest Income	14%	27,457,741	90%	102%	90%	62%	24%	14,428,729
Interest Expenses	15%	11,522,802	100%	136%	124%	99%	41%	5,773,255
Net Interest Income	13%	15,934,939	84%	80%	67%	37%	13%	8,655,474
Other Operating Income	14%	2,308,383	90%	69%	57%	36%	19%	1,217,737
Total Operating Income	13%	18,243,322	85%	78%	65%	37%	14%	9,873,212
Impairment Charges and Other Losses	33%	1,691,734	311%	345%	139%	63%	(110%)	411,793
Total Operating Expenses	9%	5,575,890	57%	66%	58%	43%	24%	3,543,352
Profit before Taxation	12%	9,306,375	75%	43%	45%	22%	10%	5,324,615
Tax on Financial Services	23%	1,669,323	181%	284%	240%	125%	73%	593,452
Income Tax Expense	9%	2,503,778	56%	51%	67%	39%	22%	1,606,822
<b>Profit for the Year</b>	13%	<b>6,802,597</b>	<b>83%</b>	<b>40%</b>	<b>36%</b>	<b>14%</b>	<b>5%</b>	<b>3,717,792</b>

\*CAGR - Compound Annual Growth Rate

### TREND ANALYSIS OF FINANCIAL STATEMENTS



## VERTICAL ANALYSIS OF FINANCIAL STATEMENTS

Vertical analysis is a method of Financial Statements analysis in which each line item is listed as a percentage of a base figure within the statement.

Statement of Financial Position As at 31 March	Percentage Change					
	2021	2020	2019	2018	2017	2016
<b>Assets</b>						
Cash and Cash Equivalents	4%	4%	3%	5%	3%	7%
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	0%	0%	0%	0%	0%	0%
Financial Assets at Amortised Cost - Loans and Receivables	48%	40%	35%	33%	33%	31%
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock Out on Hire	34%	42%	48%	52%	54%	53%
Financial Assets Measured at Fair Value Through Other Comprehensive Income	0%	0%	0%	0%	0%	0%
Other Financial Assets	7%	6%	8%	6%	7%	5%
Other Non Financial Assets	1%	1%	1%	1%	0%	1%
Investment in Subsidiary	0%	0%	0%	0%	0%	0%
Property, Plant and Equipment	6%	6%	5%	4%	3%	2%
Intangible Assets	0%	0%	0%	0%	0%	0%
<b>Total Assets</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Liabilities</b>						
Due to Banks	12%	16%	18%	19%	23%	17%
Financial Liabilities at Amortised Cost - Due to Depositors	61%	62%	61%	60%	59%	63%
Debt Instruments Issued and Other Borrowed Funds	2%	2%	2%	4%	2%	3%
Other Financial Liabilities	2%	2%	1%	1%	2%	2%
Other Non Financial Liabilities	1%	1%	2%	1%	1%	1%
Current Tax Liabilities	1%	1%	1%	1%	1%	1%
Deferred Tax Liabilities	0%	1%	1%	1%	0%	0%
Post Employment Benefit Liability	0%	0%	0%	0%	0%	0%
<b>Total Liabilities</b>	<b>80%</b>	<b>84%</b>	<b>86%</b>	<b>87%</b>	<b>88%</b>	<b>88%</b>
<b>Equity</b>						
Stated Capital	1%	1%	1%	1%	1%	1%
Reserves	14%	11%	9%	8%	8%	8%
Retained Earnings	5%	4%	4%	4%	3%	3%
<b>Total Equity</b>	<b>20%</b>	<b>16%</b>	<b>14%</b>	<b>13%</b>	<b>12%</b>	<b>12%</b>
<b>Total Liabilities and Equity</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

# CAPITAL REPORTS

## Financial Capital

Income Statement Year ended 31 March	Percentage Change					
	2021	2020	2019	2018	2017	2016
Income	100%	100%	100%	100%	100%	100%
Interest Income	92%	93%	93%	93%	92%	92%
Interest Expenses	39%	44%	44%	46%	42%	37%
Net Interest Income	54%	50%	49%	47%	51%	55%
Other Operating Income	8%	7%	7%	7%	8%	8%
Total Operating Income	61%	56%	56%	54%	58%	63%
Impairment Charges and Other Losses	6%	6%	3%	3%	0%	3%
Total Operating Expenses	19%	19%	19%	20%	23%	23%
Profit before Taxation	31%	24%	26%	26%	30%	34%
Tax on Financial Services	6%	7%	7%	5%	5%	4%
Income Tax Expense	8%	8%	9%	9%	10%	10%
Profit for the Year	23%	17%	17%	17%	20%	24%

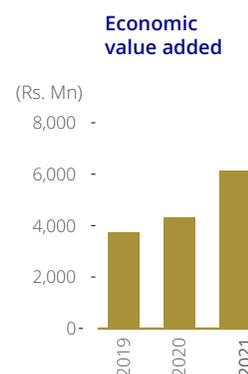
### ECONOMIC CONTRIBUTION

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.

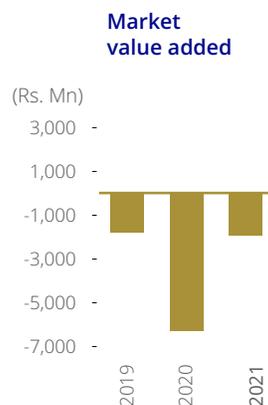
For the year ended 31 March	2021	2020	2019
	Rs. Mn	Rs. Mn	Rs. Mn
<b>Invested Equity</b>			
Shareholders' Funds	28,189.29	22,999.55	18,427.15
Add: Cumulative Loan Loss Provision/Provision for Impairment	6,531.99	5,257.34	3,746.91
	34,721.28	28,256.89	22,174.06
<b>Earnings</b>			
Profit Attributable to Shareholders	6,802.60	5,187.05	5,054.66
Add: Loan loss Provisions/Impairment Provision	1,691.73	1,831.06	982.11
	8,494.33	7,018.11	6,036.77
Economic Cost % (Average Treasury Bill Rate Plus 2% Risk Premium)	7.45%	10.66%	11.49%
Economic Cost	2,345.94	2,687.97	2,320.43
<b>Economic Value Added</b>	<b>6,148.39</b>	<b>4,330.14</b>	<b>3,716.34</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.

For the Year ended 31 March	2021 Rs. Mn	2020 Rs. Mn	2019 Rs. Mn
<b>Market Capitalisation</b>			
Market Value of Equity	26,262.31	16,690.97	16,635.57
<b>Less: Equity Owners' Funds</b>			
Shareholders' Funds	28,189.29	22,999.55	18,427.15
Total Equity Owners' Funds	28,189.29	22,999.55	18,427.15
Market Value Added/(Destroyed)	(1,926.98)	(6,308.58)	(1,791.58)

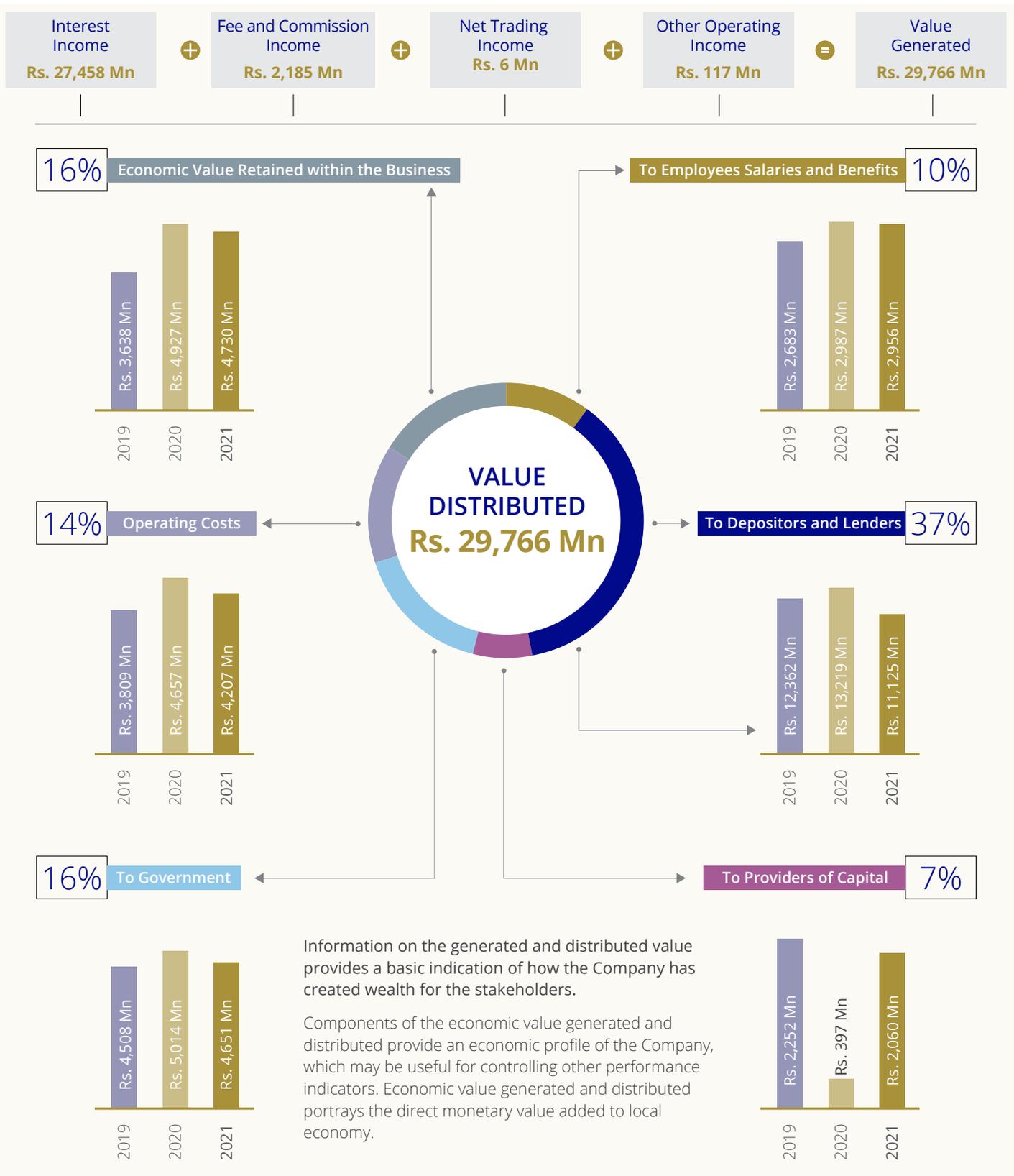


# CAPITAL REPORTS

## Financial Capital

### DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

For the Year ended 31 March	2021		2020		2019	
	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%
<b>Direct Economic Value Generated</b>						
Interest Income	27,457.74		29,160.29		27,363.77	
Fee and Commission Income	2,184.95		1,941.63		1,782.07	
Net Trading Income	6.32		(2.10)		(2.56)	
Other Operating Income	117.11		123.04		134.74	
<b>Economic Value Generated</b>	<b>29,766.12</b>		<b>31,222.86</b>		<b>29,278.02</b>	
<b>Economic Value Distributed</b>						
<b>Operating Costs</b>						
Depreciation and Amortisation Set Aside	745.24		713.39		435.38	
Impairment Charge for Loans and Other Losses	1,691.73		1,831.06		982.11	
Training Cost	4.02		18.56		10.95	
Other Operating Expenses	1,765.83		2,094.40		2,380.39	
	4,206.82	14.13	4,657.41	14.92	3,808.83	13.01
<b>To Employees</b>						
Employees Salaries and Benefits	2,955.81		2,986.63		2,682.61	
	2,955.81	9.93	2,986.63	9.57	2,682.61	9.16
<b>To Depositors and Lenders</b>						
Interest Expenses	11,125.01		13,218.85		12,361.66	
	11,125.01	37.37	13,218.85	42.34	12,361.66	42.22
<b>To Providers of Capital</b>						
Dividend to Shareholders	1,662.17		-		1,662.17	
Interest to Debenture Holders	397.79		396.55		589.66	
	2,059.96	6.92	396.55	1.27	2,251.83	7.69
<b>To Government</b>						
Income Tax Expenses	2,913.97		2,683.70		2,441.73	
Debt Repayment Levy	-		684.71		401.53	
VAT and NBT on Financial Services	1,669.32		1,593.85		1,614.09	
Crop Insurance Levy	67.71		52.06		51.00	
	4,651.00	15.63	5,014.32	16.06	4,508.35	15.40
<b>To Community</b>						
Social Responsibility Projects	37.29		22.52		26.95	
	37.29	0.13	22.52	0.07	26.95	0.09
<b>Economic Value Retained</b>	<b>4,730.24</b>	<b>15.89</b>	<b>4,926.60</b>	<b>15.78</b>	<b>3,637.79</b>	<b>12.42</b>
<b>Economic Value Distributed</b>	<b>29,766.12</b>	<b>100.00</b>	<b>31,222.86</b>	<b>100.00</b>	<b>29,278.02</b>	<b>100.00</b>



# CAPITAL REPORTS

## Financial Capital

### INVESTORS

LBF always pay attention to maximise shareholders' wealth by carefully managing risk and return while crafting the business strategies in the best interest of its shareholders since the lifeblood of LBF is its investors. We engage with our shareholders who are interested and invested in the success and sustainability of our business. Doing so helps us to understand expectations and leads to better outcomes over the long-term.

This helped the Board to build an understanding of what matters to our investors in the long-term and to build a lasting and trusting relationship with our shareholders.

### How does LBF Engage with its Stakeholders?

The Board adopts a variety of methods to engagement with its shareholders to understand the view of the shareholders.

The AGM is an important event in the Company's corporate calendar and an excellent opportunity to engage with shareholders and for shareholders to ask questions from the Board.

Annual report and interim financial statements of the company with the endeavors to provide all shareholders with clear, consistent, high-quality information at regular intervals, in accordance with best market practice and the recommendations of stock market authorities is also another form of communication.

LBF also uses press conferences and media releases to provide briefing about the Company's strategy, major events concerning the Company's business as well.

### Engagement in Action During COVID-19

Despite the challenges caused by the pandemic, the Company held its 2020 AGM with a attendance of limited number of shareholders presence where possible as a result of the prohibition on public gatherings. The Board also ensured that all shareholders had the opportunity to raise questions at the AGM.

### Shareholders Return



In light of the challenges imposed by the COVID-19 pandemic and in response to the restrictions imposed on cash dividend from the Central Bank of Sri Lanka, the Board decided not to declare final dividend payment for financial year 2019/20 which was expected to be paid in the first quarter of 2020/21. The Board concluded this difficult decision was prudent to preserve additional capital to continue to serve the needs of the customers in time of crisis while understanding the short-term adverse impact on the shareholders. However, with the improvements in the performance during the year, the Company paid an interim dividend of Rs. 12.00 per share (based on number of shares prior to the share sub-division) during the financial year 2020/21. The Company also proposed a final dividend of Rs. 4.00 share (based on post sub-division of shares) to ensure a

sustainable return to the shareholders of the Company.

Despite the COVID-19 pandemic, the share prices of the Company increased by 57% based on the restated market price per share reflecting the continued investor interest in shares of the Company during the year.

Share Price as at the Beginning of the Year	Rs. 120.50
Restated Market Price Based on the Sub-Division	Rs. 30.13
Share Price as at the End of the Year	Rs. 47.40
Share Price Appreciation	Rs. 17.28
Dividend per Share (based on Post Sub-Division)	Rs. 7.00
Total Return per Share	Rs. 24.28
Total Yield per Share	80.58%

This demonstrates that we remain focused on achieving sustainable, long-term earnings growth and maintain stable dividend income stream to our shareholders.

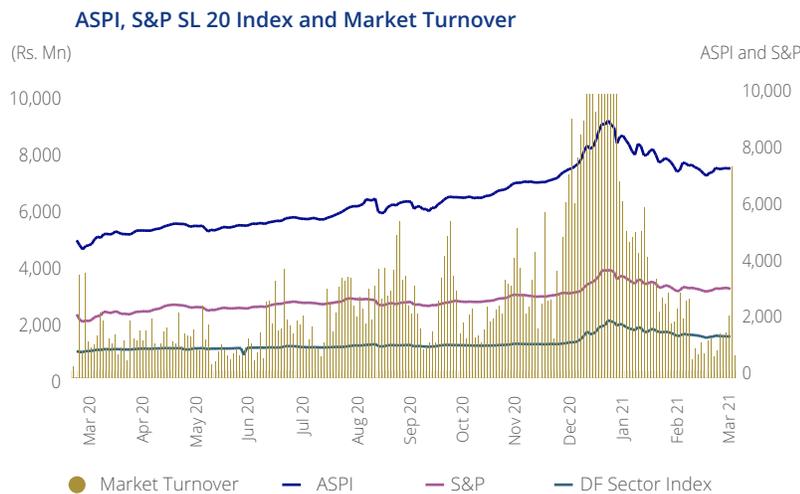
### Share Sub-Division

Based on the recommendations made by the Board, on 10 March 2021 shareholders approved the sub-division of ordinary shares on the basis of a sub-division of every one (01) ordinary share into four (04) ordinary shares, thus increasing the existing 138,514,284 issued ordinary shares of the Company to 554,057,136 ordinary shares without in anyway changing the Stated Capital of the Company, which would remain at Rs. 838,282,159/-. The share split was effected with the intention of lowering the share prices of the shares to a price range which is affordable to most investors and increasing the liquidity of shares.

## The Colombo Stock Exchange

Colombo Stock Exchange (CSE) ended the financial year on a positive note, despite a very challenging economic and operating environment prevailed throughout the year primarily due to the outbreak of COVID-19 during the first quarter of the financial year. Although the pandemic resulted in an early shock at the start of the year, All Share Price Index (ASPI) stood at 7,121 as at 31 March 2021 reflecting a resilient performance of trading activities at CSE. Standard and Poor's (S&P SL 20) which tracks the performance of larger blue-chip companies raised to 2,850 points as at 31 March 2021 from 1,947 points as at 20 March 2020 prior to the activities being closed for nearly two months due to the outbreak of COVID-19.

Although, ASPI and S&P SL 20 indexes recovering gradually over the financial year, diversified financial (DF) sector index did not follow the same trend during the first few quarters of the financial year mainly due to the uncertainties surrounding the business growth with the pandemic and the monetary easing offered to the affected customers as per the directions of the Central Bank of Sri Lanka. However, in the late third quarter and the final quarter, DF sector index was more aligned with recoveries reflected in ASPI and S&P SL 20 indexes due to the resurgence of economic activities and expectation that the vaccine could drive the economic recovery.



## Performance of LBF Share



As depicted in the graphs above the market price of LBF shares increased by 103.77% at the end of January 2021 from Rs. 146.00 per share at the end of December 2020. There was a continued interest in the shares of the Company and the trading of the Company's shares peaked to 4.73 Million shares trade in hands at the month of January 2021.

# CAPITAL REPORTS

## Financial Capital

### Annual Performance

	2020/21	2019/20	2018/19
<b>Share Price</b>			
Highest (Rs.)	348.75	167.50	129.90
Lowest (Rs.)	*42.6	114.00	110.00
Closing (Rs.)	*47.4	120.50	120.10
Number of Transactions	21,681	2,995	1,857
Number of Shares Traded	12,559,335	3,552,610	2,845,955
Value of Shares Traded (Rs. Billion)	2.32	0.5	0.33
Number of Days Traded	216	223	218
Average Daily Turnover (Rs. Million)	10.73	2.27	1.41
Market Capitalisation (Rs. Billion)	26.26	16.69	16.70

\*Price per share represents the share price after the share sub-division.

### Quarterly Performance

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
<b>Share Price</b>				
Highest (Rs.)	142.00	154.00	151.90	348.75
Lowest (Rs.)	114.80	128.00	129.00	*42.6
Closing (Rs.)	140.00	143.70	146.00	*47.4
Number of Transactions	685	3,540	3,319	14,137
Number of Shares Traded	169,819	1,790,586	1,810,166	8,788,764
Value of Shares Traded (Rs. Million)	23.40	242.09	254.59	1,798.27
Number of Days Traded	35	64	62	55
Average Daily Turnover (Rs. Million)	0.67	3.78	4.11	32.70

\*Noticeable reduction in price per share of the quarter 4 represents the share price after the share sub-division.

### FLOAT ADJUSTED MARKET CAPITALISATION

The Float adjusted market capitalisation as at 31 March 2021 – Rs. 5,714,447,683/-

The Float adjusted market capitalisation of the Company falls under Option 5 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 under the said option.

### LBF SHARE

#### General Information

As at 31 March	2021	2020
Total Number of Shares in Issue	554,057,136	138,514,284
Public Shareholding	21.76%	21.83%
Beta Value Against ASPI	2.48	1.43

#### Other Information

Stock symbol LFIN.N0000

#### Newswire codes of LBF Share:

Bloomberg LFIN.SL  
Dow Jones LFINN  
Reuters LFIN. CM

## MARKET CAPITALISATION (AS AT 31 MARCH)

Year	Shareholders' Funds	LFIN Market Capitalisation	CSE Market Capitalisation	Market Capitalisation as % of CSE Market Capitalisation
	Rs. Mn	Rs. Mn	Rs. Mn	
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	16,690	2,128,266	0.78%
2021	28,189	26,262	3,111,259	0.84%

As indicated above the market capitalisation of the Company increased from Rs. 16.69 Billion in 2020 to Rs. 26.26 Billion in 2021 accounting for 0.84% (2020 – 0.78%) of the total market capitalisation. The Company's shares are one of the most prominent shares among the listed shares of the Company. The total market capitalisation of the CSE as at 31 March 2021 was Rs. 3,111 Billion compared to Rs. 2,128 Billion as at 31 March 2020 an increase of 46.19%. Market capitalisation of the Company also increased significantly from Rs.16.69 Billion to Rs. 26.26 Billion or 57.34% increase.

## KEY SHAREHOLDER DATA

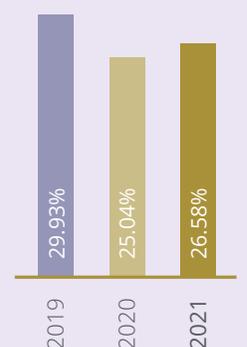
We aim to deliver the expectation of our shareholders through execution of our strategies while serving our customer to meet their needs.

### Earnings Per Share



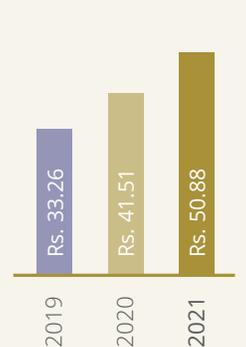
L B Finance prudently manage its earnings with a policy to provide sustainable return to shareholders while giving the management the flexibility to reinvest capital to grow the Company.

### Return on Equity



We are invested to provide long term value to our shareholders.

### Net Assets Value per Share



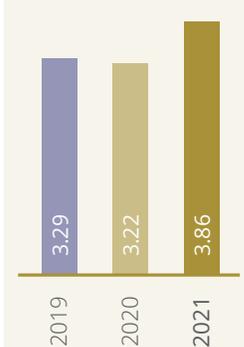
L B Finance strive to create value for our shareholder funding in assessing the performance of a fund against the market or industry benchmarks.

### Shareholder Funds



We ensure that the company is operated on a foundation of strength and is well-positioned to deliver sustainable returns to our shareholders.

### Price Earnings (PE)

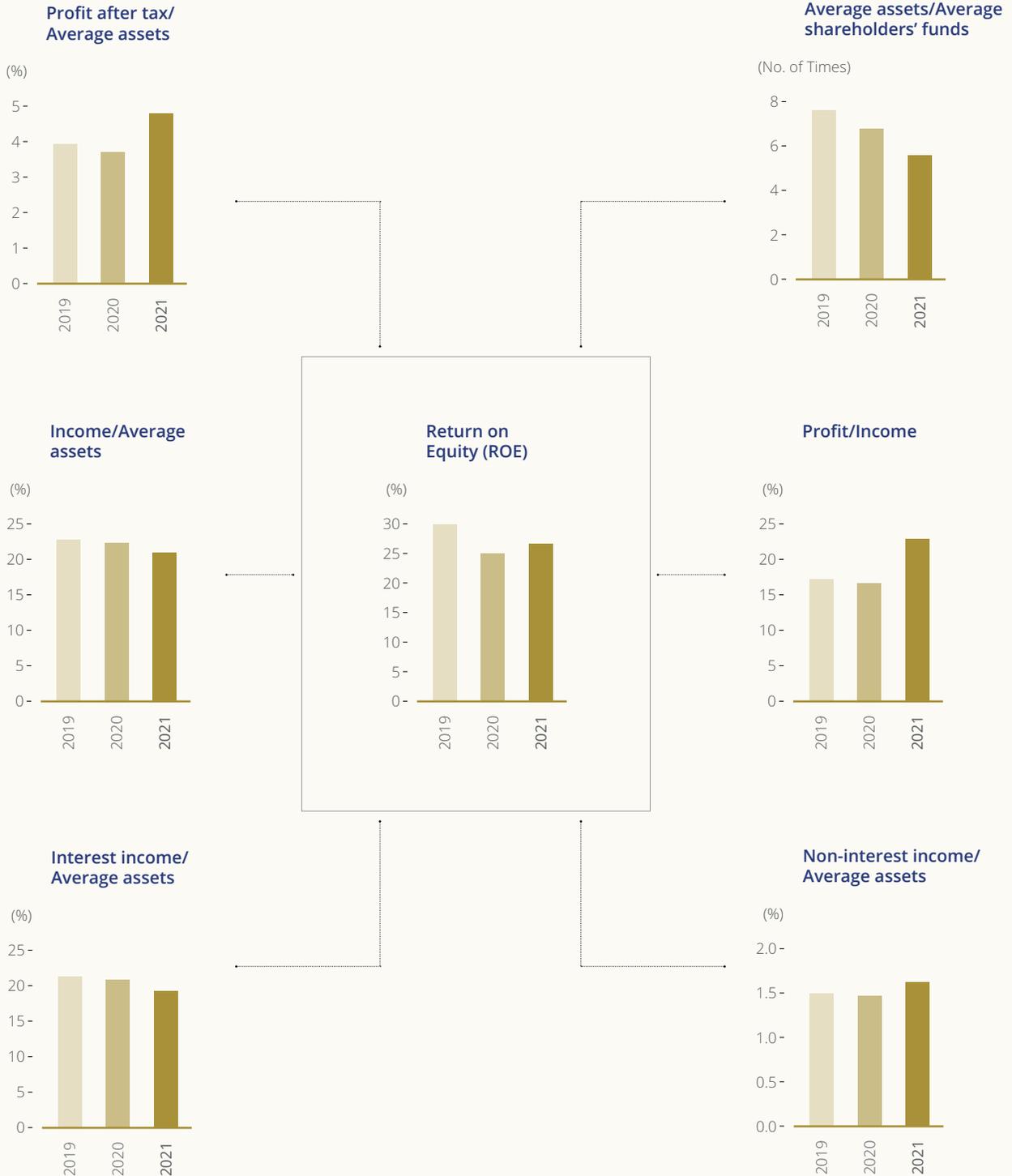


# CAPITAL REPORTS

## Financial Capital

### FINANCIAL CAPITAL ANALYSIS

#### Dupont analysis (ROE analysis)



## LARGEST SHAREHOLDERS OF THE COMPANY

Shareholders	As at 31 March 2021		As at 31 March 2020	
	No. of Shares	(%)	No. of Shares	(%)
1 Vallibel One PLC	286,729,600	51.751	71,682,400	51.751
2 Royal Ceramics Lanka PLC Commercial Bank of Ceylon PLC/Royal Ceramics Lanka PLC	144,492,928	26.079	36,123,232	26.079
3 Esna Holdings (Pvt) Ltd	56,249,600	10.152	14,062,400	10.152
4 BNYM Re-Frontaura Global Frontier Fund LLC	8,853,464	1.598	2,290,135	1.653
5 Pershing LLC S/A Averbach Grauson & Co.	8,024,312	1.448	2,006,078	1.448
6 Hatton National Bank PLC/Mr. Karuna Ranaraja Ekanayaka Mudiyanselage Dharshan Maduranga Bandara Jayasundara	2,600,000	0.469	401,249	0.290
7 Janashakthi Insurance PLC - NON PAR	2,000,000	0.361	500,000	0.361
8 Mr. K D A Perera	1,708,116	0.308	438,996	0.317
9 Mr. N Udage	1,616,540	0.292	329,135	0.238
10 Finco Holdings (Private) Limited	1,566,358	0.283	-	-
11 Seylan Bank PLC/W D N H Perera	1,280,000	0.231	-	-
12 Mr. A A Page	1,259,200	0.227	314,800	0.227
13 Mr. A M Weerasinghe	1,220,944	0.220	-	-
14 People's Leasing & Finance PLC/Dr. H S D Soysa & Mrs. G Soysa	923,264	0.167	230,816	0.167
15 Mrs. P C Cooray	834,528	0.151	208,632	0.151
16 J B Cocoshell (Pvt) Ltd	803,712	0.145	237,626	0.172
17 Mr. N P D E Samaranyake	800,000	0.144	240,000	0.173
18 Commercial Bank of Ceylon PLC/Janashakthi Capital Limited	640,000	0.116	-	-
19 Mr. W D N H Perera	638,180	0.115	-	-
20 Mr. P Somadasa	578,700	0.104	138,051	0.100
	522,819,446	94.362	129,203,550	93.278
Others	31,237,690	5.638	9,310,734	6.722
Total	554,057,136	100.000	138,514,284	100.000

## DISTRIBUTION OF SHAREHOLDINGS AS AT 31 MARCH 2021

From	To	No. of Shareholders	No. of Shares	%
1	1,000	1,744	507,678	0.09
1,001	10,000	1,273	4,804,807	0.87
10,001	100,000	496	14,055,043	2.54
100,001	1,000,000	63	17,088,546	3.08
Over 1,000,000		14	517,601,062	93.42
		3,590	554,057,136	100.00



# CAPITAL REPORTS

## Financial Capital

### DISTRIBUTION OF SHAREHOLDINGS AS AT 31 MARCH 2020

From	To	No. of Shareholders	No. of Shares	%
1	1,000	1,235	286,758	0.09
1,001	10,000	499	1,730,147	0.87
10,001	100,000	127	3,690,102	2.54
100,001	1,000,000	17	3,988,348	3.08
Over 1,000,000		8	128,818,929	93.42
		1,886	138,514,284	100.00



### COMPOSITION OF SHAREHOLDERS

Category	2020/21			2019/20		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Local Individuals	3,414	35,311,308	6.37	1,766	7,246,739	5.23
Local Institutions	147	500,874,760	90.40	94	124,148,216	89.63
Foreign Individuals	25	535,292	0.10	21	131,432	0.09
Foreign Institutions	4	17,335,776	3.13	5	6,987,897	5.04
Total	3,590	554,057,136	100.00	1,886	138,514,284	100.00

### SHARE PRICES FOR THE YEAR

	2020/21	Date	2019/20	Date
Market Price per Share				
Highest During the Period	Rs. 348.75	27 January 2021	Rs. 167.50	18 February 2020
Lowest During the Period	*Rs. 42.60	24 March 2021	Rs. 114.00	24 April 2019
As at End of the Period	*Rs. 47.40		Rs. 120.50	

\*Price per share represents the share price after the sub-division.

### SHARE TRADING DETAILS

	2020/21	2019/20
No. of Transactions	21,681	2,995
No. of Shares Traded	12,559,335	3,552,610
Value of Shares Traded (Rs.)	2,318,348,085	507,729,473

### PUBLIC HOLDING

Public Holdings percentage as at 31 March 2021	21.76%
Number of shareholders representing the above percentage	3,582

## DIRECTORS' SHAREHOLDINGS

Names of Directors	No. of Shares as at 31 March 2021	As a % of Total Shares	No. of Shares as at 31 March 2020	As a % of Total Shares
Mrs. A K Gunawardhana	-	-	-	-
Mr. K D D Perera	-	-	-	-
Mr. J A S S Adihetty	424,480	0.077	106,120	0.077
Mr. N Udage	1,616,540	0.292	329,135	0.238
Mr. B D A Perera	-	-	-	-
Mr. R S Yatawara	7,620	0.001	905	0.001
Mrs. Y Bhaskaran	-	-	-	-
Mr. M A J W Jayasekara	-	-	-	-
Mrs. Ashwini Natesan	-	-	-	-
Mr. D Rangalle	-	-	-	-

## DEBENTURES

In December 2017, L B Finance raised Rs. 3.0 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	2020/21		2019/20	
Issued Date	11-Dec-17		11-Dec-17	
Type of Debenture	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 (%)	-	-	-	13.10%
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
<b>Market price</b>				
Highest (Rs.)	Did not trade during the year	Did not trade during the year	Did not trade during the year	100.34
Lowest (Rs.)				100.34
Close (Rs.)				100.34

## Credit Ratings

The Company's credit rating, A- (Ika), was affirmed by Fitch Ratings Lanka Limited in 2021.

### Credit Rating - Debentures

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

# CAPITAL REPORTS



## MANUFACTURED CAPITAL

### WHAT IT INCLUDES

LBF's Manufactured capital consists of the Company's physical assets ranging from our branches, our digital channels to IT infrastructure and network architecture that are an integral part of our business model

### HOW IT ADD VALUES

Manufactured capital supports our day-to-day operations and enables the delivery of our services to customers

### 1 INPUT

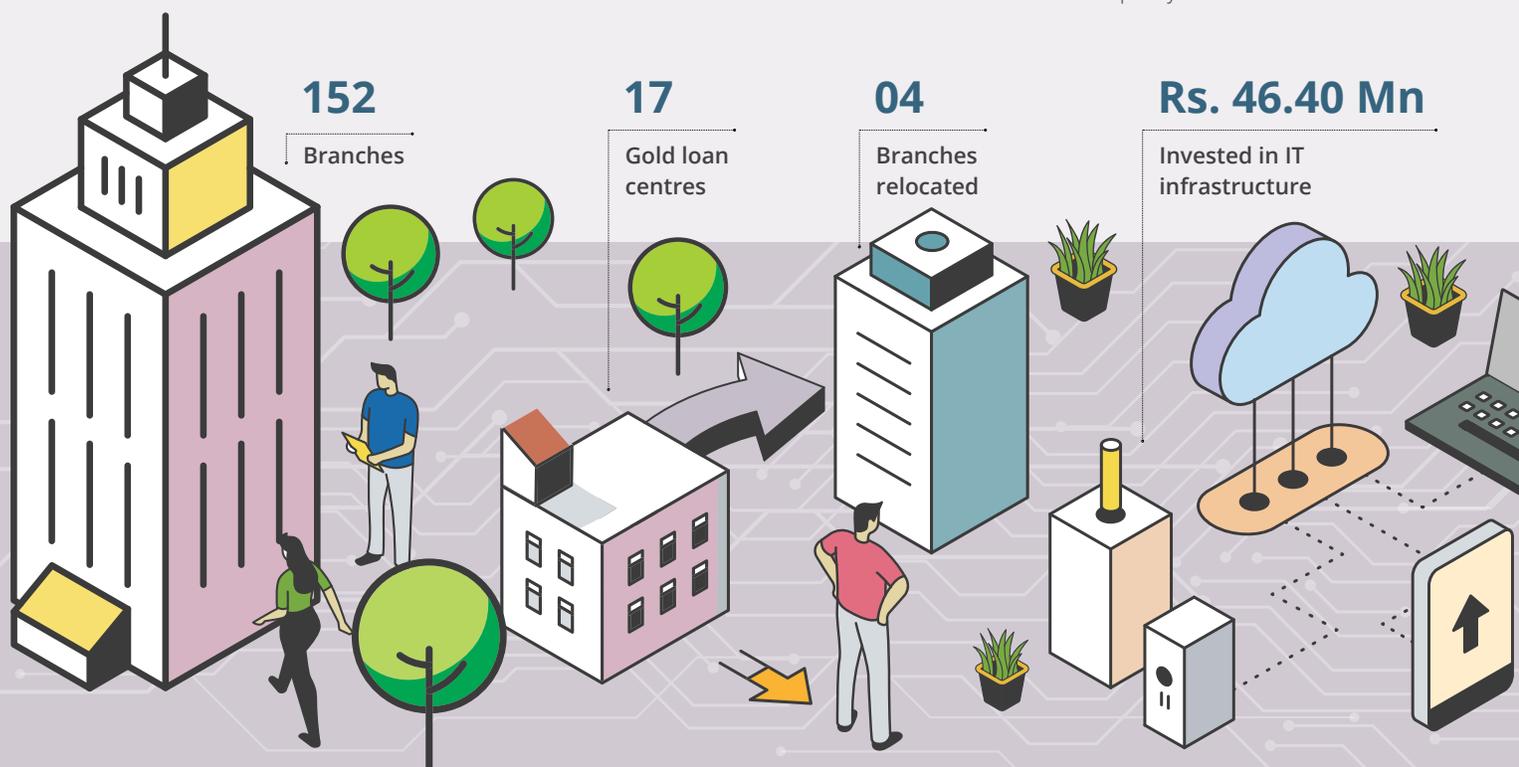
- Fit-for-purpose branch network
- Invest in core systems and processes
- Customer focused, digitally enabled workforce

### 2 STRATEGIC DRIVERS

- Strengthen LBF's physical and digital footprint
- Adoption of world class IT systems
- Improve customer centricity of distribution channels

### 3 CHALLENGES

- The cost involved in keeping up with rapid changes in technology
- Ensuring timely and relevant infrastructure to support the Company's growth strategy
- Competitive landscape in regional markets
- Difficulty in planning for the long term due to political instability and policy inconsistencies



### 4 TRADE OFF

Investing in digital channels (Manufactured capital) will drive better customer experiences (Social and Relationship capital) and thereby enhance the Company's reputation (Intellectual capital). Digitization and automation also enhances the work environment and contributes towards employee motivation (Human capital)

**5 SPACE FOR DEVELOPMENT**

- Diversify distribution channels
- Launch alternate distribution channels
- Introduce non-financial services

**6 APPROACHES OF MANAGING MANUFACTURED CAPITAL OUTCOMES**

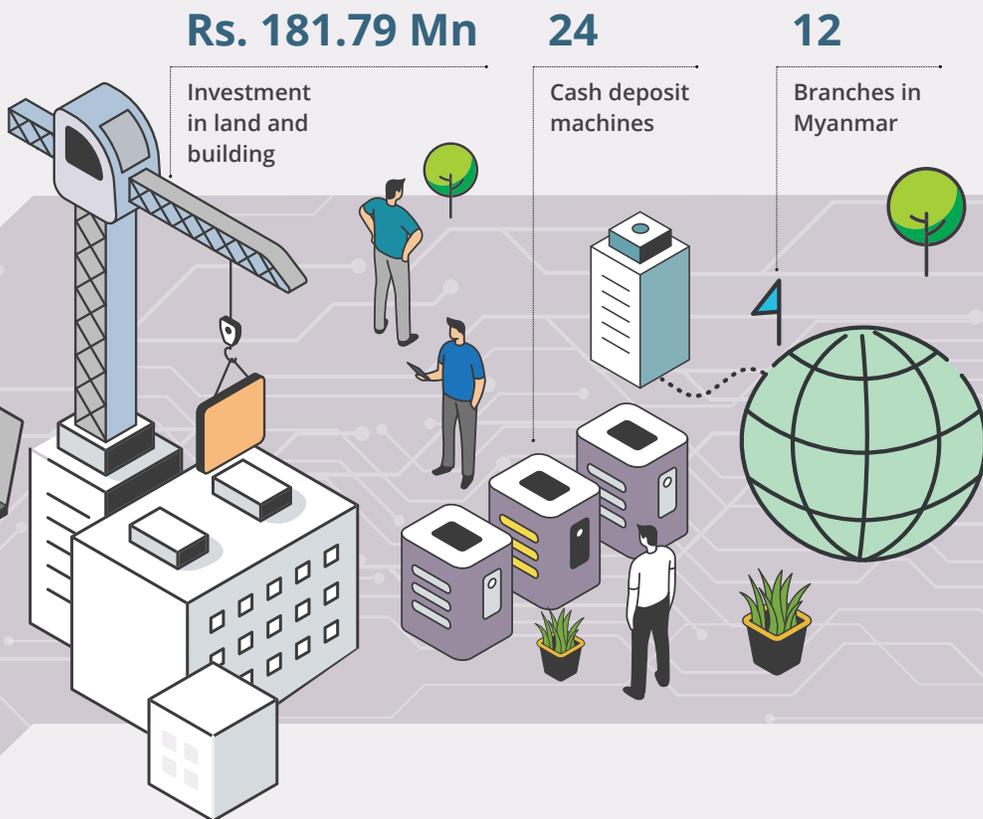
- Continuously improve branch accessibility and facilities
- Provide digital support to assist employees to maintain the Company's service excellence parameters
- Establish dedicated teams to conduct tech-based research
- Launch of an industry leading digital wallet for smartphone users

**7 KEY OUTPUT**

- Modernized branches
- Premier branches
- Digital wallet users
- Invest made on core system and process

**8 FUTURE**

Build and expand strong digitally enabled financial institution



**Related material themes and drivers**

- Customer satisfaction
- Global expansion
- Technology advancement
- Innovation

**Related stakeholders and concerns**

- Improving access to finance
- Ensuring financial sustainability

**SDG impact**



Visit web page for our philosophy, Management approaches and analysis of Manufactured Capital

# CAPITAL REPORTS

## Manufactured Capital

### OVERVIEW

As a dynamic financial institution, we have continued to scale our operations in response to abrupt changes in business and unexpected opportunities which require quick decision making. Through ambitious goal setting and prudent investments in infrastructure, we have focused on improving our scalability. Hence our manufactured capital has evolved considerably over the past 50 years in-line with the growth trajectory of our organisation.

### SWOT ANALYSIS



#### Strengths

Early adoption of digital technology to gain first mover advantage in the market

The ability to develop and launch new digital solutions at a faster rate through our managed evolution in digital fast technology



#### Opportunities

Adoption of international best practices benchmarks



#### Weaknesses

Ensure that appropriate policy frameworks are in place to effectively monitor and manage risks associated with digital interfaces



#### Threats

The high cost of keeping pace with the latest technological developments

### KEY MATERIAL DRIVERS

Building a distinctive physical presence

1

Penetrating regional markets

2

Resource utilization

3

Customer channel preference

4

Process automation

5

### BUILDING A DISTINCTIVE PHYSICAL PRESENCE

LBF's network of branches play a vital role in our channel offering for which serve as the key physical touch points for customers. LBF has a strong island-wide branch footprint consisting of 169 outlets (152 branches and 17 gold loan centres) that collectively serve over 600,000 customers across Sri Lanka.

Over the last decade, we have taken steps to further expand our island-wide branch footprint to enable a wider cross section

of Sri Lankans to benefit from our diverse products and services. Furthermore, striving to optimize the efficiency of our physical touch points we now evaluate customer feedback and data including transactional status and average annual footfall at all our branch locations. The main goal here is to ensure that our branches are strategically located to meet the needs of our customers. Based on this, we have activated our branch relocation program to reposition our branches in regions where we have observed a high population density. In the FY 2020/21

#### Strategic objective

Enhance our local and regional footprint

several branches were relocated to more central locations that make them easily accessible by customers. Furthermore, our branch refurbishment program is aimed at ensuring greater standardization across the network via ongoing upkeep of infrastructure, while continuous training activities ensure branch teams are



152

Branches



3,536

Employees



17

Gold loan centres



Province	Branches	Employees	Population 2018 ('000)	GDP 2019 (Rs. Bn)
NORTHERN PROVINCE	16	136	1,143	711
EASTERN PROVINCE	16	188	1,729	865
NORTH CENTRAL PROVINCE	7	101	1,377	815
NORTH WESTERN PROVINCE	10	213	2,551	1,609
CENTRAL PROVINCE	15	293	2,766	1,719
UVA PROVINCE	6	123	1,376	806
WESTERN PROVINCE	64	2,061	6,149	5,849
SABARAGAMUWA PROVINCE	6	167	2,058	1,145
SOUTHERN PROVINCE	12	254	2,654	1,490



Branches



Employees



Population 2018 ('000)



GDP 2019 (Rs. Bn)

equipped to maintain LBF's high service standards. Supported by these resources, our branch teams continue to increase the engagement with customers and potential customers in their respective areas, enabling each branch to develop a loyal customer base. These efforts in turn have added a significant boost to the Company's Return on Equity (ROE) over the past years.

Taking a major step to diversify our overall branch proposition, we unveiled the Premier branch concept in 2019. This was done in response to the expectation of a highly personalized experience by our high net worth depositors. The Premier branch concept demonstrates LBF's commitment to provide a world-class branch experience through the combination of technology and human interaction.

Our flagship Premier branch located at Dharmapala Mawatha, Colombo 07, with its relaxed ambiance and interactive environment sets the tone for our premier offering.



LB Premier branch



Year	2016/17	2017/18	2018/19	2019/20	2020/21
Branches opened	08	05	04	02	04
Relocations	03	04	13	05	04

# CAPITAL REPORTS

## Manufactured Capital

### PENETRATING REGIONAL MARKETS

Venturing beyond Sri Lanka to the regional market, LBF set up LB Microfinance Myanmar Company (LBMF) in December 2017 to penetrate into Myanmar's robust Microfinance market. Over the past years, LBMF has continued to make good headway in its target market in the Bago region and Magway region of Myanmar. Having first started up in the small town of Pyay, LBMF has since expanded its branch network to the several regions in Myanmar.

 Page 84 for more information

LB Microfinance (Pvt) Ltd.  
Myanmar



12  
Locations

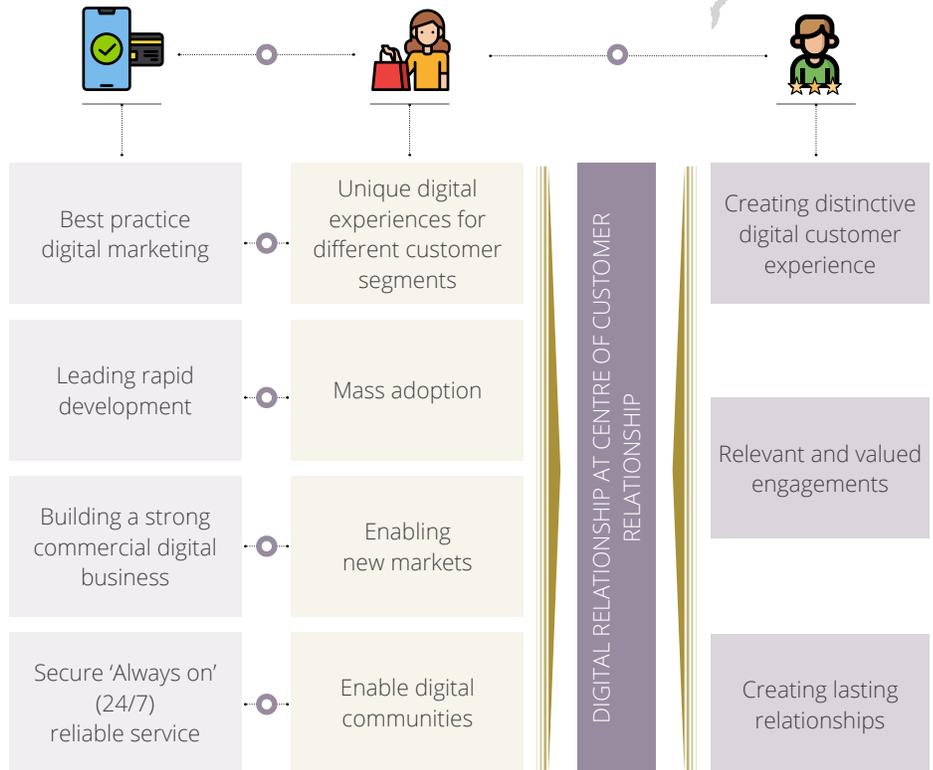
### RESOURCE UTILIZATION

#### Industry leading digital channels

We believe that technology driven solutions are the most cost effective and efficient way to ensure our manufactured capital serves its purpose of reaching out to customers. Our goal is to present a versatile range of digital solutions to encourage increased digital adoption among our customers. It is this premise that has led LBF to steadily expand its suite of digital channels over the past years.

Today LBF offers a comprehensive range of mainstream digital channels such as our digital suite also includes Cash Deposit Machines (CDM). CDM's which form part of the branch infrastructure, are digitally connected to our core systems.

However, what truly sets us apart from our peers is the LB CIM (Cash In Mobile), the app-based mobile wallet for smartphone users launched in 2019. Since its launch we have been continuously updating the CIM value proposition to give the customer a cutting edge wallet experience. We made some notable strides in the year under review, to ensure CIM is the only wallet application in the local market equipped with the highest level of network integration with the core banking system.



Branch opening



## Cost containment and increased efficiencies

Cost control goes hand in hand with efforts to develop LBF's manufactured capital. In this regard, we regularly review our cost structures to determine the optimal ratio of owned and leased properties to support our branch network. At the same time, we have established cost saving targets for our branches and maintain a strong focus on continuous improvement to optimise economies of scale in all our channel management activities. The progress made in achieving these plans are monitored on a regular basis.

LB CIM wallet, is a multi-faceted digital banking solutions offered in the form of a smartphone app, built with ultra-simple UI/UX and trilingual functionality to cater all communities in Sri Lanka. LB CIM app has two distinct products; the CIM Customer App and CIM Business App, each tailored to meet the specific needs of the customer as well as the merchants.

### CIM Customer App

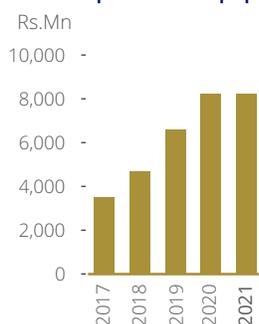
- ☞ Earn an attractive interest for the balance in CIM digital account (secured under the deposit insurance scheme of the Central Bank of Sri Lanka)
- ☞ Review the status and pay the installments for LB lease/loans or gold loans anytime
- ☞ Check FD portfolio details
- ☞ Link bank accounts and pull money using JustPay facility
- ☞ Send money to anyone, any bank, anytime instantly
- ☞ Reload mobiles and pay all utility bills
- ☞ Settle credit card bills with no convenience fee
- ☞ Pay any insurance premium real time
- ☞ Make payments at LankaQR accepted +200,000 merchants anywhere
- ☞ Settle any payment automatically using standing order feature
- ☞ Keep track of earnings and expenses through the transaction history and the monthly e-statement



### CIM Business App

- ☞ Integrated with LankaQR to facilitate interoperability between mobile wallets whilst offering the lowest fees in the market
- ☞ Convenient and cost effective solution to make supplier payments, utility bill payments, salary payments and money transfers to any third party savings or current account
- ☞ Get money credited to the wallet savings account directly to start earning interest instantly
- ☞ Direct debit instructions in real time
- ☞ Real time tracking of all transactions

### Growth in property, plant and equipment

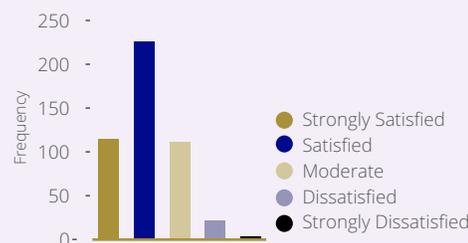


### SURVEY INSIGHTS



Study conducted by:  
The Department of Marketing Management  
University of Sri Jayewardenepura

### Accessibility to the branch



# CAPITAL REPORTS

## Manufactured Capital

### CUSTOMER CHANNEL PREFERENCE

Customer segment	Branches & gold loan centres	LB digital wallet	Connected ATMs	Social media	LB e-connect	Marketing officers	CDMs	Call centre
<b>Individual customer</b>								
Kids/ teenagers	✓							
Millennials		✓	✓	✓	✓		✓	
Young families	✓	✓	✓	✓	✓	✓	✓	✓
Established families	✓		✓		✓	✓	✓	✓
Mature well-off	✓		✓			✓	✓	✓
Senior citizens	✓					✓		✓
<b>Corporate customers</b>								
Corporates/ institutions	✓	✓			✓			✓
SME/MSME	✓					✓		✓

### PROCESS AUTOMATION

#### Network support

We believe a strong, reliable network support system is another vital component of our manufactured capital base. It provides mission critical support to ensure the smooth functioning of day-to-day operations with minimum downtime to the customer. In the year under review we focused on improving our structures, unifying systems, as well as automating, digitizing and simplifying processes in order to minimize the interruptions to our workflow systems and prevent systems downtime during the COVID-19 pandemic situation. Key highlights include:

- Creating a remote work environment to assist employees to continue to work-from-home during the two months island-wide lockdown period. This included automation of the call centre activities to facilitate call centre operators also to work from home.
- Introduced a load balancing solution to maintain system availability to facilitate the increase in the digital transaction load generated as a result of the pandemic.
- Established the primary data center at the Sri Lanka Telecom tier III data center located at Pitipana. A secondary data center was also set up at the Dialog



**+100,000**

**CIM transactions**



**+60,000**

**CIM App downloaded**

facility in Pothuwarawa. A series of live drills were carried to test the capacity of both sites to support LBF's operations for an extended period of time.

- The latest teleconferencing equipment was commissioned at the Company's Board room in order to facilitate a hybrid AGM.
- Set up the LBF innovation center with a dedicated team to focus on developing customised solutions to strengthen LBF's network support systems.
- Completed the data warehousing project, all the transactional data was brought to a common platform enabling business units to directly access analytical data. We invested in the TABLEAU software system which works to enhance the visualization and analytical capability of information with the use of dashboards. The first phase of the dashboard initiative was rolled out to the deposit and gold loan segments. Developed

#### Strategic objective

Adapting world class systems and processes

using predictive analytics as well as external scenario analysis, the dashboard gives the management a robust set of indicators to forecast business performance over time.

#### Gaining efficiencies

We have continued to leverage on technology to streamline and re-engineer internal processes to be able to meet LBF's exceptional customer service standards in a more cost effective manner. Some of the initiatives implemented during the year include;

- Using the functionality of Eclipse - LBF's core system, an end-to-end digital solution was introduced to support the leasing business with the entire workflow system starting from loan origination all the way up to credit approval fully digitized and made a paperless operation. To operationalize the system at ground level, a mobile app was also developed for field staff. The new digitized workflow system which was developed during the lockdown period and rolled out immediately thereafter

has led an improvement in the average lead time between loan origination and disbursement. This is attributed to the fact that field staff can now fulfill almost the initial screening requirements immediately through the app itself.

- The gold loan system was integrated to the LB CIM mobile app to enable customers to manage their settlements and review their status via the app.
- An AI based Chatbot was introduced to the corporate website as well as all social media platforms to manage routine

queries and thereby reduce the load on the call centre.

- Robotic process automation tools were used to streamline a number of key back office credit processes and also monitor the insurance renewal process for leased vehicles.
- Resources at the innovation center were further expanded with a team of new data scientists being recruited to conduct research to determine areas for cost reduction.

### Enhanced working environment

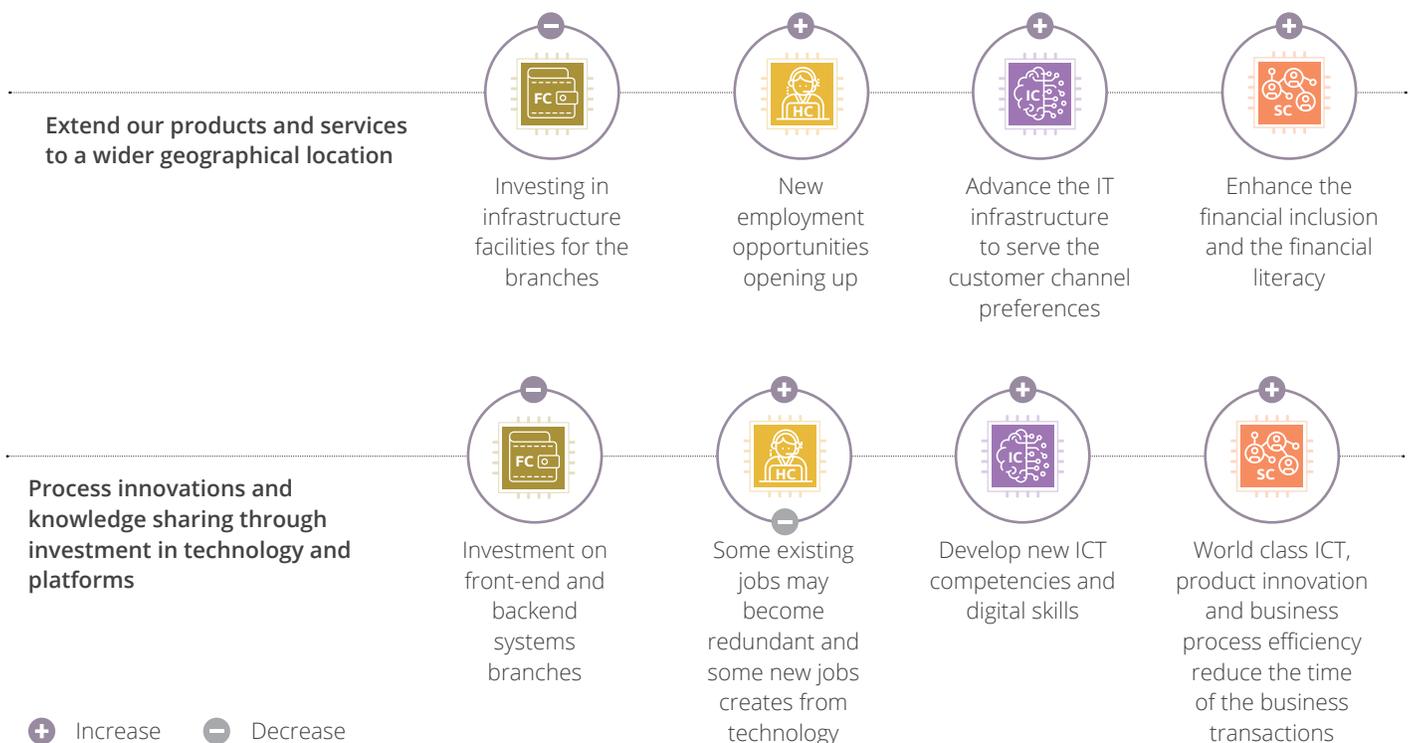
Investing in manufactured capital brings benefits to our employees as well. It creates a more conducive working environment and also eases employees work stress. The most notable example for the current financial year is the facilitation of the remote working environment which allowed employees to work from home during the pandemic. The mobile app created for field staff of the leasing business is also another good example of how developments to LBF's manufactured capital has benefited our employees.

### Creating value for manufactured capital

 Value for customer	 Value for LBF	 Value for employee
<ul style="list-style-type: none"> <li>• A robust multi channel environment that caters to the preferences of all customer segments</li> </ul>	<ul style="list-style-type: none"> <li>• A strong physical and digital presence reinforces LBF's credibility and competitive position in the market</li> </ul>	<ul style="list-style-type: none"> <li>• The knowledge and expertise gained by working in a sophisticated digital workplace</li> </ul>

### Reaping benefits of investing in manufactured capital

By enabling process innovations and knowledge sharing through investment in technology and platforms expenditure in IT infrastructure



# CAPITAL REPORTS

## Manufactured Capital

Throughout the challenging year, we are proud of the support we have been able to provide to our customers. Now, we are committed to help them rebuild. We continue to observe a growing trend towards online transactions and servicing, further reducing customers' use of our branch infrastructure. Downloads of our mobile banking apps continue to increase as more and more customers look for ways to self-serve.



**Mr. Niroshan Udage**  
Deputy Managing Director

### Tradeoff between capitals

	Financial			Human			Intellectual			Manufactured			Social & Relationship			Natural		
	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment in digital finance	↓	↑	↑	—	—	↓	↑	↑	↑	↑	↑	↑						
Branch expansion	↓	↑↑	↑↑	↑	↑	↑				↑	↑	↑	↑	↑	↑			
Branch relocations	↓	↑	↑							↑	—	—	↑	—	—			

S - Short term M - Medium term L - Long term ↑ Increase ↓ Decrease — Neutral

### Building for the future

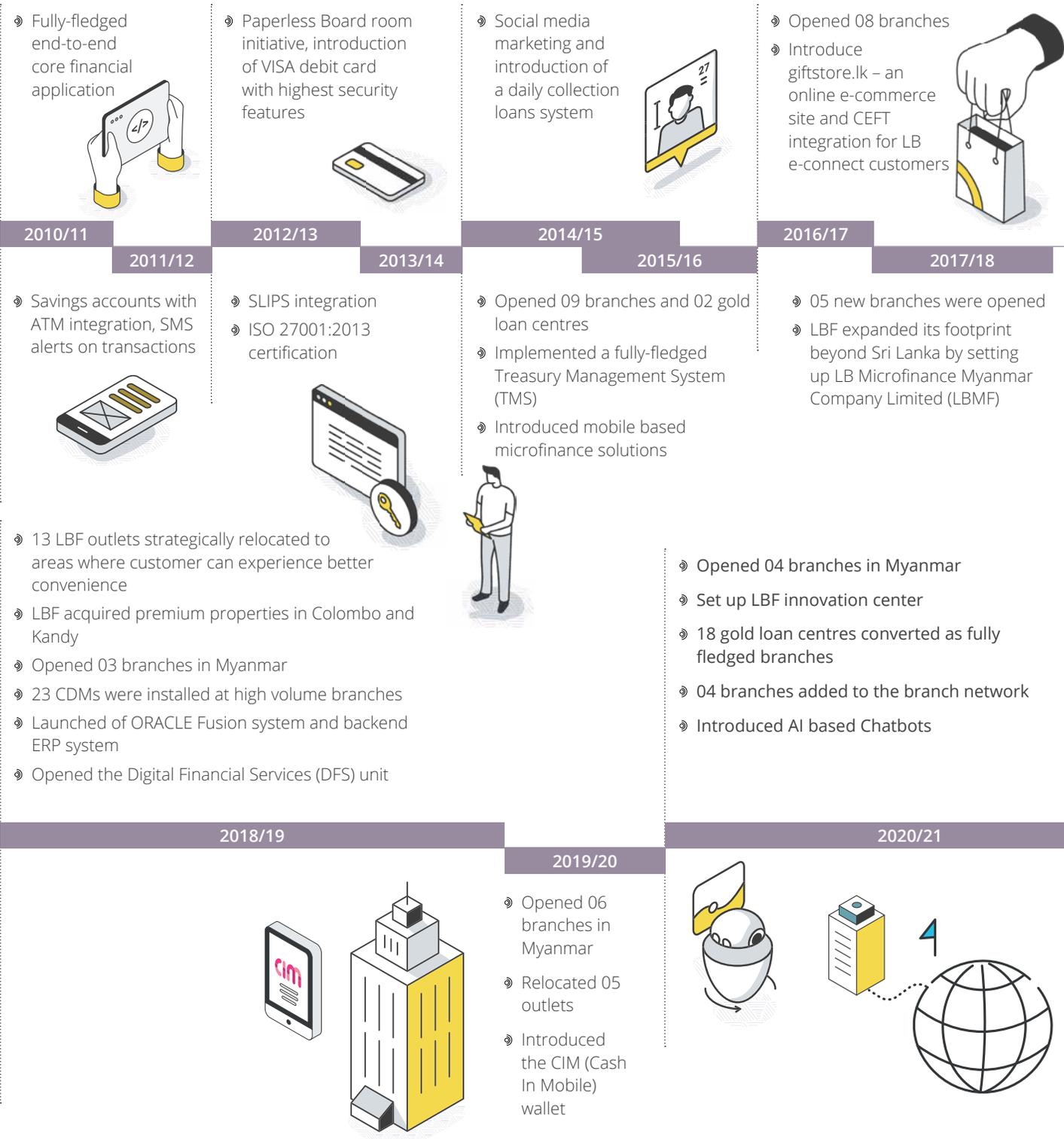
LBF continuously tries adopt to technology, innovate simpler processes and create infrastructure that are aligned with business objectives.

Short term (<1)	Medium term (1-3)	Long term (3-5)
<ul style="list-style-type: none"> <li>Improve the integration between the core business activities and LB CIM wallet</li> </ul>	<ul style="list-style-type: none"> <li>Expand the range of low cost digital channels</li> </ul>	<ul style="list-style-type: none"> <li>Branch expansion beyond the South Asian region</li> </ul>
<ul style="list-style-type: none"> <li>Build branch level digital infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Leverage on the capabilities of the data warehouse and the team of in-house data scientists to find more productive ways of using data to grow the business</li> </ul>	<ul style="list-style-type: none"> <li>Invest in cloud-based network architecture</li> </ul>

**GROWTH SUSTAINABLE OPPORTUNITY**  
Fully fledged digital branches

**VISION**  
Be Sri Lanka's No. 1 tech-driven financial entity

**MANUFACTURED CAPITAL JOURNEY**



# CAPITAL REPORTS



## HUMAN CAPITAL

### WHAT IT INCLUDES

Our Human capital refers to the collective knowledge, expertise and innovative mindset of our employees as well as their commitment to take ownership for LBF's strategy and future growth prospects

### HOW IT ADD VALUES

A diverse, highly skilled and multi talented workforce whose passion and commitment to LBF's corporate culture and work ethic, creates a solid foundation for the Company to execute its strategy and meet stakeholder deliverables

### 1 INPUT

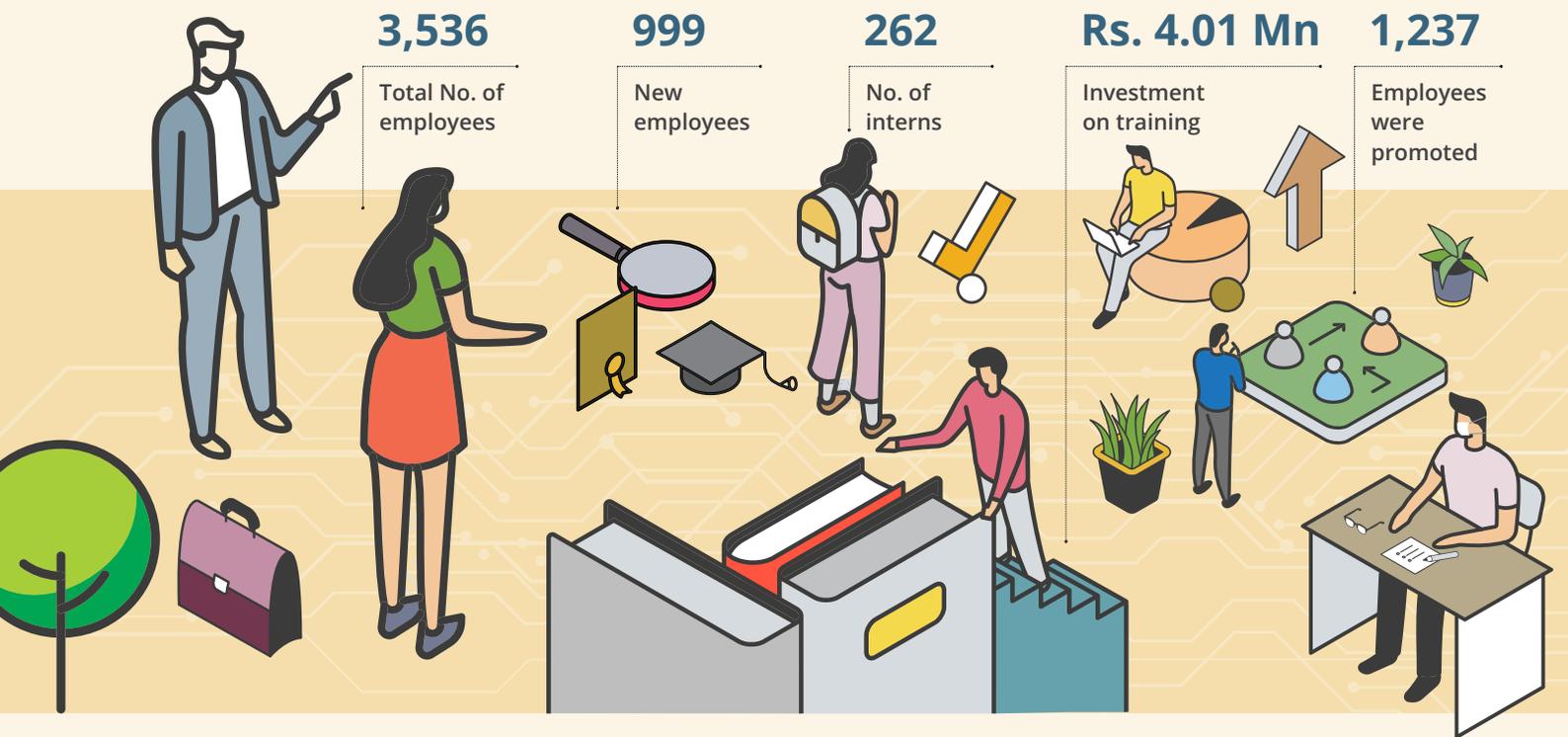
- Workforce composition
- Pay and benefits
- Skills, qualifications and competencies
- Regulatory compliance

### 2 STRATEGIC DRIVERS

- Improve workforce productivity
- Invest in strengthening employee knowledge and skills
- Empower employees through better work life balance
- Provide opportunities for innovation and idea generation

### 3 CHALLENGES

- Attracting, retaining key staff in the highly competitive financial services sector
- Meeting the high standards required from an employer of choice
- Addressing change management issues arising from increased digitization and process automation



### 4 TRADE OFF

The cost of hiring new employees and investing on existing employees inevitably impacts our financial capital. LBF's "Think Forward" digital strategy launched in 2018 forms part of a broader effort to manage our headcount and achieve cost saving at the same time. To further underscore the

importance of cost control, we have also set specific targets to drive continuous improvement across all aspects of the Human Resources (HR) model. Although cost saving is always top of mind, we do remain firm that it will not be at the expense of the health, wellbeing and development of our employees. This

is based on the fundamental premise that a healthy and motivated workforce will bring consistent benefit to boost the Company's financial performance (Financial capital), improve service standards (Social and Relationship capital) and strengthen brand reputation (Intellectual capital)

**5 SPACE FOR DEVELOPMENT**

- Encouraging and motivating employees to stay aligned with LBF's organisational values and culture
- Developing critical skills and succession planning to achieve long term strategic objectives
- Promote employee wellbeing at all levels

**7 KEY OUTPUT**

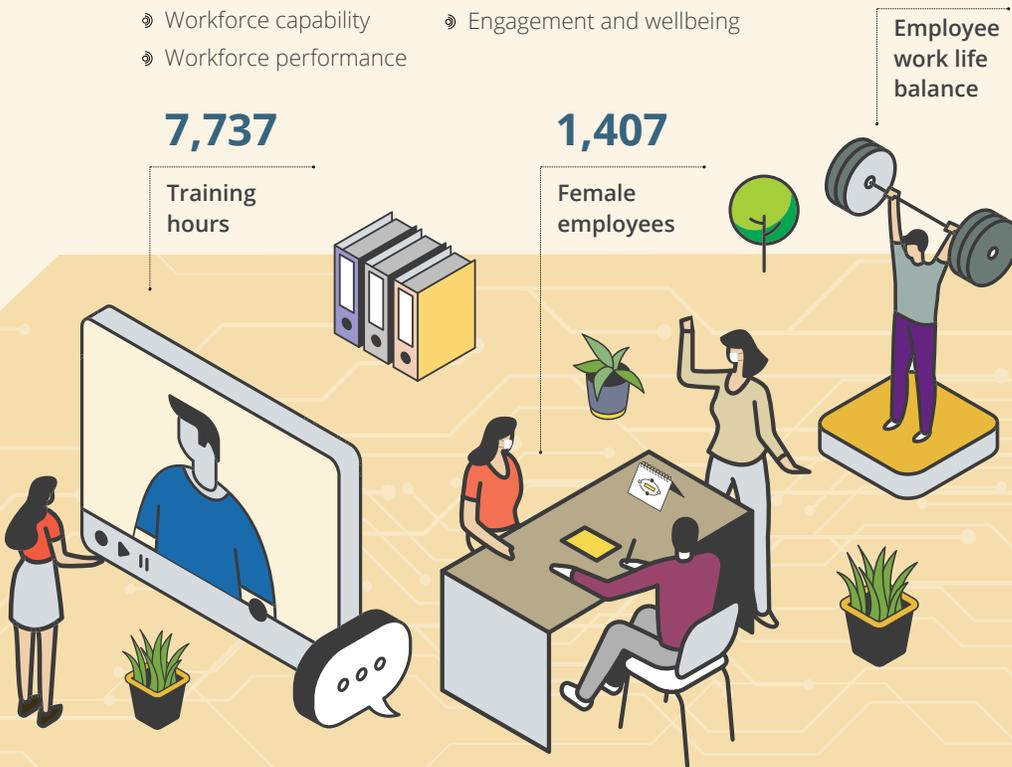
- Leadership capability
- Workforce capability
- Workforce performance
- Diversity and inclusivity
- Engagement and wellbeing

**7,737**

Training hours

**1,407**

Female employees

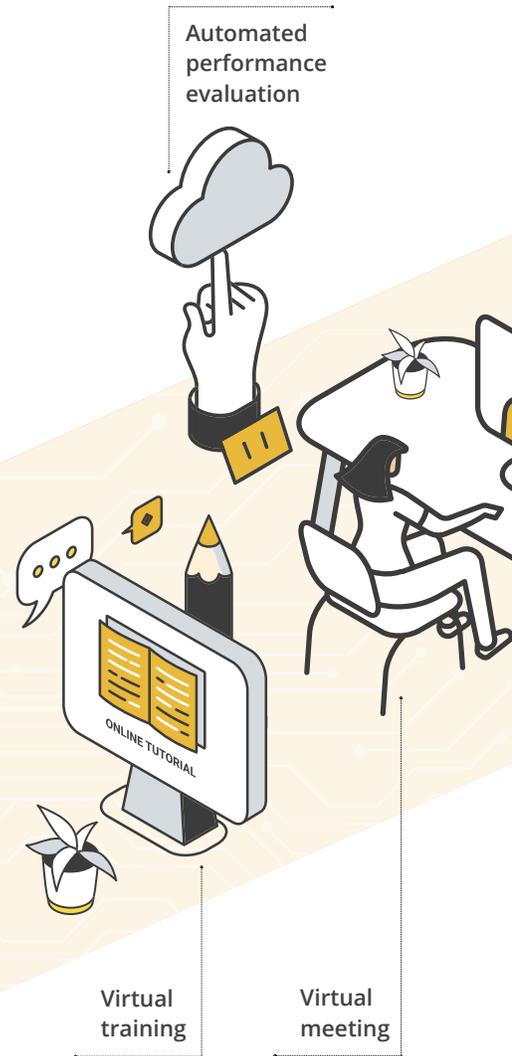


**6 APPROACHES TO MANAGING HUMAN CAPITAL OUTCOMES**

- Recruitment and retention
- Performance management
- Learning and competency development
- Organisational development and design
- Reward and recognition
- Workforce and succession planning
- Employee engagement
- Employee wellness

**8 FUTURE**

Build a strong employer brand and emerge as one of the top employer of choice



**Related material themes and drivers**

- Recruitment and retention
- Performance management
- Training and development
- Employee engagement
- Occupational health, safety and wellbeing

**Related stakeholders and concerns**

- Remuneration and benefits
- Rewards and recognition
- Career progression
- Work-life balance

**SDG impact**



Visit web page for our philosophy, Management approaches and analysis of Human Capital

# CAPITAL REPORTS

## Human Capital

### OVERVIEW

Our employee vision is to position LBF as an employer of choice. We believe doing so will enable LBF to attract and retain the best in-class talent needed to fulfill the Company's purpose "to use our financial expertise to do good for individuals, families, businesses and society".

### SWOT ANALYSIS



#### Strengths

Ability to recruit and retain a multi-talented team by providing them with competitive remuneration and a robust work environment that promotes engagement and performance-based rewards



#### Opportunities

Create a framework to help employees adapt to a better work-life balance in the post COVID-19 era

Improve succession planning at all levels to minimize the dependency on a few key individuals



#### Weaknesses

Non-availability of a streamlined mechanism to offer emotional and psychological support to employees in the event of an unforeseen crisis such as the COVID-19 pandemic



#### Threats

High turnover among frontline branch teams due to stiff competition in the NBF sector

### KEY MATERIAL DRIVERS

Our people management model

1

Our employee proposition

2

Sustaining the employee resource

3

Creating an entrepreneurial and innovation culture

4

Life at LB

5

Human resource accounting

6

### OUR PEOPLE MANAGEMENT MODEL

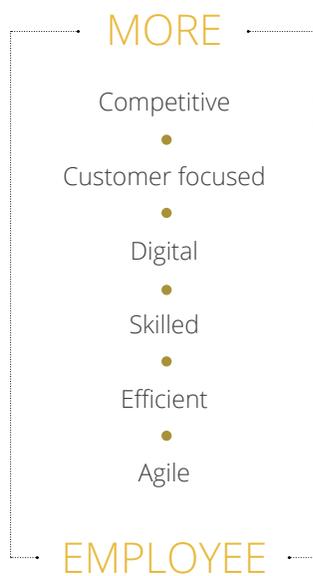
LBF has a seasoned people management model in place to support its routine business needs. Compliance and best practices are key pillars of our people management model. LBF remains fully compliant with all applicable labour law. Going beyond mere compliance, our people management model is benchmarked against globally accepted best practices for human resource management.

Over the years, our core model had continued to evolve dynamically in response to the developments associated with the nature of our business as a financial services institution.

As highly customer-centric organisations, finance companies the world over face similar people related challenges. The task of attracting the right talent to suit specific job roles remains a universal challenge for all financial institutions, especially given the complex and rapidly changing financial environment. LBF too continues to experience these challenges.

During the period, LBF was able to create numerous employment opportunities to satisfy the staffing needs of its new branches opening up across the country. However, having more or less reached our expansion goals, the number of new positions at branches have started to level out in recent times. As such our recruitment programme of late has been targeting a proportionally younger employee pool. This strategy is in-line with our efforts to recruit millennials who have a greater appetite for success and thus can be nurtured and cultivated to match the Company's requirements.

Another challenge we have encountered in recent years stems from LBF's "Think Forward" strategy which focuses on creating a fully digitized ecosystem to support the Company's internal operations and distribution channels. Over the last two years, we have picked up the pace of our "Think Forward" strategy, which has placed some extra demand on our employees. We have found in particular that the speed of digital adoption over 40 category typically takes place at a slower pace. However, continuous training and ongoing support from our IT teams have enabled these employees to fast track their digital migration process journey. This proved to be a massive advantage in this year, as employees were able to apply the learnings from their digital adoption process to quickly adapt to the work-from-home environment that became necessary during the two months island-wide lockdown period and its immediate aftermath.



### OUR EMPLOYEE VALUE PROPOSITION (EVP)

We recognize that our employees are LBF's most powerful brand ambassadors and the driving force behind our success. Hence we want our employees to know that their unique skills and attributes as well as their collective contribution to the Company is

highly valued by LBF. On this basis, we offer a compelling EVP that focuses on providing the best in-class employee experience to ensure every single LBF employee has the opportunity to benefit from a long and fulfilling career within the organization. The following principles form the building blocks of our EVP;

- People are the core strength of our business
- The customer is central to everything we do
- A cohesive team effort is the key to achieving consistent results

Cascading from this, our EVP aims to build a group of "passionate and empowered" people who understand the business, are willing to work tenaciously to deliver LBF's purpose and have the capacity to exercise sound judgment in order to honour the Company's values and uphold LBF's reputation. To further underscore our commitment to our employees, we are now focusing more deeply on creating a holistic employee value proposition that is distinctly different from any other.

### Talent acquisition

To remain competitive, we need to attract employees who have the appropriate skills, diversity, experience and values required by our business model and ambition. Rather than following a single channel approach, we use a combination of job specific sourcing and selection strategies based on the nature of the talent we seek for each position. Because the required mix of skills and experience in the branches continues to evolve, our aim is to make appointments that will support our journey as a fast growing financial institution in the future.

In certain areas of the business, including entry level frontline positions, our strategy is to hire for potential and train for competence. In more specialised areas such as IT and finance, we often headhunt experienced and competent employees

### FUTURE FIT



Building the Right Team



Developing the Right Skill

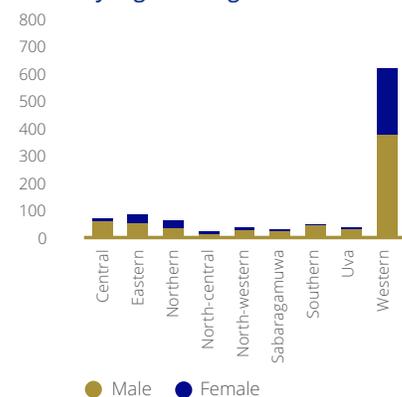


Creating the Right Culture

### Strategic objective

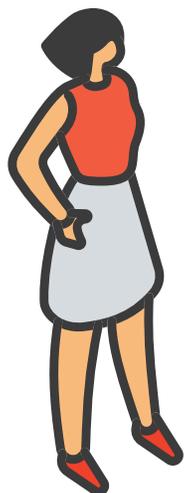
Provide access to strengthen knowledge and skills

### New employees hired by region and gender



# CAPITAL REPORTS

## Human Capital



Female	Contract Type	Male
1,395	Full-time employees	2,120
12	Employees on contract basis	37
Staff Category		
3	Board of Directors	7
3	Senior Management	26
51	Middle Management	352
805	Executive	953
546	Clerical	755
-	Minor	66



who can make an immediate contribution based on their knowledge and expertise.

In recent years we have been further diversifying this talent sourcing approach to gain access to a wider talent pool of potential candidates in specialized disciplines.

Regardless of the sourcing methodology, our recruitment process includes a holistic assessment of candidates to determine whether the person fits in terms of the position, our service model and our values. Moreover, all new recruits are on-boarded via a rigorous orientation and induction procedure to help them understand and assimilate into LBF's corporate culture and work ethics.

A temporary recruitment freeze was declared in the first half of the current financial year as part of the cost control measures initiated during the lockdown period and its immediate aftermath. However, following the resumption of full business activities in September 2020, frontline and entry level recruitments commenced thereafter.

As at 31st March 2021, our cadre consisted of 3,536 employees (2019/20: 3,583) of which 3,515 were full-time employees (2109/20: 3,558).

Meanwhile, given the pandemic related restrictions in the year under review, the careers page of the corporate website was revamped to allow applicants to submit their applications directly via email. The entire onboarding process was also moved online owing to the inability to conduct face to face interactions due to the COVID-19 restrictions. Accordingly new recruits were granted access to the HR policy, Code of Conduct etc. via the e-learning platform. The post-orientation review was also incorporated to the e-learning platform to enable new recruits to complete the procedure online.

### Talent retention

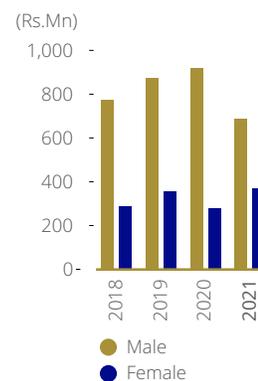
At LBF, talent retention goes hand in hand with succession planning. As such we aim to identify and develop suitable employees who are able to be considered for future senior leadership positions. This ensures that we can retain talented employees who have the ability to take ownership for the future growth of the Company.

Nevertheless retaining employees remains a challenge due to several reasons; LBF's cadre consists predominantly of millennials. These highly talented and upwardly mobile individuals are by nature impulse driven and as such have a high propensity to make frequent transitions in order to fastrack their career. Retaining millennials therefore remains one of LBF's key human capital challenges. The

heightened competition within the NBF sector has also proven to be another major challenge in retaining talent, especially in specialized disciplines such as IT and marketing.

To manage talent retention, we use robust talent metrics, diagnostics and performance review discussions. Analysing employee data, predicting and managing succession needs and identifying opportunities for talent development in this manner helps to mitigate human capital risks.

Turnover by gender



### Talent management

Building a reliable talent pipeline is a major priority in LBF's human capital development agenda. To facilitate this we have in place a performance appraisal mechanism carried out annually following the conclusion of the financial year-end. Every LBF employee is entitled to benefit from the annual performance appraisal mechanism to determine his/her progress vis-a-vis the goals and targets set at the start of the year. Career aspirations and training needs are also reviewed during this performance appraisal process. Using talent diagnostic and review discussions, combined with the analysis of people data, succession needs, development opportunities and potential risks, the performance appraisal mechanism provides input for succession planning decisions.

Given the pandemic related work disruptions we faced in the FY 2020/21

it was decided to further strengthen the existing performance appraisal mechanism with the inclusion of the nine box competency evaluation matrix, a globally recognized talent management toolkit to measure both performance and leadership potential of an employee. With the nine box competency evaluation matrix expected to be rolled out in the next performance cycle, we conducted extensive training for managers who will be the evaluators coupled with a series of awareness building sessions to help employees to understand and adapt to the changeover.

### Distinctive development opportunities

Our fresh approach to talent management is supported by distinctive training and development opportunities, encompassing classroom training, on the job training, continuous professional development through job rotation and special projects as well as overseas training and exposure.

While LBF's annual training investment is Rs. 4.01 million in the FY 2020/21 due to COVID-19 restrictions which prevented face-to-face meetings and physical gatherings. Taking immediate action at the onset of the lockdown itself, necessary system modifications were done to ensure LBF's annual training calendar for the FY 2020/21 could be moved to the e-learning platform with effect from 2020. Based on a three-pronged training approach, training activities for the year focused on developing marketing skills, improving customer service and building leadership skills of executives and managers.

A majority of these training activities were conducted through the e-learning platform until February 2021, whereafter classroom training activities were allowed to resume on a limited basis.

Meanwhile during the lockdown period,

we encouraged employees to participate in selected webinars. A weekly webinar calendar was developed and circulated to Head of departments.

In addition to the training opportunities for our own employees, LBF offers training opportunities for students.

Meanwhile a total of 262 interns were on-boarded to LBF's Management Training programme in the 2020/21 intake. They joined as young graduates who have started their careers with the Company since the programme's inception in 2008.

Number of programmes	2020/21	2019/20
Induction/on-boarding	01	03
Functional/technical	09	17
Management/leadership	06	10
Compliance risk	03	03



## SUSTAINING THE EMPLOYEE RESOURCE

### Remuneration and benefits

As a responsible employer, LBF strives to create an environment where all employees understand how their contribution towards the achievement of corporate goals can influence their personal rewards and career prospects. Fair, equitable and industry competitive remuneration and benefits are key attributes of our EVP. Our policy is to ensure that all full time employees of LBF are entitled to be adequately remunerated in-line with market standards. While firmly aligned to all statutory requirements, LBF's remuneration and benefit model is underpinned by three parameters: job profile, work performance and commitment to corporate values. Accordingly, all employees are entitled to the following benefits;

Employee benefits	2020/21 Rs. Mn	2019/20 Rs. Mn	2018/19 Rs. Mn	2017/18 Rs. Mn
Salaries and other related expenses	2,520.98	2,537.98	2,289.61	2,034.81
Employer's contribution to EPF	232.85	239.16	214.90	188.58
Employer's contribution to ETF	46.57	47.83	42.98	37.71
Gratuity	93.91	75.94	63.09	44.68

### Strategic objective

Improve the productivity of workforce

# CAPITAL REPORTS

## Human Capital

Despite the challenges arising out of the pandemic, LBF made a strategic decision to refrain from resorting to any pay cuts in the FY 2020/21. Accordingly all LBF employees were paid their full salary entitlement throughout the pandemic period. All bonus entitlements for the previous year were paid in full and reimbursements of medical expenses etc. under the employee insurance scheme also continued as per usual despite strict cost containment measures.

### Accelerate diversity

We firmly believe that a diverse workforce broadens perspectives and enhances performance. As such we maintain a non-discriminatory approach to ensure that no LBF employee is subject to discrimination on the basis of gender, age, disability, religious beliefs or any other status protected by law. LBF remains committed to honour these principles of equality and diversity at every stage of the employment process including recruitment, selection, evaluation, promotion, training and development.

Gender parity however is an ongoing challenge especially in LBF's field operations, which even in this day and age remains male dominated. In this regard the key deterrent for women appears to be the nature of the frontline jobs, which requires marketing officers to spend a majority of their time on the move meeting customers.

In contrast LBF has succeeded in maintaining a healthy gender balance in other spheres of the business, most notably in administrative and managerial roles.

While the Company's overall gender ratio is at 1:1.53, the percentage of women at the executive level and middle management level at 1:0.84 and 1:6.90 respectively as at 31st March 2021.

### Ethical business conduct

The financial services industry relies on trust. In our line of business, trust is founded on good conduct and ethical behaviour in our day-to-day operations, exhibited through the individual and collective actions and decisions of LBF employees, management and the Board. It is why we demand that all LBF employees adhere to the highest standards of ethics and integrity and maintain a comprehensive approach to integrate into the culture of trust. In this regard, LBF's Code of Conduct for employees serves as a guide for interactions with stakeholders across the business and in doing so set out appropriate behaviours expected of employees as well as their rights and responsibilities as representatives of the Company. From the very beginning, starting with the orientation and induction procedure for new recruits, we continue to impress upon our employees, the importance of complying with the Code of Conduct. We also conduct regular refresher sessions to ensure that all employees are aware of the values and behaviours expected of them. As part of the overall approach to promoting a culture of ethics and good conduct, we conduct regular training to educate employees on the fair treatment of customers. In 2020/21, we conducted the four customer care and service training programmes covering 794 LBF employees.

Our employees are provided with a range of channels to raise concerns regarding ethical behaviour including the Company's whistleblower policy for reporting of fraud or financial irregularities or misappropriations. Quarterly awareness programmes are carried out to build employee capacity and help them to develop a sensitivity to situations of real or perceived conflict of interest and learn how to deal with them when they arise.

LBF's current HR policy manual was reviewed and updated in the year under review. Taking into consideration the unprecedented changes arising out of the

pandemic, especially the introduction of the work-from-home model, special emphasis was placed on strengthening the Code of Conduct for employees, the grievance handling and disciplinary management policy and the anti-harassment policy.

### Work stress

If not managed correctly, stress at work can lead to illness, absence and potentially a loss of income. To mitigate this, LBF continues to take proactive steps to promote a healthy work culture. Our HR department is tasked with ensuring adequate resources are allocated to promote employee well-being and help employees to manage stress.

Marking a major step in this regard, the SMILE counselling support was launched at the onset of the lockdown period in late March 2020. The main aim of the initiative was to create a secure 24/7 counselling hotline for employees to reach out in confidence, should the need arise. The programme is managed by the HR department with the support of a team of professionally qualified counsellors. Weekly banners were sent out to all employees as a constant reminder to encourage them to make use of the SMILE facility. The weekly banner programme which started during the lockdown period in April 2020, remains in place.

### Health and safety

Given the nature of our business as a financial services institution, our employees work in a relatively low risk environment and as such are not exposed to any significant occupational health and safety hazards.

Nevertheless, we have taken all reasonable and practical precautions to provide a safe working environment for our employees. All our premises are fitted with standard safety equipment, with basic safety instructions prominently displayed at all locations.

We always keep engagement with our employees constant in different capacities to maintain continuous motivation which was especially important in the times of the pandemic. In normal times, employees are motivated to go beyond their regular activities and engage in different team building activities. At LBF, we recognize our people to be the key custodians of our business - the driving force of our competitive advantage and the defining factor of our success.



**Mr. Niroshan Udage**  
Deputy Managing Director

## The year under review with the COVID-19 pandemic presenting a whole new dimension to employee health and safety, LBF initiated a broad based action plan to comply with the health guidelines issued by the Ministry of Health.

We remain proactive in monitoring the effectiveness of our safety systems and conduct regular safety drills as part of our Business Continuity Plan (BCP). Moreover, to enforce the safety culture, we continue to provide regular safety training, with all branches being covered at least once every year.

The year under review with the COVID-19 pandemic presenting a whole new dimension to employee health and safety, LBF initiated a broad based action plan to comply with the health guidelines issued by the Ministry of Health. All recommended health protocols were established for the protection of our 3,536 employees around the country. Work-from-home orders were issued to all employees during the two months island-wide lockdown period and even with the resumption of branch operations thereafter, employees reporting to work were rostered to minimize the risk of exposure. In parallel, a safety declaration form was introduced with all employees required to update their safety status on

a daily basis. All employees were given detailed information regarding COVID-19 safety measures to ensure they remain vigilant and protect themselves and others.

Furthermore, with health guidelines constantly being updated in tandem with the rapidly evolving pandemic situation, steps were taken to appoint LBF's Head of HR as the main liaison between the Company and the health authorities. This was done to proactively receive information regarding the latest developments and also ensure the proper interpretation and timely dissemination of relevant information. We began using the Life at LB Facebook page as a platform to keep employees updated regarding the latest developments.

### CREATING AN ENTREPRENEURIAL AND INNOVATION CULTURE

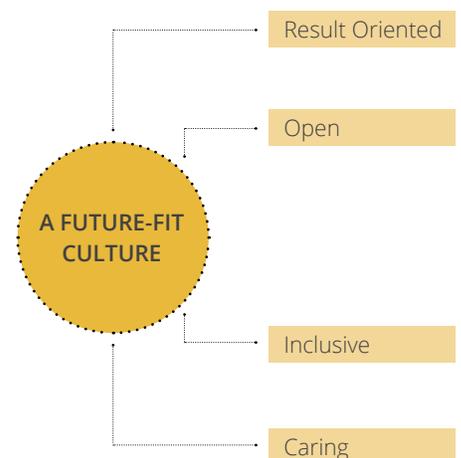
#### Digitalisation and the changing organisation

Like all companies, LBF too takes great care in planning its resources to meet future needs. This process often involves finding ways to make operational processes more efficient and effective through increased digitization or process automation and may be even by restructuring part of our business as and when needed. The most notable examples of this is the Digital Finance Service (DFS) unit which was set up in late 2019 and the Innovation and Research center established in mid 2020. The decision to set up these units stems from LBF's "Think Forward" strategy which

is designed to position the Company as the country's top digital financial services institution. However, attracting and retaining right people with the skills and the right fit for a digital, data-driven Company, is one of the main challenges faced with when addressing the staffing requirements for these units. While at present the staffing requirements at the DFS have been met, LBF is still on the lookout for suitable talent for the Innovation and Research center. The fact remains that these skills are highly sought after and competition for this talent is fierce and as LBF moves ahead with expansion plans, the demand for skills is expected to grow significantly in the coming years.

#### Strategic objective

Provide opportunity to research and development



# CAPITAL REPORTS

## Human Capital

### LIFE AT LB

#### Employees' journey

Employees drive our business and we consider it as our responsibility to make their life journey more comfortable and trouble-free

EMPLOYEES	Family	<ul style="list-style-type: none"> <li>Support our employees and their families through their vulnerable moments and difficult life circumstances</li> <li>Extend our culture of savings and investment to encourage our employees and their families to cultivate the savings habit</li> <li>Provide a better work-life balance to enable our employees to manage to their family commitments</li> </ul>
	Financial	<ul style="list-style-type: none"> <li>Support development of financial acumen and a culture of saving and investment to empower our employees</li> </ul>
	Physical and mental wellbeing	<ul style="list-style-type: none"> <li>Provide a healthy, supportive and enabling work environment free from discrimination or harassment</li> </ul>
	Relationships	<p>Create a place to work that:</p> <ul style="list-style-type: none"> <li>Embraces diversity and facilitates opportunities for employees to “give back”</li> <li>Promotes a culture of respect, and fosters positive working relationships</li> </ul>
	Work, job, career and employment	<ul style="list-style-type: none"> <li>Empower employees through meaningful work and an environment that supports career progression, collaboration and learning from mistakes, while encouraging high performance</li> </ul>
	Lifestyle, dreams, aspirations	<ul style="list-style-type: none"> <li>Position LBF as a prominent financial services company by engaging prospective employees prior to their LBF journey</li> </ul>

#### Employee engagement

We believe a work environment that embodies a consultative and participative approach to engaging employees is vital not only to retain seasoned professionals but is also critical in attracting younger generations of employees who join the workforce with expectations that they too will be consulted on key issues and decisions impacting their career.

Premised on this, LBF strives to promote a culture of engaging employees by;

- Facilitating open and honest communication to employees on both business and individual performance
- Seeking input from employees on important initiatives that impact on their role and work environment
- Collaborating on the development of business and individual objectives

- Carefully considering employee feedback and where appropriate act on suggestions offered and/or concerns raised
- Providing mechanisms for the investigation and effective resolution of grievances

In addition, we maintain a robust activity calendar for employees to engage in an informal setting, thereby providing opportunities to develop camaraderie and team spirit. While all planned activities for the current financial year could not be held due to the pandemic, we worked to strengthen employee engagement via digital mediums mainly through the Life at LB facebook page. In this regard, we conducted several online competitions, most notably the favourite branch competition which was based on the number of likes. By reaching out to our employees during the pandemic, we were also able to develop a corporate song which was incorporated as a ring-in tone

**Strategic objective**  
Enable work life balance while sustaining income

for all official mobile phones. Our aim in all this was to nurture a unique sense of community and rally the LB team to collectively face the pandemic impact on the business.

#### Grievance handling

LBF's HR policy manual sets out clear guidelines for the effective handling of grievances. In the year under review, the grievance handling framework was reviewed and further strengthened with the establishment of an impartial grievance handling committee to investigate reported incidents of harassment. Workflow systems for the escalation, investigation and conclusion were also further streamlined to ensure impartiality of the process and confidentiality of the aggrieved party.

LBF encourages employees to become involved in their communities, lending their voluntary support to programs that positively impact the quality of life within these communities.

### Employee volunteerism

LBF encourages employees to become involved in their communities, lending their voluntary support to programs that positively impact the quality of life within these communities. We believe these endeavours will help employees to develop an understanding of systemic issues that led to the major socioeconomic disparities in our country, and thereby contribute more effectively towards resolving these matters.

### HR governance

LBF's Human Resources Department (HRD) headed by the AGM HR is the main body in charge of the Company's HR matters. The AGM HR reports directly to the Board on all key areas. The HRD is responsible for ensuring the Company remains fully compliant with all applicable labour laws and for benchmarking globally accepted.

### HUMAN RESOURCE ACCOUNTING

Human Resource Accounting (HRA) involves quantifying the value of the LBF's human capital (management and employees) in terms of its capacity to create value for the Company in the future. Essentially HRA is the process of identifying, measuring and reporting on the investments made on human resources that is currently not accounted for in the conventional accounting practices. As per the HRA approach, the expenditures related to human resources are reported as assets on the balance sheet as opposed to the traditional accounting approach which considers personnel costs as an expense item in the profit and loss account.

### Employee wellbeing offerings

Career	Health	Emotional	Social	Financial
<ul style="list-style-type: none"> <li>Career assessments</li> <li>Training programmes</li> <li>Leadership programmes</li> <li>Development plans</li> <li>Advanced development programme</li> </ul>	<ul style="list-style-type: none"> <li>Health awareness programmes</li> <li>Eye check-up</li> <li>Health screening</li> </ul>	<ul style="list-style-type: none"> <li>Counseling programmes</li> <li>Motivational programmes</li> </ul>	<ul style="list-style-type: none"> <li>Employee volunteerism</li> <li>Team building</li> </ul>	<ul style="list-style-type: none"> <li>Benefits assessments</li> <li>Digital money handling</li> </ul>



Legends with LB



LB theme song



### Per employee highlights (Rs. million)

	2020/21	2019/20	2018/19	2017/18	2016/17
Income	8.35	8.66	8.09	7.28	6.01
Net interest income	4.47	4.31	3.98	3.46	3.04
Operating income	5.12	4.88	4.51	3.94	3.49
Operating expenses	1.56	1.63	1.54	1.47	1.36
PBT	2.61	2.11	2.14	1.88	1.82
PAT	1.91	1.44	1.40	1.24	1.22
Total assets	39.44	39.92	37.70	35.11	31.90

# CAPITAL REPORTS

## Human Capital

### Creating value for our employees

Employees and intermediaries create value by supplying the necessary capacity, skills and expertise to deliver our promises to stakeholders



### Reaping benefits of investing in human capital



### Tradeoff between capitals

	Financial			Human			Intellectual			Manufactured			Social & Relationship			Natural		
	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
New recruits	▼	—	▲▲		—	—							▲	▲	▲			
Training and development	▼	▲	▲	▲	▲	▲	▲	▲	▲									
Benefit structure	▼	▲▲	▲▲															

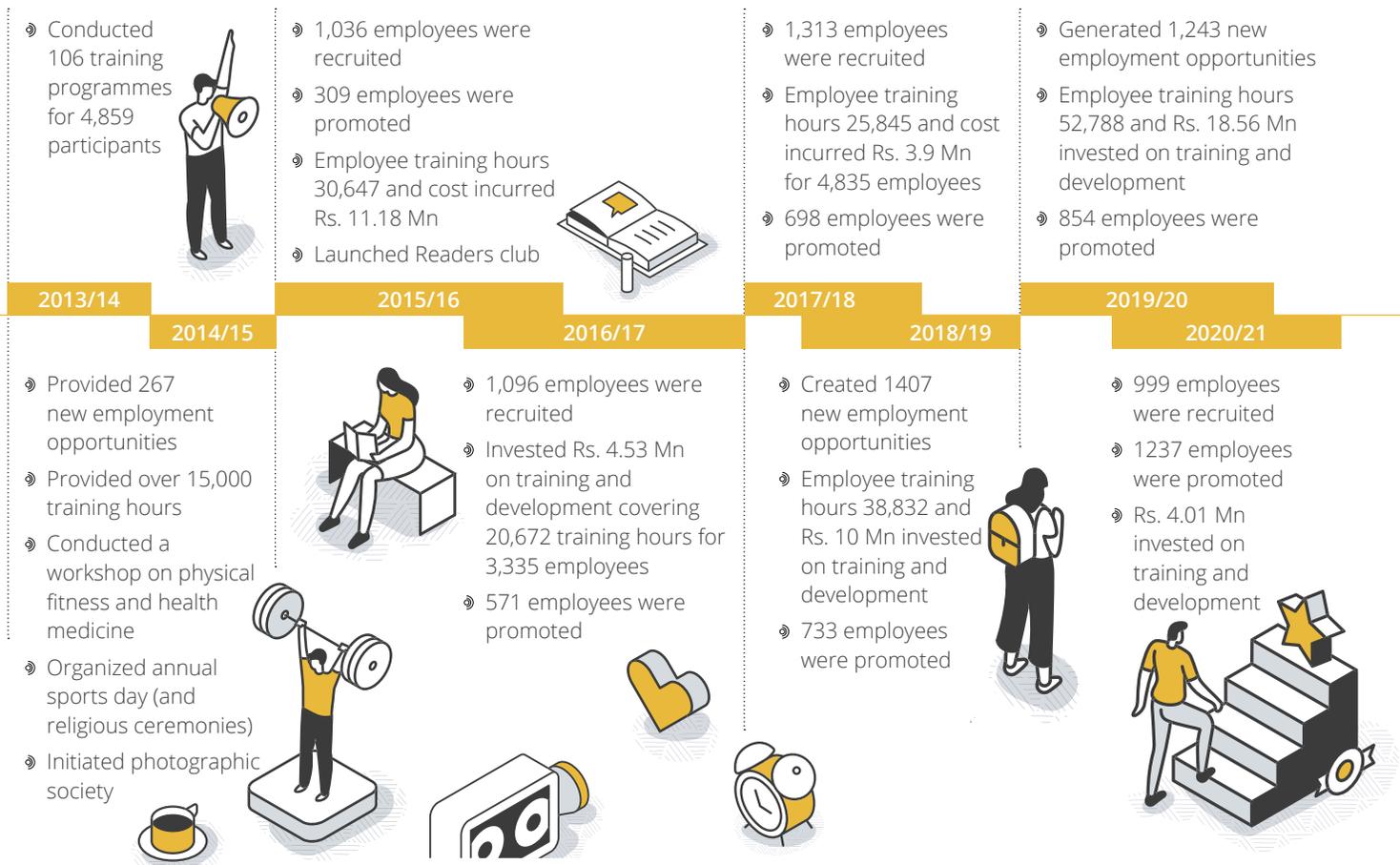
S – Short term    M – Medium term    L – Long term    ▲ Increase    ▼ Decrease    — Neutral

## Building for the future

Over the past few years, our human capital has evolved significantly and the impact is prominent in our recent year's performance. In terms of attracting further human capital, we want to become one of the top 10 "Employers of choice" in Sri Lanka. In order to achieve this, our focus would be;

Short term (<1)	Medium term (1-3)	Long term (3-5)
<ul style="list-style-type: none"> <li>Strengthen the talent acquisition process by strengthening screening and evaluation procedures</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen gender diversity among frontline teams</li> </ul>	<ul style="list-style-type: none"> <li>Drive a competitive reward strategy at all levels</li> </ul>
<ul style="list-style-type: none"> <li>Implement solutions to enhance the digital user experience for employees</li> </ul>	<ul style="list-style-type: none"> <li>Developing an in-house training academy to comprehensively manage training needs of all employees</li> </ul>	<ul style="list-style-type: none"> <li>Increase the depth and breadth of talent pool with role-based specialised training and development programmes</li> </ul>
<b>GROWTH SUSTAINABLE OPPORTUNITY</b>		
<b>Digital equipped workforce</b>		
<b>TOWARDS VISION</b>		
<b>Tech savvy working culture</b>		

## HUMAN CAPITAL JOURNEY



# CAPITAL REPORTS



## INTELLECTUAL CAPITAL

### WHAT IT INCLUDES

Our Intellectual capital consists of the unique attributes that include; the distinctive LBF brand, technology based assets, framework of system control such as global certifications as well our intrinsic knowledge based processes and protocols.

### HOW IT ADD VALUES

Intellectual capital plays a vital role in differentiating LBF's value proposition to enable the Company to gain a competitive advantage and accelerate its growth trajectory.

### 1 INPUT

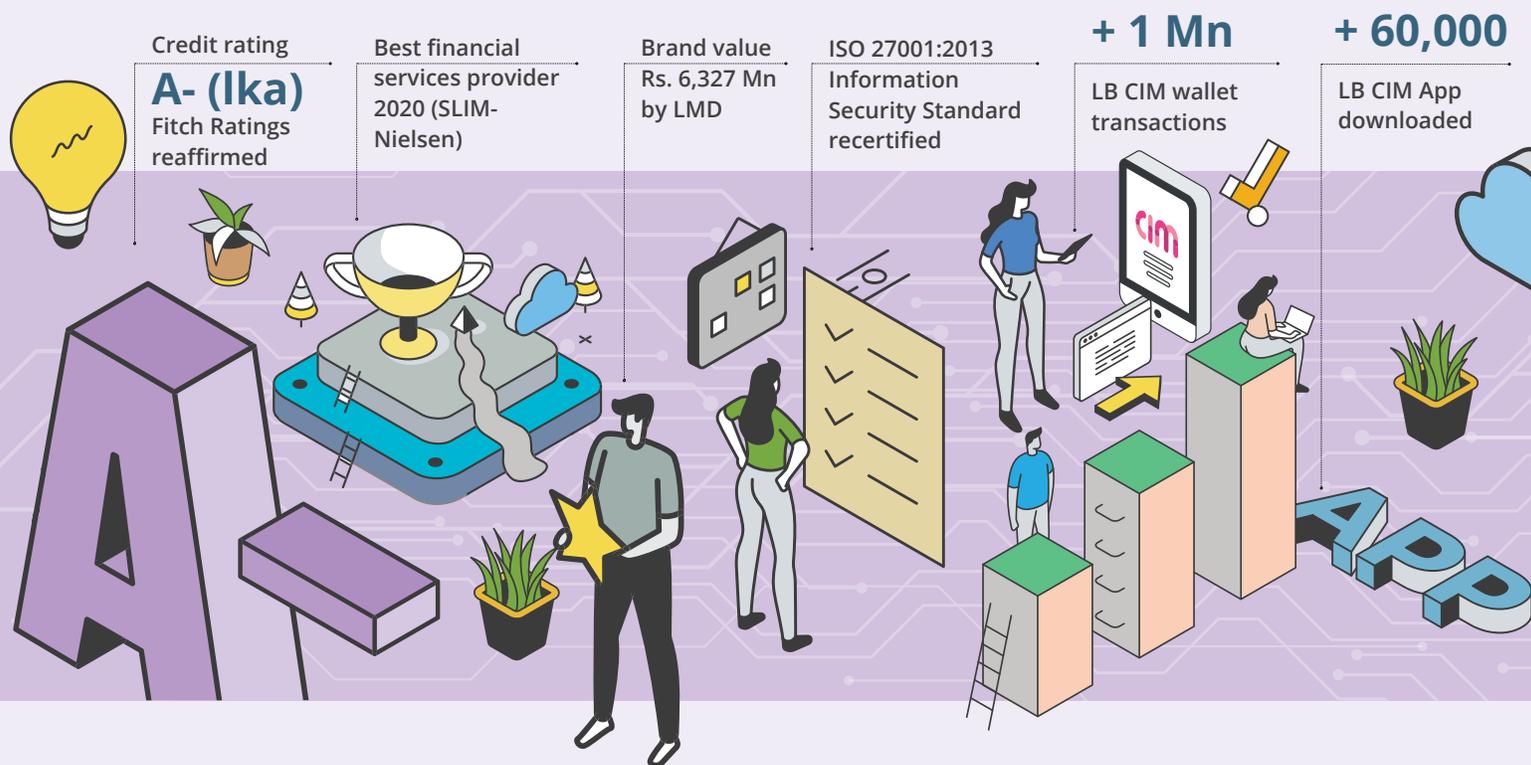
- ☞ Launch of LB CIM
- ☞ Strengthening BCP framework
- ☞ Revamping the system audit model
- ☞ Setting up of the L B Finance Center for Technology and Innovation

### 2 STRATEGIC DRIVERS

- ☞ Maintain a consistent brand position
- ☞ Adhere to the latest globally accepted best practices
- ☞ Continuous R & D to boost ideation and innovation capabilities
- ☞ Pursue automation as a means of improving internal efficiency and service delivery to customers

### 3 CHALLENGES

- ☞ Risk associated system failure and connectivity failure
- ☞ Rapid increase in cyber threats
- ☞ Competitive pressure in the digital finance space, especially from the banking sector



### 4 TRADE OFF

Intellectual capital by nature does not involve any material trade off between other capitals, except for the cost outlay (Financial capital) of implementation

**5 SPACE FOR DEVELOPMENT**

- Move to a cloud-based environment to maintain more effective BCP control
- Strengthen the internal governance of information security and data privacy
- Better use of AI technology based robotic process automation and predictive analysis to increase internal efficiency

**6 APPROACHES TO MANAGING INTELLECTUAL CAPITAL OUTCOMES**

- Demonstrate the commitment to live up to LBF's brand value
- Maintain world-class information technology infrastructure
- Ensure control systems and frameworks are continuously reviewed and updated
- Ongoing investment to enhance knowledge based systems

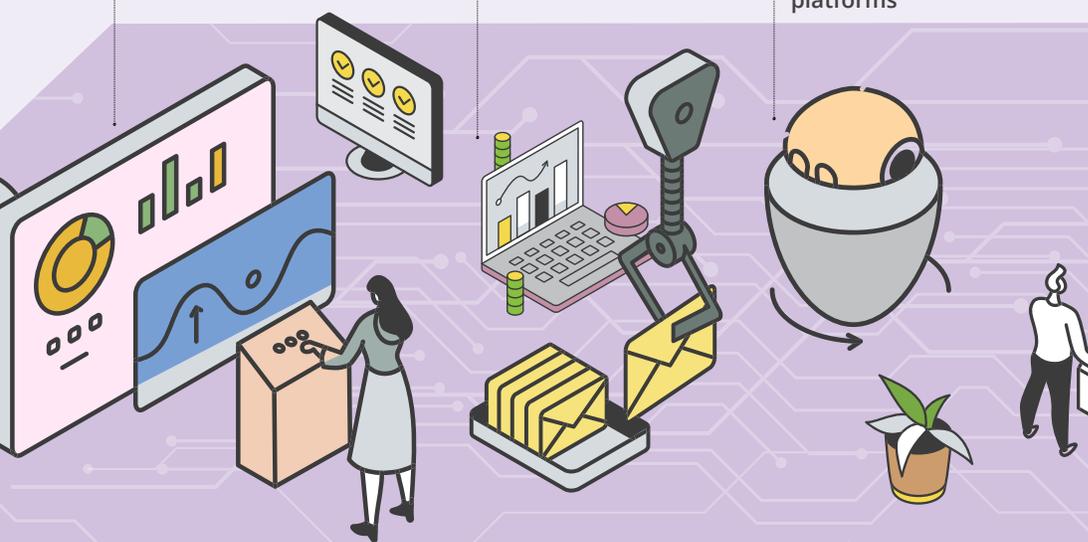
**7 KEY OUTPUT**

- 3rd consecutive award as the best financial services provider of the year at the SLIM- Nielsen People's Awards
- Over 60,000 downloads of the LB CIM digital wallet
- New systems developed

Dedicated Digital Financial Services (DFS) unit

Dedicated Center for Technology and Innovations (CTI)

Chatbot introduced to the corporate website and social media platforms



**8 FUTURE**

Focus on the digital space to keep with technological change

Cloud-based environment



Digital migration for core products

AI technology based systems

**Related material themes and drivers**

- Brand loyalty and Company reputation
- Technological advancement
- Innovation
- Process excellence

**Related stakeholders and concerns**

- Improving sustainable business performance
- Improving access to finance

**SDG impact**



Visit web page for our philosophy, Management approaches and analysis of Intellectual Capital

# CAPITAL REPORTS

## Intellectual Capital

### OVERVIEW

Over the past 50 years, our intellectual capital has evolved in tandem with our business strategy and as such continues to make a significant contribution to support the effectiveness of other capitals. For example LBF's strong brand and world class systems and processes empower employees (Human capital) to better perform their jobs. Likewise our knowledge based assets including control procedures, standards, best practices and R & D schematics, enhance service delivery to the customer, in turn building trust and customer confidence (Social and Relationship capital)

### OUR BRAND

The year 2021 commemorates LBF's 50th year of service to the nation. Founded on the fundamental principle that inclusivity holds the key to nation wide prosperity, LBF's journey over the past 50 years has been driven by the deep rooted desire to serve all communities across Sri Lanka. Everything we do - our competitive strategy, our willingness to innovate and our commitment to manage our business prudently and responsibly in-line with all legal and regulatory frameworks as well as industry best practices, are all aimed at gaining the trust of all Sri Lankans. On this basis, LBF has worked purposefully to

### SWOT ANALYSIS



#### Strengths

Established brand backed by a solid track record spanning half a century  
Industry leading technology and system architecture



#### Opportunities

Use of advanced data science technologies to improve the quality of management information systems



#### Weaknesses

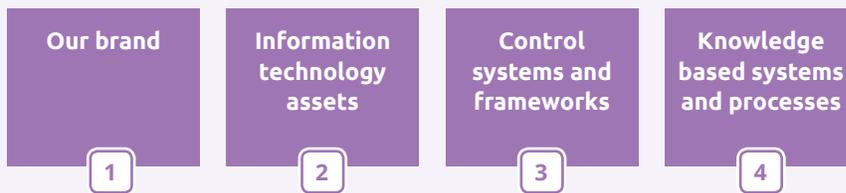
Delays associated with maintaining manual systems



#### Threats

Higher risk of system failure due to the dependency on technology based systems  
Rapid evolution in cyber security threats

### KEY MATERIAL DRIVERS



position LBF as the benchmark for trust and reliability in the local financial services sector. The awards and accolades we continue to receive each year are a further affirmation of our status as the financial services brand trusted by all Sri Lankans. LBF was recognized as the financial service provider of the year for the third consecutive year, at the SLIM- Nielsen People's Awards 2021, which is a clear validation of the public trust in the LBF brand.

Meanwhile the COVID-19 pandemic situation in the year under review provided an opportunity for LBF to showcase

### Strategic objective

Enhance brand image

its ability to truly live up to every one of its brand values- Excellence, Ethics, Professionalism, Transparency, Innovation and Quality. The most demonstrable example in this regard was the launch of LB CIM - the wallet application developed in response to the compelling need for digital platforms as a means of overcoming the pandemic related mobility restrictions. LB CIM which had reached the final stages of development by the end of the previous

financial year was further enhanced and unveiled in April 2020. Developed in-house by LBF's Digital Financial Services (DFS) unit using sophisticated dual platform architecture to support the transactional capability of both customers and merchants, LB CIM has been fully approved by the CBSL. LB CIM which became an instant hit during the two months island-wide lockdown period, has since continued to gather momentum and remains one of the most downloaded wallet applications in the local market to date.

### INFORMATION TECHNOLOGY ASSETS

LBF's IT infrastructure is built to handle large and variable workloads ensuring high level of performance, stability and availability of business critical systems. We continuously try to adopt new technology, promote innovation that reduce process complexity and deliver technology solutions that are aligned with business objectives. In addition to hardware

and physical IT infrastructure, LBF also leverages on software solutions to drive economies of scale across various aspects of the business. In this regard, we use a combination of licensed software procured from vendors as well as software solutions developed by our in-house IT teams, the DFS Center for Technology and Innovation (CTI).

### CONTROL SYSTEMS AND FRAMEWORKS

#### Business continuity planning

Business Continuity Planning (BCP) is an integral part of LBF overall approach to building resilience and ensuring business continuity. In this regard, our BCP process is designed with the capability to help the Company to prevent, prepare and respond effectively in the event of a disruption. The BCP also serves as a guideline for managing and recovering from impacts of a business disruption.

To measure the effectiveness of the BCP, LBF's system audit team performs scheduled DR (Disaster Recovery) and BCP drills in order to observe the activities and examine whether the RTO (Recovery Time Objective) and RPO (Recovery Point Objective) of critical systems meet the planned objectives. Company also plan to use cloud based infrastructure to further reduce business impact during a disaster situation.

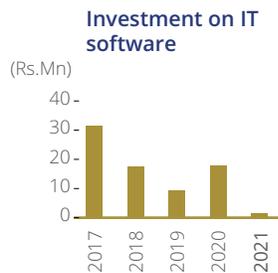
In light of the COVID-19 pandemic, some notable changes were made to the existing BCP framework in the year under review. The work-from-home model was implemented for all employees, including call center teams, to enable them to continue with their day to day work schedules during the lockdown period. A hybrid system was created to ensure Key Management Personnel (KMP) could function from alternate locations in the event a localised lockdown would prevent them from accessing their offices.



# CAPITAL REPORTS

## Intellectual Capital

With the year under review bringing new concerns regarding information security, especially with employees required to work-from-home as a result of COVID-19 restrictions, a new verification framework was established along with a stringent monitoring to detect unauthorised access of the Company's information systems.



Identified LBF branches in the Colombo, Gampaha, Kandy and Galle Districts were set up as core location centers, while the Company's main DR site was moved to the SLT's Tier III data center in Pitipana and secondary data center was established at the Dialog data center in Pothuwarawa.

All scheduled BCP drills for the FY 2020/21 were carried out as planned. In addition, several new audit protocols were introduced to monitor unauthorized access to the Company's systems amidst the work-from-home environment. As part of the continuous risk assessment process audits were conducted to determine the effectiveness of the employee awareness regarding BCP procedures was also subject to audit.

### Information security management

The rapid evolution in the information security threat landscape in recent years has drawn our attention to the need for safeguarding our information assets from both external and internal threats. LBF's fundamental approach is based on the ISO

27001:2013 Information Security Standard, which has been in place since 2014. Accordingly both data center locations are ISO 27001:2013 certified facilities. Business critical systems at the data center are configured with on-site high availability, load balancing and redundancy features to ensure uninterrupted service. Furthermore, to protect our systems from the risk of data breach and malicious intrusion, we have implemented multi layer access controls including network, application and database level access controls. In addition, we conducted regular training to raise awareness among our employees regarding unintentional data disclosure.

In the current financial year, LBF successfully completed its 3rd consecutive re-certification of the ISO 27001:2013 Information Security Standard for further three year period. The new certification covers a wider scope and includes the information security systems of the newly set up Innovation center as well, in addition to LBF's data center architecture.

### Strategic objective

Increase technology and process audit

Also in an effort to further streamline operations and ensure transparency in information systems auditing, the Information Systems (IS) audit team was restructured and brought under the purview of the internal audit department with effect from mid-2020. With this change, the scope of the IS Audit Programme was further expanded to include the protection of information assets, system development life cycle and quality assurance, disaster recovery and business continuity planning as well as data base information security database management.

The existing Auditing Programme was also revamped in-line with industry best practices such as IT audit framework by ISACA, the ISO 27001:2013 standard and CBSL guidelines. The new audit schedule consists of several customised audits including backup management audits, change management audits, patch management audits, application system audits, mobile application audits as well as physical and environmental security audits. In addition to the mainstream system audit, operations security audits and access control audits conducted in the past.

With the year under review bringing new concerns regarding information security, especially with employees required to work-from-home as a result of COVID-19 restrictions, a new verification framework was established along with a stringent monitoring to detect unauthorised access of the Company's information systems. Audits were also carried out to verify the physical security of mobile devices to prevent data leakage while remote working.

## Data privacy

We are committed to protect the personal information in our custody and to comply with the regulations relating to data privacy.

To further reiterate our commitment, we took early action to develop a new data protection procedure in readiness to comply with the CBSL's proposed new Data Protection Act due to be gazetted in 2021. LBF's data protection procedure will outline the necessary procedural, technological and physical controls that need to be implemented to ensure LBF's information assets remain protected at all times.

The data protection procedure will also include data classification guidelines to enable all employees to recognize the information that needs to be protected, scale out the level of their sensitivity, control access to sensitive information and its communication within internal staff and outsiders.

## KNOWLEDGE BASED SYSTEMS AND PROCESSES

### Innovation capabilities

LBF is continuously innovating to cater to the customers' needs. And as we move ahead with our "Think Forward" strategy, the focus on digital driven solutions has become a key priority. LBF's Digital Financial Services (DFS) unit is the key enabler of this effort. Established in the early 2019, the DFS seeks to achieve two clear objectives; develop digital financial products and services to support LBF to widen its island-wide reach and create digital solutions to complement LBF's core product suite. The development of the LB CIM wallet application was spearheaded by the DFS.

### Customised research

LB Finance Center for Technology & Innovation (CTI) was set up in mid 2020 with the aim of strengthening our core financial system and to introduce AI based system. This project initiated in early 2019, called "Eclipse" and continue to the future. Machine learning tools and advanced data

analytics to disseminate the large volume of data generated on daily basis, in ways that could contribute towards increasing revenue, improve efficiency, effectiveness and productivity, ultimately leading to a positive impact on the LBF's overall profitability.

### Process re-engineering

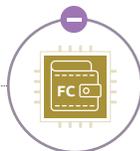
Process re-engineering plays a major role in our efforts to improve internal efficiencies that would benefit the Company's bottom line as well as to enhance service delivery to customers. As such existing processes and technology are regularly reviewed to determine scope for improvement, while changes made are strictly monitored to determine if the desired results are being achieved.

### Human resource development

The continuous and ongoing investment in human resource development stems partly from the need to augment LBF's intrinsic knowledge base. Steps taken in this regard are described in detail in the Human capital report.

## Reaping benefits of investing in intellectual capital

### Automated more services to improve the efficiency



Investment made to automated systems



Capacity enhancement equivalent of full time employees

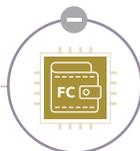


Documents are shared through the digital platforms lead to reduce the paper usage

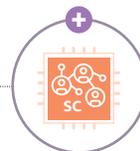


Enhance customer relationship management and business intelligence

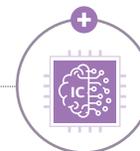
### Advanced data analytics, digital financing and machine learning platform which improves reliability and productivity



Investment made on new infrastructure equipment



New products and services development and new revenue streams



Reputational gains as industry best tech leader and innovator



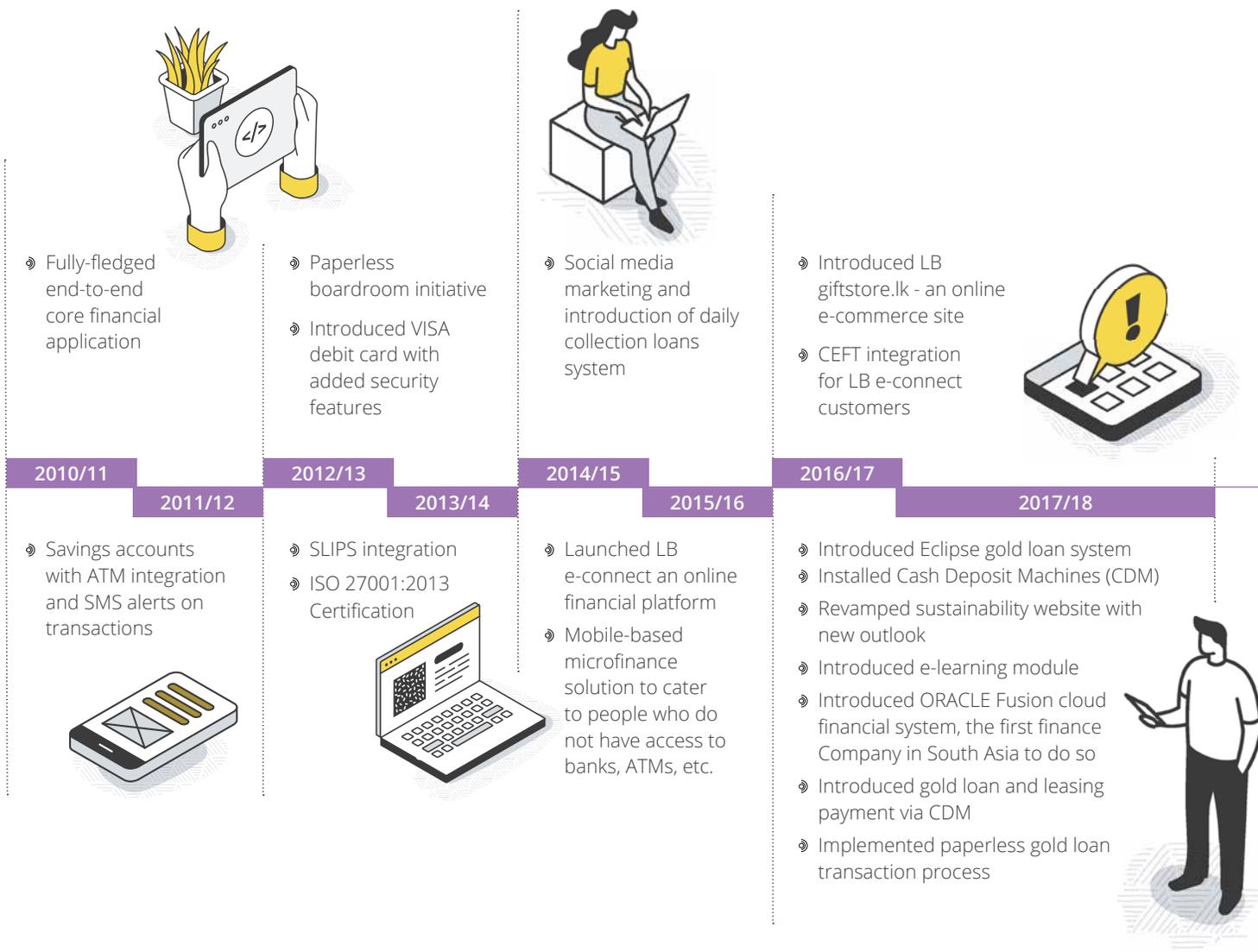
New skills and innovation, Improved innovative decision-making

Increase Decrease

# CAPITAL REPORTS

## Intellectual Capital

### INTELLECTUAL CAPITAL JOURNEY



### Tradeoff between capitals

	Financial			Human			Intellectual			Manufactured			Social & Relationship			Natural		
	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Process automation	▲		▲			▲	▲	▲	▲		▲	▲	▲	▲	▲	▲	▲	▲
Design new products and services	▼	▲	▼▲					▲	▲	▲	▲	▲			▲			
Training efficiency through e-learning	▼	▲			▲	▲								▲	▲	▲	▲	▲

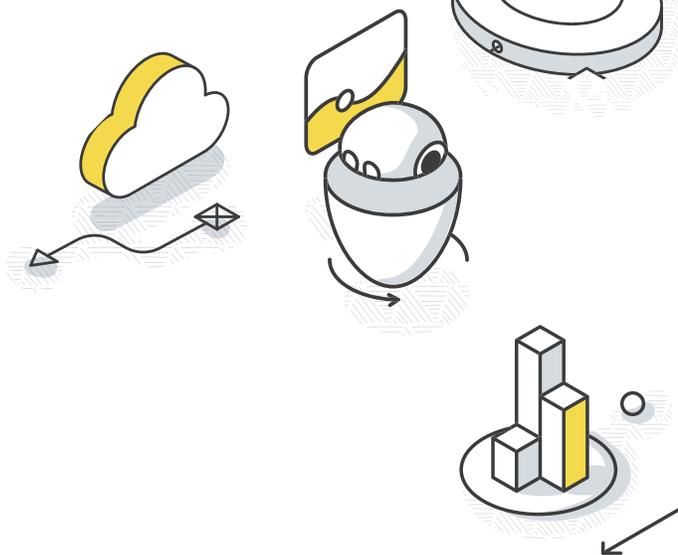
S – Short term M – Medium term L – Long term ▲ Increase ▼ Decrease — Neutral

- Started new digital financial services for dedicated IT innovation
- Implemented geo-tagging technology
- Introduced instant credit approval via mobile app
- Introduced CIM digital wallet
- Introduced value-added services via CDM
- Introduced dedicated switch for ATM transactions
- Launched Eclipse credit module
- Introduced paperless credit approval process
- Implemented machine learning technology for fixed deposit module
- Introduced NFC enable debit card
- Migrated the current local host disaster recovery system to cloud-base hosted to a dedicated data centre managed by Sri Lanka Telecom

2018/19

2019/20

- Implemented Artificial Intelligence technology for leasing module
- Introduced Cash Recycle Machines (CRM) for cash withdrawals
- Introduced digitalised face recognition for fraud detection



- Initiative End to end automation of workflow system of the leasing business
- Impact to the LBF Reduction of paper, manual work and save the time for back office staff L
- Initiative Mobile app for field staff
- Impact to the LBF Field staff can operate remotely while having access to the relevant information L
- Initiative Integration of the gold loan system to the LB CIM mobile app
- Impact to the LBF Customers can perform their gold loan payments and top-ups without visit to LBF branches L

2020/21

- Initiative Introduction of a fully automated risk assessment scorecard for branches and gold loan centers
- Impact to the LBF Dash boards provides the holistic picture of the business for business heads and branch staff of gold loan business S
- Initiative Chatbot introduced to the corporate website and social media platforms
- Impact to the LBF Chatbot can handle most of the multiple inquires at a given time on both website as well as social media platforms M
- Initiative Automation of the credit verification process
- Impact to the LBF Reduced manual/ human errors  
Reduced travel expenses  
360° view of the customers M
- Initiative Automation of the insurance renewal process
- Impact to the LBF Increase accuracy, reduce delays and repetitive tasks L



Initiative



Impact to the LBF



Short term



Medium term



Long term

# CAPITAL REPORTS

## Intellectual Capital

### Building for the future

Short term (<1)	Medium term (1-3)	Long term (3-5)
<ul style="list-style-type: none"> <li>Improve efficiency of the system audit process using AI technology</li> </ul>	<ul style="list-style-type: none"> <li>Expand the scope of the audit programme to cover non-critical systems</li> </ul>	<ul style="list-style-type: none"> <li>Further enhance the reliability of the BCP model by moving to a cloud-based environment</li> </ul>
<ul style="list-style-type: none"> <li>Introduce a new audit programme to provide assurance regarding LBF's IT compliance status</li> </ul>	<ul style="list-style-type: none"> <li>Work towards introducing end-to-end automation of the deposit business</li> </ul>	<ul style="list-style-type: none"> <li>Enable the digital migration of core products</li> </ul>
<b>GROWTH SUSTAINABLE OPPORTUNITY</b> Pursue continuous process enhancements		
<b>TOWARDS VISION</b> Finalize an integrated cost-effective digital strategy for LBF		

We continue to operate in a highly competitive environment. The rapid growth of e-commerce continues, amplified even during the pandemic, and a number of payments focused mobile wallet have benefited from this trend. This creates an imperative for LBF to continue investing in new digital architecture, not only to keep pace with competitors, but at a rate that allows us to develop ahead of them



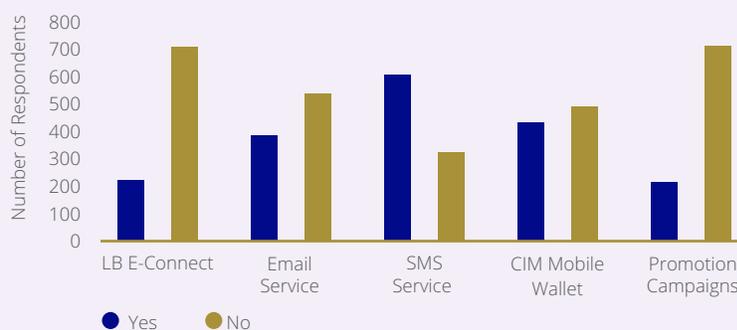
**Mr. B D A Perera**  
Executive Director

### SURVEY INSIGHTS



Study conducted by:  
The Department of Marketing Management  
University of Sri Jaywardenepura

#### Respondents Awareness about Company Services



## FUTURE CRAFTING

### Investing in our brand of improved technologies

Our brand identity is an important component of our intellectual property and a driving force behind our corporate plans and decisions. Our brand and ethos are being used to get our staff and business practices into line with our brand pledge. Our integrated stakeholder engagement approach, which is part of our broader reputation management framework, is a key focus field. Our customer engagement initiative, which we call our customer relationship management (CRM) approach, is a core differentiator of our brand promise.

Our integrated stakeholder engagement approach, which is part of our broader reputation management framework, is a key focus field. The key differentiator of our brand promise is our approach for customer relationships management (CRM), which we call our customer experiences programme. Our Interaction was improved during past years and analysis into other digital tools for stakeholder interaction ensures that we are up-to-date with state of the art technologies. Our brand protection remains a core priority and we are committed to strong brand leadership values, including our brand guidelines on the use of our brand, which we also cover with external engagements.

### Identify business excellence opportunities

We are still looking to improve our business procedures and functions more effectively in order to satisfy the demands of our customers. We use business processes and technology for business analysis to define key performance processes that enable us to concentrate on core expertise. In addition, LBF has developed a center of innovation and technology to supervise management activities of business processes.

### Leveraging technology in our spaces

We are committed to creativity to maximize our market worth and our stakeholders and have thus taken the unorthodox path to our infrastructure. This ensures that we have the freedom to take the decisions to mold our experience as desired and still keep control of the produced results. We also wanted to follow a new world class digital platforms.

We partner with media agencies to capitalize our room and our own screens to achieve 'space' or slots on digital advertisement space. We thus build on established ties and industrial know-how of our stakeholders while ensuring that the bulk of revenue is kept within our company.

# CAPITAL REPORTS



## 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 VALUES

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

### 1 INPUT

- Excellence in customer services
- Proactive interaction with communities
- Enhance business partnerships
- Increase branding effort to reach more segments

### 2 STRATEGIC DRIVERS

- Updated software, increased automation and employee training
- Partnerships with multilateral organizations
- Analysts and increased engagement through social media

### 3 CHALLENGES

- Addressing customers' queries and potential complaints
- Finding the right partnerships that can bolster value creation
- Attaining process improvements for continuous development

Over **600,000**

Customer base

**31**

Comprehensive financial solutions

**Rs. 3,968 Mn**

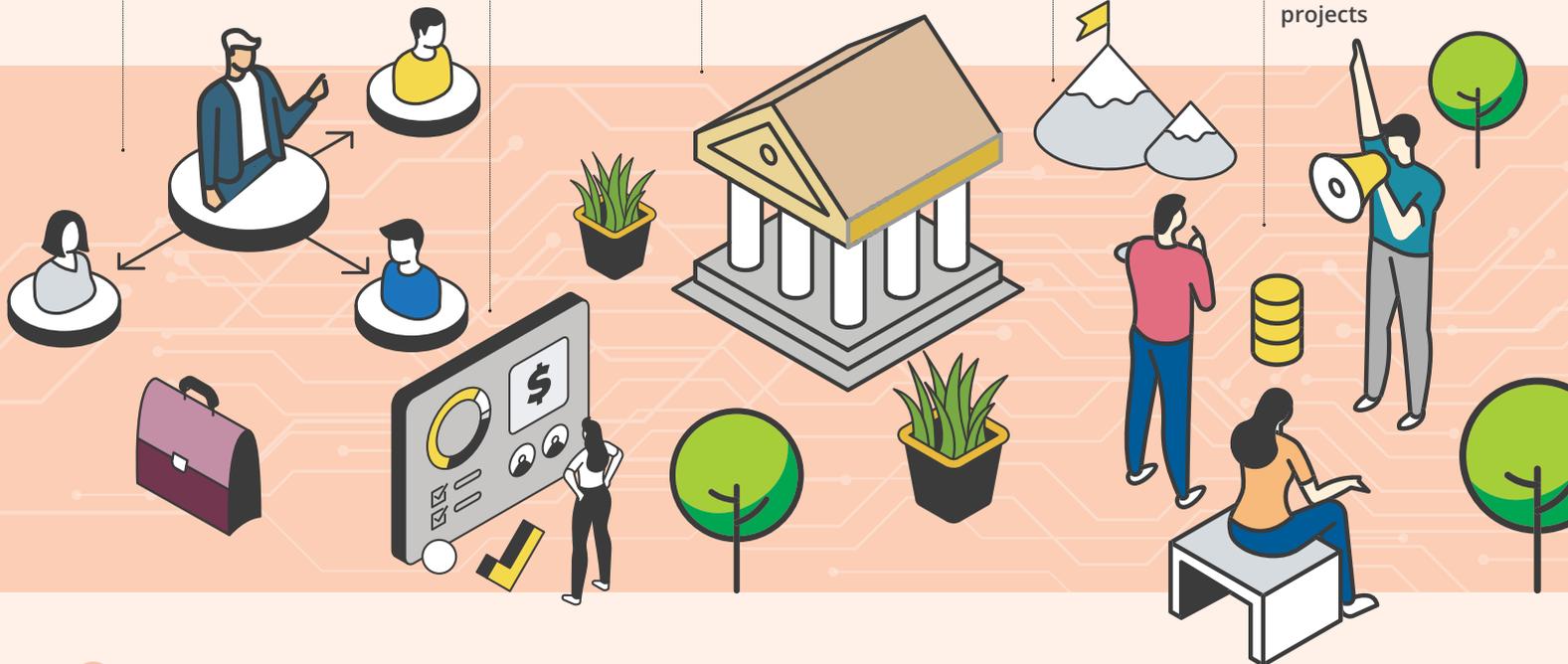
Paid to the government as taxes

**22**

CSR projects

**Rs. 37 Mn**

Invested in community development projects



### 4 TRADE OFF

Our social and relationship capital is intricately linked with our people strategy and the way we engage with our customer and other

stakeholders. The services and operations of many of our branches are designed to best serve the customers within their closest vicinities, so that

we can specialize in customizing our offerings to their specific needs.

**5 SPACE FOR DEVELOPMENT**

- Events that bring various stakeholders on common platforms
- Innovative funding options for non-captured segments in partnership with multilateral institutions
- Customer service enhancement initiatives

**7 KEY OUTPUT**

- Increased customer base by 8.81%
- Investment on CSR Rs. 37.24 Mn
- Strong partnership and focus to let out our spaces

**6 APPROACHES TO MANAGING SOCIAL AND RELATIONSHIP CAPITAL OUTCOMES**

- Contribute to a stable operating environment by supporting uplifting our communities
- CSR programmes - provide support for communities within and around operations
- Building trust with business partners through proactive communication for business continuity

- 5,764 Active employee volunteer hours for CSR

**8 FUTURE**

Align our business strategies with our branding approach for solidifying our long-term stakeholder relationships

Over **3,000**

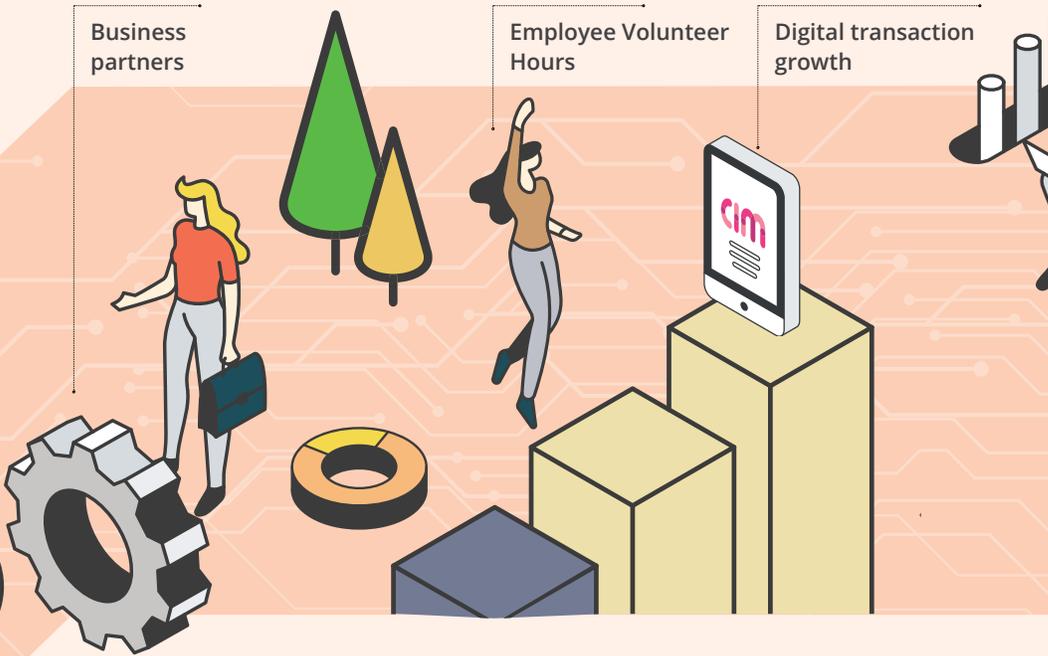
Business partners

**5,764**

Employee Volunteer Hours

**337%**

Digital transaction growth



Digital modules for speedy transactions

Enhance social media engagement



Innovative products

**Related material themes and drivers**

- Operational excellence
- Innovation
- Customer satisfaction
- Corporate citizenship
- Supply chain management

**Related stakeholders and concerns**

- Managing customer caring and customer relationship
- Train customer centric employees through skills development
- Social wellbeing, community support and improving CSR engagement
- Improving enterprise development and supplier development

**SDG impact**



Visit web page for our philosophy, Management approaches and analysis of Social and Relationship Capital

# CAPITAL REPORTS

## Social and Relationship Capital

### OVERVIEW

Our social and relationship capital is made up of the stakeholder ecosystems that support LBF to achieve its strategic intent. These include the relationships with customers, suppliers and the community at large.



### CUSTOMER CAPITAL



Customers are the reason we remain in business. Therefore, we believe that serving our customers is not an obligation but rather an opportunity to prove that LBF stands a cut above the rest.

#### Who are our customers?

Individuals and businesses that make use of LBF's portfolio of investing and financing solutions and value added services

#### Why do our customers choose us?

The strength of the LBF brand together with the highly customer centric product offerings and the commitment to service excellence translates into positive experiences for individuals and business customers

Best customer experience is great for our customers, but also great for LBF: We measure it by looking at the extent to which our performance compares with that of our next best competitor. We should see the benefits in our ability to bring on more customers than our natural market share, growing this over time. In markets where we have a best customer experience allows us to protect and even grow the market share.

### SWOT ANALYSIS



#### Strengths

A diverse portfolio of highly customer centric products and services to cater to all market segments along with superior digital capabilities to enable the launch of first-to-market products and services



#### Opportunities

Use of digital technology to map out pain points in the customer journey and find appropriate solutions



#### Weaknesses

Inadequate mechanisms to track customer satisfaction and loyalty in a more consistent manner



#### Threats

Highly competitive environment with a large number of players fighting for market share

#### Fulfilling our customer promise

Our promise to our customers is the assurance of responsible financial products and services combined with the best in-class experience. At a minimum this means ensuring full compliance with all legal and regulatory requirements applicable to our business. In recent years, LBF has gone beyond these minimum expectations and has voluntarily undertaken to abide by accepted industry norms and best practices to safeguard the interest of the customer more holistically. Accordingly, we now measure the environmental and social impact of all new products against available standards.

	Principle	Our Responsibility
	Customer first	Consider the customer's needs and wants first
	Customer accountability	Own the issue and don't pass the blame
	Simple, clear and transparent	Communicate in clear and uncomplicated language
	Continuous improvement	Continuously improve our products, services and channels in line with customer expectations and changing needs
	Monitor and reporting	Identify gaps and initiate appropriate corrective action

The execution of our customer promise is pivoted on four key pillars:

### 1 Offering World-Class Integrated Financial Solutions



#### Strategy

Develop solutions that address the customers' needs more holistically. This means focusing not only on meeting the customers' need for financial products but also satisfying their desire for convenience and overall ease of access.



#### Action

We recognize that technology adoption needs to be successful and that our organization and community have been restructured to allow our employees to better their customer experience. The conventional silo strategy shifts to cross-functional teams focused on agile customer service.

- ☞ Launch of the LB CIM wallet application



#### Highlights

- ☞ Speedy leasing facilities
- ☞ Enabled the direct debit facility on the LB CIM wallet
- ☞ Integration with Lanka QR to allow micro merchants direct access to finance via the LB CIM app
- ☞ Integration of the gold loan system to the LB CIM mobile app



▶ LB Leasing



▶ Awareness LB CIM app



▶ Benefits of using CIM App



# CAPITAL REPORTS

## Social and Relationship Capital - Customer

### 2 Leveraging Our Digital Platforms to Meet Our Customers' Needs

Explore new innovative technologies and transform our internal IT systems to bolster our efforts to meet and exceed our customer expectations.



#### Strategy

Rather than using standard, off-the-shelf technology, we focus on building our own digital platforms that can be customised to in response to the needs of our customers



#### Action

- Automation of credit processing workflow systems and roll out of the mobile app for field staff
- Chatbot introduced to the corporate website and social media platforms
- Automation of call center operation



#### Highlights

- Reduction in the time taken from loan origination to disbursement
- Enhance customized features for CIM app
- System enhancement to reduction of gold loan transaction



▶ LB gold loan



▶ Benefit of using LB CIM



▶ Digital payment via QR payment



### 3 Delighting Customers by Delivering an Exceptional Customer Experience

At LBF, we work on the premise that every customer should enjoy the privilege of an exceptional customer experience. It is why we strive to learn more about our customers and understand their needs and expectations.



#### Strategy

In order to better adapt to the needs of our customers, we have increased the use of data science and AI based machine learning technology to deepen our understanding of the pain points in each customers' journey.



#### Action

- Completed and launched the data warehouse project
- Set up the LB Centre for Technology and Innovation
- Launch of the flagship premier center in Colombo 07



#### Highlights

- Use of predictive analysis dashboards, branches relocations to preempt the needs of the customers and develop customised solutions



Branch opening



LB Finance premier



LB Divijaya – Success stories



**4 Building Customer Awareness**

We are of the opinion that every customer has the right to make informed decisions and believe that giving them the required tools to do so builds trust in the LBF brand.



**Strategy**

LB's media and promotional material conform to all regulatory compliance requirements as well as industry norms and standards. In addition we use insights from our engagements with our customers to continuously enhance the quality of the content of our promotional material



**Action**

- ④ Focus on mass media
- ④ Increased promotional material made available on social media platforms

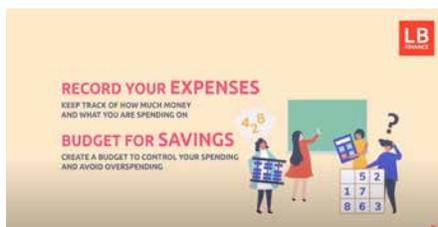


**Highlights**

- ④ Introduce LB Easy digital loan facilities
- ④ Partner with Lanka QR- strengthening the digital vision of Sri Lanka
- ④ Organize the social media customer engagements



Winner – SMS Three Wheel Number



Savings habits



LB digital loan



# CAPITAL REPORTS

## Social and Relationship Capital - Customer

### Managing our channels

LBF maintains a broad range of physical and digital channels to give customers the opportunity to access the Company's

products and services. A multitude of factors influence our channel management decisions. Some of the factors considered are; customer profiles, customer life-cycles, geographical location, population density

and competitive positioning. In recent years we have also been paying keen attention to emerging tech trends both globally and locally.



	Kids/Teenagers 01-18	Millennials 19-29	Young families 30-39	Established families 40-55
CUSTOMER SEGMENT	 <p>Children are the custodians of the future</p> <p>Nurturing their hopes and dreams in the right way is the key to a stable future</p>	<p>Millennials are focused on life experiences and as such express a strong skew towards investment and retirement products</p>	<p>Young families are often under financial pressures brought on by lifestyle aspirations including; bigger homes, family vehicles, etc</p>	<p>Balancing work commitments, children's education expenses and retirement planning often compels the need of flexible products to accommodate unplanned expenses</p>
FOCUS PRODUCTS	 <p>LB Minor Savings, LB Regular Savings</p>	<p>Personal loan, Digital financing leasing and savings products</p>	<p>Leasing, Mortgage Loan, Gold loan, Digital financing and savings products</p>	<p>Education loan, Gold loan and savings products</p>
CHANNEL PREFERENCES				
BRANCH	✓		✓	✓
CONNECTED ATMS	✓	✓	✓	✓
DEPOSIT KIOSKS		✓	✓	✓
LB E-CONNECT	✓	✓		✓
LB CIM WALLET		✓	✓	
SOCIAL MEDIA	✓	✓	✓	

### Ensuring trust and safety

Customer trust is a key determinant in our success as a financial services institution. We believe creating a safe and secure environment for our customers to transact with the Company is the fundamental principle in building customer trust. In this regard, LBF's Code of Conduct for employees provides a foundational

guidance regarding the behaviours and protocols all employees are expected to follow, including a chapter on anti-corruption and anti-bribery practices. Furthermore we undertake to continually train our employees to educate them on customer rights and the importance of honesty and integrity in their dealings with customers.

### Data privacy, customer privacy and information security

LBF is fully committed to protect the privacy and integrity of customers' personal data and information. In this regard we comply with all national information security regulations and do not disclose customer information to the public domain unless otherwise compelled by law. All



	Mature well-off 55-60	Senior citizens 60+	Self-employed individuals	SME's
	Mature, financially –stable customers who focus on a higher quality of life and enjoying their retirement	Senior citizens who expect secure product returns in order to maintain quality of life they are accustomed to	Independent self sufficient individuals seeking dynamic solutions to progress to the next level	Deemed the backbone of the national economy, SME's require stable long term solutions that would help their businesses to grow and mature
	FD products and Savings products	Senior citizens' FD and savings products	Personal loan, Leasing, Savings, Mortgage and Gold loan	Personal loan, Gold loan, Mortgage, Micro Leasing and Savings
	✓	✓	✓	✓
	✓		✓	
	✓			✓
			✓	✓
	✓		✓	

customer information is stored securely at LBF's data centers and is protected by the best in-class firewalls and 24/7 monitoring to detect and flag irregularities in the form of external breaches or internal data leakages.

Going beyond compliance, LBF's systems are benchmarked against the ISO 27001 Information security standard, following

the successful completion of the annual audit, the ISO 27001 was renewed in 2020, for a further three year period ending in August 2023. The Company's information security architecture, including system controls, policies and procedures, all stem from the best practices outlined by the ISO 27001. These frameworks were further strengthened in the year under review, in view of the fact that a majority of the

Company's employees were working from home for several months. In addition, LBF was one of the first financial institutions to tie up with FinCSIRT, the only dedicated computer security incident response team for Sri Lanka's financial sector.

Meanwhile, taking early action to improve its readiness to comply with the proposed Data Governance Act due to be gazette

# CAPITAL REPORTS

## Social and Relationship Capital - Customer

in the near future, LBF began the initial groundwork for the development of a specific data protection protocol. The new protocol once established, would cover a wide range of areas including data classification, access control frameworks, duties and responsibilities etc.

### Customer relationship management

Customer relations are the bedrock of any organization seeking to become more customer centric and LBF is no different. LBF's customer relationship management strategy aims to cultivate and build solid relationships with customers. Hoping that earning their loyalty and respect will help to retain customers in the long term.

Building customer relations requires special skills and as such is most often undertaken by all branch teams, the call center and other customer departments that come into direct contact with customers. As part of the customer relationship building effort, these teams are required to identify customer needs and dynamically provide suitable solutions to cater to the diverse needs of different customer segments at different stages of the customer lifecycle. The feedback our teams receive during their interactions with customers are vital as it paves the way for innovation and continuous improvement

of products and services and optimising service delivery.

In light of the COVID-19 pandemic, customer relationship management was thrust into a new dimension and became an all-round effort involving LBF's entire workforce. Immediately following the announcement of the lockdown, the management took some proactive steps to assist customers to tide over the difficult times. After conducting detailed assessments of all leasing customers on a case by case basis, we began offering reschedulement plans and fee waivers while yet others were granted additional grace periods for the repayment. We also took proactive steps to extend the debt moratorium scheme to eligible customers. At the same time front office teams were requested to remain in constant contact with customers under moratorium.

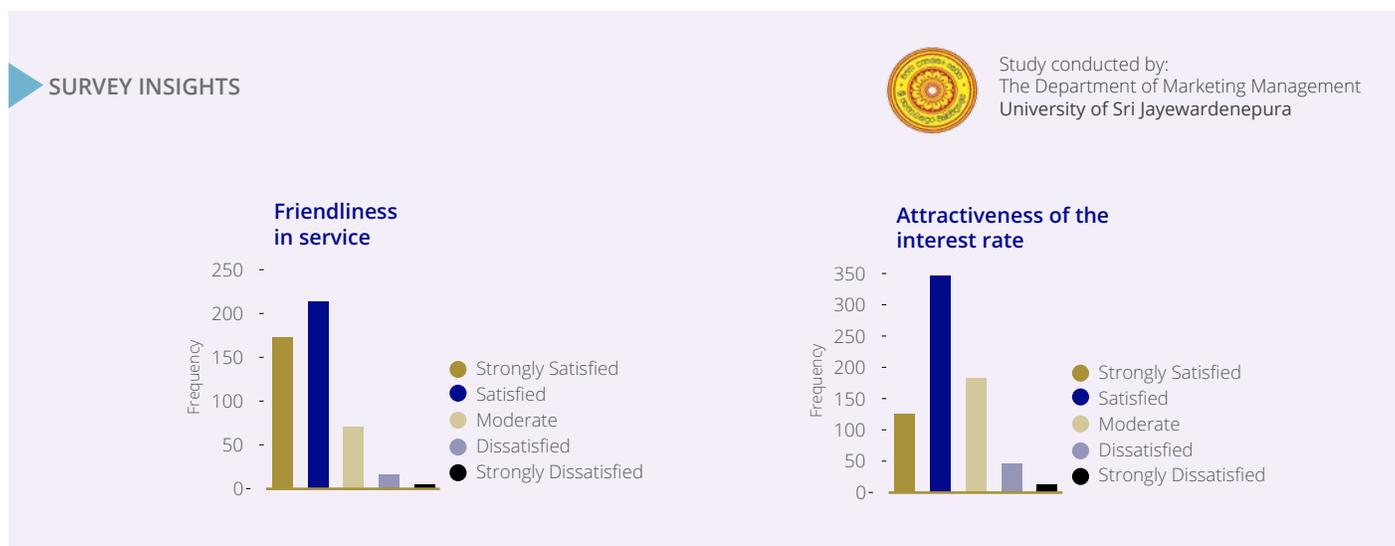
Gold loan customers too who were unable to meet their settlement deadlines due to the lockdown were given a grace period.

An AI-based chatbot was introduced to the corporate website as well as all social media platforms to streamline the handling of routine queries. Consequently, complaints received through the call center reduced significantly in the current financial year.

In addition, a new complaint handling protocol was established specifically for the purpose of addressing complaints received via the CBSL's complaint hotline, which was set up in the wake of the pandemic. The protocol included clear guidelines for branches for the handling of such complaints along with relevant duties and responsibilities and oversight procedures.

### Monitoring customer loyalty and satisfaction

LBF believe the only way which can assess Company's efforts are successful is to quantifiably measure customer loyalty and satisfaction with the first such customer satisfaction survey was done in FY 2020/21. In the year under review, LBF commissioned the research unit of the Department of Marketing - University of Sri Jayewardenepura to carry out another customer satisfaction survey. With an expanded scope and larger sample size, the latest survey was designed to provide quantitative information as well as a range of qualitative indicators to measure customer loyalty towards LBF.



## Creating value for Customer Capital

 Value for customer	 Value for LBF	 Value for Society
<ul style="list-style-type: none"> <li>Customised products to satisfy every financial need</li> <li>Investment products that provide retirement income and meet savings goals</li> <li>Responsible and objective financial advices</li> </ul>	<ul style="list-style-type: none"> <li>Income generated through lending activities</li> <li>Access to funds through deposit mobilisation activities</li> <li>Ability to earn fee-based income through value added services</li> </ul>	<ul style="list-style-type: none"> <li>Ensure financial well-being of the individuals and businesses across the country</li> <li>Increase national savings</li> <li>Enhanced trust in the financial services industry</li> </ul>

## Building for the future – Customer capital

Short term (<1)	Medium term (1-3)	Long term (3-5)
<ul style="list-style-type: none"> <li>Continue to refine internal systems and processes through increased automation, in order to improve customer service delivery parameters</li> </ul>	<ul style="list-style-type: none"> <li>Further strengthen information security architecture by implementing the data protection protocol and by investing in the latest DLP (Data Leakage Prevention) and PAM (Privilege Access Management) software</li> </ul>	<ul style="list-style-type: none"> <li>Track customer satisfaction and loyalty as a more frequent indicator across business units, channels, product interactions and customer journey moments</li> </ul>
<ul style="list-style-type: none"> <li>Improve the effectiveness of the customer survey process</li> </ul>	<ul style="list-style-type: none"> <li>Develop new technology based solutions tailored to meet the needs of different customer segments</li> </ul>	<ul style="list-style-type: none"> <li>Focus on creating more customized promotional content on all mediums</li> </ul>

### GROWTH SUSTAINABLE OPPORTUNITY

Improving new customer numbers, customer retention and attention on the 360 degree view of customer

### TOWARDS VISION

Leading loyal customer brand in Sri Lanka

We want as many people as possible to be able to benefit from access to financial services. We continue to see growing demand from many of our customers for more digital ways to bank, not least as a result of the COVID-19 pandemic. LBF is embedded in the community. As a result, we see social and relationship capital as the link between our business and society. We are able to create and identify new opportunities to deliver enduring value and mutual benefit to the societies in which we operate



**Mr. Ravindra Yatawara**  
Executive Director

# CAPITAL REPORTS

## Social and Relationship Capital - Business Partners

### BUSINESS PARTNER CAPITAL

LBF business partners, whom rely on to deliver our value proposition to our other stakeholders, are critical components of the Company value chain.

#### Why does LBF need suppliers and business partners?

To obtain necessary goods and services needed to carry out the day-to-day operations of the Company

#### Why do business partners choose LBF?

To grow their business over time by providing goods and services to meet LBF's requirements

#### Supply chain management approach

LBF maintains a centralised approach to supply chain management, where all procurement activities, with the exception of IT, is managed centrally by the Company's administrative department. As the main authority in charge, the administrative department is required to ensure that procurement activities are fully streamlined with the requirements of each business unit and carried out as per LBF's procurement policy. Developed in line with global best practices, our procurement policy creates a level playing field to ensure that all suppliers are treated equally and fairly throughout their relationship with LBF.

#### KEY MATERIAL DRIVERS

Supply chain profile

1

Supply chain management approach

2

Developing suppliers as strategic partners

3

### SWOT ANALYSIS



#### Strengths

A strong, dependable supplier base ensuring the uninterrupted procurement of goods and services to maintain business continuity



#### Opportunities

Promote local sourcing for routine requirements at branches



#### Weaknesses

Lack of a planned engagement agenda



#### Threats

Unscrupulous tactics adopted by some suppliers after securing a contract with the Company

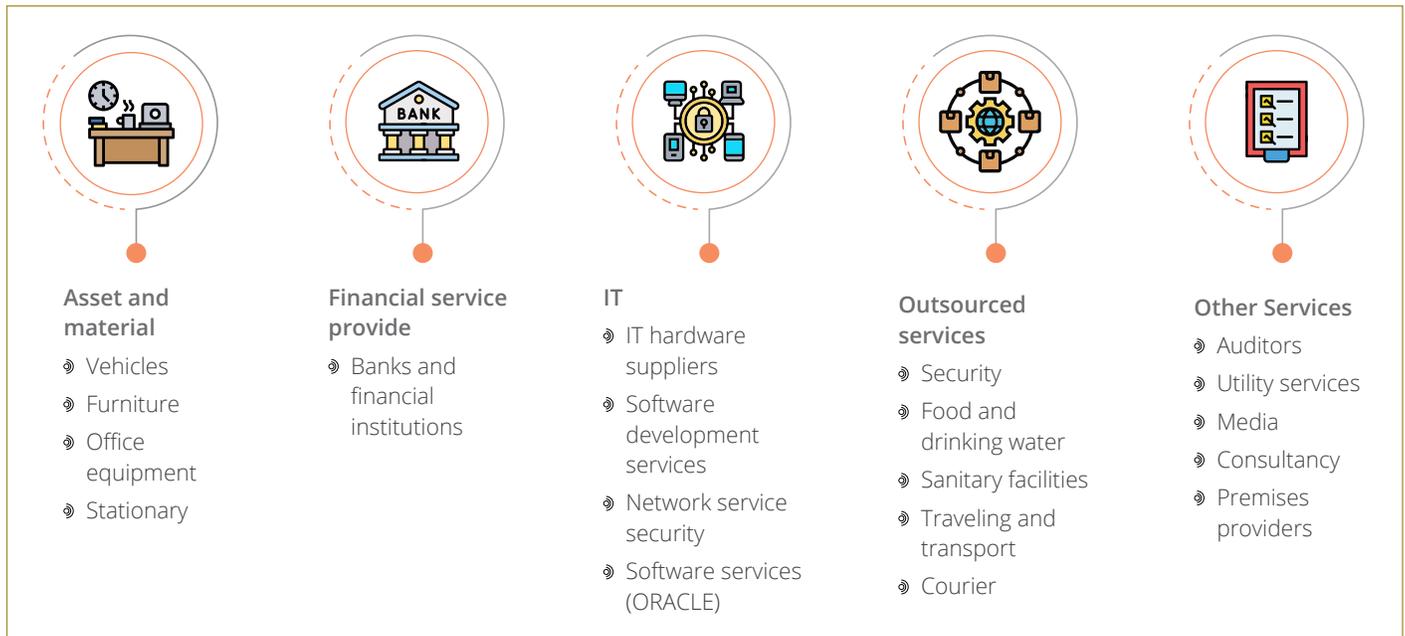
#### Developing suppliers as strategic partners

As part of their duties, the administrative department is tasked with overseeing the development of suppliers as long term strategic partners. This means maintaining continuous and ongoing engagement with suppliers to ensure they remain fully aligned with LBF's standard operating procedures and code of ethics at all times. We meet with suppliers as and when needed. However, with these interactions suspended in the current financial year due to the COVID-19, we reached out to suppliers through social media and other online channels, whenever possible and practical.

#### Supply chain profile

LBF's supply chain consists of a several large suppliers and a few hundred small suppliers broadly categorized segments based on the degree of functional support they provide to the Company. Business partner base and annual spend value

Financial Year	2020/21	2019/20	2018/19
No. of business partners	More than 3,000	More than 4,000	More than 1,500



### Creating value for business partner capital



### Building for the future - Business partner capital

Short term (<1)	Medium term (1-3)	Long term (3-5)
<ul style="list-style-type: none"> <li>☞ Further strengthen the quality and reliability of the supply through diversification</li> </ul>	<ul style="list-style-type: none"> <li>☞ Increase supplier training to raise awareness on ethics, integrity and best business practices</li> </ul>	<ul style="list-style-type: none"> <li>☞ Create digital solutions to promote greater financial inclusion among small scale suppliers</li> </ul>
<ul style="list-style-type: none"> <li>☞ Create opportunities for suppliers to develop their business in line with LBF's growth trajectory</li> </ul>	<ul style="list-style-type: none"> <li>☞ Use of technology solutions to streamline the supplier screening procedure</li> </ul>	<ul style="list-style-type: none"> <li>☞ Encourage suppliers to align with LBF's social and environmental priorities</li> </ul>

#### GROWTH SUSTAINABLE OPPORTUNITY

Develop the MSME sector as an essential enabler for the creation of much-needed employment opportunities

#### TOWARDS VISION

Ensuring that beneficiary suppliers focus on integrated services and value creation for LBF as well as LBF customers.

# CAPITAL REPORTS

## Social and Relationship Capital - Community

### COMMUNITY CAPITAL

As a responsible corporate citizen, LBF aim is to contribute towards social and economic development on a regular basis. Company maintain an open ended approach and undertake projects that demonstrate the capacity to significantly improve the quality of life of underserved communities around the Country.

#### Why do LBF connect with the community?

To understand how LBF can assist in addressing key community issues and also to forge partnerships that will support the achievement of the Company's integrated sustainability objectives

#### Why do business partners choose LBF?

To find real solutions for pressing issues that hinder the progress of their communities

### KEY MATERIAL DRIVERS



### SWOT ANALYSIS



#### Strengths

Solid reputation as a responsible community steward derived through consistent efforts to tackle community issues over the years



#### Opportunities

Conduct valid, reliable research into an identified area and design a mix of projects that will meet the unique needs of the chosen community



#### Weaknesses

Lack of a formal employee volunteer programme



#### Threats

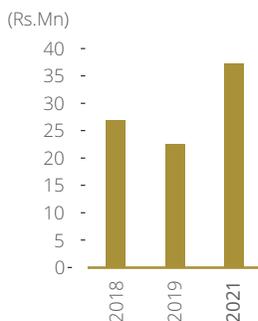
Failure of projects due to the inability to tie up with the right partners who can add value to the Company's efforts

### Knowledge and beyond

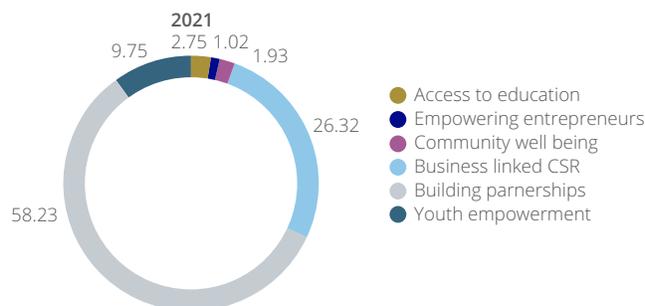
#### Access to education

We believe a quality education at primary, secondary and tertiary levels will lay the foundation to reduce inequalities and pave the way for sustainable socio economic development in the long term. LBF's CSR strategy prioritises access to education with the aim of eliminating the persistent knowledge disparity that exists in Sri Lanka. Furthermore, as a responsible financial institution, we feel we have a bigger role to play in improving financial literacy among the wider community which in turn would support the creation of self-sustaining communities with the capacity to fuel economic growth.

Investment on CSR



Contribution (%)



## Access to education

Description		Achievements	Employee volunteerism (hours)	2020/21 Expenditure (Rs.)
<b>Primary education</b>				
LB preschool development project	Infrastructure facilities are provided to the selected preschools in Sri Lanka, continuation of the LB preschool development project	<ul style="list-style-type: none"> <li>Provide accesses to education</li> <li>Establish pleasant environment for kids to learn</li> <li>Filling the gap of the education facilities in rural preschools</li> </ul> 75 preschools completed and 08 preschool developed in this year	427	750,000/-
Christmas with LB	Creative greeting card contest on Christmas celebration for children and printed them as our seasonal greeting cards	<ul style="list-style-type: none"> <li>Provide mentally relaxation for the COVID-19 pandemic</li> <li>Enhance the aesthetic ability of the children</li> </ul> 96 candidates participated and 10 selected as winners	96	45,000/-
Kids entertainment	Share video songs release DP kids with LB Finance with Sibil Weththasinghes' books	<ul style="list-style-type: none"> <li>Facilitate the video learning platforms</li> <li>Develop the listening and understanding capabilities</li> </ul> 02 video clips, more than 400 viewers	54	-
Puzzle competition for Kids	In line with world children day conducted a puzzle competition through social media platform	<ul style="list-style-type: none"> <li>Support for the early education</li> <li>Develop the education interest through the funny activities</li> </ul> 113 kids participated for the competition and 20 awarded with gifts	61	13,000/-
<b>Secondary education</b>				
Digital classroom	Donated DP Education Digital Classroom to Siri Kurusa Vidyalaya, Payagala	<ul style="list-style-type: none"> <li>Enhance digital inclusiveness</li> <li>Up lift digital literacy in the early stages</li> </ul>	184	180,000/-
Puzzle competition for secondary level	In line with world children day conducted a puzzle competition through social media platform	<ul style="list-style-type: none"> <li>Enhance the general knowledge of the students</li> <li>Provide in house activities for stay home situation in the country</li> </ul> 113 students participated for the competition and 20 awarded with gifts	83	37,000/-
<b>Tertiary and post-tertiary</b>				
Train your brain	Distribute a train your brain video and soft skill development video on the social media to explain the "Rules of train your brain" and 5 tips at the public speaking	<ul style="list-style-type: none"> <li>Provide guidance to enhance the capacity</li> <li>Ready the future leaders of the Sri Lanka</li> </ul> 02 video clips, more than 500 viewers	64	-
<b>Consumer Education</b>				
Education on financial management	Conducted video series on social media to build awareness of the financial management under the topics of building investment habits, developing your savings habit, golden rules for strong financial security	<ul style="list-style-type: none"> <li>Enhance the savings habit of the customers and non-customers</li> <li>Provide the wealth maximization opportunities</li> </ul> 02 video clips	75	-

# CAPITAL REPORTS

## Social and Relationship Capital - Community



### Knowledge sharing

Youth are the future of our nation and empowering them will help lead our country's growth trajectory in the years to come. At LBF we maintain a structured agenda to provide the necessary guidance and support to mould a new generation of innovators, business professionals and corporate leaders.

Description	Achievements	Employee volunteerism (hours)	2020/21 Expenditure (Rs.)
<b>Women empowerment</b>			
LB Divi Jaya - Empowering women entrepreneurs	<ul style="list-style-type: none"> <li>Developing role model entrepreneurs to the society</li> <li>Encourage women entrepreneurs</li> </ul> 06 video clips, average more than 600 viewers	421	300,000/-
<b>Developing business to next levels</b>			
LB Divi Jaya - Developing start up business and budding entrepreneurs	<ul style="list-style-type: none"> <li>Developing their capacity to the next level of the business</li> <li>Sharing business knowledge to the future business startups</li> </ul> 04 video videos clips, average more than 500 viewers	14	80,000/-

## Community wellbeing

Description	Achievements	Employee volunteerism (hours)	2020/21 Expenditure (Rs.)
<b>Community support</b>			
Distribution of dry rations for police officers	Donation of dry rations to police officer families who are affected Corona virus within their duties	47	114,000/-
Distribution of dry rations for underprivileged people in Myanmar	Our team members of Myanmar donated dry rations and face masks to the under privileged community in Myanmar	79	587,500/-
<b>Health and Safety</b>			
Blood donation campaign	In line with 4th Anniversary celebration kekirawa branch conducted a blood donation campaign and LBF corporate office joined hand with Senehasa Padanama has been organized another a blood donation campaign	161	20,000/-
Awareness programmes	Conducted a social media base COVID 19 Awareness programmes, covering health habits, importance of using face mask, way of using QR scan code to enter details, guidelines on how to resume activity in areas where quarantined curfew not imposed and video on how to protect in corona	77	-



# CAPITAL REPORTS

## Social and Relationship Capital - Community

### Build partnerships

We have come to understand that strategic partnerships with like-minded institutions can bring synergies that greatly enhance the impact of our community initiatives. As such, we seek to forge appropriate value-adding partnerships from time to time, depending on the scope and scale of the projects that we undertake.

Description	Achievements	Employee volunteerism (hours)	2020/21 Expenditure (Rs.)	
<b>With Government institutions</b>				
National Hospital of Kandy and Apeksha Hospital Maharagama	<p>Donating high quality US Brand Hamilton C3 model mechanical ventilators and ICU beds to the Cardio Therapeutic ICU</p> <p>Donated mechanical ventilators are the most preferred brand by the health sector with ASV® and INTELLiVENT®-ASV, Protective Ventilation PV Tool® Pro for lung assessment and recruitment, integrated high flow oxygen therapy and adult, pediatric, and neonatal ventilation</p>	<ul style="list-style-type: none"> <li>Building partnerships with Government Institutions to increase the health levels of the general public during the COVID 19 pandemic</li> <li>Immediate react for the national health issues under the COVID-19 pandemic</li> <li>Developing infrastructures of the health sector in Sri Lanka</li> </ul> <p>Benefit distributed to unlimited patients</p>	97	21,625,000/-
<b>With Charity organizations</b>				
Ruth Children's Home	Partnering Ruth Children's Home, a non-profit organisation for providing IT literacy to residing children	<ul style="list-style-type: none"> <li>Developing IT literacy of the undeserving peoples</li> <li>Enhance IT skilled at the younger ages</li> </ul> <p>40 Children obtain IT literacy</p>	81	93,446/-
Diabetes screening project	In line with celebrating world diabetic day,partnered with Lions Club of Thalangama South to conducted a Diabetes screening project for head office and corporate office staff to improve the health level of employees	<ul style="list-style-type: none"> <li>Awareness build on healthy lifestyles</li> <li>Providing health habits based on the healthy levels</li> </ul> <p>120 employees were tested</p>	172	-



## Business linked CSR

Description	Achievements	Employee volunteerism (hours)	2020/21 Expenditure (Rs.)
<b>Helping hands to community</b>			
Free distribution of KN95 Masks to under privileged people	In line with the World Health Day, LB run a special FB campaign – Like the post, tag 2 friends and Share (01 Like – We allocate 01 mask Share – 02 Masks)	<ul style="list-style-type: none"> <li>Community engagement for the CSR projects</li> <li>Enhance CSR touch with the business lines</li> </ul> 1,000 masks distributed	114 20,000/-
Relief your financial difficulties with LB	Run a social media campaign to Like LB Finance Facebook page and Win Rs. 5000/- weekly basis SMS your three wheeler number, Win 5000/- per day	<ul style="list-style-type: none"> <li>Capture business segment and keeping touch with them</li> <li>Preparing data base for future potential business</li> </ul> 2,500 likes, 42,251 SMS and 60 winners	77 35,000/-
<b>Focus on core business</b>			
LB Auto Review	Conducting full vehicle review video series on trending vehicles on Sri Lanka through social media platform to build up the awareness, education about vehicles, best advices, care tips and tricks	<ul style="list-style-type: none"> <li>Awareness build on trending vehicles in the market</li> <li>Connecting with community engagements of the vehicles</li> <li>Obtain future potential business</li> </ul> 16 video clips, average more than 20,000 viewers	509 744,000/-
<b>Health and Safety environment</b>			
Investment made on Implementing new and normal safety measures	Investment on keeping the LB premises in safety and healthy manner to our customers as well as employees	<ul style="list-style-type: none"> <li>Conducting healthy work place under the health guidelines issued by the government</li> <li>Provide a safety assurance for our customer to visit our branches</li> </ul>	499 9,017,110/-



# CAPITAL REPORTS

## Social and Relationship Capital

### Creating value for community capital

 Value for community	 Value for LBF	 Value for customers
<ul style="list-style-type: none"> <li>Reduced inequalities</li> <li>Sustainable communities</li> <li>Development of the rural economy</li> </ul>	<ul style="list-style-type: none"> <li>Improved brand equity</li> <li>Increased brand recognition and awareness of products and services</li> <li>Creating a pool of future potential stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Association with a trusted financial partner</li> <li>Ability to benefit from sound investment advice</li> <li>Enhanced trust in the financial services industry</li> </ul>

### Building for the future - community capital

Short term (<1)	Medium term (1-3)	Long term (3-5)
<ul style="list-style-type: none"> <li>Systematically expand the community investment in priority areas</li> </ul>	<ul style="list-style-type: none"> <li>Partnerships with multilateral organizations to develop innovative financing solutions for underserved segments</li> </ul>	<ul style="list-style-type: none"> <li>Establish a formal mechanism to handle community grievances</li> </ul>
<ul style="list-style-type: none"> <li>Increase community engagement through social media</li> </ul>	<ul style="list-style-type: none"> <li>Develop and launch a formal employee volunteer programme</li> </ul>	<ul style="list-style-type: none"> <li>Introduce a set of quantitative and qualitative indicators to measure the effectiveness of each project over time</li> </ul>
<b>GROWTH SUSTAINABLE OPPORTUNITY</b> Working for the society and achieving better sustainability by all of our stakeholders at large		
<b>TOWARDS VISION</b> Addressing the burden CSR segment to national sustainable development of Sri Lanka		

### Reaping benefits of investing in social and relationship capital

Focus on enhancing our operational efficiency and fine-tuning our structures to build strong relationships with our customers. We understand, however, that in optimising costs, there are relational trade-offs that need to be carefully managed



+ Increase   - Decrease

### Tradeoff between capitals of social and relationship capital

	Financial			Human			Intellectual			Manufactured			Social & Relationship			Natural		
	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Investment towards customer service	▲	▲▼	▲▼	—	▲	▲							▲	▲	▲			
Systemized the supplier registration	▲	▼	▼										▲	▲	▲			
Increasing community service efforts	▲	▲	▲							—	▲	▲	▲	▲	▲	▲	▲	▲

S – Short term M – Medium term L – Long term ▲ Increase ▼ Decrease — Neutral

### Building for the future - social and relationship capital

Short term (<1)	Medium term (1-3)	Long term (3-5)
<ul style="list-style-type: none"> <li>Improve our customer profiling, analytical and identify the cross-selling capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Addressing customers' queries and potential complaints through digital mediums</li> </ul>	<ul style="list-style-type: none"> <li>Leveraging key relationships for long-term value creation</li> </ul>
<ul style="list-style-type: none"> <li>Improving collective wellbeing through utilizing relationships within and across communities</li> </ul>	<ul style="list-style-type: none"> <li>Partnerships with multilateral organisations to innovate financing and community engagement solutions for underserved segments</li> </ul>	<ul style="list-style-type: none"> <li>Effective management of stakeholder relationship through active engagement has enabled us to foster a strong goodwill with our customers, business partners and community at large</li> </ul>

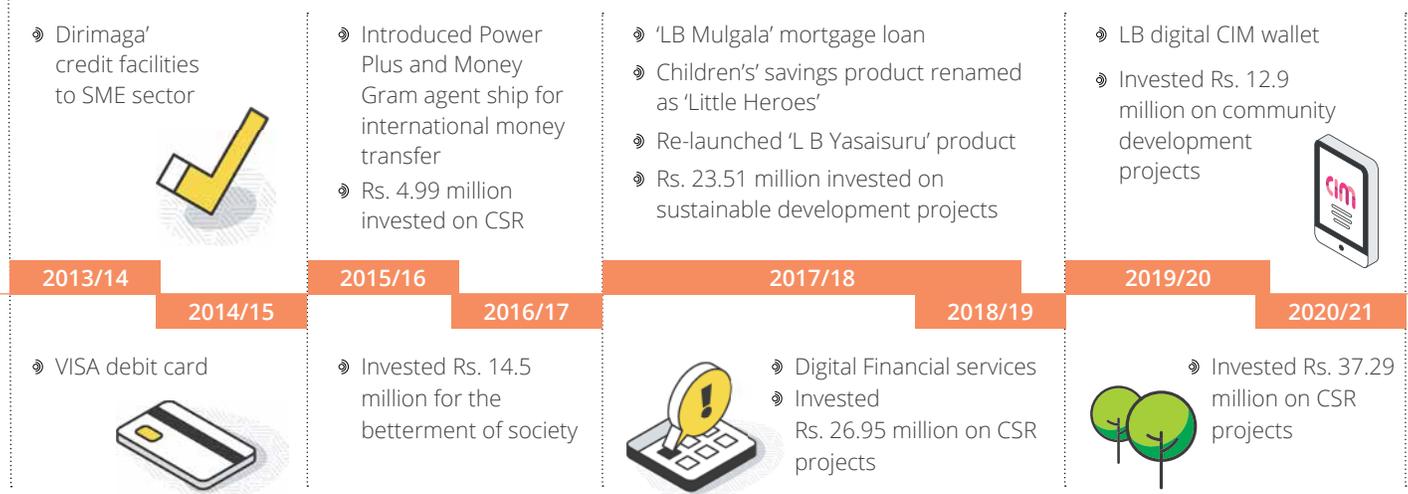
#### GROWTH SUSTAINABLE OPPORTUNITY

Implement digital Customer Relationship Management (CRM) solution across the company

#### TOWARDS VISION

Implement long-term community service and engagement initiatives based on our CSR approach

### SOCIAL CAPITAL JOURNEY



# CAPITAL REPORTS



## NATURAL CAPITAL

### WHAT IT INCLUDES

Natural capital comprises renewable and non-renewable resources needed to carry out our day-to-day operations as a financial services institution

### HOW IT ADDS VALUES

Efficient use of natural resources enhances LBF's capacity to support its customers in achieving their own corporate sustainability goals

### 1 INPUT

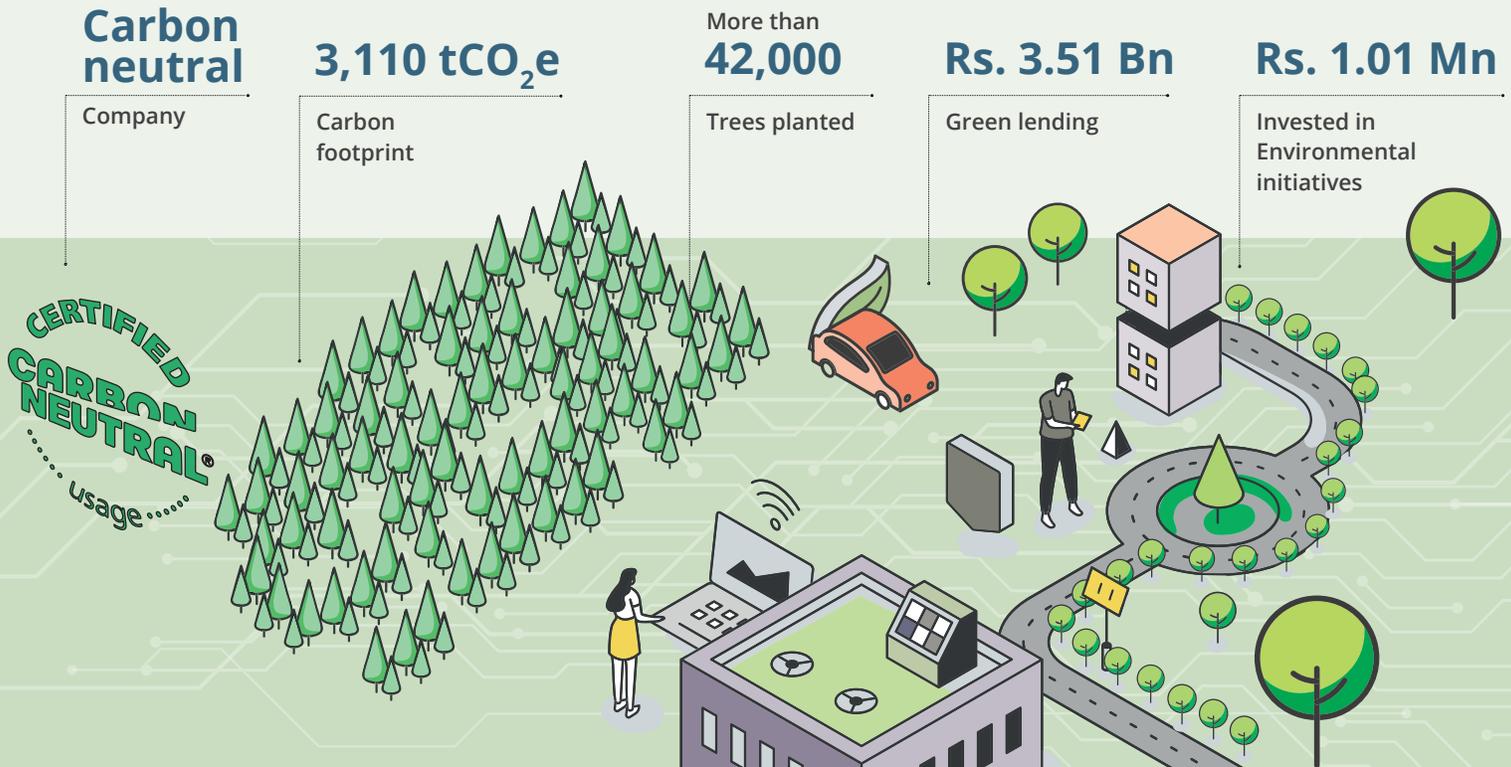
- Energy Management System (EMS)
- Carbon footprint calculation
- Employee voluntarism for green initiatives
- Actions taken for resource utilization
- Focus digital financing for green business practices

### 2 STRATEGIC DRIVERS

- Environmental strategy
- Environmental initiatives
- Green financing

### 3 CHALLENGES

- Reducing the paper usage
- Lowering the carbon footprint across the organisation
- Increasing the green financing



### 4 TRADE OFF

Efforts to build natural capital only generate positive outcomes. For example, responsible consumption of resources to lower our carbon footprint, helps to improve the lifespan of our assets (Manufactured capital) and also enhances LBF's reputation (Intellectual capital).

**5 SPACE FOR DEVELOPMENT**

- Introducing digital products
- Benchmarking global carbon management models
- Process of shifting towards a paperless e-office system
- Customized products & services for green financing

**7 KEY OUTPUT**

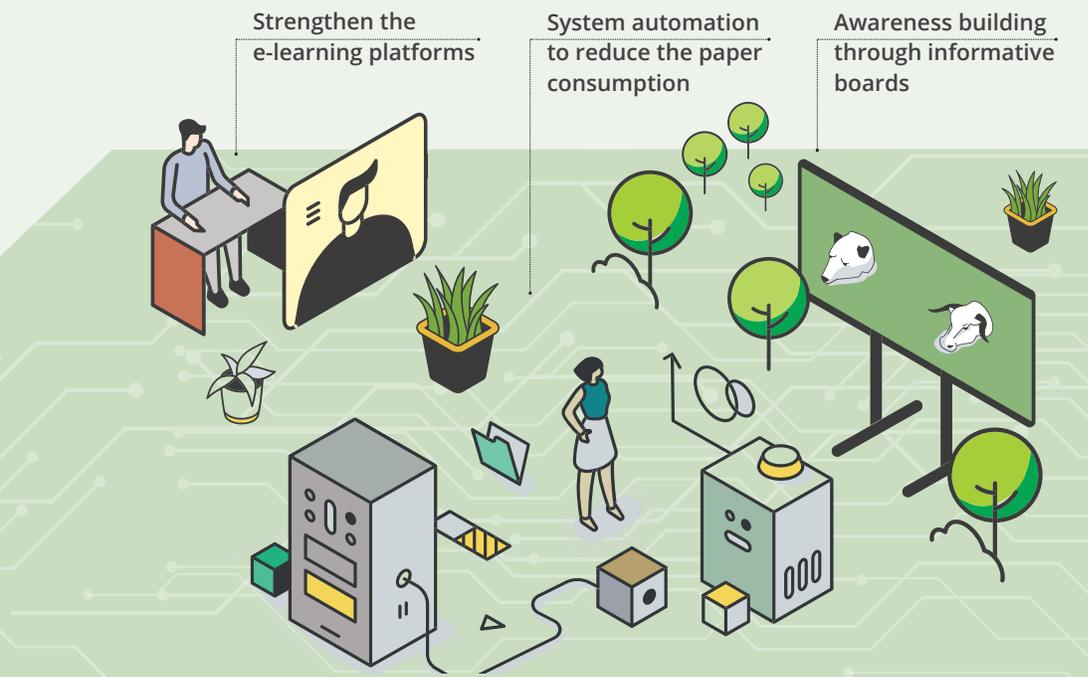
- Year-on-year reduction of carbon footprint
- Year-on-year reduction in paper waste generated
- Contribution towards the low carbon economy
- Increase in Sri Lanka's forest cover

**6 APPROACHES TO MANAGING NATURAL CAPITAL OUTCOMES**

- Conducting organisation wide carbon footprint calculation project
- Leveraging relationships with business partners to enhance green financing
- Strengthen the e-learning platforms
- System automation to reduce the paper consumption

**8 FUTURE**

Create a paperless workplace for employees and a fully digital experience for customers



**Related material themes and drivers**

- Operational excellence
- Corporate citizenship
- Environment management

**Related stakeholders and concerns**

- Social wellbeing and improving CSR engagement
- Improving environmental sustainability

**SDG impact**



Visit web page for our philosophy, Management approaches and analysis of Natural Capital

# CAPITAL REPORTS

## Natural Capital

### OVERVIEW

Climate change is one of the biggest challenges that the planet faces, with ramifications for the environment, society and the economy. It is a leading source of physical hazards and a driving force behind a transition taking place in society.

Time to time various global bodies have from time to time made important declarations to create benchmarks for countries and corporations to work towards addressing climate change. In 2015, the Paris Agreement set out a global action plan with the long-term objective of keeping the rise in average global temperature to well under 2°C compared to pre-industrial levels and limiting the increase to 1.5°C. Also in 2015, the United Nations General Assembly ratified a set of 17 Sustainable Development Goals (SDGs) that are intended to be achieved by the year 2030.

### SWOT ANALYSIS



#### Strengths

Well established EMS to promote sustainable waste and energy management



#### Opportunities

Moving towards a low carbon operations by embedding emission reducing initiatives into operational plans



#### Weaknesses

High dependency on non-renewable sources for the Company's energy requirements

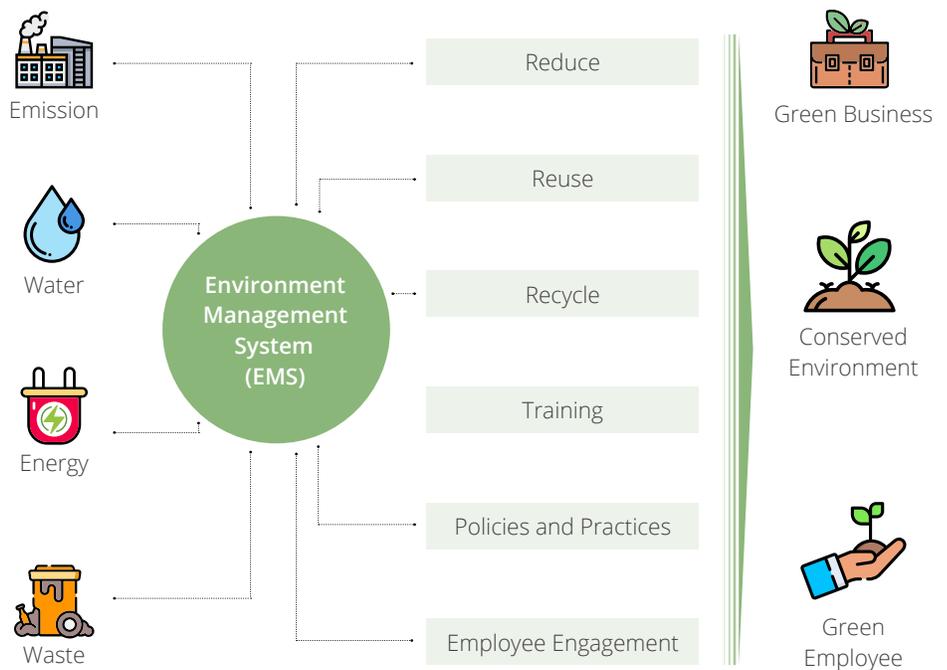


#### Threats

Stiff competitive pressure for green financing



### OUR APPROACH TO ENVIRONMENTAL SUSTAINABILITY



We believe as a financial institution, LBF can play a key role in achieving the objectives of the Paris Agreement and the SDGs, both directly through our own operations and indirectly through our relationships with customers and suppliers across the value chain as well as through the projects we undertake.

Compliance is the first point of reference in our approach to environmental sustainability. While there are no specific environmental regulatory frameworks applicable to our business as a financial services institution, we aim to conform with all accepted environmental guidelines and best practices recommended for service sector organisations.

Over and above this we take a broader contextual view to address climate related risks and opportunities across short, medium and long term timeframes, with the ultimate goal of supporting LBF's transition to a low carbon economy. To embed the principles of sustainable development at every level of the business and to effectively manage climate risk and reduce the direct impact of our operations, we have implemented a Broad based Environmental Management System (EMS). The EMS consists of a framework of policies and procedures supported by specific environmental goals and action plans for accomplishing these goals.

**Environment governance**

LBF's corporate sustainability team provides oversight for the implementation of the EMS. To this end, the team gathers information on regulatory and social trends related to the environment, develops policies and procedures, monitors and audits activities, and provides technical support for environmental initiatives carried out by operational and branch teams.

**Policy frameworks**

**ENVIRONMENT POLICY**

**ENVIRONMENT PLEDGE**



Visit web page for more information on Our policy frameworks

**RESPONSIBLE OPERATIONS**

As a major financial institution in Sri Lanka, we want to play our part in fighting climate change and environmental degradation. Hence we have adopted a three-pronged approach to address the most material environmental concern arising out of our day-to-day business operations.

**RESOURCE MANAGEMENT - UNDERSTANDING OUR IMPACTS**

**INPUT MANAGEMENT**

**Water Footprint**

We have established contingency plans to mitigate and improve efficiency of water consumption across our business.

**Energy Footprint**

Our energy consumption matrix helps to streamline energy consumption in the day- to-day activities.

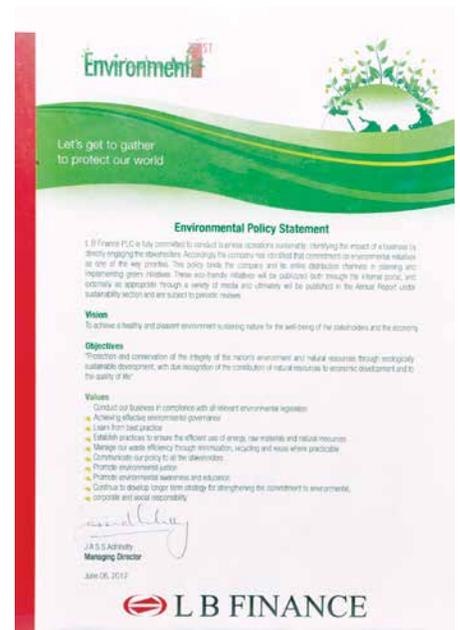
**OUTPUT MANAGEMENT**

**Emission Footprint**

Continuous and ongoing monitoring of our carbon footprint helps to maintain control over our emissions and emission related materials.

**Waste Footprint**

Proactive effort to control waste through the promotion of 3R principles. (Reduce, Reuse and Recycle)



# CAPITAL REPORTS

## Natural Capital

### Water management strategy

LBF's water consumption is limited as it is typically used only for the utilities purposes of our staff. Nonetheless reducing our water footprint is one of the key objectives of LBF's EMS. As part of our EMS, we have put in place a Company wide water management plan which provides clear guidelines to reduce daily consumption. To complement these efforts, we continue to raise awareness and encourage employees to remain vigilant in order to minimise wastage.

### LBF's ongoing actions on water management

Main focus	Actions taken
<b>Reduce consumption</b>	<ul style="list-style-type: none"> <li>Usage of pressure reducing valves to maintain consistent water pressure</li> <li>Taps with spray attachment to regulate water flow</li> <li>Use of high-intensity pressure pumps for vehicle washing</li> </ul>
<b>Awareness</b>	<ul style="list-style-type: none"> <li>Signage providing water saving tips</li> </ul>
<b>Reuse</b>	<ul style="list-style-type: none"> <li>Usage of drain water for air conditioning cooling</li> </ul>
<b>Water efficiency interventions</b>	<ul style="list-style-type: none"> <li>Leak detection tools</li> <li>Automatic shutdown valves</li> </ul>
<b>Policies and procedures</b>	<ul style="list-style-type: none"> <li>Commitment of employees via the sustainability pledge</li> </ul>

### Our water footprint

2020 marks the year since we undertook to measure LBF annual water footprint. Our total water withdrawal footprint for 2020/21 was 31,013 m<sup>3</sup> liters, which is lower than our total water withdrawal in the last five years.

### Energy management strategy

Grid electricity is our primary energy source. It is also the single largest contributor towards our carbon footprint. LBF's energy consumption levels have continued to increase over the years in direct correlation to the growth in our business. Given the obvious impact on our carbon footprint, we continue to strengthen our energy management framework. Going beyond mere energy conservation initiatives, we have deepened our focus by incorporating baseline standards into our EMS in order to measure and monitor our weekly usage.

### LBF's ongoing actions on energy management

Main focus	Actions taken
<b>Reduce consumption</b>	<ul style="list-style-type: none"> <li>Use of high-tech energy efficient equipment</li> <li>Energy reduction methodologies</li> <li>Electronic data collection and analysis</li> <li>Energy audits</li> <li>Installation of solar water heating systems to save electricity</li> <li>Energy efficient lighting for sign boards at outlets</li> <li>Maximum usage of natural light</li> </ul>
<b>Awareness</b>	<ul style="list-style-type: none"> <li>Display of energy saving tips</li> <li>E-mail campaign on the benefits of energy saving</li> </ul>
<b>Employee engagement</b>	<ul style="list-style-type: none"> <li>Use of energy reduction methods at office and home</li> </ul>
<b>Policies and procedures</b>	<ul style="list-style-type: none"> <li>Commitment of employees to the sustainability pledge</li> <li>Regulate the operating time of equipment</li> </ul>



### Total water consumption

**31,013 m<sup>3</sup>**

2019/20 - 39,793 m<sup>3</sup>

**Per employee 8.70 m<sup>3</sup>**

2019/20 - 11.04 m<sup>3</sup>

**Per working day 140.97 m<sup>3</sup>**

2019/20 - 180.88 m<sup>3</sup>

**Per outlet 183.51 m<sup>3</sup>**

2019/20 - 241.17 m<sup>3</sup>

### Energy footprint



### Overall energy consumption

**15,418.08 GJ**

2019/20 - 20,538.00 GJ

**Per employee 4.33 GJ**

2019/20 - 5.70 GJ

**Per working day 70.08 GJ**

2019/20 - 93.35 GJ

**Per outlet 91.23 GJ**

2019/20 - 124.47 GJ

## Emission management strategy

LBF's emission management strategy is underpinned by Principle 15 of the Rio Declaration: The precautionary approach on managing the physical impacts of a changing climate. As per the principle, we believe that lack of full scientific data should not be used as a reason for postponing cost-effective measures to prevent environmental degradation, where there are threats of serious or irreversible damage, including severe weather events, rising sea levels and shifting temperature zones.

On this basis LBF has committed to minimising the environmental impact associated with its operations by targeting a year-on-year reduction in total emission as well as by taking steps to offset direct emissions. As a medium term goal we are aiming to be a carbon credit generating organisation by 2025.

## LBF's ongoing actions on emission management

Main focus	Actions taken
<b>Reduce</b>	<ul style="list-style-type: none"> <li>Moving away from high energy consuming equipment in favour of energy saving solutions</li> <li>Promote the use of shared transport such as car pooling as opposed to the use of individual vehicles</li> <li>Regulating usage during peak times</li> <li>Providing integrated transport solutions for business duties</li> </ul>
<b>Awareness</b>	<ul style="list-style-type: none"> <li>Email campaign on energy saving mechanisms to raise awareness among employees</li> <li>Educate customers and the general public to accelerating Sri Lanka's transition to a low carbon economy</li> </ul>
<b>Leadership</b>	<ul style="list-style-type: none"> <li>Lead by example to encourage peers to strive for carbon neutrality by adopting best practices</li> </ul>
<b>Policies and procedures</b>	<ul style="list-style-type: none"> <li>Secure the commitment of employees to the EMS</li> </ul>



### Total CO2 emitted

**3,083.30 tCO<sub>2</sub>**

2019/20 - 4,448.90 tCO<sub>2</sub>

**Per employee 0.87 tCO<sub>2</sub>**  
2019/20 - 1.23 tCO<sub>2</sub>

**Per working day 14.02 tCO<sub>2</sub>**  
2019/20 - 20.22 tCO<sub>2</sub>

**Per outlet 18.24 tCO<sub>2</sub>**  
2019/20 - 26.96 tCO<sub>2</sub>

## Our emission footprint

The carbon footprint calculation is the key measure to determine LBF's emission footprint. In 2013 LBF undertook to calculate its carbon footprint as per the GHG protocol covering direct emissions (Scope 1 as defined by the GHG protocol) resulting from business activities as well as Scope 2 and Scope 3 emissions due respectively to electricity purchased in the course of business and the emissions caused by employees commuting to and from work. Since then LBF has been reporting annually on GHG emissions against three WBCSD/ WRI scopes; which is further verified by the ISO 14064 - 1:2006 standards.

Our assessments for the year under review, did not reveal any significant air emissions or emission of ozone depleting substances, pollutants and other hazardous compounds arising from LBF's operations. As a result, no detailed measurement of emissions was carried out for LBF, except for what was computed under the carbon footprint calculation process.



# CAPITAL REPORTS

## Natural Capital

### Total Emission (Tones co<sub>2</sub>e)



#### SCOPE 01

Direct emission

**144 tCO<sub>2</sub>e**

2019/20 - 189 tCO<sub>2</sub>e



#### SCOPE 02

Indirect emission

**2,128 tCO<sub>2</sub>e**

2019/20 - 3,335 tCO<sub>2</sub>e



#### SCOPE 03

Other indirect emission

**838 tCO<sub>2</sub>e**

2019/20 - 960 tCO<sub>2</sub>e



Total carbon footprint

**3,110 tCO<sub>2</sub>e**

2019/20 - 4,484 tCO<sub>2</sub>e

### Carbon footprint calculation

The carbon footprint calculation is the key driver of our emission management strategy. For this calculation we have adopted the methodology promulgated by GHG protocol. Accordingly LBF reports on GHG emissions against three WBCSD/WRI scopes; which is further verified by the ISO 14064 - 1:2006 standards.



Visit web page for more information on the Carbon Footprint Report

### Green lending scheme

LBF's green lending scheme offers concessionary terms for the lease of hybrid vehicles and electric vehicles, which are deemed to have a significantly lower carbon footprint compared to traditional diesel or petrol vehicles.

Year	No. of green financing facilities	Amount granted (Rs. million)
2020/21	1,747	3,515.66
2019/20	2,576	5,401.45
2018/19	3,561	8,566.00
2017/18	450	1,159.00
2016/17	800	2,471.36

### CIM digital wallet

LB CIM Wallet application launched in 2020 reflects our commitment to promote products with a low environmental footprint. Being a cashless solution, LB CIM presents a fully digital customer experience requiring no use of paper and no commuting.

### ENVIRONMENTAL PROTECTION AND CONSERVATION

#### 'Thuru Wawamu' 50 to 50,000

'Thuru Wawamu' is LBF's flagship environmental project. Launched on 13th September 2018 'Thuru Wawamu' is an ambitious project to systematically increase the forest cover in Sri Lanka by planting 50,000 saplings over a three year period. The 'Thuru' mobile app launched subsequently in 2019 was also aimed at supporting the overall effort. As per the initial plan, the project was due to conclude in May 2021 to coincide with LBF's 50th anniversary. However pandemic related constraints in 2020 saw plans being postponed. As at 31st March 2021, over 42,000 saplings were planted under the project.

#### Awareness building through informative boards

As part of our ongoing efforts to increase awareness, LBF has undertaken to install and maintain display boards and warning messages at the entrance to all national parks. The project is an ongoing initiative of the Company conducted in partnership with the Young Zoologists' Association of Sri Lanka.

Year	Project location
2020/21	Dehiwala
2019/20	Ridiyagama, Pinnawala
2018/19	Ridiyagama, Pinnawala, Dehiwala
2017/18	Wasgamuwa
2016/17	Udawalawe, Wilpattu, Minneriya, Horton Plains and Bundala

### Continuous Awareness

LBF promotes sustainability knowledge and good practice across our markets and among our customers and communities. Awareness campaign run through the social media to inform the importance of environment protection and conservation.



## Waste management strategy

Paper is the single largest waste component generated as a result of LBF's operations as a financial services institution. In working to control paper waste generated on a daily basis, our EMS promotes 4R practices. Meanwhile to ensure the proper disposal of paper waste we work only with Central Environment Authority (CEA) registered waste disposal contractors.

In recent years, we have increased our investments towards technology-driven process automation in a bid to reduce the internal use of paper. The Digital Financial Service unit set up in 2019 and the LBCentre for Innovation and Technology set up in 2020 form part of a long-term strategy to reduce paper use across the company by 50% in 10 years.

## Waste Footprint

In 2017, we completed our first full waste footprint calculation for inclusion in our total emissions reporting. Our 2018 waste footprint has provided comparative insights into the status of our waste management efforts and has highlighted potential improvement opportunities.

## LBF's ongoing actions on waste management

Main focus	Action taken
<b>Refuse</b>	<ul style="list-style-type: none"> <li>⌚ A paperless environment created by digitizing document storage and archiving processes</li> <li>⌚ The centralised web portal (intranet) containing organisational policies, procedures, news, photo gallery and other downloadable documents</li> <li>⌚ Usage of paperless fax machines for day-to-day operations</li> </ul>
<b>Reduce</b>	<ul style="list-style-type: none"> <li>⌚ Monitor and control paper consumption</li> </ul>
<b>Reuse</b>	<ul style="list-style-type: none"> <li>⌚ Reuse of paper and envelopes as much as possible</li> </ul>
<b>Recycle</b>	<ul style="list-style-type: none"> <li>⌚ Paper items directed for recycling are directed to a designated area within each office</li> <li>⌚ All paper waste is recycled through Neptune Recyclers</li> <li>⌚ Recycle all e-waste through an authorised e-waste recycle partner</li> </ul>
<b>Awareness</b>	<ul style="list-style-type: none"> <li>⌚ Regular email notifications to build awareness among employees</li> <li>⌚ Campaigns to promote resource efficiency among customers</li> </ul>
<b>Policies and Practices</b>	<ul style="list-style-type: none"> <li>⌚ Policies on material usage</li> <li>⌚ Dual side printing policy, with all default settings on printers adjusted accordingly</li> </ul>



### Total paper recycled

**3,986Kg**

2019/20 -

**Saved No. of fully-grown trees** **68 Kg**

2019/20 - 94Kg

**Saved oil** **6,995 Liters**

2019/20 - 9,654 Liters

**Saved electricity** **15,944 Kwh**

2019/20 - 22,004 Kwh

**Saved water** **126,675 Liters**

2019/20 - 174,822 Liters

**Saved landfill** **12 m<sup>3</sup>**

2019/20 - 17 M<sup>3</sup>

We remain committed to reduce our direct impact on the environment by promoting responsible environmental management activities across all of our operation. At the same time, by using our position as a leading financial institution in the country, we seek to positively influences society to work towards generating favorable environment outcomes



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

# CAPITAL REPORTS

## Natural Capital



### Tradeoff between capitals of natural capital

	Financial			Human			Intellectual			Manufactured			Social & Relationship			Natural		
	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L	S	M	L
Green office practices	↓	↑	↑							↑	—	—				↑	↑	↑
Green financing	↓	↑	↑										—	↑	↑	↑	↑	↑

S – Short term    M – Medium term    L – Long term    ↑ Increase    ↓ Decrease    — Neutral

### Building for the future

Short term (<1)	Medium term (1-3)	Long term (3-5)
Invest in alternative energy such as solar power to meet at least 80% of LBF's energy requirements	Using low CO2 emitting equipment and materials	Reduce carbon emissions through green building design
Implement solutions to enhance the digital user experience for employees.	Supporting the low carbon economy by promoting the use of electric or hybrid vehicles	Improve environmental tracking and reporting

#### GROWTH SUSTAINABLE OPPORTUNITY

Increased focus on organisation-wide carbon management

#### TOWARDS VISION

Organisation-wide resource optimization



# CORPORATE GOVERNANCE REPORT



I declare that all the members of the Board of Directors and all Company employees have acted in compliance with the applicable regulatory and statutory requirements and, towards this end, have discharged their duties in accordance with the policies, procedures and standards covered by LB Finance PLC's internal Code of Conduct.

**Anandhiy Gunawardhana**  
Chairperson

## Dear Stakeholders

That 2020/21 was an unusual year is a total understatement. There were several factors, modes and methods of operation that we had to reconsider in light of the pandemic. Many of these called for urgent rethinking and rapid action. I am quite confident that LB Finance PLC would not have been able to respond as quickly or as effectively to these rapidly evolving situations, had it not been for the strong foundation provided by our governance framework. That said, let me briefly touch on the areas that the Board focused on this past year in order to further strengthen LBF's overall corporate governance model.

## STRENGTHENING OVERALL GOVERNANCE STRUCTURES

LBF's management structures were revised in the year under review. This was done primarily to increase governance and oversight as well as to help align our succession planning program with the Company's growth objectives for the forthcoming 3 to 5-year time frame.

## IMPROVING COMPANY-WIDE DUE DILIGENCE

With non-bank financial institutions coming under increased scrutiny in recent years, the Board decided to strengthen LBF's due diligence framework across the business. With this in mind, the scope of the Internal Audit Department was expanded and an independent new system audit function set

up under its purview to focus on improving due diligence across all critical functions of the Company, with special emphasis on IT networks and information security systems.

## COMPLIANCE WITH BEST PRACTICES

Consequent to the amendments made to the Finance Companies (Corporate Governance) Direction No. 03 of 2008, by Finance Business Act, Directions No. 05 of 2020 and based on an application made by the Company, the Monetary Board of the Central Bank of Sri Lanka granted approval for Mr. J A S S Adhihetty, Managing Director of the Company to continue in office for a period of one year, upon reaching the age of 70 years.

The Company also received approval from the Director – Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the said re-appointment in terms of Finance Companies (Assessment of Fitness and Propriety of Directors and Officers performing Executive Functions) Direction No.3 of 2011.

Subsequently, shareholder approval was obtained for the non-application of the age limit stipulated in Section 210 of the Companies Act No.07 of 2007 to Mr. Adhihetty and he was re-appointed a Director of the Company at the last Annual General Meeting.

## BOARD DECLARATION

On behalf of the Board, I wish to confirm that throughout the financial year ending 31st March 2021 and as at the date of publishing this Annual Report, LB Finance PLC was compliant with the Listing Rules of the Colombo Stock Exchange and Finance Companies Direction No. 3 of 2008 on Corporate Governance and amendments thereto. The tables set out in pages 16 to 27 of Corporate Governance and Risk Management Report 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'.

I declare that all the members of the Board of Directors and all Company employees have acted in compliance with the applicable regulatory and statutory requirements and, towards this end, have discharged their duties in accordance with the policies, procedures and standards covered by LB Finance PLC's internal Code of Conduct.

**Anandhiy Gunawardhana**  
Chairperson

## OUR CORPORATE GOVERNANCE PHILOSOPHY AND HOW IT CREATES VALUE

Strong Corporate Governance has always been the bedrock of LBF's success. L B Finance PLC's Corporate Governance framework serves as the foundation to conduct the Company's affairs in such a way that meets the expectations of its stakeholders. The LBF Board leads the Company towards the achievement of its strategic objectives and the delivery of positive outcomes to stakeholders.

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."

Our governance philosophy is based on providing a control framework for the Board and its Committees to execute their fiduciary responsibilities to all stakeholders by ensuring transparency, accountability, fairness and independence in their decision making. However, we believe Corporate Governance is not just limited to creating checks and balances; it is more about creating organizational excellence leading to increasing employee and customer satisfaction and shareholder value without compromising on our ethics and values.

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.

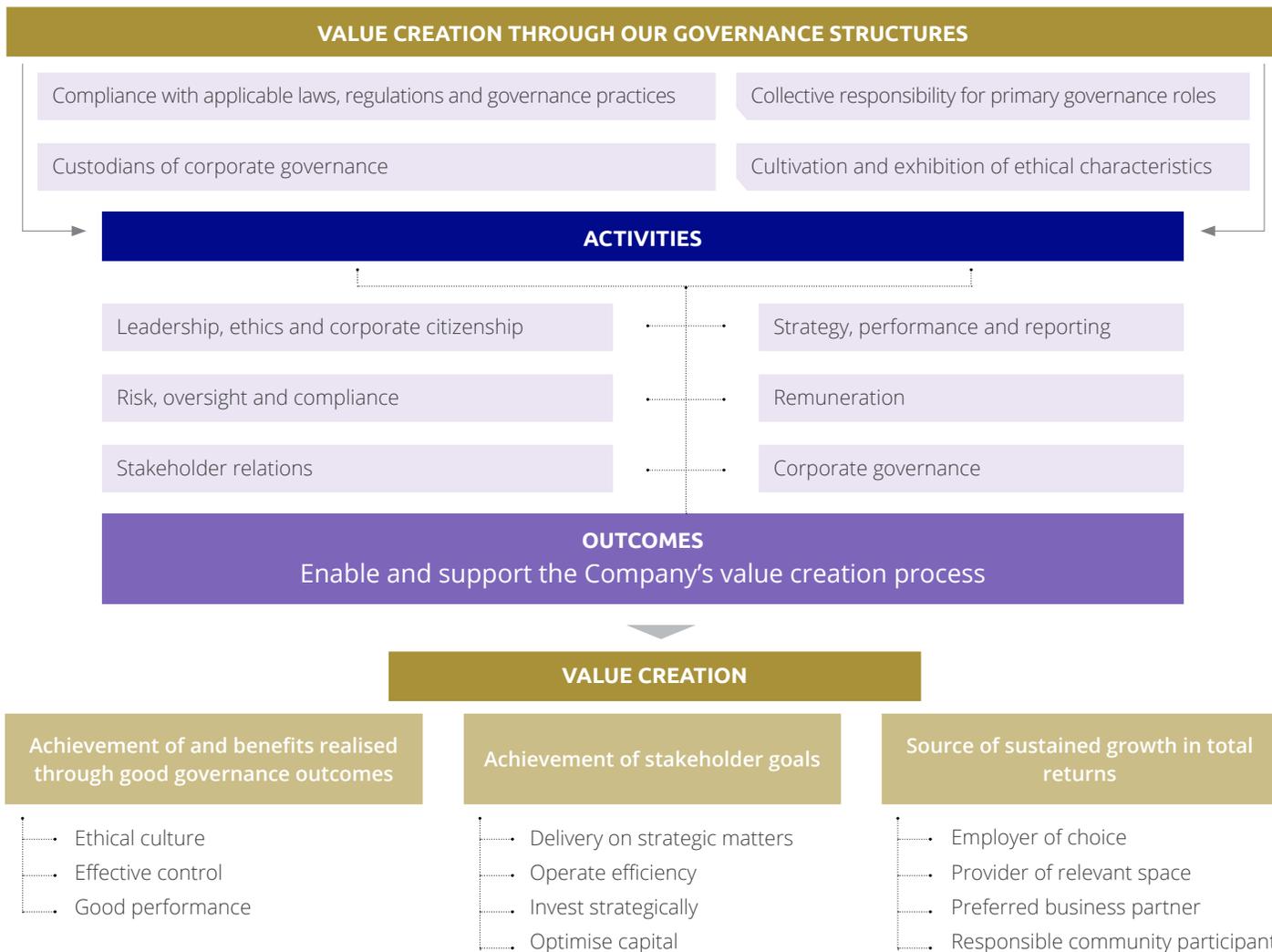
We believe that our Company shall go beyond adherence to the regulatory framework. Our corporate structure, business, operations and disclosure practices have been strictly aligned to our corporate governance philosophy. Transparency, accountability, fairness and intensive communication with stakeholders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



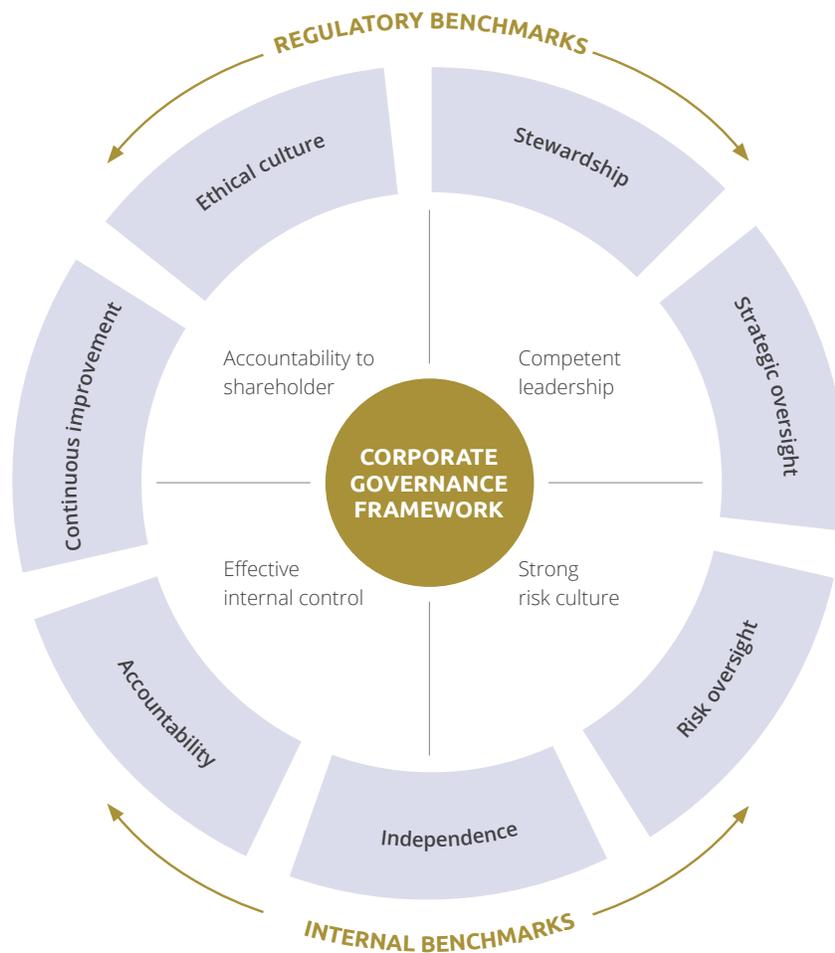
## CORPORATE GOVERNANCE REPORT

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 AND INTERNAL BENCHMARKS

Regulatory benchmarks on corporate governance	Internal benchmarks on corporate governance	Assurance Processes
<ul style="list-style-type: none"> <li>④ Companies Act No. 07 of 2007</li> <li>④ Finance Business Act No. 42 of 2011 and all Directions/Guidelines issued</li> <li>④ Corporate Governance Direction No. 03 of 2008 (as amended) issued by the Monetary Board of the Central Bank of Sri Lanka</li> <li>④ Listing Rules of the Colombo Stock Exchange (CSE)</li> <li>④ The Code of Best Practice on Corporate Governance as published by the Institute of Chartered Accountants of Sri Lanka (voluntary)</li> <li>④ Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (as amended)</li> <li>④ 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</li> <li>④ Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995</li> <li>④ Anti-Money Laundering Laws and Regulations and Financial Transactions Reporting Act No. 6 of 2006</li> </ul>	<ul style="list-style-type: none"> <li>④ Articles of Association of the Company</li> <li>④ Charters/Terms of Reference of Board, Subcommittees and Management Committees</li> <li>④ Organisational structure</li> <li>④ Code of Ethics and Conduct for all employees</li> <li>④ All Board-approved Policies on operational areas</li> </ul>	<ul style="list-style-type: none"> <li>④ Internal Audit Framework</li> <li>④ Internal Compliance Audit Programme</li> <li>④ ISO 27001: 2013 Information Security Standard Surveillance Audit</li> <li>④ ISACA (ITAF) audit framework</li> <li>④ External Audit (Financial)</li> <li>④ External Assurance on Sustainability indicators</li> </ul>

# CORPORATE GOVERNANCE REPORT

## 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 instill 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

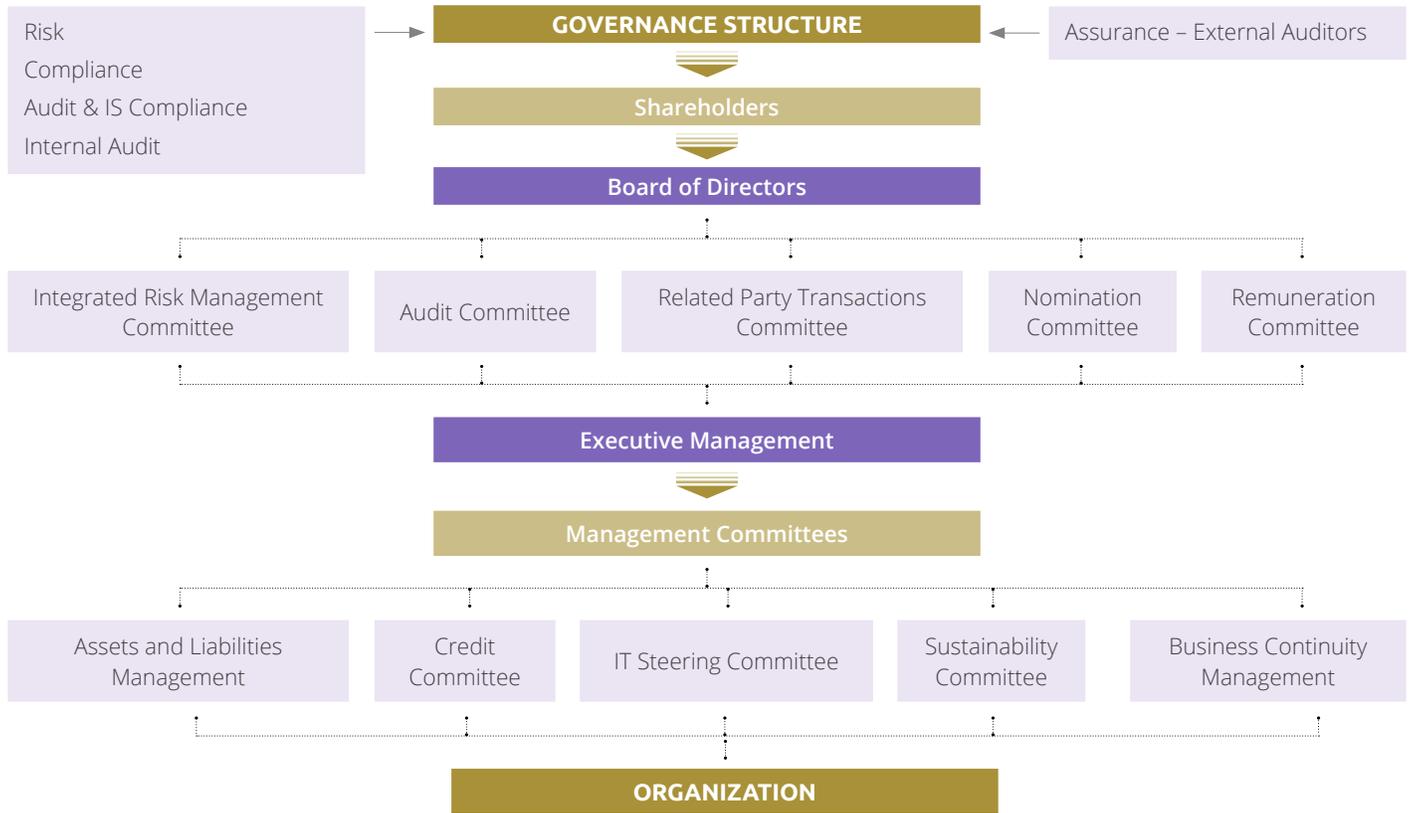
Transparency is a key component of good governance. The Board is committed to clear and comprehensive financial reporting and disclosure, and constructive shareholder engagement. The Board has carefully defined the expectations and scope of duties of the Board, its committees and Management.



### 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**



**OUR BOARD**

The size and composition of the LB Finance PLC Board is deemed appropriate given the current scale and geographic footprint of our operations. The LBF Board comprises a mix of Executive, non-executive Directors and Independent non-executive Directors. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across LBF's business activities.

The views of Non-Executive Directors and Independent non-executive Directors carry significant weight in Board decisions that provide strategic leadership for the Company. Accordingly we have ensured that Non-Executive Directors and Independent non-executive Directors are all professionals/academics/business leaders, holding / having held senior positions in their respective fields who are deemed to be of sufficient and appropriate calibre. Furthermore a healthy age and gender diversity among our Directors brings fresh perspectives that improve the sustainability of our business. Non-Executive Directors 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.

# CORPORATE GOVERNANCE REPORT

## Appointment of new Directors

Board are required to offer themselves for re-election by shareholders at the annual general meeting immediately following their appointments. The standard terms and conditions of appointment of new Directors (both Executive and Non Executive) has been documented and approved by the Board. The Board considers the independence of each director, taking into account the factors outlined in the Corporate Governance Principles and Recommendations. To assist in determination of independence, each Non-Executive Director is further required to make an annual declaration to the Board detailing all relevant information.

A register of Directors' material interests is maintained and regularly updated by each Director annually or more frequently as needed.

As a listed entity all new appointments to the LBF Board are first communicated to the shareholders via the Colombo Stock Exchange (CSE) in the English language, together with brief resumes of such Directors covering qualifications, experience, Directorships in other Companies and the number of LB Finance PLC shares held. The CSE announcement is also required to specify if new appointments are to be made as a Non-Executive Director or Executive capacity and whether the person will function as an

Independent or Non-Independent Director on the LBF Board. Independent non-executive Directors are required to 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.

Based on declaration submitted, the board has determined that each independent Non-Executive. The Board has determined that each Non-Executive director who has served on the LBF Board during the FY 2020/21 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.

## Collective Responsibilities of the LBF Board

The primary role of the Board is to provide oversight to ensure LBF is managed in the best interests of the shareholders and the expectations of all other stakeholders. The LBF Board operates as per the terms of reference outlined in the LBF Board Charter.

Board oversight for the management of the Company	Key Highlights for 2020/21
Strategic Oversight	<ul style="list-style-type: none"> <li>• Board approved the Strategic Plan - 2020/21 to 2022/23</li> <li>• Quarterly review of strategic plan was performed</li> <li>• More details on page 74 (Strategy and Resource allocation section)</li> </ul>
<ul style="list-style-type: none"> <li>• Developing short term targets and medium to long objectives to support the Company's growth trajectory</li> </ul>	
<ul style="list-style-type: none"> <li>• Preserve LBF's brand reputation and credibility in the industry by ensuring that the Company operates in accordance with policies approved by the Board</li> </ul>	
<ul style="list-style-type: none"> <li>• Updating the Company's governance structure to reflect changes in LBF's strategy</li> </ul>	
<ul style="list-style-type: none"> <li>• Ensuring capital investment decisions are in line with the Company's strategy</li> </ul>	
<ul style="list-style-type: none"> <li>• Ensuring the Company's funding strategy takes cognisance of regulatory capital adequacy and liquidity requirements</li> </ul>	
<ul style="list-style-type: none"> <li>• Increasing the scalability of the Company's IT strategy to stay ahead of peers</li> </ul>	

Board oversight for the management of the Company	Key Highlights for 2020/21
<p>Financial control</p> <ul style="list-style-type: none"> <li>➤ Ensuring that the Company operates in such a way as to preserve its financial integrity and in accordance with policies approved by the Board</li> <li>➤ Ensuring the quality and integrity of the accounting and financial reporting systems, disclosure and procedures and internal controls;</li> <li>➤ Ensuring appropriate mechanisms are in place to provide independent assurance to verify the integrity of the Company's financial statements</li> <li>➤ Financial reporting</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reviewed the Interim Financial Statements for the year ended 31st March 2021</li> <li>➤ Dividend Policy was approved by the Board</li> <li>➤ Finance Manual was reviewed by the Board</li> <li>➤ Credit Approval Manual and Leasing Operations Manual were reviewed by the Board</li> <li>➤ More details on page 280 (Notes to the financial statements)</li> </ul>
<p>Compliance Oversight</p> <ul style="list-style-type: none"> <li>➤ Ensuring appropriate controls are in place to comply with all applicable regulatory frameworks, including liquidity, capital adequacy and taxation obligations</li> <li>➤ Report on LBF's performance by providing a balanced and understandable assessment of the Company's performance, position and prospects, in line with regulatory requirements applicable to a listed entity</li> <li>➤ Monitoring and reporting on related party transactions</li> <li>➤ Implement best practices to achieve compliance leadership in all areas of the business</li> </ul>	<ul style="list-style-type: none"> <li>➤ Whistle Blowing Policy was reviewed and approved by the Board.</li> <li>➤ Non-Executive and Executive and Directors and some members of staff participated on a Web Conference on Key Aspects of AML/CFT Obligations for Board of Directors and Senior Management of the Licensed Finance Companies.</li> <li>➤ Business Expansion Policy was approved by the Board of Directors in order to comply with Finance Business Act No. 06 of 2020 – Business Expansion and Operations.</li> <li>➤ Outsourcing arrangements proposed for the Financial Year 2021/22 was reviewed by the Audit Committee in order to comply with Finance Business Act No. 07 of 2018</li> <li>➤ AML Compliance reports were submitted to the Board as per CDD rule No 1 of 2016 and updated monthly compliance checklists were also presented.</li> </ul>
<p>Risk Oversight</p> <ul style="list-style-type: none"> <li>➤ Reviewing and approving the Company's risk appetite in line with LBF's strategy and in consideration of macro-economic variables</li> <li>➤ Ensuring the quality and adequacy of LBF's enterprise-wide risk management processes and monitoring systems</li> <li>➤ Ensuring appropriate mechanisms are in place to provide independent assurance of the Company's risk management framework</li> <li>➤ Promoting the risk culture at all levels across the Company</li> </ul>	<p>For more details refer compliance tables</p> <ul style="list-style-type: none"> <li>➤ ML &amp; TF Risk Assessment of all deposit and lending products and all processes was presented to the Integrated Risk Management Committee</li> <li>➤ IRMC Charter was reviewed by the Board.</li> </ul> <p>More details on Risk Management Report</p>
<p>HR Best Practices</p> <ul style="list-style-type: none"> <li>➤ Developing human resources to support the Company's growth strategy</li> <li>➤ Safeguarding employee wellbeing</li> <li>➤ Setting the tone for a culture of ethics</li> </ul>	<ul style="list-style-type: none"> <li>➤ Succession Plan for Key Management Personnel was reviewed by the Board of Directors.</li> <li>➤ Employee Hand Book was approved by the Board.</li> </ul> <p>More details on page 154 (Human Capital Report)</p>

# CORPORATE GOVERNANCE REPORT

Board oversight for the management of the Company		Key Highlights for 2020/21
IT Governance	<ul style="list-style-type: none"> <li>➤ Strengthening the Company's core IT infrastructure</li> <li>➤ Improving LBF's Information security architecture</li> <li>➤ To assess and report IT-related risks and organisational impact.</li> <li>➤ Ensure LBF is adhering to CBSL's IT compliance requirements for NBF's</li> </ul>	<ul style="list-style-type: none"> <li>➤ In terms of corporate governance Direction No. 3 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)</li> <li>➤ Reviewed IT Policies</li> </ul> <p>More details on page 166 (Intellectual Capital Report)</p>
Sustainability Integration	<ul style="list-style-type: none"> <li>➤ Ensure LBF plays an active role is addressing sustainability issues</li> <li>➤ Promote sustainability best practices at all labels of the business</li> <li>➤ Improve transparency of sustainability reporting in line with global best practices</li> </ul>	<ul style="list-style-type: none"> <li>➤ Carried out unannounced Real time testing on the comprehensive business continuity plan (BCP Drill) on 10th of July 2020.</li> </ul> <p>More details on page 196 (Natural Capital Report)</p>

## MATTERS FOR WHICH BOARD APPROVAL IS SOUGHT

- Material acquisition and disposal of assets
- Annual Financial Statements
- Annual Strategic Plan
- Corporate or financial restructuring initiatives
- Share issuance, dividends and other returns to shareholders

## Ensuring the effectiveness of Board Meetings

Board Meetings are governed by a structured Agenda and held as per a predetermined meeting calendar. The meeting calendar scheduling all Board meetings for the ensuing year is prepared well in advance and circulated to all Board Members.

### Before each meeting

The Company Secretary seeks advice from the Chairperson and the Managing Director to set the agenda to ensure sufficient time is allocated at each meeting to address all pertinent matters. Routine matters on the agenda include: discussions on strategy, the Company's performance, Industry Performance, Financial Results, status of Human Resources, Risk Management and Compliance, progress on Company's digital initiatives, status on Cyber Security and Data Privacy etc.

A Board approved procedure is in place to enable any Director to include additional

matters and proposals to the Agenda. In line with this procedure, Directors are required to make a written request to the Chairperson detailing matters to be included.

Once the agenda has been finalized, all Directors are provided with detailed information on all items on the agenda. To give Directors sufficient time to prepare, the information pack containing relevant Board Papers is circulated at least seven (07) working days prior to the meeting date. All information and Board Papers are also uploaded to a secure portal to give Directors remote access.

Aside from the Board, selected members of the Corporate Management / Board Committees may also be invited to be present at Board Meetings depending on the items set out under the agenda.

All Directors are required to come well prepared for each meeting and actively participate in all matters outlined under the agenda. To facilitate this, all Directors are allowed to reach out to the Company's Senior Managers to obtain necessary information or clarifications. They also have the right to seek independent professional advice.

### At the Board meeting

LBF's Chairperson plays a key role in promoting open and active debate among Directors. All Board members are expected to come well prepared and engage in robust discussions on key matters pertaining to the Company. The Chairman / Chairperson of each Board committee will be called upon to provide an update on significant matters discussed at their respective Board sub-committee meetings, which are typically scheduled before the Board meeting.

The Managing Director provides a comprehensive update on the Company's business and operations to date as well

as an overview of the context in which these outcomes were achieved, while certain business heads are invited to provide updates on business aspects under their purview. In this regard, the Assistant General Manager - Finance presents the financial performance and significant financial highlights, while the Compliance Officer (CO) presents the status of compliance with statutes / regulations and significant regulation updates and the Deputy General Manager – Strategy and Digital Services will provide an update on the progress of digital initiatives.

Directors' interests and related party transactions are also tabled at Board

Meetings. If at any point during the meeting, a Director finds himself / herself in a situation which is construed as a conflict of interest, the Director in question is required to recuse him or herself from the discussions and refrain from participating in Board decisions on the particular matter.

Meanwhile Directors who are unable to attend a Board meeting in person are allowed to participate by telephone or via video- conference.

The Company secretary is required to maintain minutes of every Board meeting.

### After the Board meeting

Minutes are first presented to the Chairperson for approval prior to being circulated among the Directors and other members of Corporate Management who were present at the particular meeting. Minutes of the meetings are typically circulated within two weeks after the meeting date.

Strong emphasis is placed on encouraging continuous and ongoing engagement of Directors in the matters of the Company at all times. In this regard, Directors also have access to senior management and may request from management any additional information to make informed and timely decisions. Moreover, the Managing Director keeps the Board updated on LBF's performance and prospects vis-a-vis the prevailing economic and regulatory climate and the Assistant General Manager - Finance is required to provide the Board with detailed financial performance reports on a monthly basis. Throughout the year, Directors also have various opportunities to interact with members of the Management Committees.

Board approvals for matters in the ordinary course of business can be obtained through the circulation of written resolutions, while special Board meetings are also convened on occasion as and when the need arises.

### Board attendance from April 2020 to March 2021

Board members	Composition	Date of appointed to the board	Board meeting attendance
Mrs. Anandhiy Gunawardhana	Chairperson/ Independent Non-Executive Director	01.03.2013	12/12
Mr. Dhammika Perera	Executive Deputy Chairman	22.10.2002	9/12
Mr. Sumith Adhietty	Managing Director	12.10.2003	12/12
Mr. Nirosan Udage	Deputy Managing Director	01.01.2007	12/12
Mr. B D A Perera	Executive Director	01.01.2007	12/12
Mr. Ravindra Yatawara	Executive Director	15.03.2016	12/12
Mrs. Yogadinusha Bhaskaran	Non-Executive Director	15.03.2016	12/12
Mr. Ashane Jayasekara	Independent Non-Executive Director	30.10.2017	12/12
Mrs Ashwini Natesan	Independent Non-Executive Director	01.09.2018	12/12
Mr. Dharmadasa Rangalle	Non-Executive Director	10.04.2019	12/12

# CORPORATE GOVERNANCE REPORT

## Board Sub Committees

In accordance with the relevant rules and regulations, the LBF Board has established 04 mandatory sub committees named, Audit, remuneration, Integrated risk management and related party transaction. Each Committee is chaired by a Non-Executive Director, and has its own terms of reference. These terms of reference along with the activities of each subcommittee are set out Committees' reports from pages 231 to 240 of this report.

### Attendance of Directors at meeting of sub-committees from April to March 2020/21

Committee members	Composition	Remuneration committee	Nomination committee	Audit committee	Integrated risk management committee	Related party transaction review committee
<b>Total meetings held</b>		<b>3</b>	<b>4</b>	<b>13</b>	<b>4</b>	<b>5</b>
Mrs. Anandhiy Gunawardhana	CP/IND	3/3	4/4	13/13	4/4	
Mr. J A S S Adihetty	MD		2/4		4/4	
Mr. Niroshan Udage	DMD				2/4	
Mr. B D A Perera	ED				2/4	PI
Mr. Ravi Yatawara	ED					
Ms. Yogadinusha Bhaskaran	NDN	3/3		13/13		
Mr. Ashane Jayasekara	IND	3/3	4/4	13/13	4/4	5/5
Mrs Ashwini Natesan	IND				4/4	5/5
Mr Dharmadasa Rangalle	NDN					5/5

● Chairman/Chairperson of the Committee

CP Chairperson

MD Managing Director

DMD Deputy Managing Director

IND Independent Non-Executive Director

ED Executive Director

NDN Non Independent Non Executive Director

PI Permanent invitee

## EVALUATING THE PERFORMANCE OF THE BOARD AND BOARD COMMITTEES

Directors collectively evaluate the performance of the Board and Board Committees whilst the Chairperson and Nominating Committee Chairman evaluate the performance of each individual Director. These assessments are made against pre-established criteria which are derived from the Board's charter 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 / Chairperson acts on the results of the evaluation, and if appropriate, proposes new Directors or seeks the resignation of Directors.

### Board subcommittee areas of oversight activities for 2020/21

Board sub committee	Board Members	Areas of oversight	Report reference (page no.)
Remuneration committee	Mr. M A J W Jayasekara	☛ Remuneration policy	231
	Mrs. Anandhiy K Gunawardhana	☛ Directors remuneration and compensations	
	Mrs. Dinusha Bhaskaran		
Nomination committee	Mr. Ashane Jayasekara	☛ Review the Board structure, size, composition and competencies	232
	Mrs. Anandhiy K Gunawardhana	☛ Board member and key personnel appointments	
	Mr. J A S S Adhihetty		
Audit committee	Mrs. Yogadinusha Bhaskaran	☛ Reviewing the financial reporting	233
	Mrs. Anandhiy K Gunawardhana	☛ Internal and external audit	
	Mr. M A J W Jayasekara	☛ Ensure the whistleblower policy	
Integrated risk management committee	Mr. M A J W Jayasekara	☛ Risk Management Framework	236
	Mrs. Anandhiy K Gunawardhana	☛ Risk measurement, monitoring and management	
	Mrs. Ashwini Natesan	☛ Compliance with regulatory and internal prudential requirements	
	Mr. J A S S Adhihetty		
	Mr. Niroschan Udage		
	Mr. B D A Perera		
Related party transactions review committee	Mrs. Ashwini Natesan	☛ Related party transaction policy	239
	Mr. M A J W Jayasekara	☛ Providing independent review, approval and oversight of RPT	
	Mr. Dharmadasa Rangalle	☛ Ensuring relevant market disclosures	

# CORPORATE GOVERNANCE REPORT

## DIFFERENTIATING THE ROLE OF THE CHAIRPERSON AND THE MANAGING DIRECTOR

LBF has an Independent Chairperson. The role of LBF's Chairperson is distinct and separate from that of the Managing Director / Chief Executive Officer, with a

clear division of responsibilities between the two. Mrs. Anandhiy Gunwardana - LBF's Independent Chairperson leads the Board while Mr. Sumith Adhietty - our Managing

Director provides oversight for LBF day to day business operations as per the authority delegated to him by the Board.

Role of the Chairperson	Role of the Managing Director
<p><b>Key responsibilities - Independent Chairperson</b></p> <ul style="list-style-type: none"><li>Provide strong and effective leadership to the Board and sets the tone from the top in terms of culture and values</li><li>Ensure the Board is structured effectively, with the appropriate balance of skills and independence to maintain the highest standards of integrity and corporate governance</li><li>Foster open and inclusive discussions at Board meetings / Committee meetings to challenge executives, where appropriate;</li><li>Work with the Managing Director and the Company Secretary to ensure that Board members receive accurate, timely and clear information to enable them to take sound decisions and effectively monitor the performance of executive management;</li><li>Ensure that the performance of individual directors and of the Board as a whole and its committees is evaluated regularly</li><li>Ensure LBF maintains effective communication with shareholders and other stakeholders.</li></ul>	<p><b>Key responsibilities - Managing Director</b></p> <ul style="list-style-type: none"><li>Accountability for operational management and oversight for the full range of activities of the customer businesses and functions in line with the Board approved strategy</li><li>Delivery of performance against approved budgets</li><li>Promulgate ethics and integrity at all levels of the Company</li><li>Promote a performance driven culture where employees are engaged and motivated to deliver customer outcomes</li><li>Lead, manage and develop LBF's senior leadership team, ensuring professional capability is developed and that succession coverage meets the needs of LBF;</li><li>Ensure LBF has effective frameworks and structures to identify, assess and mitigate day to day risks</li></ul>

## DUTIES AND RESPONSIBILITIES OF INDIVIDUAL DIRECTORS

Directors are expected to set aside adequate time to fulfill their obligations towards the Company, including partaking in Board meetings.

Directors are expected to lead by example in acting ethically and with integrity at all times. All Directors must be guided by the provisions of the Conflict of Interest Policy under which 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. Directors are responsible for disclosure as soon as they become aware of conflict situations. During the nomination process, all disclosed conflicts of interest (actual and potential) are reviewed and assessed to ensure that there are no matters which would prevent that person from offering himself / herself for election to the Office of Director. If at any point during the nomination process, a Director finds

himself / herself in a situation which is construed as a conflict of interest, the Director in question is required to recuse him or herself from the discussions and refrain from voting on the matter.

## Directors' Training and Development

LBF's Board of Directors, as the highest authority receive regular training to empower and equip them with skill and aptitude required to perform their role in a transparent, objective and ethical manner as per the best corporate governance practices. Training needs of Directors are identified through the Annual Board self evaluation process as well as through regular feedback to the Board Chairperson and Sub- Committee Chairs. The Company secretary in collaboration with the Nomination Committee are responsible for ensuring Directors receive adequate training to enable them to continuously update their knowledge and understanding of the industry within which the Company operates.

## Role of the Company Secretary

The Company Secretary is not a Director, but attends all Board meetings and serves in an advisory capacity to support the Chairperson and the LBF Board in executing their duties. Furthermore, the Company Secretary facilitates communication between the Board, its committees and management and also assists in the induction of new Directors. Should they require advice on corporate governance best practice and regulatory developments, Directors have separate and independent access to the Company Secretary at all times. Managing LBF's profile with key stakeholders, including oversight of relations with key influencers and regulators also comes under the purview of the Company Secretary. The appointment and removal of the Company Secretary require the approval of the Board

## MANAGEMENT COMMITTEES

In addition to the mandatory sub committees, the Board has appointed several Management Committees; The Asset and Liability Committee, The Credit and Recoveries Committee, The Sustainability Committee and The IT Steering Committee, all of which function under the guidance of the Managing Director and other Executive Directors. These Management Committees focus on implementing best practices in the areas under their purview. The main objective of forming these committees is to promote a strong culture of accountability by encouraging LBF's middle management tier to participate in the decision-making process. The functions of the management committees are summarized below;

Description	Tasks	Members	Frequency of meetings held
IT steering committee	To ensure that IT strategy is aligned with the strategic goals of the Company whilst its top most mandate is to find and align business solutions that may leverage technology. IT Steering Committee also looks into information security-related matters on a regular basis	Executive Director -Asset Management Head of IT Representatives from relevant departments	Monthly
Assets and liability committee	To monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements	Managing Director Deputy Managing Director Executive Directors Head of Treasury Head of Deposits Assistant General Manager - Finance Deputy General Manager - Strategy and Digital Finance Head of Risk Management	Weekly
Credit committee	Is responsible for laying out the overall credit policy for the Company. This includes setting lending guidelines in conformity with credit risk appetite set by the Board of Directors	Managing Director Executive Directors Assistant General Manager - Finance Head of Risk Management	Monthly
Sustainability committee	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	Deputy Managing Director Head of Treasury Senior Manager Strategy Representatives from relevant departments.	When necessary
Business continuity management steering committee	Committee is responsible for align BCM goals with business goals and provides strategic direction and support in establishing, implementing, operating, monitoring, reviewing and improving the BCMS.	Deputy Managing Director Business Continuity Manager Representatives from the relevant departments	Monthly

# CORPORATE GOVERNANCE REPORT

## SUSTAINABILITY REPORTING

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.

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.

Sustainability Reporting is a mechanism used by the Board to inform Stakeholders of the progress made in meeting their expectations. To execute this commitment the Board has undertaken to prepare an integrated report in line with the IIRC (International Integrated Reporting Council) Framework and the GRI (Global Reporting Initiative) Standards detailing the Company's progress on sustainability initiatives.

### Commitment coming from the top

Reporting to the Board of Directors or other key leaderships can help demonstrate that a company is serious about sustainability.

### Accountability must be established and communicated clearly

Accountability helps ensure that sustainability is integrated with other business goals. Including sustainability performance into the company's annual goals and employee performance review and compensation processes may be helpful mechanisms.

### Alignment between the structure and the business is imperative

Sustainability governance structures that align with and complement the existing business model and organisational structures can be more successful than creating redundant or competing structures.

### Sustainability programme

Flexibility to adapt and build up on the sustainability program across business units and regions can advance the sustainability agenda. Allowing for some adaptation can help ensure the sustainability program's relevance to a business unit's own strategies or region's local conditions. It also can generate employee engagement.

## 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. (More details on Risk management 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. (More details on page 166 - Intellectual capital report)

## HR GOVERNANCE

Human Capital relates to the actual resources or people of the organization 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. (More details on page 154 - Human capital report)

## BOARD COMMITMENTS TO SHAREHOLDERS

### 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.

As part of its commitment to uphold Shareholder Rights, the LBF Board has also laid down a "Share Trading Policy" to serve as the code of Internal Procedures and Conduct for the Prevention of Insider Trading. The main objective of the "Share Trading Policy" is to prevent the purchase and/or sale of shares of the Company by an Insider (Director or employee of LBF and their dependents) on the basis of unpublished price sensitive information. Under this Policy, insiders are prevented from dealing in the Company's shares during the closure of Trading Window, while express permission is required to deal in securities beyond specified limits. All Directors and designated employees are further required to disclose related information periodically as defined by the "Share Trading Policy".

### 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. At the AGM, LBF financial performance for the preceding year is presented to shareholders. LBF's external auditors are also present at the AGM to answer shareholders' queries.

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.

### Communication with shareholders

The Board welcomes engagement with shareholders and encourages them to express their views. The Annual Report is designed to provide Shareholders with a comprehensive view of the Company's affairs during a particular financial year. Procedures are in place to provide timely information to current and potential shareholders. The Board reviews and approves the contents of the Annual Report to determine its effectiveness in providing shareholders with timely, accurate and relevant information regarding the business activities of LBF. The Feedback Form which was incorporated into the Annual Report serves as the key mechanism for shareholders to communicate with the Company.

As a large organisation, LBF deals with several stakeholder Groups. We believe that adopting a structured approach to engaging with and involving stakeholders will allow us to collaborate and learn from one another in the pursuit of mutually supportive relationships. Accordingly the LBF Board reinforces its commitment to inclusive stakeholder engagement is based on the principles of:

- ❖ **Relevance:** Focusing on those issues of material concern to our stakeholders and identifying how best to address them for our mutual benefit
- ❖ **Completeness:** Understanding the views, needs, performance expectations and perceptions associated with these material issues while also taking cognisance of prevailing local and global trends
- ❖ **Responsiveness:** Engaging with stakeholders on these issues and giving regular, comprehensive, coherent feedback

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# CORPORATE GOVERNANCE REPORT

More compressive details regarding LBF's Stakeholder Engagement activities can be found on page 52 of this report.

In addition, Shareholders are invited to have a direct communication to raise their queries and concerns by contacting LBF's Company Secretary, P W Corporate Secretarial (Pvt) Ltd., through the following channels:

Telephone: 0114640360 - 3

Fax: 0114740588

Email : pwcs@pwcs.lk

Address :

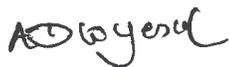
P W Corporate Secretarial (Pvt) Ltd  
No. 3/17, Kynsey Road  
Colombo 08

The Board continues to proactively consider and adapt, as suitable to the circumstances of LBF, emerging practices to promote engagement with Shareholders.

## **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

19 May 2021

# 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 2021 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-(Ika) 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-(Ika) and 20,000,000 Subordinated Debentures redeemable in 2022 - national long term rating at BBB (Ika).

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 223
Signed Group Financial Statements of the Company for the accounting period under review	Section 168 (1) (b)	Page 273 to 396
Auditor's Report on Group Financial Statements of the Company	Section 168 (1) (c)	Page 268 to 270
Changes in Accounting Policies during the accounting period	Section 168 (1) (d)	Page 283
Particulars of entries in the Interests Register made during the accounting period	Section 168 (1) (e)	Page 226
Remuneration and other benefits paid to the Directors during the accounting period	Section 168 (1) (f)	Page 387
Total amount of donations made by the Company during the accounting period	Section 168 (1) (g)	Page 229
Information on Directorate of the Company at the end of the accounting period	Section 168 (1) (h)	Page 225
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 296
Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Page 229
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 230
Information as per Section 168 (i)(b) to (j) in relation to the subsidiary	Section 168 (2)	Pages 225, 229 and 280

## VISION, MISSION AND CORPORATE CONDUCT

The Company's Vision, Mission, Values and Goals are given on page 14 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'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.

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

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

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

## REVIEW OF OPERATIONS

A review of the business of the Company and its 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 37 to 39 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 33, Managing Director's Review on pages 37 and the Management Discussion and Analysis on pages 50.

## 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 19th May 2021.

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 hereto 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 273 to 396 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 267 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 223.

The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Controls over Financial Reporting as referred to in page 266.

## AUDITORS' REPORT

The Report of the Independent Auditors on the Financial Statements of the Company and the Group is given on pages 268 to 271.

## ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The accounting policies adopted in the preparation of the Financial Statements are given on pages 280 to 396. 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 2021 was Rs. 29,766 million (in the year 2019/20 it was Rs. 31,222 million)

Group Income during the year was Rs. 29,930 million (2019/20 – Rs. 31,359 million)

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

## FINANCIAL RESULTS AND APPROPRIATIONS

The profit before tax increased by 22% whilst the Company recorded a growth of 31% 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 34%.

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

	2020/21 Rs. '000	2019/20 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.	9,306,375	7,610,287
Less: Income tax expense	2,503,778	2,423,234
Profit after tax	6,802,597	5,187,053
Unappropriated balance brought forward from previous year	15,944,328	12,378,772
Actuarial gains/(losses) on defined benefit plans	30,665	(30,029)
Profit available for appropriation	22,777,590	17,535,796
Less: Appropriations		
Dividend paid for previous financial year	-	554,057
Interim dividend payable/paid for current financial year	1,662,171	-
Transfers during the year	1,360,519	1,037,411
Total appropriation	3,022,690	1,591,468
Unappropriated balance carried forward	19,754,900	15,944,328
	Rs. 4/- per share	-
Proposed final dividend		

## RESERVES

The reserves of the Company and the Group with the movements during the year are given in Note 4.35 to the Financial Statements on pages 359 to 360.

## TAXATION

The Income Tax rate applicable to the Company's operations is 24% (24%-28% in 2019/20)

The Company was also liable for Value Added Tax (VAT) on Financial Services at 15% (2019/20 - 15%).

## THE BOARD OF DIRECTORS

The Board of Directors of the Company as at 31st March 2021 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 40 to 43.

## Executive Directors

Mr. Dhammika Perera  
– Executive Deputy Chairman  
Mr. J A S S Adhietty  
– Managing Director  
Mr. Niroshan Udage  
– Deputy Managing Director  
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

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

## Extension of office of the Managing Director

Pursuant to receiving regulatory approval in terms of Finance Business Act, Directions No.05 of 2020, No. 03 of 2011 and the shareholders' approval at the Annual General Meeting held on 30th July 2020, Mr J A S S Adhietty continued to function

as the Managing Director of the Company, since attaining the age of 70 years on 4th July 2020, for a further period of one year.

## Re-designations during the year

Mr Niroshan Udage, Executive Director – Asset Finance was appointed the Deputy Managing Director of the Company with effect from 8th March 2021.

The relevant regulatory approval in terms of Finance Companies (Structural Changes) Direction No.01 of 2013 was obtained for the aforesaid structural change.

## Resignations/cessations during the year

There were no resignations / cessations during the year.

## Directors of Subsidiary

The Directors of the subsidiary, L B Microfinance Myanmar Company Limited as at 31st March 2021 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

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

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

The Nomination Committee and the Board have recommended the re-election/re-appointment of the said Directors, subject to the relevant regulatory approval/s in terms of the applicable Directions issued under the Finance Business Act.

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

## 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 387 to 390 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 227.

The relevant interests of Directors in the shares/debentures of the Company as at 31st March 2021 as recorded in the Interests Register are given in this Report under Directors' shareholding on page 227.

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
Mrs. Ashwini Natesan Mr Dharmadasa Rangalle	Articles 85 and 86	<p>According to Article 85 and 86 the Directors to retire by rotation at the Annual General Meeting are those who (been 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. However, considering that both Mrs Ashwini Natesan and Mr Dharmadasa Rangalle were re-elected Directors at the Annual General Meeting held on 27th June 2019, it was decided that they both will retire and offer themselves for re-election at the forthcoming Annual General Meeting.</p> <p>The Company has applied to the Director – Department of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka, for the requisite regulatory approval in terms of Finance Companies Direction No.03 of 2011, with respect to the said re-elections.</p> <p>Accordingly, resolutions will be placed before the shareholders at the forthcoming Annual General Meeting for the re-election of the said Directors which will be effective, only upon the receipt of requisite regulatory approval as aforesaid.</p>

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, attained the age of 70 years on 4th July 2020. The Board at its meeting held on 19th May 2021, having considered the Finance Business Act Directions No.05 of 2020 and the approval granted by the Monetary Board on 8th July 2020, for a period of one year from 4th July 2020, resolved to seek the prior approval of the Monetary Board for a further 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, unless reappointed by the shareholders, subject to reappointment of regulatory approvals.</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 and the Company's application for the requisite regulatory approval in terms of the said Directions No. 05 of 2020 and Finance Companies Direction No.03 of 2011, 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, which will be effective only if the Company receives the requisite regulatory approvals in terms of the said Directions. Additionally, the approval of the shareholders is sought for the aforesaid Resolution in compliance with the Guidelines attached to the said Directions 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 387 to 390.

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 2021.

#### 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 387.

#### 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 2021 and 31st March 2020 are as follows;

	Shareholding as at 31st March 2021	Shareholding as at 31st March 2020
Mrs. Anandhiy K Gunawardhana	-	-
Mr. Dhammika Perera	-	-
Mr. J A S S Adhihetty	424,480	106,120
Mr. N Udage	1,616,540	329,135
Mr. B D A Perera	-	-
Mr. R S Yatawara	7,620	905
Mrs. Yogadinusha Bhaskaran	-	-
Mr. M A J W Jayasekara	-	-
Mrs. Ashwini Natesan	-	-
Mr. Dharmadasa Rangalle	-	-

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

Mr. Dhammika Perera is the major shareholder of Vallibel One PLC, which holds 286,729,600 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 144,492,928 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 during 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. Anandhiy Gunawardhana - Independent Non-Executive Director

Mr. M A J W Jayasekara - Independent Non-Executive Director

The Report of the Audit Committee appears on page 233.

### **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 – Deputy Managing Director

Mr. B D A Perera – Executive Director – Asset Management

Mr. Ravi Yatawara – Executive Director

Mr. Malith Hewage – AGM Finance

Mr. Sebastian Pulle – Compliance Officer

Mrs. Waruni Perera – Senior Manager - Risk Management

The Report of the IRMC appears on page 236.

### **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 231.

### **Related party transactions review committee (RPTRC)**

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

Mr. M A J W Jayasekara - Independent - Non-Executive Director

Mr. Dharmadasa Rangalle - Non-Executive Director

The Report of the RPTRC appears on page 239.

### **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 232.

### **STATED CAPITAL AND DEBENTURES**

The Stated Capital of the Company as at 31st March 2021 was Rs. 838,282,159/-represented by 554,057,136 ordinary shares. There were no changes in the Stated Capital of the Company during the year, except that the number of shares in issue increased from 138,514,284 ordinary shares to 554,057,136 ordinary shares consequent to the sub-division (splitting) of shares approved by the shareholders on 10th March 2021 whereby every share was sub-divided into four (4) shares.

The details of the debentures in issue as at 31st March 2021 are set out in Note 4.28 to the Financial Statements on page 352.

### **SHARE INFORMATION AND SUBSTANTIAL SHAREHOLDINGS**

#### **Shareholders**

There were 3,590 shareholders registered as at 31st March 2021 (1,886 shareholders as at 31st March 2020).

#### **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 138, 141 and 142 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 143.

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

### DIVIDENDS

The Company paid an interim dividend of Rs. 12/- per share for the year under review out of the profits of the Company, on the then issued shares of 138,514,284.

The Directors have recommended a final dividend of Rs. 4/- per share for the year under review on the shares in issue of 554,057,136 to be approved by the shareholders at the forthcoming Annual General Meeting.

As required by Section 56 of the Companies Act, the Directors have certified that they are satisfied that the Company will, immediately after the said distribution is made, satisfy the solvency test in accordance with the Companies Act and subsequent to such declaration, the Directors have obtained the Auditors certificate of solvency thereon.

In compliance with Finance Companies Guideline No. 01 of 2013, the Company has obtained the approval of the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the proposed final dividend.

The said final dividend will, subject to approval by the shareholders, be payable on 5th July 2021 (to those shareholders who have provided accurate dividend disposal instructions, by way of direct credit to their respective Bank Accounts, through SLIPS) and on 22nd July 2021 (to those shareholders whose payments are to be made by way of cheques).

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 Note 4.24 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 2021 as per valuations conducted by H V Manjula Basnayake an Independent Valuer are set out in Note 4.24.9 to the Financial Statements on page 345.

### 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 2021, the Company had 3,536 employees (3,606 employees as at 31st March 2020).

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.545,286/- and Rs. 36,036/- 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. 6,968,084/- is payable by the Company to the Auditors for the year under review comprising Rs. 3,646,976/- as Audit Fees, and 3,077,568/- as audit related fees and expenses and Rs.243,540/- for non-audit services. The amounts payable to the Auditors of the subsidiary company for the year under review are Rs.2,745,525/- as Audit Fees – Statutory and Rs.933,478/- as Audit Fees – Group Audit.

The Auditors of the Company have expressed their willingness to continue in office. The Audit Committee at a meeting

held on 10th March 2021 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 Report on pages 32 to 56.

Directors' statement on Internal Controls over Financial Reporting is on pages 366.

### 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 month May 2021.

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

## 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 206 to 222 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, the Audit Committee 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 196.

## 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.

## 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 Eighth (48th) Annual General Meeting appears on page 418.

In view of the current regulations/restrictions prevailing in the country due to the COVID-19 pandemic, the Board has decided to hold the Annual General Meeting of the Company as a Hybrid Meeting (hybrid of physical and electronic means) in line with the guidelines issued by the Colombo Stock Exchange for the conducting of Hybrid AGMs and on the assumption that no curfew will be in force on the date of the AGM and that there would be no restrictions imposed by the authorities on travel and/or conducting of meetings.

Shareholders are advised to refer to the Circular to Shareholders dated 7th June 2021 for further instructions in this regard.

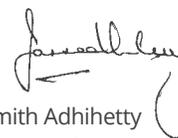
## ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

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 7 June 2021 having acknowledged the contents of this Annual Report.

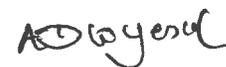
Signed on behalf of the Board by



Anandhiy Gunawardhana  
Chairperson



Sumith Adhietty  
Managing Director



P W Corporate Secretarial (Pvt) Ltd  
Secretaries

7 June 2021

## REMUNERATION COMMITTEE REPORT

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



**Mr. Ashane Jayasekara**  
Chairman  
Remuneration Committee

### COMPOSITION OF THE COMMITTEE

Board member	Board status
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

Board member	Attendance
Mrs. Anandhiy Gunawardhana	3/3
Mr. Ashane Jayasekara	3/3
Mrs. Yogadinusha Bhaskaran	3/3

The Managing Director and the Executive Directors attend meetings of the Committee by invitation and provide relevant information and their views to the Committee for its deliberations, except when the Executive Directors' own remuneration packages and other matters relating to them are discussed.

The 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 Listing Rules.

### FUNCTIONS

The functions of the Committee include the following

- To make recommendations to the Board on the Remuneration Policy of the Company.
- To make recommendations on the compensation and benefits of the Managing Director and Executive Directors.
- To oversee any major changes in the employee remuneration and benefit structures throughout the Company.
- To consider and examine such matters as it considers appropriate.
- To make recommendations on other related matters referred to the Committee by the Board of Directors.

### ACTIVITIES DURING THE YEAR

The Committee met thrice during the year, where it reviewed and made recommendations to the Board on bonus payments to Executive Directors, reviewed and made recommendations to the Board on the policy for remuneration of Directors and reviewed the remuneration framework of the Deputy Managing Director.

### POLICIES AND PROCEDURES

Remunerations committee operates within the terms of reference as approved by the Board.

As per the said terms of reference, the Committee shall consist of not less than three (3) members, comprising exclusively of non-executive directors, a majority of whom shall be independent.

The Committee shall meet at least twice in a financial year and additional meetings may be called at anytime at the Chairman's

discretion or by a member in consultation with the Chairman.

As required by the said terms of reference, the Committee reviewed the revised terms of reference in April 2021, and having assessed the adequacy thereof, noted that no revisions / amendments were necessary to the said terms of reference.

### 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.

Through the Remuneration Policy, the Company endeavours to encourage an entrepreneurial mindset by creating a working environment that motivates high performance so that all employees can positively and ethically contribute to the strategy, vision and goals of the Company while upholding its 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, which is in line with the Policy for Directors' Remuneration adopted by the Board on 17th February 2021.

**Ashane Jayasekara**  
Chairman  
Remuneration Committee

19 May 2021

# NOMINATION COMMITTEE REPORT

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



**Mr. Ashane Jayasekara**  
Chairman  
Nomination Committee

## COMPOSITION OF THE COMMITTEE

Board member	Board status
Mr. Ashane Jayasekara	Chairman/ Independent Non-Executive Director
Mrs. Anandhiy Gunawardhana	Independent Non-Executive Director
Mr Sumith Adhietty	Managing Director

## ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Board member	Attendance
Mr. Ashane Jayasekara	4/4
Mrs. Anandhiy Gunawardhana	4/4
Mr Sumith Adhietty	2/4

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 include:

- 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 evaluate and recommend the appointment, promotion, transfer and re-designation of the Managing Director and Executive Directors.
- To recommend Directors who are retiring by rotation to be placed before the shareholders, for re-election.
- To oversee and review the Board's succession plan.
- To consider and examine such matters as it considers appropriate.
- To make recommendations on other related matters referred to the Committee by the Board of Directors.

## ACTIVITIES DURING THE YEAR

The Committee met four times during the year to deliberate on re-election of Directors retiring at the Annual General Meeting, recommendation on seeking an extension of period of office of the Managing Director beyond the age limit of 70 years in terms of the Finance Business Act Directions 05 of 2020, succession planning for a key management personnel, appointment of the Executive Director – Asset Finance as the Deputy Managing Director and also to review and make its recommendations on a revised organizational chart with the introduction of a key position to the corporate structure of the Company

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

The Committee also reviewed two matters by circulation, namely, revised succession plan for key management personnel and the revised organisational structure of the

Company arising from the appointment of the Deputy Managing Director, and made its recommendations to the Board.

Based on the Committee's recommendations, extension of the period of office of the Managing Director was approved by the Board on 22nd June 2020, appointment of the Deputy Managing Director and the addition of a new Board Member were approved on 27th January 2021 subject to the requisite regulatory approvals and revisions to the succession plan for key management personnel and the organisational structure were approved by the Board on 19th August 2020, 16th December 2020, 17th and 25th February 2021 respectively.

## POLICIES AND PROCEDURES

The Nomination Committee operates within the terms of reference as approved by the Board. As per the said terms of reference, the Committee shall consist of not less than three members, majority of whom shall be Non-Executive Directors, and the Managing Director.

The Committee shall meet at least twice in a financial year and additional meetings may be called at anytime at the Chairman's discretion or by a member in consultation with the Chairman.

As required by the said terms of reference, the Committee reviewed the revised terms of reference in May 2021, and having assessed the adequacy thereof, noted that no revisions / amendments were necessary to the said terms of reference.

**Ashane Jayasekara**  
Chairman  
Nomination Committee

19 May 2021

# AUDIT COMMITTEE REPORT

The fundamental role of the Audit Committee is to assist the board in effecting its oversight responsibilities in the areas of internal and external audit, internal financial controls and financial reporting.

While formal meetings of the Audit Committee are at the heart of the chair's work, our contact goes beyond the boardroom through engaging with various stakeholders, including meetings with internal and external auditors, working closely with other board subcommittees and achieving synergies across our coordinated assurance process.



**Mrs. Yogadinusha Bhaskaran**  
Chairperson  
Audit Committee

## COMPOSITION OF THE COMMITTEE

During the year, the Board Audit Committee consisted of 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 member	Board status
Mrs. Yogadinusha Bhaskaran	Non-Executive Director
Mrs. Anandhiy K Gunawardhana	Chairperson/Independent Non-Executive Director
Mr. Ashane Jayasekara	Independent Non-Executive Director

The Managing Director, Executive Directors and the senior management of LBF including Chief Internal Auditor and Assistant General Manager – Finance 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 Secretary to the Committee, the proceedings of which were periodically reported to the Board.

The profiles of the Audit Committee members are given on pages 40 to 43.

## MEETING ATTENDANCE

Board member	Attendance
Mrs. Yogadinusha Bhaskaran	13/13
Mrs. Anandhiy K Gunawardhana	13/13
Mr. Ashane Jayasekara	13/13

## COMMITTEE RESPONSIBILITIES

- 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 vested with the responsibility 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 adequacy and effectiveness of the governance process of the organisation.
- The Committee shall exercise its independent oversight on internal and external assurance functions and ensure both internal and external auditors' independence, objectivity and the effectiveness of the audit process, taking in to consideration relevant Sri Lankan professional and regulatory requirements.

# AUDIT COMMITTEE REPORT

- Reviewing of the internal audit reports and steps shall be taken liaising with the senior management of LBF to ensure that precautionary measures are taken to mitigate the risk that could arise due to reported control weaknesses, procedure violations, frauds and errors.
- The Committee is provided with sufficient resources to perform its duties including support, as necessary, from the Internal Audit Department, the external auditor, 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 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.
- the Committee focused special attention on the assessment of adequacy of provision for Expected Credit Loss (ECL) recognized in the financial statements by factoring the potential implications of the COVID-19 pandemic and the moratorium schemes introduced by the government to support the recovery of the economy.

## COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

### Audit committee charter

The Board approved 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 and approved by the Board of Directors in May 2020.

### 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. The Committee satisfied itself that accounting policies, practices and internal controls in place are adequate to provide reasonable assurance that the financial reporting system is effective and efficient to provide reliable and timely information. The Committee discharged its duties 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 accounting standards, regulatory and statutory requirements applicable to LBF;

### 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.

A process has been set up to obtain periodic confirmations from the senior management regarding compliance with the statutory and regulatory requirements through the compliance function. The Committee also obtains assurance from internal auditors on several key regulatory compliance of the Company, in line with their respective internal audit programmes.

### Internal Audit

The Committee established a fully-fledged Internal Audit Department to provide independent assurance to the Committee in discharging its duties. 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 is in place to reflect current practices of the Internal Audit Department.

The annual internal audit plan is reviewed by the Committee before commencement of the financial year and assesses the adequacy of resources for the department to provide uninterrupted assurance service. The Committee has reviewed the performance of the chief internal auditor for the period.

The 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 where necessary, to ensure effectiveness of the internal controls.

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

### External Audit

The 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 Committee reviewed the independence and objectivity of the external auditor - Messrs. Ernst & Young, Chartered Accountants. The 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 2020/21.

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.

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.

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 2022, subject to the approval of the shareholders at the next annual general meeting.

### CORPORATE GOVERNANCE AND WHISTLEBLOWING POLICY

The highest standards of corporate governance and adherence to the internal policies and procedures were ensured by the Committee to establish good governance within the organisation. The Committee is satisfied with the present corporate governance framework of the organisation which ensures a balance of power and authority.

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 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

19 May 2021

# INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The IRMC remains focused on LBF's organisational resilience in this ever-expanding risk universe, with traditional risks such as credit, market, operational, capital and liquidity risks being impacted by externally driven trends.

These trends include adverse geopolitical and macroeconomic risks as well as new types of risks, i.e. cyber, conduct, crime/corruption, climate and Covid-19 risks.



**Ashane Jayasekara**  
Chairman  
Integrated Risk Management Committee

## COMPOSITION OF THE COMMITTEE

Board member	Board status
Mr. Ashane 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. Niroschan Udage	Deputy Managing Director
Mr. B D A Perera	Executive Director
Mr. Ravindra Yatawara	Executive Director

## MEETING ATTENDANCE

Board member	Attendance
Mr. Ashane Jayasekara - Chairman, Independent Non-Executive Director	4/4
Mrs. Anandhiy Gunawardhana - Independent Non-Executive Director	4/4
Mrs. Ashwini Natesan - Independent Non-Executive Director	4/4
Mr. J A S S Adhihetty - Managing Director	4/4
Mr. Niroschan Udage - Deputy Managing Director	2/4
Mr. B D A Perera - Executive Director	2/4
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. 3 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 risks 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 the risks and assess their effect on capital levels.
  - b. receive reports from management concerning resolution of significant risk exposures and risk events, in order to monitor them and, if thought fit, approve them.
3. Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels, decided by the Board on the basis of the Company's policies and regulatory and supervisor's requirements.
  4. Take appropriate action against the officers for failure to identify specific risks and take prompt corrective action 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.

9. Oversee the management processes to ensure adherence to the Company's Risk Management Policy and Procedure.
10. Review the overall and the individual branch level risk reports on a quarterly basis.

## 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 due to socioeconomic factors caused by Covid-19 and discussed the measures to be undertaken to improve credit quality.
- Local and global macro-economic factors were discussed with a view to identify the impact of such factors on the Company in order to initiate actions in a proactive manner.
- Reviewed the activities of the Credit Committee through the assessment of the performance of significant exposures against the Company and internal credit rating.
- Reviewed the effectiveness of the current mortgage bond registration process and proposed recommendations to further strengthen the process.
- Introduced a comprehensive Credit Risk Management Framework and Policy.

### Liquidity and Market Risk

- Reviewed the impact of challenges arising from excess liquidity due to the subpar credit growth and celling rates imposed by the CBSL on maximum interest rates.
- Reviewed the Gold Price outlook to assess the impact of gold price volatility.
- Reviewed the adequacy and effectiveness of ALCO activities by assessing the asset and liability limits, single borrower exposure/single group exposure, single depositor exposure/large depositor exposure, duration of deposits and optimal funding mix.

- Reviewed the liquidity position, funding pipeline and liquidity management strategies of the Company.

### Information and Cyber Security

- Reviewed the adequacy of the existing control environment on protecting confidential / sensitive information of LBF's customers and recommended further preventive measures to strengthen the process.
- Reviewed the IT security aspects in the remote working environment and effectiveness of business continuity planning.

### Operational and Human Resource Risks

- Introduced a comprehensive Operational Risk Management Framework and Policy and recommended risk appetites for operational risks to the Board.
- Reviewed the control environment of operational risks with a 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

- Carried out an impact assessment of the Consultation Paper on the Proposed Direction on Corporate Governance.
- Introduced and reviewed the methodology of the overall and individual branch level risk scorecards which were developed to meet the requirements of the Finance Business Act No.06 of 2020 on Business Expansion and Operations.

# INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

- 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.
- Reviewed and approved the risk appetite statement of the Company for FY 2021/22.
- Reviewed and strengthened the IRMC Charter and the Risk Management Policy of the Company.



**Ashane Jayasekara**  
Chairman  
Integrated Risk Management Committee

19 May 2021

## General

- Monitored the effectiveness of the risk communication framework in place to escalate the new risks faced by each department in a timely manner and improvements were recommended to streamline the process.
- Potential risks arising from recent changes in the business environment were discussed with a view to identify the impact of such events on the achievement of the Company's objectives and to initiate remedial action in a proactive manner.
- Reviewed the KRIs used in FY 2020/21 for their appropriateness for FY 2021/22 in light of the changing business, economic, industry and Company dynamics while recommending prompt corrective measures to mitigate the adverse impacts of key risks.

## 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

Board member	Board status
Mrs. Ashwini Natesan	Chairperson/ Independent Non-Executive Director
Mr. Ashane Jayasekara	Independent Non-Executive Director
Mr. Dharmadasa Rangalle	Non-Executive Director

### ATTENDANCE AT MEETINGS HELD DURING THE YEAR

Board member	Attendance
Mrs. Ashwini Natesan	5/5
Mr. Ashane Jayasekara	5/5
Mr. Dharmadasa Rangalle	5/5

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.

### FUNCTIONS

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

### ACTIVITIES DURING THE YEAR

- The Committee reviewed the recurrent RPTs entered into by the Company, Related Parties as at the end of every quarter and the Affirmative Statements by the Head of Finance re-assuring that all transactions entered into during the quarter were recurrent transactions, which have been entered into on an arms-length basis where no favourable terms have been offered to related parties and that there had not been any non-recurrent transactions during the quarter under review (except the two non-recurrent transactions referred to below)
- The Committee reviewed, two non-recurrent RPTs during the year and made recommendations and communicated its observations to the Board.

One of the said non-recurrent RPTs required the approval of the Central Bank of Sri Lanka (CBSL), which was received by letter dated 5th August 2020 of CBSL.

The other RPT transaction was reviewed by the RPT with necessary documentation as required under the RPT Charter.

# REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Neither of the above non-recurrent RPTs exceeded the threshold for immediate disclosure to the Colombo Stock Exchange as per the Listing Rules.

## POLICIES AND PROCEDURES

- ④ The RPTRC operates within the Charter of the Committee as approved by the Board of Directors. It includes a RPT Policy whereby the categories of persons/entities who shall be considered as 'related parties' have been identified.
- ④ 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.
- ④ 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 database 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.
- ④ 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, comparison with market pricing etc. 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.
- ④ The RPTRC ensures that all transactions with related parties are in the best interests of all stakeholders, with adequate transparency in processes and are in compliance with the Listing Rules.
- ④ 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.
- ④ 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.
- ④ 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.

The Committee reviewed the Charter and the Policy in April 2021 and noted that they did not require any amendments.

## 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 where necessary, to 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 .227 of the Annual Report.



Ashwini Natesan  
Chairperson  
Related Party Transactions  
Review Committee

19th May 2021

## SUMMARISED RISK MANAGEMENT REPORT



LBF's strong risk foundations ensured the Company's performance for the FY 2020/21 was consistent with the expectations. The Company's overall risk profile remained stable in the FY 2020/21. All key risks continued to be well managed during the year in line with the board-approved risk appetite. However, the notable exception was the higher default risk attributed to the economic uncertainties stemming from the COVID-19 pandemic.

Taking action to address the situation at the outset itself, credit risk protocols were tightened with special emphasis on managing default risk and concentration risk.

### Ashane Jayasekara

Chairman

Integrated Risk Management Committee

The single most significant risk event detected in all of the FY 2020/21, was the economic and social impact of the COVID-19 pandemic. The pandemic-induced global economic downturn had a cascading effect on the Sri Lankan economy causing some major challenges amidst dwindling export markets and severe disruptions in global trade activity. Moreover, restrictions imposed by the government including the 2-month island-wide lockdown, the closure of the airport for over 10 months, isolation orders and inter-district mobility restrictions issued from time to time, collectively led to muted economic activity in turn applying severe pressure on almost all key sectors of the economy. This has subsequently caused financial stress among the retail, SME and corporate clients which has led to elevated levels of credit risk in the short term. For LBF, this meant having to contend with a higher default risk when compared against last financial years.

Risk Appetite Criteria	Appetite	Regulatory Limit	Actual as at 31st March 2021	Actual as at 31st March 2020
<b>Credit Risk</b>				
<b>Loans and Advances</b>				
Non-performing loans ratio – Gross	5%-7%		5.36%	3.93%
Non-performing loans ratio – Net	< 1.0%		0.10%	-0.12%
Exposure to secured loans and advances	>95%		97.00%	97.26%
Maximum exposure to single borrower – secured - Individual	<=5%	15% of capital funds	1.67%	1.78%
Maximum exposure to single borrower – secured - Group	<=10%	20% of capital funds	1.67%	1.78%
Maximum exposure to single borrower – unsecured – Individual	<=0.5%	1% of Core capital	0.07%	0.07%
Maximum exposure to aggregate unsecured financing	<=4%	5% of capital funds	0.58%	1.12%
<b>Liquidity Risk</b>				
Liquid assets ratio	12.00%	Fixed Deposits - 6% Savings - 10% Unsecured Borrowings - 5%	17.89%	15.65%
Deposits renewal ratio	>=75%		83.52%	87.87%
Maximum single depositor/group exposure	<=5% of total deposits		2.10%	2.68%
Maximum exposure to large deposits (Over Rs.50 mn)	<=20% of total deposits		18.06%	20.23%

# SUMMARISED RISK MANAGEMENT REPORT

Risk Appetite Criteria	Appetite	Regulatory Limit	Actual as at 31st March 2021	Actual as at 31st March 2020
<b>Capital Adequacy</b>				
Core capital ratio	9.00%	7.00%	23.87%	19.04%
Total risk weighted capital ratio	15.00%	11.00%	25.32%	20.75%
Capital funds to deposits ratio	12.00%	10.00%	32.83%	25.77%
<b>Market Risk (Increase in market interest rates on rate sensitive liabilities)</b>				
% Impact on Net Interest Income from 100 bps shock	5.00%		3.35%	3.50%
% Impact on Net Interest Income from 200 bps shock	10.00%		6.70%	7.00%
% Impact on Net Interest Income from 300 bps shock	15.00%		10.05%	10.50%
% Impact on net Net Interest Income from 400 bps shock	20.00%		13.40%	14.00%

Key Risk Category	Sub Risks	Situational Analysis for FY 2020/21	Actions Taken by the company
Credit Risk	<b>Default Risk</b>	<p>The practical difficulties due to the island-wide lockdown from March to May 2020, meant customers were unable to service their loans during this time, leading to a deterioration in LBF's Gross NPL Ratio in the first quarter of the current financial year. However, with the resumption of economic activity after lockdown restrictions were lifted in mid-May 2020, a gradual improvement in the NPL Ratio was observed towards the latter part of the financial year.</p> <p>Industry (LFCs and SLCs) NPL Ratio stood at 11.37% in March 2020 and 13.86% by Dec 2021 - Source CBSL</p>	<ul style="list-style-type: none"> <li>☛ LBF's credit risk appetite limits were reviewed and revised by the Board in mid-2020.</li> <li>☛ Expedited the planned digitalization of recovery operation by extending the online lease/loans settlement flexibility to customers via LB CIM App.</li> <li>☛ MIS was strengthened, with a series of dashboards introduced on the daily progress of collections.</li> <li>☛ Additional provisioning was made in tandem with the increase in the Gross NPL Ratio for the year.</li> <li>☛ The Risk Management Department prepared few specialized reports to demonstrate the province/district wise default risk status.</li> <li>☛ In line with debt moratorium announcements by CBSL, LBF offered relief for the customers who would be eligible to receive moratorium benefits. Meanwhile, the company gained a better understanding on the impact on the default risk and provisioning requirements.</li> <li>☛ A Credit Risk Scoring Model was developed with collaboration of a team of international data scientists.</li> </ul>

Key Risk Category	Sub Risks	Situational Analysis for FY 2020/21	Actions Taken by the company
	<b>Concentration risk</b>	<p>With many customers reluctant to borrow amidst widespread economic uncertainty, the demand for large scale facilities declined significantly in FY 2020/21. The Company also followed a cautious approach in lending large scale facilities. Meanwhile on the back of the vehicle import ban, the demand for leasing of unregistered vehicles also slumped during the financial year. However, the market appeared to correct itself in the latter part of the financial year leading to a surge in demand for registered vehicle leases, a trend that was seen for the remainder of the financial year.</p> <p>A strong demand for the Gold Loans was seen in FY 2020/21 as the product continues to gain traction as a mainstream financial solution. The upward movement in world gold prices helped to further bolster the demand for Gold Loans throughout the current financial year.</p>	<ul style="list-style-type: none"> <li>④ Realigning with the market by promoting leasing and auto financing as a solution for registered vehicles.</li> <li>④ Improving portfolio diversity by increasing the skew towards Gold Loans.</li> <li>④ Continuous and ongoing monitoring of all portfolios, sectors / geographical thresholds to detect the likelihood of higher concentration or overexposure.</li> <li>④ Stress testing at the total portfolio and sub-portfolio level, to assess the impact of changing economic conditions on LBF's asset quality, earnings performance, capital adequacy and liquidity.</li> </ul>
<b>Liquidity Risk</b>		<p>The Company continued to maintain adequate liquidity throughout the year, ensuring that sufficient funds were available to meet sudden/ unforeseen funding requirements such as Fixed Deposit withdrawals. However, withdrawals were not high as the expected levels which exhibited the trust placed on the Company's stability. Company has maintained high liquidity buffer than the average levels throughout the year.</p> <p>This was mainly due to the following reasons;</p> <ul style="list-style-type: none"> <li>④ The Company further strengthened its funding pipeline to withstand liquidity related shocks which would have arisen due to debt moratoriums announce by CBSL.</li> <li>④ The credit slump created by the pandemic induced economic downturn leading to the lack of viable lending opportunities compared to previous years.</li> <li>④ The high renewal rate for existing deposits and the steady inflow of new deposits in spite of the low interest rate environment.</li> <li>④ The CBSL's decision to lower the Statutory Liquid Asset ratio applicable to NBFIs from April 2020.</li> <li>④ The CBSL's decision to reduce the statutory minimum threshold for investments held in government securities by NBFIs.</li> </ul>	<ul style="list-style-type: none"> <li>④ The Risk management Department prepared a comprehensive cash flow analysis to assess the impact on cash flows under stressed conditions, in particular by taking into consideration the lower cash inflows from customers during the moratorium period. The findings were presented to the ALCO and to the relevant Board Sub-Committees.</li> <li>④ Based on the findings of the cash flow analysis a series of early warning signals were implemented to ensure the LBF's liquidity position continues to be consistently well managed under both normal and stressed conditions.</li> <li>④ Realigned the funding mix by systematically replacing large deposits in with higher number of more sustainable smaller-ticket deposits (More details on page 103 - Deposits).</li> </ul>

# SUMMARISED RISK MANAGEMENT REPORT

Key Risk Category	Sub Risks	Situational Analysis for FY 2020/21	Actions Taken by the company
Market Risk	<b>Interest Rate Risk</b>	The CBSL cut down the policy interest rates on two consecutive occasions in 2020, in order to stimulate credit growth of pandemic affected economy of the country. Thus, the Company too brought down its lending rates in tandem with the market. Further, the interest rates of bank borrowings with variable rates structure declined in FY 2020/21. On the other hand, the treasury bill rate pegged ceiling rate on deposits also came down and repriced the deposit base at a lower interest rate. Hence, the Company had a blended impact on its NII during the financial year.	<ul style="list-style-type: none"> <li>➤ Strategic repricing of assets to reflect the current market interest rates environment.</li> <li>➤ Reduce the rate sensitivity of the funding base by shedding high cost deposits and increasing the share of savings deposits which by nature are less rate sensitive.</li> <li>➤ Promote lending products with shorter repricing cycle to reduce interest rate sensitive gaps.</li> </ul>
	<b>Commodity Price Risk</b>	The global price for gold faced many fluctuations during the year under review owing to factors such as world economic downturn due to COVID-19, the US presidential elections, success rate of COVID-19 vaccines, trade war between the US and China, changes in the US treasury yields etc. In August 2020, gold price spiked to USD 2070 and thereafter showed a slight declining trend towards the end of the year. The local price for gold remained stable despite the slight moderation of global prices due to elevated demand for recycled gold caused by import restrictions. Therefore, with the price being stable in local market, a surge in demand for gold backed lending was seen throughout the year.	<ul style="list-style-type: none"> <li>➤ Strategically realigning the gold loan product to take advantage of the upward movement in world gold prices.</li> <li>➤ VaR calculation methodology was further strengthened based on new assumptions. This was done with the intention of introducing a dynamic provisioning based on more accurate predictive analysis.</li> </ul>



Visit web page to read our full Integrated Risk Management report



# SUSTAINABILITY HOT TOPICS

We explore key global trends impacting businesses as they transition towards a more sustainable economy. In our observations we have seen continued political instability, more pronounced climate impacts and accelerating rates of biodiversity loss to be some of the major sustainability concerns globally. While the scale and complexity of the sustainability challenges we face is daunting, there is also reason for optimism for we are witnessing unprecedented leadership and innovation driven by governments and corporations, rising activism to raise awareness about issues such as plastic pollution.

As a financial services institution, LBF strives to lead the way in finding solutions to the challenges of these key sustainability by:

- ❖ Developing accessible products and services and driving innovation to promote greater financial inclusion
- ❖ Offering customised financing solutions to address environmental and social challenges
- ❖ Supporting the transition to a more sustainable economy and managing our impacts on the environment
- ❖ Supporting fair and equitable procurement in order to drive economic growth and job creation
- ❖ Helping people gain access to education as well as skills development through high quality training initiatives
- ❖ Contributing to the stability of the financial services system through sound governance, ethical conduct, fraud and data security and the prevention of money laundering and terrorism financing
- ❖ Providing employment free from discrimination and in compliance accordance with fair labour practices
- ❖ Ensuring the wellbeing of employees
- ❖ Supporting greater inclusivity in the workplace by reduce the gender parity at all levels of the operation

## Global trend

### Technology-driven organizations are more sustainable

Technology in the workplace is no longer considered to be for the privileged few, but rather a part of a standard infrastructure of an efficient and progressive organisation. Technology adoption is something that employers are increasingly embracing. Of late more and more corporations have begun migrating to digital technology to fuel growth in a more sustainable way.

## LBF context

LB Finance Center for Technology & Innovation (CTI) was set up in mid 2020 with the aim of strengthening our MIS framework. The CTI is tasked with using machine learning tools and advanced data analytics to disseminate the large volume of data generated on a daily basis, in ways that could contribute towards increasing revenue, improve efficiency, effectiveness and productivity, ultimately leading to a positive impact on the LBF's overall profitability.

## Global trend

### Information security threats

The downside of technology use is that it leads to a higher risk of information leakage and cyber threats. Companies have become increasingly vulnerable to cyber attacks, especially as hackers too are seemingly becoming more sophisticated.

## LBF context

LBF's information security architecture, including system controls, policies and procedures, all stem from the best practices outlined by the ISO 27001:2013. The Company adopted the ISO 27001:2013 Information Security Standard in which has since been renewed twice. The most recent renewal cycle covers LBF's information security systems.

## Global trend

### Sustainability = community

Corporates have been playing an increasingly active role in supporting their local communities as a sustainable and strategic business practice. These initiatives continue to play a vital role in supporting the broader efforts of governments towards achieving a more sustainable future.

## LBF context

As a responsible corporate citizen, LBF leverages on its position as a leading financial services institution and aims to contribute towards social and economic development on a regular basis. Our current projects are in the following areas;

- ❖ Access to education and knowledge sharing: to eliminate the persistent knowledge disparity that exists in Sri Lanka by strengthening the quality education at primary, secondary and tertiary levels
- ❖ Community empowerment: to provide the necessary guidance and support to mound a new generation of innovators, business professionals and corporate leaders
- ❖ Thuru Wawamu greening Sri Lanka initiative: aims to plant 50,000 trees in the Sri Lankan by end of 2021, to increase the Country's forest cover

## OUR CSR JOURNEY

CSR journey more focus on digital (According to digitalization strategy we conduct several CSR programmes in the social media platform)

### OUR CSR JOURNEY AND LEVEL OF PRIORITY

Philanthropic CSR	Strategic CSR	Strategic CSR	Strategic CSR	Digital driven CSR
	Philanthropic CSR	Philanthropic CSR	Philanthropic CSR	Business driven CSR
				Strategic CSR
				Philanthropic CSR
1971-1990	1991-2000	2001-2010	2011-2019	2020 onwards

## SUSTAINABILITY GOALS AND PERFORMANCE

LBF identify and communicate goals for those charge with and monitor the progress of ongoing projects, at the end of the year.

### Performance summary – Describe progress towards the goals and any changes made to boost

CSR Project	Investment in CSR activities LKR	Volunteer hours	Engagement type	Sustainable development goals
LB preschool development project	750,000	427	Pro bono	
Christmas with LB - Children programme	45,000	96	In-kind	
Puzzle competition for kids - Children day	50,000	144	In-kind	 
Digital classroom	180,000	184	Pro bono	 
LB Divi Jaya - Empowering startups/ women entrepreneurs	380,000	624	Pro bono	
Distribution of dry rations for police members	114,000	47	In-kind	 
Distribution of dry rations for underprivileged people in Myanmar	587,500	79	In-kind	 
Blood donation campaign	20,000	161	Pro bono	
Free distribution of KN95 masks to underprivileged people	20,000	114	In-kind	 
Relief financial difficulties with LB	35,000	77	In-kind	
LB Auto review awareness programme	744,000	509	Pro bono	 
Equipments donations to national hospitals on COVID-19	21,625,000	97	In-kind	 
Donation to early childhood development centre	93,446	81	In-kind	 
Develop the soft skills and technical skills of the fresh graduations	3,851,117	2,183	Pro bono	 

\*in-kind - in goods or services as opposed to money

Pro bono- work undertaken voluntarily and without payment or at a reduced fee as a public service

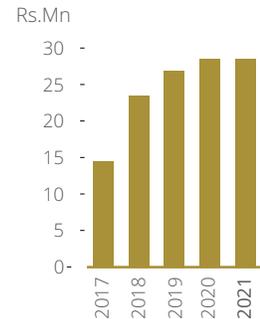
# SUSTAINABILITY HOT TOPICS

## OUR IMPACT

LBF has compelled throughout the five decades to contribute the nation by impacting the lives directly and indirectly. Our impact makes positive changes to the environment and people by addressing the triple bottom line. Following table is the snapshot of LBF contribution of recent three years.

	2020/21	2019/20	2018/19	2017/18	2016/17
CSR expense (Rs. million)	37.29	22.52	26.95	23.51	14.54
Volunteer employees	370	1,701	548	609	501
No. of volunteer hours	5,764	20,131	14,195	9,079	2,302

CSR expense



### Global trend

#### Gender parity

Gender parity has a fundamental bearing on whether or not economies and societies thrive. Developing and deploying one-half of the world's available talent has a huge bearing on the growth, competitiveness and future-readiness of economies and businesses worldwide.

While representation of women in government and in leadership roles in the corporate sector has been increasing in recent years, there is still a long way to go in order to achieve equality. Statistics suggest that improving political empowerment for women has, as a general rule, corresponded with increased numbers of women in senior roles in the labour market.

### LBF context

LBF's does not discriminate on the basis of gender or any other status protected by law. However, majority of employees involved in the sales field,, the Company's workforce remains largely male denominated. Taking proactive steps to correct this situation, specific gender parity thresholds have been established for every stage of the employment lifecycle.

More information on page 405 for gender reporting information

## CONTRIBUTING TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

### Global trend

The launch of the 17 UN Sustainable Development Goals (SDGs) in 2015 have provided a clear framework for countries and organisations to realign their economic, social and environmental strategies to meaningfully tackle the most pressing sustainability challenges of our time. The fact that the SDG's have a clear 2030 target pushes governments and corporations towards the systematic implementation of projects at a granular level.

### LBF context



LBF contributes to the SDGs both directly and indirectly. Through our core business of providing financial services, we support individuals - directly enabling them to enhance their financial stability and quality of life. By supporting businesses, LBF is indirectly contributing to economic growth and job creation across Sri Lanka.

In addition, by conserving natural resources and driving diversity, financial inclusion, education, we contribute to the societies and natural environment in which we operate.

## OUR CAPITAL REPORTING PRACTICES AND RELEVANCE TO SDGS

Inputs	Outcomes	Page references	Related SDGs
 Monetary investment	Monetary gains/savings	116	 
 Management hours	Employee benefits & living standards	154	 
 Physical infrastructure & materials	Sustainability & longevity of infrastructure	144	 
 Knowledge investment	Knowledge enhancement	166	 
 Partnerships	Community inclusion and well-being	176	   
 Natural resources	Protection/optimization of resources	196	 

## OUR SUSTAINABLE RESOURCE ALLOCATION PRACTICES AND RELEVANCE TO SDGS

Project	G1	G2	G3	G4	G5	G6	G7	G8	G9	G10	G11	G12	G13	G14	G15	G16	G17
Special attention for women empowerment					✓					✓							✓
Community initiatives	✓	✓	✓	✓	✓								✓		✓		
Capacity development				✓	✓			✓									
Skill development				✓	✓			✓									
Green lending practices								✓					✓		✓		
Green initiative													✓		✓		
Sustainable business expansion								✓	✓			✓					
Digital literacy				✓				✓	✓		✓						

G - United Nations Sustainable Development Goals

# SUSTAINABILITY HOT TOPICS

## OUR 2030 SUSTAINABILITY AMBITIONS

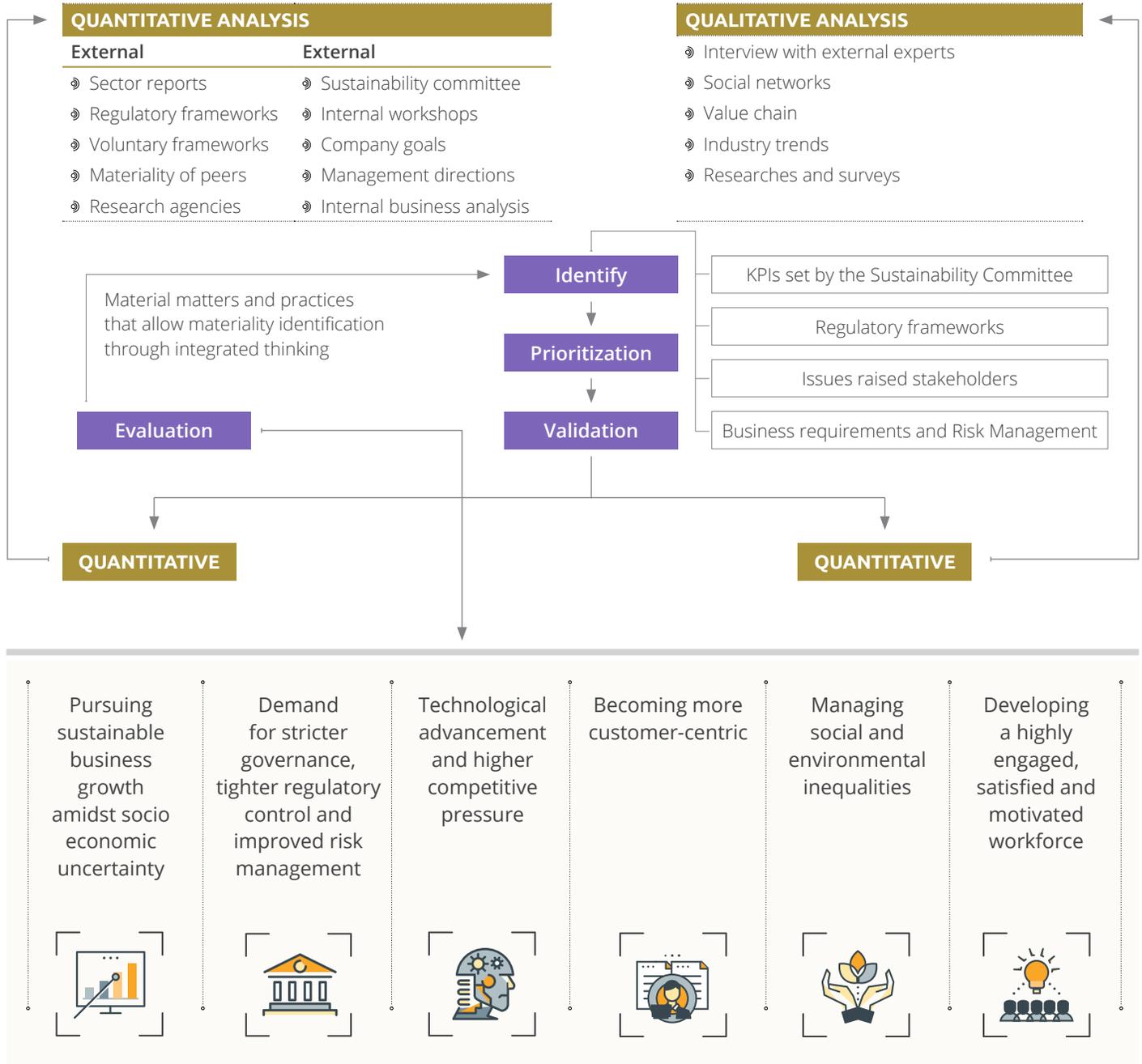
We have defined a new set of ambitions with a 2030 vision to strengthen LBF's commitment to build a better world and help to alleviate some of the biggest challenges that communities are facing today

Focus area	KPIs	2015 Where we were	2021 Where we are	2025 Where we will be	Link to the SDGs
Wealth generation	Economic value generation	H	H	H	 
Customer centricity	Smarter business solutions	H	H	H	 
Workforce utilization	Outlet per employee	H	H	H	 
Climate changes	Reduction of carbon footprint of the company	L	H	H	 
Brand visibility	Brand value	H	H	H	
Gender parity	Men : Women ratio	L	M	M	 
Community engagement	Community engagement for the CSR activities	H	H	H	   
Supplier management	Supplier screen assessment	L	M	M	 
Up hold governance and compliance	Governance and compliance training programmes	M	M	M	 
ICT involvement	Invest for ICT	M	H	L	 

 High impact  Medium impact  Low impact

### OUR MATERIAL DETERMINATION PROCESS

We consider matters to be Material if they have the potential to substantially alter our strategic direction or impact our ability to fulfill our commitment to create and sustain value for our stakeholders over the short, medium and long-term. Identifying our Material Themes therefore goes hand in hand with our integrated decision-making approach.



# CONSOLIDATED SET OF IR STANDARDS

Ref. no	Particulars	Page Reference	Chapter/Section Reference
<b>1</b>	<b>ELEMENTS OF AN INTEGRATED REPORT</b>		
<b>1.1</b>	<b>Organizational overview and external environment</b>		
	An integrated report should disclose the main activities of the organization and the environment in which it operates	4 - 8, 50 - 51, 88 - 97, 18	About the report, Business model, Our business environment and outlook, Product portfolio, Risk management
	An integrated report should identify the organization's mission and vision, and provides essential context by identifying matters	14	Vision, Mission, Values and Goals statements
	<b>The organization's:</b>		
	• Culture, ethics and values	14, 416 - 417	Organisational values, Organisational hierarchy
	• Ownership and operating structure including size of the organization, location of its operations	16 - 17	About us, Organisational structure
	• Principal activities and markets	50 - 51, 18	Business model, Product portfolio
	• Competitive landscape and market positioning	98	Company SWOT
	• Position within the value chain and its process	186 - 187	Social and relationship capital- business partners
	• Key quantitative information (Employees/Operating results /Highlights)	50 - 51	Business model
	• Significant factors affecting the external environment and the organization's response	28 - 31, 16 - 17	Financial and non-financial highlights, About us
	• The legitimate needs and interests of key stakeholders	88 - 97, 36 - 39	Our business environment and outlook, Managing director's review
	• Macro and micro economic conditions, such as economic stability, globalization, and sustainability / industry trends	52 - 61	Integrated stakeholder engagement
	• Market forces, such as the relative strengths and weaknesses of competitors and customer demand	32 - 35, 88 - 97	Chairperson's statement, Our business environment and outlook
	• Environmental challenges, such as climate change, the loss of ecosystems, and resource shortages as planetary limits are approached	166 - 175	Intellectual capital
	• The legislative and regulatory environment in which the organization operates	176 - 195	Social and relationship capital
<b>1.2</b>	<b>Governance</b>		
	An integrated report should show how the organization's governance structure supports its ability to create value in the short, medium and long term	50 - 51, 74 - 81, 207 - 222	Business model, Delivering our strategy and resource allocation, Corporate governance
	An integrated report needs to provide an insight about its ability to create value	50 - 51, 74 - 81	Business model, Delivering our strategy and resource allocation
	• The organization's leadership structure, including the skills and diversity	40 - 43, 207 - 222	Profile of the Board of directors, Statement of corporate governance
	• Mandatory and voluntary code of corporate governance adopted by the Company	207 - 222	Corporate governance tables
	• Code of ethical conduct adopted by the Company in relation to ethical business	207 - 222	Statement of corporate governance - Ethics and Compliance

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	• Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues	236 - 238	Integrated risk management committee report
	• Governance have taken to influence and monitor the strategic direction of the organization and its approach to risk management	236 - 238	Integrated risk management committee report
	• How the organization's culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders	207 - 222	Corporate governance
	• Whether the organization is implementing governance practices that exceed legal requirements / Key Policies	116 - 204	Capital reports
	• The responsibility those charged with governance take for promoting and enabling innovation	207 - 222	Corporate governance
	• How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organization's use of and effects on the capitals	-	Not reported
<b>1.3</b>	<b>Stakeholder Identification/relationships</b>		
	An integrated report should identify its key stakeholders and provide insight into the nature and quality of the organization's relationships with its key stakeholders,	52 - 61	Integrated stakeholder engagement
	• At what extent the organization understands	52 - 61	Integrated stakeholder engagement
	• Takes into account and responds to their legitimate needs and interest	52 - 61	Integrated stakeholder engagement
	Disclose the following in their integrated reports in respect of stakeholder relationships:	52 - 61	Integrated stakeholder engagement
	• How the company has identified its stakeholders	52 - 61	Integrated stakeholder engagement
	• Stakeholder engagement methodology	52 - 61	Integrated stakeholder engagement
	• Identification of material matters of stakeholders	66 - 73, 52 - 61	Materiality determination, Integrated stakeholder engagement
	• How the Company has applied such matters	66 - 73, 52 - 61	Materiality determination, Integrated stakeholder engagement
	• How the stakeholders are engaged in assessing impacts, implications and outlook unrespects of Company's business model	66 - 73, 52 - 61	Materiality determination, Integrated stakeholder engagement
	<b>Capitals</b>		
	An integrated report needs to provide insight about the resources and the relationships used and affected by the organization	116 - 204, 74 - 83	Capital reports, Delivering our strategy and resource allocation
	How the organization interacts with the capitals to create value over the short, medium and long term	116 - 204, 50 - 51	Capital reports, Business model
	An integrated report need to identify the various forms of capitals which are essential for the success of its business operations	116 - 204, 50 - 51	Capital reports, Business model

## CONSOLIDATED SET OF IR STANDARDS

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	<ul style="list-style-type: none"> <li>④ Financial Capital -The pool of funds that is available to the organization for use in the production of goods or provision of services</li> </ul>	116 - 143	Financial capital
	<ul style="list-style-type: none"> <li>④ Manufacturing Capital - Manufactured physical objects that are available to the organization for use in the production of goods and provision of services</li> </ul>	144 - 153	Manufactured capital
	<ul style="list-style-type: none"> <li>④ Intellectual Capital - Organizational Knowledge based intangibles</li> </ul>	166 - 175	Intellectual capital
	<ul style="list-style-type: none"> <li>④ Human Capital - People's competencies, capabilities and experience, and their motivations to innovate</li> </ul>	154 - 165	Human capital
	<ul style="list-style-type: none"> <li>④ Social &amp; Relationship Capital - The institutions and the relationships within and between communities, groups of stakeholders and other networks and collective wellbeing</li> </ul>	176 - 195	Social and relationship capital
	<ul style="list-style-type: none"> <li>④ Natural Capital - All renewable and non-renewable environmental resources and processes that provide goods and services that support the past, current and future prosperity of the organization</li> </ul>	196 - 204	Natural capital
<b>1.4</b>	<b>Business model</b>		
	An integrated report should describe the organization's business model		
	An integrated report need to describe the business model, including key: <ul style="list-style-type: none"> <li>④ Inputs</li> <li>④ Business activities</li> <li>④ Outputs</li> <li>④ Outcomes</li> </ul>	50 - 51	Value creation process, Business model
	Features that can enhance the effectiveness and readability of the description of the business model include: <ul style="list-style-type: none"> <li>④ Explicit identification of the key elements of the business model</li> <li>④ A simple diagram highlighting key elements, supported by a clear explanation of the relevance of those elements to the organization</li> </ul>	50 -51	Business model
	<ul style="list-style-type: none"> <li>④ Narrative flow that is logical given the particular circumstances of the organization</li> </ul>	50 - 51	Business model
	<ul style="list-style-type: none"> <li>④ Identification of critical stakeholder and other dependencies and important factors affecting the external environment</li> </ul>	52 - 61	Integrated stakeholder engagement
	<ul style="list-style-type: none"> <li>④ Connection to information covered by other Content Elements, such as strategy, risks and opportunities, and performance</li> </ul>	50 - 51, 74 - 83	Business model, Delivering our strategy and resource allocation

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	<b>Inputs</b>		
	An integrated report shows how key inputs relate to the capitals on which the organization depends, or that provide a source of differentiation for the organization	50 - 51	Business model
	Business activities		
	An integrated report describes key business activities. This can include: How the organization differentiates itself in the market place	50 - 51, 102 - 115	Business model, Delivering our strategy through business clusters
	How the organization approaches the need to innovate	50 - 51, 102 - 115	Business model, Delivering our strategy through business clusters
	How the business model has been designed to adapt to change	74 - 83	Delivering our strategy and resource allocation
	<b>Outputs</b>		
	An integrated report identifies an organization's key products and services. There might be other outputs, such as by-products and waste (including emissions), that need to be discussed within the business model disclosure depending on their materiality	102 - 115	Delivering our strategy through business clusters
	<b>Outcomes</b>		
	Both internal outcomes and external outcomes	50 - 51	Business model
	Both internal outcomes and negative outcomes		
<b>1.5</b>	<b>Performance</b>		
	An integrated report needs to explain the extent to which the organization has achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?	30 - 31	Non-financial highlights
	An integrated report should contain qualitative and quantitative information such as:		
	<ul style="list-style-type: none"> <li>◆ Quantitative indicators with respect to targets and risks and opportunities,</li> <li>◆ Explaining their significance, their implications, and the methods and</li> <li>◆ Assumptions used in compiling them</li> </ul>	30 - 31	Non-financial highlights
	◆ The organization's effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain	66 - 73	Materiality determination
	◆ The state of key stakeholder relationships and how the organization has responded to key stakeholders' legitimate needs and interests	176 - 195	Social and relationship capital

## CONSOLIDATED SET OF IR STANDARDS

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	<ul style="list-style-type: none"> <li>☉ The linkages between past and current performance, and between current performance and the organization's outlook.</li> </ul>	176 - 195, 28 - 31, 36 - 39	Social and relationship capital, Financial and non-financial highlights, Managing director's review
	Include instances where regulations have a significant effect on performance or the organisation's non-compliance with laws or regulations may significantly affect its operations	236 - 238	Integrated risk management committee report
<b>1.6</b>	<b>Risks, opportunities and internal controls</b>		
	An integrated report should explain what are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term And effectiveness of the system of internal controls.	32 - 56	Online information available- Integrated risk management report
	<ul style="list-style-type: none"> <li>☉ The specific source of risks and opportunities, which can be internal, external or, commonly, a mix of the two.</li> </ul>	32 - 56	Online information available- Integrated risk management report
	<ul style="list-style-type: none"> <li>☉ The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does.</li> </ul>	32 - 56	Online information available- Integrated risk management report
	<ul style="list-style-type: none"> <li>☉ The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs</li> </ul>	32 - 56	Online information available- Integrated risk management report
	<ul style="list-style-type: none"> <li>☉ Risk Management Report (Which includes details about risk, root cause, potential impact, response to risk, risk rating)</li> </ul>	32 - 56	Online information available- Integrated risk management report
	<ul style="list-style-type: none"> <li>☉ Response on the effectiveness of the internal controls and the board's responsibility for the disclosures on internal controls to safeguard stakeholder interest.</li> </ul>	36 - 37	Online information available- Integrated risk management report
<b>1.7</b>	<b>Strategy &amp; Resource Allocation</b>		
	An integrated report should describe its strategic direction (Where does the organization want to go and how does it intend to get there)	50 - 51	Business model
	An integrated report needs to identify: The organization's short, medium and long term strategic objectives	74 - 83	Delivering our strategy and resource allocation
	The strategies it has in place, or intends to implement, to achieve those strategic objectives	102 - 115	Delivering our strategy through our business clusters
	<ul style="list-style-type: none"> <li>☉ How the entity has positioned in the wider market</li> </ul>	102 - 115	Delivering our strategy through our business clusters
	<ul style="list-style-type: none"> <li>☉ How the long term strategies relate to current business model</li> </ul>	50 - 51	Business model
	<ul style="list-style-type: none"> <li>☉ The resource allocation plans it has to implement its strategy</li> </ul>	74 - 83	Delivering our strategy and resource allocation
	<ul style="list-style-type: none"> <li>☉ How it will measure achievements and target outcomes for the short, medium and long term</li> </ul>	74 - 83	Delivering our strategy and resource allocation

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	<p>The linkage between the organization's Strategy &amp; Resource Allocation and the information covered by other Content Elements, including</p> <ul style="list-style-type: none"> <li>• Relationship with the organization's business model</li> <li>• What changes to that business model might be necessary to implement chosen strategies to provide an understanding of the organization's ability to adapt to change</li> <li>• Respond to the external environment and the identified risks and opportunities affect the capitals, and the risk management arrangements related to those capitals</li> </ul>	74 - 83, 50 - 51, 116, 144, 154, 166, 176, 196	Delivering our strategy and resource allocation, Business model,
	<p>What differentiates the organization to give it competitive advantage and enable it to create value, such as:</p> <ul style="list-style-type: none"> <li>• The role of innovation</li> <li>• How the organization develops and exploits intellectual capital</li> <li>• The extent to which environmental and social considerations have been embedded into the organization's strategy to give it a competitive advantage</li> <li>• Key features and findings of stakeholder engagement that were used in formulating its Strategy &amp; Resource Allocation plans.</li> </ul>	166 - 175, 74 - 83	Intellectual capital, Delivering our strategy and resource allocation
<b>1.8</b>	<b>Outlook</b>		
	<p>An integrated report should explain what challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for future performance?</p>	116 - 204, 39	Capital reports, Managing director's review- Going forward
	<p>An integrated report should highlight anticipated changes over time and provides information on:</p> <ul style="list-style-type: none"> <li>• The organization's expectations about the external environment the organization is likely to face in the short, medium and long term</li> <li>• How that will affect the organization</li> <li>• How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.</li> </ul>	88 - 97, 74 - 83	Our business environment and outlook, Delivering our strategy and resource allocation
	<p>The discussion of the potential implications, including implications for future financial performance may include:</p> <p>The external environment, and risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives</p>	88 - 97	Our business environment and outlook

# CONSOLIDATED SET OF IR STANDARDS

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	An integrated report may also provide lead indicators and sensitivity analyses. If forecasts or projections are included in reporting the organization's Outlook	116 - 204, 50 - 51, 32 - 56	Capital reports, Business model, Online information available- Integrated risk management report
	Summary of related assumptions is useful Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook		
	Disclosures about an organization's outlook in an integrated report should consider the legal or regulatory requirements to which the organization is subject	4 - 8	About the report
<b>1.9</b>	<b>Basis of preparation and presentation</b>		
	An integrated report should answer the question: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated,	66 - 73	Materiality determination
	An integrated report describes its basis of preparation and presentation, including:		
	☉ A summary of the organization's materiality determination process	66 - 73	Materiality determination
	☉ Brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to material matters	66 - 73	Materiality determination
	☉ Identification of the role of those charged with governance and key personnel in the identification and prioritization of material matters.	66 - 73	Materiality determination
	☉ A description of the reporting boundary and how it has been determined	4 - 8	About the report- scope and boundaries
	Eg: Include process used for identifying the reporting boundary, geographic scope, the entities represented in the report and the nature of the information provided for each entity		
	☉ A summary of the significant frameworks and methods used to quantify or evaluate material matters	66 - 73	Materiality determination
	(e.g., the applicable financial reporting standards used for compiling financial information, a company-defined formula for measuring customer satisfaction, or an industry based framework for evaluating risks).		
<b>2</b>	<b>RESPONSIBILITY FOR AN INTEGRATED REPORT</b>		
	An integrated report should include a statement from those charged with governance that includes:	206	Corporate governance- Chairperson's message
	☉ An acknowledgement of their responsibility to ensure the integrity of the integrated report		

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	<ul style="list-style-type: none"> <li>⦿ An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report</li> <li>⦿ Their opinion or conclusion about whether the integrated report is presented in accordance with the Framework</li> </ul>		
<b>3</b>	<b>OTHER QUALITATIVE CHARACTERISTICS OF AN INTEGRATED REPORT</b>		
<b>3.1</b>	<b>Conciseness</b>		
	An integrated report should be concise.		
	An integrated report need to include sufficient context to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information	66 - 73	Materiality determination
	Follows logical structure and includes internal cross-reference as appropriate to limit repetition.	66 - 73	Materiality determination
	Express concepts clearly and in as few words.	66 - 73	Materiality determination
	Favours plain language over the use of jargon or highly technical terminology.		
	Avoids highly generic disclosures.		
<b>3.2</b>	<b>Reliability and completeness</b>		
	An integrated report should include all material matters, both positive and negative, in a balanced way and without material error	74 - 83, 206 - 222	Delivering our strategy and resource allocation, Corporate governance
	The organization achieves the reliability and completeness through,		
	<ul style="list-style-type: none"> <li>⦿ Selection of presentation formats that are not likely to unduly or inappropriately influence assessments made on the basis of integrated report.</li> <li>⦿ Giving equal conservation to both increases and decreases in the capitals, both strengths and weaknesses of the organization, both positive and negative performance etc.</li> </ul>	66 - 73 50 - 204	Materiality determination Management discussion and analysis
	When information includes estimates, this is clearly communicated and the nature of limitations of the estimation process are explained.	268	Independent auditor's report
<b>3.3</b>	<b>Consistency and comparability</b>		
	The information in an integrated report should be presented:		
	<ul style="list-style-type: none"> <li>⦿ On a basis that is consistent over time</li> <li>⦿ In a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time</li> <li>⦿ Presenting information in the form of ratios</li> </ul>	262 - 263 398, 116 - 143	Financial statements highlights for the year Decade at a glance, Financial capital

## CONSOLIDATED SET OF IR STANDARDS

Ref. no	Particulars	Page Reference	Chapter/Section Reference
	<ul style="list-style-type: none"> <li>Reporting quantitative indicators commonly used by other organizations with similar activities, particularly when standardized definitions are stipulated by an independent organization</li> </ul>		
	<ul style="list-style-type: none"> <li>Reporting policies are followed consistently from one period to other unless a change is needed to improve the quality of information reported.</li> </ul>	116 - 143, 273 - 279	Financial capital, Financial statements
	<ul style="list-style-type: none"> <li>Reporting the same KPIs if they continue to be material across reporting period.</li> </ul>		
<b>3.4</b>	<b>Connectivity of information</b>		
	An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.	50 - 51	Business model
	<ul style="list-style-type: none"> <li>Capitals</li> </ul>	50 - 51	Business model
	<ul style="list-style-type: none"> <li>Content elements</li> </ul>		
	<ul style="list-style-type: none"> <li>Past, Present &amp; Future</li> </ul>	116 - 204, 36 - 39	Capital reports, Managing director's review
	<ul style="list-style-type: none"> <li>Finance and other information</li> </ul>	116 - 143	Finance capital
<b>3.5</b>	<b>Materiality</b>		
	An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term	66 - 73	Materiality determination
<b>3.6</b>	<b>Assurance on the Report</b>		
	<ul style="list-style-type: none"> <li>The policy and practice relating to seeking assurance on the report</li> </ul>	268 - 271, 266 - 267, 206 - 222	Independent auditors report on financial statements, Directors' responsibility for internal control, Financial reporting and corporate governance
	<ul style="list-style-type: none"> <li>The nature and scope of assurance provided for this particular report</li> </ul>		



# Financial Statement Highlights

## OPERATING RESULTS

### INCOME



### NET INTEREST INCOME



### PROFIT BEFORE TAX



### PROFIT AFTER TAX



### DIVIDEND PAYMENT VS RETAINED PROFIT



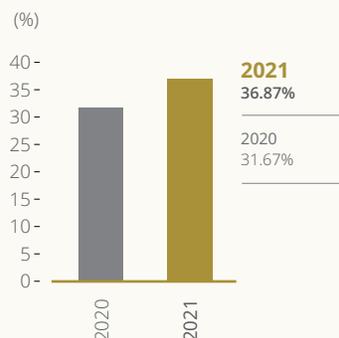
## PROFITABILITY RATIOS

### GROSS PROFIT MARGIN\*



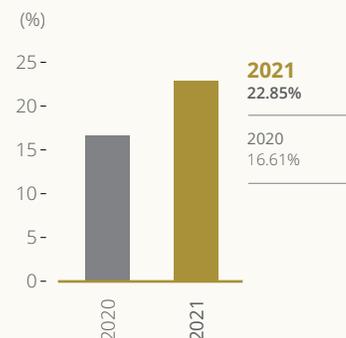
\*Net interest income as a % of income

### OPERATING PROFIT MARGIN\*



\*Operating profit before tax as a % of income

### NET PROFIT MARGIN\*



\*Profit after tax as a % of income

### RETURN ON ASSETS



### RETURN ON EQUITY



## EQUITY RATIOS

## EARNINGS PER SHARE



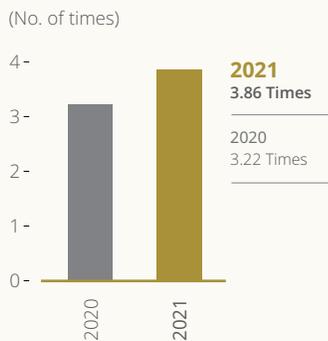
## MARKET CAPITALISATION



## NET ASSETS VALUE PER SHARE



## PRICE EARNINGS RATIO

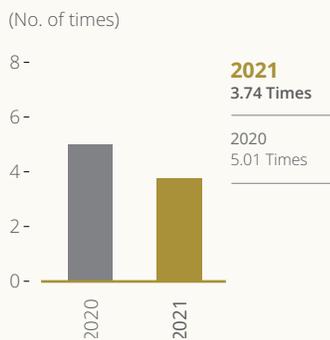


## MARKET PRICE PER SHARE

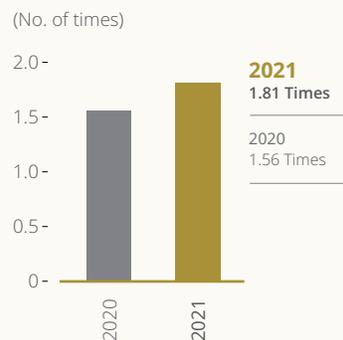


## DEBT RATIOS

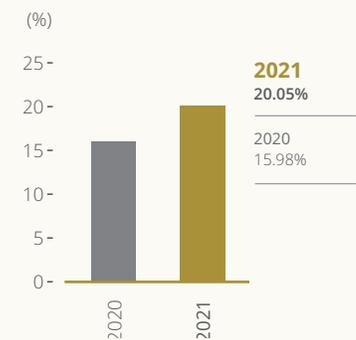
## DEBT TO EQUITY RATIO



## INTEREST COVER



## EQUITY ASSETS RATIO



# Financial Calendar

## 2020/21

Publication of Interim Financial Statements for the quarter ended 31 March 2020	28 May 2020
Authorisation for issue of Audited Financial Statements for 2019/20	22 June 2020
Publication of Annual Report for the financial year ended 31 March 2020	8 July 2020
Held 47th Annual General Meeting of the company	30 July 2020
Publication of Interim Financial Statements for the quarter ended 30 June 2020	14 August 2020
Publication of Interim Financial Statements for the quarter ended 30 September 2020	22 October 2020
Publication of Interim Financial Statements for the quarter ended 31 December 2020	29 January 2021

## 2021/22

Payment of interim dividend of Rs. 12.00 per share for the financial year ended 31 March 2021	23 February 2021
Publication of Interim Financial Statements for the quarter ended 31 March 2021	19 May 2021
Publication of Annual Report for the financial year ended 31 March 2021	7 June 2021
48th Annual General Meeting of the company	30 June 2021
Payment of final dividend of Rs. 4.00 per share for the financial year ended 31 March 2021	*July 2021

Submission of the Interim Financial Statements in terms of the rule 7.4 of the Colombo Stock Exchange (CSE)	2020/21 Submitted on	2021/22 to be Submitted on or before
For the 3 months ended 30 June (unaudited)	14 August 2020	15 August 2021
For the 3 and 6 months ended 30 September (unaudited)	22 October 2020	15 November 2021
For the 3 and 9 months ended 31 December (unaudited)	22 January 2021	15 February 2022
For the 3 months and year ended 31 March (unaudited)	19 May 2021	30 May 2022

Publication of the six month Financial Statements as per requirements of the Central Bank of Sri Lanka	2020/21 Published in News Papers on			2021/22 to be Published on or before
	English	Sinhala	Tamil	
For the year ended 31 March (audited)	30 June 2020	30 June 2020	30 June 2020	30 June 2021
For the 6 months ended 30 September (unaudited)	26 November 2020	26 November 2020	26 November 2020	30 November 2021

\*The proposed payment of final dividend per share is based on post sub-division of shares and subject to approval of shareholders at the forthcoming Annual General Meeting.

# 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 2021.

### 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.

19 May 2021  
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 Manalunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeevani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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# Directors' Responsibility Statement on Internal Control Over Financial Reporting

## RESPONSIBILITY

In line with the section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by Direction No. 06 of 2013, and principle D.1.5 of the Code of Best Practice on Corporate Governance 2017 issued by Chartered Accountants of Sri Lanka, 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 assessing key processes related risks against the compensating controls which may affect significant accounts of the company.

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.

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.

## 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 independent and objective assurance reports on operations and performance. Additionally, Messrs. 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. The company reviewed the existing models in use to ascertain the potential implications of the COVID 19 pandemic and the moratorium schemes introduced to support the recovery of the economy.

## 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.

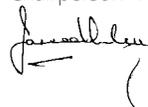
## REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR

The external auditor, Messrs. Ernst & Young, has reviewed the above Directors' Statement on Internal Controls over Financial Reporting and report is included in the Company's Annual Report for the year ended 31st March 2021. 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 265 of this annual report.

By order of the Board,



Mrs. Yogadinusha Bhaskaran  
Chairperson - Audit Committee



J A S Sumith Adhietty  
Managing Director

19 May 2021

## 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 268 to 271 of the Annual Report.

As per the provisions of sections 151, 153(1) and (2), 150 (1) and 152(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. However, under the current travel/ health restrictions / regulations imposed by the health authorities and the Government in view of the COVID-19 pandemic, the above obligation is discharged by the Directors by making available a copy of the Annual Report on the Company's official Website and the Colombo Stock Exchange Website. Alternatively, hard copies will be made available to shareholders on request. Further, the convening of the Annual

General Meeting and availability of Annual Reports as aforesaid will also be published in the print media in Sinhala, Tamil and English languages in a daily newspaper

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 233 to 235 and 236 to 237 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.

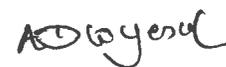
The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

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

19 May 2021

# 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 2021, 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 2021, 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 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.

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>As described in note(s) 4.19, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments.</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>④ materiality of the reported impairment allowance which involved complex calculations; and</li> <li>④ the degree of assumptions, judgements and estimation uncertainty associated with the calculations</li> </ul> <p>Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following;</p> <ul style="list-style-type: none"> <li>④ the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Company); and</li> <li>④ forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.</li> </ul>	<p>We assessed the alignment of the Company's expected credit loss computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> <li>④ We evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management.</li> <li>④ We assessed the completeness and relevance of the underlying information used in the impairment calculations; Our procedures included <ul style="list-style-type: none"> <li>• evaluating whether the underlying historical information was up to the reporting date</li> <li>• testing the accuracy of underlying calculations.</li> <li>• checking the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the Company</li> </ul> </li> <li>④ As relevant, we assessed the reasonableness of the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic including the provisions that were made by the Company with a particular focus on the impact of COVID-19 on high risk industries</li> <li>④ We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included evaluating assumptions and estimates made by management, forward-looking information used, and weightages assigned to possible economic scenarios.</li> <li>④ We assessed the adequacy of the related financial statement disclosures as set out in note(s), 4.17 and 4.18 of the financial statements</li> </ul>
<p><b>Impact of moratoriums and other relief measures on recognition of interest income</b></p> <p>Moratoriums and other relief measures were granted by the Company to customers affected by the COVID-19 Pandemic.</p> <p>Impact of moratoriums and other relief measures on the recognition of interest revenue on loans &amp; receivables and lease rentals receivable &amp; stock out on hire was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>④ Significant judgments that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not, to contracts with customers as set out in note (s) 4.1 to the financial statements</li> <li>④ Use of various calculations by management to quantify the impacts of such moratoriums and other relief measures on the amount of revenue recognized for the period</li> </ul>	<p>Our audit procedures (among others) included the following;</p> <ul style="list-style-type: none"> <li>④ We gained an understanding of the process adopted by the Company to grant, record and account for moratoriums and other relief measures provided to customers</li> <li>④ We assessed the reasonableness of judgements applied by management in determining whether moratoriums and other relief measures have resulted in substantial modifications or not, to customer contracts, on a sample basis. This included evaluating whether interest income on modified contracts have been recognized in line with its accounting policy for interest income recognition</li> <li>④ We tested the accuracy of underlying calculations. Our procedures included testing the completeness and accuracy of the data used in such calculations, by agreeing to source documents and moratorium customer returns, on a sample basis</li> </ul>

# Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
<p><b>IT systems and controls relevant to financial reporting</b></p> <p>The Company uses multiple IT systems in its operations. The COVID-19 pandemic necessitated the Company to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks.</p> <p>IT systems and controls relevant to financial reporting was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• The Company's financial reporting process being heavily dependent on information derived from its IT systems and</li> <li>• Key financial statement disclosures involving the use of multiple system – generated reports and calculations there on</li> <li>• A changed working environment of increased remote access</li> </ul>	<p>Our audit procedures (among others) included the following;</p> <ul style="list-style-type: none"> <li>• Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access</li> <li>• Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and gathering of required information in calculating the significant information for financial statements disclosures</li> <li>• Checking the source data of the reports used to generate significant disclosures for accuracy and completeness</li> <li>• Assessing the reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant</li> </ul>

## Other information included in the Group's 2021 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.

## Auditors' 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 auditor's report is 1884.



19 May 2021  
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 Manalunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeevani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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# SECTION 01

## Income Statement

Year ended 31 March	Note	Page No.	Company			Group		
			2021	2020	Change	2021	2020	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Income</b>	4.1.1	287	29,766,124	31,222,860	(5)	29,930,319	31,359,418	(5)
Interest Income	4.1.2	287	27,457,741	29,160,292	(6)	27,610,976	29,297,103	(6)
Less: Interest Expenses	4.1.6	288	11,522,802	13,615,391	(15)	11,543,326	13,631,371	(15)
<b>Net Interest Income</b>	4.1.8	289	15,934,939	15,544,901	3	16,067,650	15,665,732	3
Fee and Commission Income	4.2	289	2,184,947	1,941,626	13	2,196,387	1,950,180	13
Net Trading Income	4.3	289	6,323	(2,099)	>100	6,323	(2,099)	>100
Other Operating Income	4.4	290	117,113	123,041	(5)	116,633	114,234	2
<b>Total Operating Income</b>			18,243,322	17,607,469	4	18,386,993	17,728,047	4
Less: Impairment Charges and Other Losses	4.5	290	1,691,734	1,831,057	(8)	1,727,907	1,856,495	(7)
<b>Net Operating Income</b>			16,551,588	15,776,412	5	16,659,086	15,871,552	5
<b>Less: Operating Expenses</b>								
Personnel Expenses	4.6	294	2,959,823	3,005,189	(2)	3,007,941	3,034,198	(1)
Depreciation of Property, Plant and Equipment	4.7.1	295	728,793	697,508	4	730,913	698,639	5
Amortisation of Intangible Assets	4.7.2	295	16,446	15,882	4	20,019	18,125	10
Other Operating Expenses	4.8	296	1,870,828	2,168,986	(14)	1,903,077	2,188,842	(13)
<b>Total Operating Expenses</b>			5,575,890	5,887,565	(5)	5,661,950	5,939,804	(5)
<b>Operating Profit before Tax on Financial Services</b>			10,975,698	9,888,847	11	10,997,136	9,931,748	11
Less: Tax on Financial Services	4.9	296	1,669,323	2,278,560	(27)	1,669,323	2,278,560	(27)
<b>Profit before Taxation</b>			9,306,375	7,610,287	22	9,327,813	7,653,188	22
Less: Income Tax Expense	4.10.1 (a)	298	2,503,778	2,423,234	3	2,521,008	2,442,327	3
<b>Profit for the Year</b>			6,802,597	5,187,053	31	6,806,805	5,210,861	31
<b>Profit Attributable to:</b>								
Equity Holders of the Company			6,802,597	5,187,053	31	6,806,805	5,210,861	31
Non-Controlling Interest			-	-	-	-	-	-
<b>Profit for the Year</b>			6,802,597	5,187,053	31	6,806,805	5,210,861	31
<b>Earnings per Share:</b>								
<b>Basic/Diluted (Rs.)</b>	4.11	299	12.28	9.36	31	12.29	9.40	31
Dividend per Share (Rs.)*	4.12.3	301	7.00	-				

\*Dividend per share is calculated based on the interim dividend paid and the proposed final dividend which is to be approved at the Annual General Meeting.

Accounting Policies and Notes from pages 280 to 396 form an integral part of these Financial Statements.

# Statement of Comprehensive Income

Year ended 31 March	Note	Page No.	Company			Group		
			2021	2020	Change	2021	2020	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Profit for the Year</b>			6,802,597	5,187,053	31	6,806,805	5,210,861	31
<b>Other Comprehensive Income that will be Reclassified to Income Statement</b>								
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations			-	-	-	33,514	96,608	(65)
Less: Deferred Tax Charge/(Reversal) on above Items			-	-	-	-	-	-
<b>Net Other Comprehensive Income that will be Reclassified to Income Statement</b>			-	-	-	33,514	96,608	(65)
<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			18,648	(30,569)	>100	18,648	(30,569)	>100
Actuarial Gains/(Losses) on Defined Benefit Plans	4.33.3	357	40,349	(41,707)	>100	40,349	(41,707)	>100
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	4.10.1 (b)	298	9,684	(11,678)	>100	9,684	(11,678)	>100
Net Actuarial Gains/(Losses) on Defined Benefit Plans			30,665	(30,029)	>100	30,665	(30,029)	>100
<b>Net Other Comprehensive Income that will never be Reclassified to Income Statement</b>			49,313	(60,598)	>100	49,313	(60,598)	>100
<b>Other Comprehensive Income for the Year, Net of Tax</b>			49,313	(60,598)	>100	82,827	36,010	>100
<b>Total Comprehensive Income for the Year, Net of Tax</b>			6,851,910	5,126,455	34	6,889,632	5,246,871	31
<b>Attributable to:</b>								
Equity Holders of the Company			6,851,910	5,126,455	34	6,889,632	5,246,871	31
Non-Controlling Interest			-	-	-	-	-	-
<b>Total Comprehensive Income for the Year, Net of Tax</b>			6,851,910	5,126,455	34	6,889,632	5,246,871	31

Accounting Policies and Notes from pages 280 to 396 form an integral part of these Financial Statements.

# Statement of Financial Position

As at 31 March	Note	Page No.	Company			Group		
			2021	2020	Change	2021	2020	Change
			Rs. '000	Rs. '000	%	Rs. '000	Rs. '000	%
<b>Assets</b>								
Cash and Cash Equivalents	4.15	319	6,187,300	6,162,637	0	6,380,786	6,472,312	(1)
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4.16	320	10,862	4,648	>100	10,862	4,648	>100
Financial Assets at Amortised Cost								
- Loans and Receivables	4.17	321	66,778,188	58,239,254	15	67,466,581	58,793,344	15
Financial Assets at Amortised Cost - Lease								
Rentals Receivable and Stock out on Hire	4.18	326	47,359,635	60,626,670	(22)	47,359,635	60,626,670	(22)
Financial Assets Measured at Fair Value								
Through Other Comprehensive Income	4.20	336	77,789	59,141	32	77,789	59,141	32
Other Financial Assets	4.21	338	10,453,903	9,119,681	15	10,433,149	9,105,761	15
Other Non Financial Assets	4.22	339	920,406	967,469	(5)	927,830	976,489	(5)
Investment in Subsidiary	4.23	340	521,162	521,162	-	-	-	-
Property, Plant and Equipment and Right-of-Use Assets	4.24	340	8,241,259	8,221,248	0	8,250,546	8,228,222	0
Intangible Assets	4.25	346	26,021	41,809	(38)	36,271	55,064	(34)
<b>Total Assets</b>			<b>140,576,525</b>	<b>143,963,719</b>	<b>(2)</b>	<b>140,943,449</b>	<b>144,321,651</b>	<b>(2)</b>
<b>Liabilities</b>								
Due to Banks	4.26	347	16,467,179	22,771,085	(28)	16,526,657	22,882,941	(28)
Financial Liabilities at Amortised Cost								
- Due to Depositors	4.27	350	85,860,070	89,256,435	(4)	85,940,213	89,315,097	(4)
Debt Instruments Issued and Other Borrowed Funds	4.28	352	3,113,916	3,111,186	0	3,113,916	3,111,186	0
Other Financial Liabilities	4.29	352	3,043,526	2,766,410	10	3,044,340	2,766,775	10
Other Non Financial Liabilities	4.30	354	1,028,054	909,266	13	1,051,185	925,778	14
Current Tax Liabilities	4.31	354	1,872,154	766,752	>100	1,877,558	777,057	>100
Deferred Tax Liabilities	4.32	354	637,073	1,037,580	(39)	637,073	1,037,580	(39)
Post Employment Benefit Liability	4.33	356	365,265	345,456	6	365,265	345,456	6
<b>Total Liabilities</b>			<b>112,387,237</b>	<b>120,964,170</b>	<b>(7)</b>	<b>112,556,207</b>	<b>121,161,870</b>	<b>(7)</b>
<b>Equity</b>								
Stated Capital	4.34	358	838,282	838,282	-	838,282	838,282	-
Reserves	4.35	359	7,596,106	6,216,939	22	7,747,007	6,334,326	22
Retained Earnings	4.36	360	19,754,900	15,944,328	24	19,801,953	15,987,173	24
<b>Total Equity Attributable to Equity Holders of the Company</b>			<b>28,189,288</b>	<b>22,999,549</b>	<b>23</b>	<b>28,387,242</b>	<b>23,159,781</b>	<b>23</b>
Non-Controlling Interest	4.37	360	-	-	-	-	-	-
<b>Total Equity</b>			<b>28,189,288</b>	<b>22,999,549</b>	<b>23</b>	<b>28,387,242</b>	<b>23,159,781</b>	<b>23</b>
<b>Total Liabilities and Equity</b>			<b>140,576,525</b>	<b>143,963,719</b>	<b>(2)</b>	<b>140,943,449</b>	<b>144,321,651</b>	<b>(2)</b>
<b>Commitments and Contingencies</b>	6.5	393	<b>903,553</b>	<b>1,928,805</b>	<b>(53)</b>	<b>844,075</b>	<b>1,816,949</b>	<b>(54)</b>
<b>Net Asset Value per Share (Rs.)</b>	6.6	394	<b>50.88</b>	<b>41.51</b>	<b>23</b>	<b>51.24</b>	<b>41.80</b>	<b>23</b>

Accounting Policies and Notes from pages 280 to 396 form an integral part of these Financial Statements.

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

19 May 2021

Colombo



Mrs. Yogadinusha Bhaskaran

Director

## Statement of Changes in Equity - Company

	Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Fair Value Reserve	Total Equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
			Note 4.34	Note 4.36	Note 4.35.1	Note 4.35.2	
<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	4.35.1	359	-	(1,037,411)	1,037,411	-	-
Final Dividend for 2018/19	4.12.1	301	-	(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
Net Profit for the Year			-	6,802,597	-	-	6,802,597
Other Comprehensive Income, Net of Tax			-	30,665	-	18,648	49,313
<b>Total Comprehensive Income for the Year, Net of Tax</b>			-	6,833,262	-	18,648	6,851,910
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>							
Transfers During the Year	4.35.1	359	-	(1,360,519)	1,360,519	-	-
Interim Dividend for 2020/21	4.12.1	301	-	(1,662,171)	-	-	(1,662,171)
<b>Total Transactions with Equity Holders</b>			-	(3,022,690)	1,360,519	-	(1,662,171)
<b>Balance as at 31 March 2021</b>			838,282	19,754,900	7,683,689	(87,583)	28,189,288

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 280 to 396 form an integral part of these Financial Statements.

## Statement of Changes in Equity - Group

	Note	Page No.	Stated Capital	Retained Earnings	Statutory 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
<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	4.35.1	359	-	(1,037,411)	1,037,411	-	-	-	-	-
Final Dividend for 2018/19	4.12.1	301	-	(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
Net Profit for the Year			-	6,806,805	-	-	-	6,806,805	-	6,806,805
Other Comprehensive Income, Net of Tax			-	30,665	-	18,648	33,514	82,827	-	82,827
<b>Total Comprehensive Income for the Year, Net of Tax</b>			-	6,837,470	-	18,648	33,514	6,889,632	-	6,889,632
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>										
Transfers During the Year	4.35.1	359	-	(1,360,519)	1,360,519	-	-	-	-	-
Interim Dividend for 2020/21	4.12.1	301	-	(1,662,171)	-	-	-	(1,662,171)	-	(1,662,171)
<b>Total Transactions with Equity Holders</b>			-	(3,022,690)	1,360,519	-	-	(1,662,171)	-	(1,662,171)
<b>Balance as at 31 March 2021</b>			838,282	19,801,953	7,683,689	(87,583)	150,901	28,387,242	-	28,387,242

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 280 to 396 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	
			2021	2020	2021	2020
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash Flows From/(Used in) Operating Activities</b>						
Profit and Other Comprehensive Income before Taxation			9,365,372	7,538,011	9,420,324	7,677,520
<b>Adjustments for -</b>						
Depreciation of Property, Plant and Equipment	4.7.1	295	728,793	697,508	730,913	698,639
Amortisation of Intangible Assets	4.7.2	295	16,446	15,882	20,019	18,125
Impairment Charges and Other Losses	4.5	290	1,691,734	1,831,057	1,727,907	1,856,495
Diminution/(Appreciation) in Value of Investments			(24,862)	32,786	(24,862)	32,786
Loss/(Profit) on Disposal of Property, Plant and Equipment	4.4	290	(24,425)	(4,110)	(24,425)	(4,110)
Provision/(Reversal) for Defined Benefit Plans	4.33.1	356	53,569	117,650	53,569	117,650
Foreign Currency Exchange (Gain)/Loss			-	-	479	8,480
Dividend Received			(3,496)	(6,777)	(3,496)	(6,777)
Net Unrealised (Gains)/Losses Arising from Translating the Financial Statements of Foreign Operations			-	-	(33,514)	(96,608)
<b>Operating Profit before Changes in Operating Assets and Liabilities</b>						
			11,803,131	10,222,007	11,866,914	10,302,200
<b>(Increase)/Decrease in Operating Assets</b>						
(Increase)/Decrease in Financial Assets at Amortised Cost-Loans and Receivables			(9,654,407)	(11,958,602)	(9,824,884)	(12,159,450)
(Increase)/Decrease in Financial Assets at Amortised Cost-Lease Rentals Receivable and Stock out on Hire			12,699,246	4,714,850	12,699,246	4,714,850
(Increase)/Decrease in Other Financial Assets			(1,342,692)	1,677,062	(1,335,857)	1,681,138
(Increase)/Decrease in Other Non Financial Assets			47,063	99,892	48,659	193,185
			1,749,210	(5,466,798)	1,587,164	(5,570,277)
<b>Increase/(Decrease) in Operating Liabilities</b>						
Increase/(Decrease) in Financial Liabilities at Amortised Cost - Due to Depositors			(3,396,365)	6,041,485	(3,374,884)	6,072,480
Increase/(Decrease) in Other Financial Liabilities			(20,411)	(620,905)	13,552	(620,539)
Increase/(Decrease) in Other Non Financial Liabilities			327,909	(1,599,039)	335,808	(1,591,414)
			(3,088,867)	3,821,541	(3,025,524)	3,860,527
<b>Cash Generated From Operations</b>						
			10,463,474	8,576,750	10,428,554	8,592,450
Retirement Benefit Liabilities Paid	4.33.1	356	(33,760)	(28,706)	(33,760)	(28,706)
Income Tax Paid	4.10.4	299	(2,017,689)	(2,875,243)	(2,042,147)	(2,897,059)
<b>Net Cash From/(Used in) Operating Activities</b>						
			8,412,025	5,672,801	8,352,647	5,666,685

Year ended 31 March	Note	Page No.	Company		Group	
			2021	2020	2021	2020
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash Flows From/(Used in) Investing Activities</b>						
Acquisition of Property, Plant and Equipment and Right-of-Use Assets	4.24.5	344	(535,961)	(934,230)	(540,394)	(938,987)
Acquisition of Intangible Assets	4.25	346	(658)	(17,844)	(658)	(29,339)
Proceeds from Sale of Property, Plant and Equipment			111,838	13,189	111,838	13,189
Investment in Subsidiary			-	(202,163)	-	-
Dividend Received			3,496	6,777	3,496	6,777
<b>Net Cash Flows From/(Used in) Investing Activities</b>			(421,285)	(1,134,271)	(425,718)	(948,360)
<b>Cash Flows From/(Used in) Financing Activities</b>						
Net Cash Flow from Debt Funding from Banks			(6,571,594)	(1,514,471)	(6,623,972)	(1,402,615)
Dividends Paid	4.12.1	301	(1,662,171)	(554,057)	(1,662,171)	(554,057)
<b>Net Cash Flows From/(Used in) Financing Activities</b>			(8,233,765)	(2,068,528)	(8,286,143)	(1,956,672)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>			(243,025)	2,470,002	(359,214)	2,761,653
<b>Cash and Cash Equivalents at the Beginning of the Year</b>			5,442,226	2,972,224	5,751,901	2,990,248
<b>Cash and Cash Equivalents at the End of the Year</b>			5,199,201	5,442,226	5,392,687	5,751,901
<b>Operational Cash Flows from Interest</b>						
Interest Received			28,235,605	29,108,901	28,388,840	29,245,712
Interest Paid			13,535,563	12,188,355	13,556,087	12,204,335

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 280 to 396 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 2021 was 3,536 (2020 - 3,606).

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 2021, 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

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, Personal Loans, Factoring, Other Credit Facilities, Digital Financial Services 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 2021 - 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 2021 (including comparatives for 31 March 2020) were approved and authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 19 May 2021.

## 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 Central Bank of Sri Lanka (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 STANDARDS

#### 2.7.1 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'.

These amendments had no significant impact on the Consolidated Financial Statements of, nor is there expected to be any future impact to, the Group.

#### 2.7.2 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 had no impact on the Consolidated Financial Statements of the Group, but may impact future periods should the Group enter into any business combinations.

#### 2.7.3 Amendments to the Conceptual Framework for Financial Reporting

CA Sri Lanka issued a revised Conceptual Framework which included some new concepts, updated definitions and recognition

criteria for assets and liabilities and clarified some important concepts.

These amendments had no significant impact on the Consolidated Financial Statements of the Group.

### 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. In making this assessment, the Board has considered a wide range of information relating to present and future conditions. The Directors assessed the future performance of the business and satisfied that it has the resources in place that are required to meet its ongoing regulatory requirements. The assessment is based upon business plans which contain future projections of profitability as well as projections of regulatory capital requirements and business funding needs. The forecast also includes an assessment of the impact under stressed scenario which reflects the impact of uncertainty that the COVID-19 has had on Group's operation.

# Notes to the Financial Statements

The business plan showed that the Group had sufficient capital in place to support its future business requirements and remained above its regulatory minimum requirements in the stress scenarios. Accordingly, the Directors concluded that there was a reasonable expectation that the Group has adequate resources to continue as a Going Concern for a period of at least 12 months from the date of approval of the financial statements. 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 a 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.

## 2.14 SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 MARCH 2021

The new and amended standards and interpretations that are issued, but not yet effective, upto the date of issuance of Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

### 2.14.1 Amendments to SLFRS 09, LKAS 39, SLFRS 07, SLFRS 04 and SLFRS 16: Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments) & Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments Recognition & Measurement) provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 1 January 2021.

### 2.14.2 Amendments to SLFRS 16: COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying Sri Lanka Accounting Standard - SLFRS 16 (Leases) guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020.

None of the new or amended pronouncements are expected to have a material impact on the Financial Statements of the Group in the foreseeable future.

### 2.15 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Group are consistent with those used in the previous financial year.

### 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.

During 2021, estimation uncertainty has been affected by the COVID-19 pandemic and continued to cause significant economic and social disruption. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. The Group used the key financial estimates based on management's latest available information while ensuring the compliances with the circulars and guidelines issued by the CBSL and the CA Sri Lanka. The Group has adopted additional judgements due to the prolonged financial effect of the COVID-19 pandemic on the economy.

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;

- 3.8 Impairment of Non Financial Assets
- 3.9 Estimating Incremental Borrowing Rate
- 4.10 Taxation
- 4.13 Classification of Financial Assets and Liabilities
- 4.14 Fair Value of Financial Instruments
- 4.19 Allowance for Impairment Losses
- 4.23 Investment in Subsidiary
- 4.24 Useful Lifetime of the Property, Plant and Equipment
- 4.25 Useful Lifetime of the Intangible Assets
- 4.32 Deferred Tax Liabilities
- 4.33 Post Employment Benefit Liability
- 6.5 Commitments and Contingencies
- 6.9 Events Occurring after the Reporting Date

# 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 4.37 to these Financial Statements.

##### 3.1.2 Subsidiary

Details of the Company's subsidiary are set out in Note 4.23 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 (WHT) on Dividends

Withholding Tax arises from the distribution of dividends by the Company and is recognised at the time the liability to pay the related dividend is recognised. 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.

### 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 01 and 02) is considered by applying the

## Notes to the Financial Statements

behavioral (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 lifetime 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.

### **3.9 ESTIMATING THE INCREMENTAL BORROWING RATE**

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.

## 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Recognition of interest income is ceased when 1 or more of the criteria set out in Note 4.19 is present for a financial asset. More information on interest Cessation is discussed in Note 4.19 to these Financial Statements. Interest from overdue rentals have been accounted for on a cash received basis.

##### Recognition of interest income for credit facilities under moratoriums

The Group recognises the interest income on gross carrying amount based on the concessionary rate for the moratorium period, while fully recognising the interest income forgone resulting from the said concession within the moratorium period itself. Accordingly, the Group has fully recognised the loss resulting from interest income forgone during the financial year ended 31 March 2021 and there is no any remaining interest income forgone to be recognised for the future accounting periods.

The original EIR has been applied to recognise interest income immediately after the moratorium period till the end of the lifetime of the instrument.

#### 4.1.1 Income

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	27,457,741	29,160,292	27,610,976	29,297,103
Fee and Commission Income	2,184,947	1,941,626	2,196,387	1,950,180
Net Trading Income	6,323	(2,099)	6,323	(2,099)
Other Operating Income	117,113	123,041	116,633	114,234
	29,766,124	31,222,860	29,930,319	31,359,418

#### 4.1.2 Interest Income

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Note 4.1.3)	12,576,244	11,917,186	12,729,479	12,053,997
Lease Rentals Receivable (Note 4.1.4)	13,568,735	15,900,823	13,568,735	15,900,823
Other Financial Assets	1,312,762	1,342,283	1,312,762	1,342,283
	27,457,741	29,160,292	27,610,976	29,297,103

## Notes to the Financial Statements

### 4.1.3 Interest Income - Loans and Receivables

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	7,107,549	6,980,205	7,107,549	6,980,205
Vehicle Loans	2,747,283	1,671,360	2,747,283	1,671,360
Term Loans	1,114,010	1,152,460	1,267,245	1,289,271
Mortgage Loans	878,795	1,189,501	878,795	1,189,501
Power Drafts	725,540	867,451	725,540	867,451
Factoring Receivable	3,067	56,209	3,067	56,209
	12,576,244	11,917,186	12,729,479	12,053,997

### 4.1.4 Interest Income - Lease Rentals Receivable

Year ended 31 March	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Lease Rentals Receivable	13,568,735	15,900,823

### 4.1.5 Interest Income from Sri Lanka Government Securities

Year ended 31 March	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Interest Income from Sri Lanka Government Securities	433,245	721,036

### 4.1.6 Interest Expenses

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Due to Banks	2,379,905	2,955,307	2,396,851	2,955,307
Financial Liabilities at Amortised Cost - Due to Depositors	8,581,070	10,106,091	8,584,648	10,122,071
Debt Issued and Other Borrowed Funds	397,792	396,546	397,792	396,546
Other Financial Liabilities	164,035	157,447	164,035	157,447
	11,522,802	13,615,391	11,543,326	13,631,371

### 4.1.7 Interest Expenses (Product-wise Breakdown)

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank Overdrafts	3,454	965	3,454	965
Debt Funding from Banks	2,376,451	2,954,342	2,393,397	2,965,714
Fixed Deposits	8,406,771	9,870,444	8,406,771	9,870,444
Certificates of Deposit	27	7,199	27	7,199
Savings Deposits	174,272	228,448	177,850	233,056
Unsecured Debentures	397,792	396,546	397,792	396,546
Interest Expense on Lease Liabilities	164,035	157,447	164,035	157,447
	11,522,802	13,615,391	11,543,326	13,631,371

#### 4.1.8 Net Interest Income

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	27,457,741	29,160,292	27,610,976	29,297,103
Interest Expenses	11,522,802	13,615,391	11,543,326	13,631,371
	15,934,939	15,544,901	16,067,650	15,665,732

#### 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.

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Credit Related Fees and Commissions	1,117,107	1,087,193	1,128,547	1,095,747
Service Charge	1,067,840	854,433	1,067,840	854,433
	2,184,947	1,941,626	2,196,387	1,950,180

#### 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.

Year ended 31 March	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Dividend Income from Financial Assets Recognised Through Profit or Loss	109	118
Appreciation/(Depreciation) in Market Value of Financial Assets Recognised Through Profit or Loss	6,214	(2,217)
	6,323	(2,099)

## 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.

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Dividend Income from Financial Assets Measured at Fair Value Through Other Comprehensive Income	3,387	6,659	3,387	6,659
Profit/(Loss) on Disposal of Property, Plant and Equipment	24,425	4,110	24,425	4,110
Income on Operating Lease	82,395	106,308	82,395	106,308
Sundry Income	6,906	5,964	6,426	(2,843)
	117,113	123,041	116,633	114,234

### 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 4.19 to these Financial Statements. Recovery of amounts written-off as bad and doubtful debts is credited to impairment charges and other losses.

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	1,142,548	1,112,900	1,178,721	1,138,338
Lease Rentals Receivable and Stock out on Hire	611,180	788,797	611,180	788,797
Other Losses	-	4,876	-	4,876
Recovery of Written-off Debts	(70,883)	(79,888)	(70,883)	(79,888)
Impairment on Investment in Fixed Deposits	8,470	7,775	8,470	7,775
Impairment on Off-Balance Sheet Credit Exposures	419	(3,403)	419	(3,403)
	1,691,734	1,831,057	1,727,907	1,856,495

#### 4.5.1 Impairment Charges and Other Losses (Detailed Breakdown) - Company

Year ended 31 March	2021			2020		
	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	28,293	1,114,255	1,142,548	27,121	1,085,779	1,112,900
Lease Rentals Receivable and Stock out on Hire	55,633	555,547	611,180	43,435	745,362	788,797
Other Losses	-	-	-	-	4,876	4,876
	83,926	1,669,802	1,753,728	70,556	1,836,017	1,906,573
Recovery of Written-off Debts			(70,883)			(79,888)
Impairment on Investment in Fixed Deposits			8,470			7,775
Impairment on Off-Balance Sheet Credit Exposures			419			(3,403)
			1,691,734			1,831,057

#### 4.5.2 Impairment Charges and Other Losses (Detailed Breakdown) - Group

Year ended 31 March	2021			2020		
	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	28,293	1,150,428	1,178,721	27,121	1,111,217	1,138,338
Lease Rentals Receivable and Stock out on Hire	55,633	555,547	611,180	43,435	745,362	788,797
Other Losses	-	-	-	-	4,876	4,876
	83,926	1,705,975	1,789,901	70,556	1,861,455	1,932,011
Recovery of Written-off Debts			(70,883)			(79,888)
Impairment on Investment in Fixed Deposits			8,470			7,775
Impairment on Off-Balance Sheet Credit Exposures			419			(3,403)
			1,727,907			1,856,495

## Notes to the Financial Statements

### 4.5.3 Analysis of Impairment Charges and Other Losses - Company

Year ended 31 March 2021	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	250,606	48,518	(189)	298,935
Vehicle Loans	84,000	358	80,820	165,178
Term Loans	108,851	(4,015)	20,424	125,260
Mortgage Loans	91,376	18,783	386,886	497,045
Power Drafts	15,608	1,933	60,276	77,817
Factoring Receivable	-	-	(21,687)	(21,687)
<b>Loans and Receivables</b>	<b>550,441</b>	<b>65,577</b>	<b>526,530</b>	<b>1,142,548</b>
Leases	143,689	(153,482)	623,890	614,097
Hire Purchase	-	(11)	(2,906)	(2,917)
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>143,689</b>	<b>(153,493)</b>	<b>620,984</b>	<b>611,180</b>
Recovery of Written-off Debts				(70,883)
Impairment on Investment in Fixed Deposits				8,470
Impairment on Off-Balance Sheet Credit Exposures				419
<b>Total Allowance for Impairment Losses</b>				<b>1,691,734</b>

Year ended 31 March 2020	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	102,065	-	8,722	110,787
Vehicle Loans	24,335	28,377	39,983	92,695
Term Loans	18,373	(7,329)	95,518	106,562
Mortgage Loans	(12,571)	(20,706)	814,812	781,535
Power Drafts	(5,386)	260	4,907	(219)
Factoring Receivable	(26,463)	-	48,003	21,540
<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>

#### 4.5.4 Analysis of Impairment Charges and Other Losses - Group

Year ended 31 March 2021	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	250,606	48,518	(189)	298,935
Vehicle Loans	84,000	358	80,820	165,178
Term Loans	122,408	10,661	28,364	161,433
Mortgage Loans	91,376	18,783	386,886	497,045
Power Drafts	15,608	1,933	60,276	77,817
Factoring Receivable	-	-	(21,687)	(21,687)
<b>Loans and Receivables</b>	<b>563,998</b>	<b>80,253</b>	<b>534,470</b>	<b>1,178,721</b>
Leases	143,689	(153,482)	623,890	614,097
Hire Purchase	-	(11)	(2,906)	(2,917)
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>143,689</b>	<b>(153,493)</b>	<b>620,984</b>	<b>611,180</b>
Recovery of Written-off Debts				(70,883)
Impairment on Investment in Fixed Deposits				8,470
Impairment on Off-Balance Sheet Credit Exposures				419
<b>Total Allowance for Impairment Losses</b>				<b>1,727,907</b>

Year ended 31 March 2020	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	102,065	-	8,722	110,787
Vehicle Loans	24,335	28,377	39,983	92,695
Term Loans	19,480	(4,820)	117,340	132,000
Mortgage Loans	(12,571)	(20,706)	814,812	781,535
Power Drafts	(5,386)	260	4,907	(219)
Factoring Receivable	(26,463)	-	48,003	21,540
<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>

# 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).

#### Day 01 Loss on Staff Loan

The 'Day 01 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is amortised using Effective Interest Rates (EIR) over the tenure of the loan.

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Salaries and Other Related Expenses	2,520,984	2,537,989	2,566,454	2,565,475
Employer's Contribution to Employees' Provident Fund	232,853	239,164	232,853	239,164
Employer's Contribution to Employees' Trust Fund	46,571	47,833	46,571	47,833
Gratuity Charge/(Reversal) for the Year	93,917	75,942	93,917	75,942
Staff Training	4,015	18,560	4,212	18,755
Staff Welfare Expenses	57,220	79,269	59,671	80,597
Amortisation of Staff Loan Day 01 Difference	4,263	6,432	4,263	6,432
	2,959,823	3,005,189	3,007,941	3,034,198

## 4.7 DEPRECIATION AND AMORTISATION

### ► Accounting Policy

#### Depreciation of Property, Plant and Equipment

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Income Statement. Freehold land is not depreciated.

Right-of-use assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Group will obtain the ownership by the end of the lease term, the assets are depreciated over the shorter of the estimated useful lives and the lease terms as defined in Note 4.24.

#### Amortisation of Intangible Assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives from the date on which it is available for use at the rates specified in Note 4.25.

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Depreciation of Property, Plant and Equipment	470,496	456,800	472,616	457,931
Depreciation of Right-of-Use Assets	258,297	240,708	258,297	240,708
Amortisation of Intangible Assets	16,446	15,882	20,019	18,125
	745,239	713,390	750,932	716,764

### 4.7.1 Depreciation of Property, Plant and Equipment

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Freehold Buildings and Edifices	19,356	18,410	19,356	18,410
Furniture and Fittings	35,256	33,669	35,691	33,923
Equipment	103,795	101,654	104,363	101,969
Motor Vehicles	37,967	42,469	38,006	42,480
Computer Hardware and Equipment	107,490	101,156	108,568	101,707
Improvement of Leasehold Asset	60,120	58,822	60,120	58,822
Fixtures and Fittings	106,512	100,620	106,512	100,620
	470,496	456,800	472,616	457,931
Right-of-Use Assets	258,297	240,708	258,297	240,708
	728,793	697,508	730,913	698,639

### 4.7.2 Amortisation of Intangible Assets

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Computer Software	16,446	15,882	20,019	18,125

# Notes to the Financial Statements

## 4.8 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.

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' Emoluments	13,814	16,740	13,814	16,740
Auditors' Remunerations	3,647	3,525	7,326	8,609
Audit-Related Expenses	3,078	3,269	3,078	3,269
Non-Audit Fees to Auditors	244	2,253	244	2,253
Professional and Legal Expenses	49,535	43,313	50,694	44,368
Deposit Insurance Premium	122,113	118,134	122,113	118,134
General Insurance Expenses	135,914	135,077	135,953	135,113
Office Administration and Establishment Expenses	1,230,674	1,242,287	1,253,355	1,255,679
Advertising and Business Promotional Expenses	244,098	552,324	248,789	552,613
Crop Insurance Levy Expenses	67,711	52,064	67,711	52,064
	1,870,828	2,168,986	1,903,077	2,188,842

### 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.

## 4.9 TAX ON FINANCIAL SERVICES

### ► Accounting Policy

Tax on Financial Services include Value Added Tax on Financial Services, Nation Building Tax on Financial Services and Debt Repayment Levy.

### 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 on Financial Services is charged at 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.

Year ended 31 March	Group	
	2021	2020
	Rs. '000	Rs. '000
Value Added Tax	1,669,323	1,456,843
Nation Building Tax	-	137,005
Debt Repayment Levy	-	684,712
	1,669,323	2,278,560

## 4.10 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 4.10.3 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 Tax Liabilities

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 4.32 to these Financial Statements.

# Notes to the Financial Statements

## 4.10.1 The Major Components of Income Tax Expense are as follows;

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>4.10.1 (a) Income Statement</b>				
<b>Current Income Tax</b>				
Income Tax for the Year	2,925,546	2,724,337	2,939,914	2,735,062
Under/(Over) Provision of Current Taxes in respect of Previous Years	(11,577)	(40,639)	(8,715)	(32,271)
<b>Deferred Tax</b>				
Deferred Taxation Charge/(Reversal) (Note 4.32)	(410,191)	(260,464)	(410,191)	(260,464)
	2,503,778	2,423,234	2,521,008	2,442,327
<b>4.10.1 (b) Other Comprehensive Income</b>				
<b>Deferred Tax</b>				
Deferred Taxation Charge/(Reversal) (Note 4.32)	9,684	(11,678)	9,684	(11,678)
	9,684	(11,678)	9,684	(11,678)
<b>4.10.1 (c) Total Tax Expense for the Financial Year</b>	<b>2,513,462</b>	<b>2,411,556</b>	<b>2,530,692</b>	<b>2,430,649</b>

## 4.10.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by relevant tax rate is as follows;

Year ended 31 March	Tax Rate	Company		Group	
		2021	2020	2021	2020
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Accounting Profit before Income Taxation</b>		9,306,375	7,610,287	9,327,813	7,653,188
<b>Income Tax Expense at the Statutory Income</b>					
L B Finance PLC	28%		2,130,880		2,130,880
L B Finance PLC	24%	2,233,530	-	2,233,530	-
L B Microfinance Myanmar Company Limited	25%			5,360	10,725
Tax Effect of Non-Deductible Expenses		291,509	398,649	300,517	398,649
Tax Effect of Exempt Income		-	(1,231)	-	(1,231)
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		(11,577)	(40,639)	(8,715)	(32,271)
		2,513,462	2,411,556	2,530,692	2,430,649
<b>Charge/(Reversal) for Deferred Tax</b>		(410,191)	(260,464)	(410,191)	(260,464)
<b>Effective Tax Rate</b>		27.01%	31.69%	27.13%	31.76%
<b>Effective Tax Rate (Excluding Deferred Tax)</b>		31.42%	35.11%	31.53%	35.16%
<b>Accounting Profit before Tax on Financial Services</b>		10,975,698	9,888,847	10,997,136	9,931,748
<b>Effective Tax Rate (Excluding Tax on Financial Services)</b>		22.90%	24.39%	23.01%	24.47%

#### 4.10.3 Income Tax expense of the Company and its subsidiary have been recorded for on the taxable income at rates shown below;

	2021	2020
L B Finance PLC*	24%	24-28%
L B Microfinance Myanmar Company Limited	25%	25%

\*1 April 2019 to 31 December 2019 - 28%

#### 4.10.4 Summary of the Taxes Paid During the Financial Year

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Direct Taxes</b>				
Income Tax	2,017,689	2,875,243	2,042,147	2,897,059
Value Added Tax on Financial Services	1,473,111	1,607,388	1,473,111	1,607,388
Nation Building Tax on Financial Services	-	157,173	-	157,173
Debt Repayment Levy on Financial Services	-	749,182	-	749,182
Crop Insurance Levy	52,448	54,797	52,448	54,797
Economic Service Charge	-	157,338	-	157,338
	3,543,248	5,601,121	3,567,706	5,622,937
<b>Indirect Taxes (Collected and Paid)</b>				
Value Added Tax	161,611	255,963	161,611	255,963
Nation Building Tax	-	31,402	-	31,402
Stamp Duty	179,712	324,986	179,712	324,986
Withholding Tax on Dividend and Interest	2,145	508,602	2,145	508,602
PAYE Tax/Advanced Personal Income Tax	82,139	102,611	82,377	102,795
	425,607	1,223,564	425,845	1,223,748
<b>Total Taxes Paid during the Financial Year</b>	<b>3,968,855</b>	<b>6,824,685</b>	<b>3,993,551</b>	<b>6,846,685</b>

#### 4.11 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.

## Notes to the Financial Statements

### 4.11.1 Income and Shares Details Used in the Basic Earning per Share Computation

	Company			Group		
	2021	2020	2020	2021	2020	2020
		Restated			Restated	
<b>Amounts Used as the Numerators:</b>						
Profit after Tax for the Year Attributable to Equity Holders (Rs. '000)	6,802,597	5,187,053	5,187,053	6,806,805	5,210,861	5,210,861
<b>Number of Ordinary Shares Used as Denominators for Basic Earnings per Share</b>						
Weighted Average Number of Ordinary Shares in Issue	554,057,136	554,057,136	138,514,284	554,057,136	554,057,136	138,514,284
Basic/Diluted Earnings per Ordinary Share (Rs.)	12.28	9.36	37.45	12.29	9.40	37.62

Basic earnings per ordinary share of 2020 have been restated based on the post sub-division weighted average number of ordinary shares as at 31 March 2021.

On 10 March 2021, the Company effected the sub-division of ordinary shares on the basis of a sub-division of every one (01) ordinary share into four (04) ordinary shares, thus increasing the existing 138,514,284 issued ordinary shares of the Company to 554,057,136 ordinary shares.

**4.11.2** 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.

### 4.11.3 Movement of Weighted Average Number of Ordinary Shares

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Ordinary Shares at the Beginning of the Year	138,514,284	138,514,284	138,514,284	138,514,284
Ordinary Shares on Share Split	415,542,852	-	415,542,852	-
Ordinary Shares at the End of the Year	554,057,136	138,514,284	554,057,136	138,514,284

## 4.12 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	
	2021	2020
	Rs. '000	Rs. '000
<b>4.12.1 Declared and Paid During the Year</b>		
Dividends on Ordinary Shares:		
No Final Dividend for 2020 (Final Dividend for 2019 - Rs. 4.00 per Share*)	-	554,057
Interim Dividend for 2021 - Rs. 12.00 per Share* (No Interim Dividend for 2020)	1,662,171	-
	1,662,171	554,057
<b>4.12.2 Proposed for Approval at Annual General Meeting</b>		
(not recognised as a liability as at 31 March)		
Dividends on Ordinary Shares:	2,216,229	-
Final Dividend for 2021 - Rs. 4.00 per Share (No Final Dividend for 2020)	2,216,229	-
<b>4.12.3 Dividend per Share</b>		
Dividends on Ordinary Shares:		
Interim Dividend	1,662,171	-
Final Dividend	2,216,229	-
Total Dividend	3,878,400	-
Number of Ordinary Shares at the End of the Year	554,057,136	138,514,284
Dividend per Share (Rs.)**	7.00	-

\*Number of shares at the time of dividend declared and paid was 138,514,284 which were subdivided into 554,057,136 as described in Note 4.34.1.

\*\*Dividend per share was calculated by dividing the total dividend in respect of the financial year from number of shares after the sub-division of shares.

During last financial year, as response to the restrictions imposed on cash dividends from the Central Bank of Sri Lanka, and to preserve additional capital for use in serving LB Finance PLC's customers through the extraordinary challenges presented by the COVID-19 pandemic, the Board agreed to cancel the final dividend of Rs. 12.00 per ordinary share for the year 2020.

However, the Company was paid an interim dividend of Rs. 12.00 per share in respect of the year 2021 on the then issued shares of 138,514,284 after obtaining the requisite approval of the Central Bank of Sri Lanka. In addition, the Directors have approved a final dividend of Rs. 4.00 per ordinary share on the post sub division shares in issue of 554,057,136. The final dividend for 2021 will be paid in the month of July 2021 to shareholders on the Share Register on 2 July 2021. The Financial Statements for the year ended 31 March 2021 do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 March 2022. Dividends are funded out of distributable reserves.

# Notes to the Financial Statements

## 4.13 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 on the date on which it originated. 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. A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments). 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 01 profit or loss.

#### Day 01 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.

#### 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;

- ④ 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
- ④ 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.

### Modification of Financial Assets and Financial Liabilities

If the terms of a financial asset are modified, an assessment needs to be performed to determine whether the modified terms are substantially different from the existing terms. This assessment considers whether the cash flows of the modified asset are substantially different. Where terms are substantially different, the existing financial asset will be derecognised and a new financial asset will be recognised at fair value. Where terms are not substantially different, then the modification does not result in derecognition of the financial asset.

Modifications to the original terms and conditions of the loans due to the above COVID-19 moratoriums, did not result in derecognition of the original loans as the Management concluded that the modifications were not substantial. The Group recognises the interest income on gross carrying amount based on the concessionary rate for the moratorium period, while recognising the income forgone resulting from the said concession within the moratorium period. The original EIR has been applied to recognise interest income after the moratorium period till the end of the lifetime of the instrument.

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value.

## Notes to the Financial Statements

### 4.13.1 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 LKAs/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 2021	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

#### Financial Assets

Lease Rentals Receivable and Stock out on Hire	47,359,635	-	47,359,635	-	19,374,902	27,984,733
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#### Financial Liabilities

Due to Depositors	85,860,070	-	85,860,070	-	2,977,415	82,882,655
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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

#### Financial Assets

Lease Rentals Receivable and Stock out on Hire	60,626,670	-	60,626,670	-	24,730,786	35,895,884
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#### Financial Liabilities

Due to Depositors	89,256,435	-	89,256,435	-	3,311,868	85,944,567
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\*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.

## Group

As at 31 March 2021	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

**Financial Assets**

Lease Rentals Receivable and Stock out on Hire	47,359,635	-	47,359,635	-	19,374,902	27,984,733
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**Financial Liabilities**

Due to Depositors	85,940,213	-	85,940,213	-	2,977,415	82,962,798
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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

**Financial Assets**

Lease Rentals Receivable and Stock out on Hire	60,626,670	-	60,626,670	-	24,730,786	35,895,884
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**Financial Liabilities**

Due to Depositors	89,315,097	-	89,315,097	-	3,311,868	86,003,229
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\*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.

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# Notes to the Financial Statements

## 4.14 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.

#### 4.14.1 Fair Value Measurement Hierarchy - Financial Assets Measured at Fair Value - Company & Group

As at 31 March	Note	2021				2020			
		Fair Value Measurement Using			Total Fair Value	Fair Value Measurement Using			Total Fair Value
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
		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>	4.16								
Quoted Equities		10,862	-	-	10,862	4,648	-	-	4,648
<b>Financial Assets Measured at Fair Value Through Other Comprehensive Income</b>	4.20								
Quoted Equities		77,484	-	-	77,484	58,836	-	-	58,836
Unquoted Equities		-	-	305	305	-	-	305	305
		77,484	-	305	77,789	58,836	-	305	59,141

There were no transfers into and transfers out of the hierarchy levels during 2021 and 2020.

Details of valuation methodologies and assumptions are disclosed in Note 4.16 and Note 4.20 to these Financial Statements.

# Notes to the Financial Statements

## 4.14.2 Fair Value Measurement Hierarchy - Financial Assets and Liabilities Measured at Amortised Cost

### 4.14.2 (a) Financial Assets Measured at Amortised Cost - Company

As at 31 March	Note	2021				
		Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		
		Level 1	Level 2	Level 3	Rs. '000	Rs. '000
			Rs. '000	Rs. '000		
<b>Cash and Cash Equivalents</b>	4.15					
Notes and Coins Held		1,126,735	-	-	1,126,735	1,126,735
Balances with Banks		1,660,900	-	-	1,660,900	1,660,900
Treasury Bills Repurchase Agreements		-	3,399,665	-	3,399,665	3,399,665
		2,787,635	3,399,665	-	6,187,300	6,187,300
<b>Financial Assets at Amortised Cost - Loans and Receivables</b>	4.17					
Gold Loans		-	-	36,211,852	36,211,852	36,211,852
Vehicle Loans		-	-	17,462,156	17,462,156	16,672,550
Term Loans		-	-	6,585,120	6,585,120	6,402,524
Mortgage Loans		-	-	3,802,358	3,802,358	3,627,087
Power Drafts		-	-	3,958,033	3,958,033	3,864,175
		-	-	68,019,519	68,019,519	66,778,188
<b>Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire</b>	4.18					
Lease Rentals Receivable		-	-	49,448,716	49,448,716	47,359,414
Stock out on Hire		-	-	221	221	221
		-	-	49,448,937	49,448,937	47,359,635
<b>Other Financial Assets</b>	4.21					
Treasury Bills Repurchase Agreements		-	3,537,745	-	3,537,745	3,537,745
Investment in Fixed Deposits		-	6,503,654	-	6,503,654	6,503,654
Insurance Premium Receivables		-	331,731	-	331,731	331,731
Due from Subsidiary		-	21,848	-	21,848	21,848
Sundry Debtors		-	58,925	-	58,925	58,925
		-	10,453,903	-	10,453,903	10,453,903

2020					
Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost	
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs			
Level 1	Level 2	Level 3			
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
936,075	-	-	936,075	936,075	
3,683,718	-	-	3,683,718	3,683,718	
-	1,542,844	-	1,542,844	1,542,844	
4,619,793	1,542,844	-	6,162,637	6,162,637	
-	-	30,865,783	30,865,783	30,865,783	
-	-	12,386,581	12,386,581	11,862,685	
-	-	6,558,503	6,558,503	6,571,733	
-	-	5,532,136	5,532,136	5,097,547	
-	-	3,939,431	3,939,431	3,841,506	
-	-	59,282,434	59,282,434	58,239,254	
-	-	62,559,507	62,559,507	60,624,088	
-	-	4,433	4,433	2,582	
-	-	62,563,940	62,563,940	60,626,670	
-	5,462,735	-	5,462,735	5,462,735	
-	3,426,929	-	3,426,929	3,426,929	
-	206,038	-	206,038	206,038	
-	16,278	-	16,278	16,278	
-	7,701	-	7,701	7,701	
-	9,119,681	-	9,119,681	9,119,681	

# Notes to the Financial Statements

## 4.14.2 (b) Financial Assets Measured at Amortised Cost - Group

As at 31 March	Note	2021				
		Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash and Cash Equivalents</b>	4.15					
Notes and Coins Held		1,132,788	-	-	1,132,788	1,132,788
Balances with Banks		1,848,333	-	-	1,848,333	1,848,333
Treasury Bills Repurchase Agreements		-	3,399,665	-	3,399,665	3,399,665
		2,981,121	3,399,665	-	6,380,786	6,380,786
<b>Financial Assets at Amortised Cost - Loans and Receivables</b>	4.17					
Gold Loans		-	-	36,211,852	36,211,852	36,211,852
Vehicle Loans		-	-	17,462,156	17,462,156	16,672,550
Term Loans		-	-	7,273,513	7,273,513	7,090,917
Mortgage Loans		-	-	3,802,358	3,802,358	3,627,087
Power Drafts		-	-	3,958,033	3,958,033	3,864,175
		-	-	68,707,912	68,707,912	67,466,581
<b>Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire</b>	4.18					
Lease Rentals Receivable		-	-	49,448,716	49,448,716	47,359,414
Stock out on Hire		-	-	221	221	221
		-	-	49,448,937	49,448,937	47,359,635
<b>Other Financial Assets</b>	4.21					
Treasury Bills Repurchase Agreements		-	3,537,745	-	3,537,745	3,537,745
Investment in Fixed Deposits		-	6,503,654	-	6,503,654	6,503,654
Insurance Premium Receivables		-	331,731	-	331,731	331,731
Sundry Debtors		-	60,019	-	60,019	60,019
		-	10,433,149	-	10,433,149	10,433,149

2020					
Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost	
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs			
Level 1	Level 2	Level 3			
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
936,604	-	-	936,604	936,604	
3,992,864	-	-	3,992,864	3,992,864	
-	1,542,844	-	1,542,844	1,542,844	
4,929,468	1,542,844	-	6,472,312	6,472,312	
-	-	30,865,783	30,865,783	30,865,783	
-	-	12,386,581	12,386,581	11,862,685	
-	-	7,112,593	7,112,593	7,125,823	
-	-	5,532,136	5,532,136	5,097,547	
-	-	3,939,431	3,939,431	3,841,506	
-	-	59,836,524	59,836,524	58,793,344	
-	-	62,559,507	62,559,507	60,624,088	
-	-	4,433	4,433	2,582	
-	-	62,563,940	62,563,940	60,626,670	
-	5,462,735	-	5,462,735	5,462,735	
-	3,426,929	-	3,426,929	3,426,929	
-	206,038	-	206,038	206,038	
-	10,059	-	10,059	10,059	
-	9,105,761	-	9,105,761	9,105,761	

## Notes to the Financial Statements

### Sensitivity Analysis of Financial Assets Measured at Amortised Cost under Level 3 Category

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Increase/(Decrease) in Interest Rate</b>				
1bp Up	(9,525)	(10,013)	(9,525)	(10,013)
1bp Down	9,526	10,015	9,526	10,015

### 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 2021 and 2020 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 2021	Fair Values as at 31 March 2021				
	Rs. '000	Rs. '000				
Financial Assets at Amortised Cost - Loans and Receivables	68,019,519	68,707,912	Discounted cash flow	Spread	2-11.1% (2020 : 2-11.5%)	A significant increase in the spread would result in a lower fair value.
	59,282,434 (2020)	59,836,524 (2020)		Probability of default	10.65-25% (2020 : 1.5-7.1%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	5-100% (2020 : 5-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.03-15.8% (2020 : 0.03-3.4%)	Correlates with the current interest rates.
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	49,448,937	49,448,937	Discounted cash flow	Spread	10.5% (2020 : 9%)	A significant increase in the spread would result in a lower fair value.
	62,563,940 (2020)	62,563,940 (2020)		Probability of default	13.5-19.9% (2020 : 1.5-7.1%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	5-100% (2020 : 5-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.5-7% (2020: 0.5-3.85%)	Correlates with the current interest rates.

There were no transfers into and transfers out of the hierarchy levels during 2021 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, prepayment speed, and applicable spreads to approximate current rates. Our assumptions regarding prepayment 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 receivables 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

### 4.14.2 (c) Financial Liabilities Measured at Amortised Cost - Company

As at 31 March	Note	2021				
		Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Due to Banks</b>	4.26					
Bank Overdrafts		-	988,099	-	988,099	988,099
Debt Funding from Banks		-	16,095,838	-	16,095,838	15,479,080
		-	17,083,937	-	17,083,937	16,467,179
<b>Financial Liabilities at Amortised Cost - Due to Depositors</b>	4.27					
Fixed Deposits		-	-	83,251,581	83,251,581	81,916,722
Certificates of Deposit		-	-	7,500	7,500	7,500
Savings Deposits		-	-	3,935,848	3,935,848	3,935,848
		-	-	87,194,929	87,194,929	85,860,070
<b>Debt Instruments Issued and Other Borrowed Funds</b>	4.28					
Unsecured Debentures		-	3,405,315	-	3,405,315	3,113,916
		-	3,405,315	-	3,405,315	3,113,916
<b>Other Financial Liabilities</b>	4.29					
Trade Payables		-	277,055	-	277,055	277,055
Insurance Premium Payables		-	495,145	-	495,145	495,145
Unclaimed Balances		-	677,661	-	677,661	677,661
Lease Liability		-	1,440,965	-	1,440,965	1,440,965
Advances Collected from Customers		-	46,750	-	46,750	46,750
Other Payables		-	105,950	-	105,950	105,950
		-	3,043,526	-	3,043,526	3,043,526

2020					
Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost	
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs			
Level 1	Level 2	Level 3			
Rs. '000	Rs. '000	Rs. '000	Rs. '000		Rs. '000
-	720,411	-	720,411		720,411
-	24,096,491	-	24,096,491		22,050,674
-	24,816,902	-	24,816,902		22,771,085
-	-	86,353,155	86,353,155		85,761,986
-	-	10,373	10,373		10,373
-	-	3,484,076	3,484,076		3,484,076
-	-	89,847,604	89,847,604		89,256,435
-	3,215,338	-	3,215,338		3,111,186
-	3,215,338	-	3,215,338		3,111,186
-	68,309	-	68,309		68,309
-	482,244	-	482,244		482,244
-	657,711	-	657,711		657,711
-	1,321,454	-	1,321,454		1,321,454
-	99,166	-	99,166		99,166
-	137,526	-	137,526		137,526
-	2,766,410	-	2,766,410		2,766,410

## Notes to the Financial Statements

### 4.14.2 (d) Financial Liabilities Measured at Amortised Cost - Group

As at 31 March	Note	2021				
		Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs		
		Level 1	Level 2	Level 3		
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Due to Banks</b>	4.26					
Bank Overdrafts		-	988,099	-	988,099	988,099
Debt Funding from Banks		-	16,155,316	-	16,155,316	15,538,558
		-	17,143,415	-	17,143,415	16,526,657
<b>Financial Liabilities at Amortised Cost - Due to Depositors</b>	4.27					
Fixed Deposits		-	-	83,251,581	83,251,581	81,916,722
Certificates of Deposit		-	-	7,500	7,500	7,500
Savings Deposits		-	-	4,015,991	4,015,991	4,015,991
		-	-	87,275,072	87,275,072	85,940,213
<b>Debt Instruments Issued and Other Borrowed Funds</b>	4.28					
Unsecured Debentures		-	3,405,315	-	3,405,315	3,113,916
		-	3,405,315	-	3,405,315	3,113,916
<b>Other Financial Liabilities</b>	4.29					
Trade Payables		-	277,055	-	277,055	277,055
Insurance Premium Payables		-	495,145	-	495,145	495,145
Unclaimed Balances		-	678,461	-	678,461	678,461
Lease Liability		-	1,440,965	-	1,440,965	1,440,965
Advances Collected from Customers		-	46,750	-	46,750	46,750
Other Payables		-	105,964	-	105,964	105,964
		-	3,044,340	-	3,044,340	3,044,340

2020					
Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost	
Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs			
Level 1	Level 2	Level 3			
Rs. '000	Rs. '000	Rs. '000	Rs. '000		Rs. '000
-	720,411	-	720,411		720,411
-	24,208,348	-	24,208,348		22,162,530
-	24,928,759	-	24,928,759		22,882,941
-	-	86,353,155	86,353,155		85,761,986
-	-	10,373	10,373		10,373
-	-	3,542,738	3,542,738		3,542,738
-	-	89,906,266	89,906,266		89,315,097
-	3,215,338	-	3,215,338		3,111,186
-	3,215,338	-	3,215,338		3,111,186
-	68,309	-	68,309		68,309
-	482,244	-	482,244		482,244
-	658,068	-	658,068		658,068
-	1,321,454	-	1,321,454		1,321,454
-	99,166	-	99,166		99,166
-	137,534	-	137,534		137,534
-	2,766,775	-	2,766,775		2,766,775

# Notes to the Financial Statements

## Sensitivity Analysis of Financial Liabilities Measured at Amortised Cost under Level 3 Category

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Increase/(Decrease) in Interest Rate</b>				
1bp Up	(7,524)	(9,972)	(7,524)	(9,972)
1bp Down	7,525	9,974	7,525	9,974

## 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 2021 and 2020 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 2021	Fair Values as at 31 March 2021				
	Rs. '000	Rs. '000				
Financial Liabilities at Amortised Cost - Due to Depositors	87,194,929	87,275,072	Discounted cash flow	Spread	0-2.38% (2020 : 0-2.66%)	A significant increase in the spread would result in a lower fair value.
	89,847,604 (2020)	89,906,266 (2020)		Expected prepayment rate	0.46-0.98% (2020 : 0.36-2.83%)	Correlates with the current interest rates.

There were no financial liabilities recorded at fair value as at 31 March 2021 and 2020.

There were no transfers into and transfers out of the hierarchy levels during 2021 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. Certificates of deposit that have a maturity less than one year and savings deposits without a specific maturity are assumed that the carrying amounts approximate their fair values. The fair value of Due to 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.

#### 4.15 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Notes and Coins Held	1,126,735	936,075	1,132,788	936,604
Balances with Banks	1,660,900	3,683,718	1,848,333	3,992,864
Treasury Bills Repurchase Agreements (Less than 03 Months)	3,399,665	1,542,844	3,399,665	1,542,844
	6,187,300	6,162,637	6,380,786	6,472,312
Fair Value	6,187,300	6,162,637	6,380,786	6,472,312

**4.15.1** The collateral value of repurchase agreements reflected on the Statement of Financial Position under cash and cash equivalents as at 31 March 2021 and 31 March 2020 was Rs. 3,406,500,000/- and Rs. 1,685,700,000/-, respectively.

#### 4.15.2 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;

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents Allocated for the Liquidity Requirement	-	427,537	-	427,537

#### 4.15.3 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	6,187,300	6,162,637	6,380,786	6,472,312
Bank Overdrafts (Note 4.26)	(988,099)	(720,411)	(988,099)	(720,411)
Net Cash and Cash Equivalents	5,199,201	5,442,226	5,392,687	5,751,901

# Notes to the Financial Statements

## 4.16 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.

As at 31 March	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Equity Securities - Quoted (Note 4.16.1)	10,862	4,648

### 4.16.1 Equity Securities - Quoted

As at 31 March	Company & Group			Company & Group		
	2021			2020		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Banks</b>						
Seylan Bank PLC (Non-Voting)	107,479	1,685	4,643	104,110	1,685	2,301
		1,685	4,643		1,685	2,301
<b>Food, Beverage and Tobacco</b>						
Bairaha Farms PLC	17,600	425	2,424	17,600	425	1,385
		425	2,424		425	1,385
<b>Capital Goods</b>						
Lanka Walltiles PLC*	19,740	790	3,721	19,740	790	811
Hayleys PLC*	1,222	207	74	1,222	207	151
		997	3,795		997	962
<b>Total</b>		3,107	10,862		3,107	4,648

Global Industry Classification Standard (GICS)

\*Investments made in related parties

#### 4.17 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	36,656,594	31,017,589	36,656,594	31,017,589
Vehicle Loans	17,085,331	12,125,470	17,085,331	12,125,470
Term Loans	6,788,112	6,923,995	7,549,199	7,511,817
Mortgage Loans	5,483,381	6,456,908	5,483,381	6,456,908
Power Drafts	4,052,550	3,960,962	4,052,550	3,960,962
Factoring Receivable	82,941	103,636	82,941	103,636
<b>Gross Loans and Receivables</b>	<b>70,148,909</b>	<b>60,588,560</b>	<b>70,909,996</b>	<b>61,176,382</b>
Allowance for Impairment Losses (Note 4.19)	(3,370,721)	(2,349,306)	(3,443,415)	(2,383,038)
<b>Net Loans and Receivables Subject to Fair Value (Note 4.17.2)</b>	<b>66,778,188</b>	<b>58,239,254</b>	<b>67,466,581</b>	<b>58,793,344</b>
Fair Value	68,019,519	59,282,434	68,707,912	59,836,524

##### 4.17.1 Loans and Receivables Include Loans Granted to Employees, the Movement of which is as Follows;

	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
As at the Beginning of the Year	564,853	508,402
Loans Granted During the Year	464,052	588,462
Repayments During the Year	(612,459)	(532,011)
As at the End of the Year	416,446	564,853

## Notes to the Financial Statements

### 4.17.2 Contractual Maturity Analysis of Loans and Receivables - Company

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	36,656,594	-	-	36,656,594
Vehicle Loans	5,301,055	11,745,962	38,314	17,085,331
Term Loans	3,382,386	1,995,097	1,410,629	6,788,112
Mortgage Loans	2,325,310	2,746,738	411,333	5,483,381
Power Drafts	2,330,241	1,722,309	-	4,052,550
Factoring Receivable	77,535	5,406	-	82,941
<b>Gross Loans and Receivables</b>	<b>50,073,121</b>	<b>18,215,512</b>	<b>1,860,276</b>	<b>70,148,909</b>
Allowance for Impairment Losses (Note 4.19)				(3,370,721)
<b>Net Loans and Receivables</b>				<b>66,778,188</b>

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
Term Loans	4,021,403	2,902,592	-	6,923,995
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
<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 4.19)				(2,349,306)
<b>Net Loans and Receivables</b>				<b>58,239,254</b>

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

#### 4.17.3 Contractual Maturity Analysis of Loans and Receivables - Group

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	36,656,594	-	-	36,656,594
Vehicle Loans	5,301,055	11,745,962	38,314	17,085,331
Term Loans	4,125,871	2,012,699	1,410,629	7,549,199
Mortgage Loans	2,325,310	2,746,738	411,333	5,483,381
Power Drafts	2,330,241	1,722,309	-	4,052,550
Factoring Receivable	77,535	5,406	-	82,941
<b>Gross Loans and Receivables</b>	<b>50,816,606</b>	<b>18,233,114</b>	<b>1,860,276</b>	<b>70,909,996</b>
Allowance for Impairment Losses (Note 4.19)				(3,443,415)
<b>Net Loans and Receivables</b>				<b>67,466,581</b>

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
Term Loans	4,600,545	2,911,272	-	7,511,817
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
<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 4.19)				(2,383,038)
<b>Net Loans and Receivables</b>				<b>58,793,344</b>

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

## Notes to the Financial Statements

### 4.17.4 Credit Exposure Movement - ECL Stage-wise - Company

Loans and Receivables	2021			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2020	50,239,377	6,099,973	4,249,210	60,588,560
Transfer to Stage 01	1,380,753	(1,225,754)	(154,999)	-
Transfer to Stage 02	(1,362,142)	1,604,585	(242,443)	-
Transfer to Stage 03	(591,504)	(788,642)	1,380,146	-
New Assets Originated or Purchased	21,748,150	5,488,919	3,265,150	30,502,219
Financial Assets Derecognised or Repaid	(12,779,122)	(5,255,685)	(2,785,930)	(20,820,737)
Write-offs	-	-	(121,132)	(121,132)
As at 31 March 2021	58,635,512	5,923,396	5,590,002	70,148,910

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	22,513,747	5,282,778	2,898,540	30,695,065
Financial Assets Derecognised or Repaid	(11,432,205)	(4,048,788)	(3,256,963)	(18,737,956)
Write-offs	(35)	(226)	(84,436)	(84,697)
As at 31 March 2020	50,239,377	6,099,973	4,249,210	60,588,560

#### 4.17.5 Credit Exposure Movement - ECL Stage-wise - Group

Loans and Receivables	2021			
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2020	50,797,876	6,104,577	4,273,929	61,176,382
Transfer to Stage 01	1,381,107	(1,225,972)	(155,135)	-
Transfer to Stage 02	(1,506,052)	1,748,495	(242,443)	-
Transfer to Stage 03	(819,185)	(793,698)	1,612,883	-
New Assets Originated or Purchased	22,220,718	5,698,555	3,311,933	31,231,206
Financial Assets Derecognised or Repaid	(13,358,888)	(5,260,959)	(2,786,546)	(21,406,393)
Write-offs	-	-	(121,132)	(121,132)
Exchange Rate Variance on Foreign Currency Provisions	29,934	-	-	29,934
As at 31 March 2021	58,745,510	6,270,998	5,893,489	70,909,997

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	(11,824,698)	(4,049,202)	(3,255,174)	(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	50,797,876	6,104,577	4,273,929	61,176,382

## Notes to the Financial Statements

### 4.18 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 rentals 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.

As at 31 March	Company & Group			Company & Group		
	2021			2020		
	Lease	Hire Purchase	Total	Lease	Hire Purchase	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivable	64,551,127	104,480	64,655,607	82,924,583	117,309	83,041,892
Unearned Income	(14,131,368)	(25)	(14,131,393)	(19,502,061)	(87)	(19,502,148)
<b>Net Rentals Receivable</b>	<b>50,419,759</b>	<b>104,455</b>	<b>50,524,214</b>	<b>63,422,522</b>	<b>117,222</b>	<b>63,539,744</b>
Rentals Received in Advance	(3,308)	-	(3,308)	(5,041)	-	(5,041)
Allowance for Impairment Losses (Note 4.19)	(3,057,037)	(104,234)	(3,161,271)	(2,793,393)	(114,640)	(2,908,033)
<b>Total Net Rentals Receivable Subject to Fair Value (Note 4.18.2)</b>	<b>47,359,414</b>	<b>221</b>	<b>47,359,635</b>	<b>60,624,088</b>	<b>2,582</b>	<b>60,626,670</b>
Fair Value			49,448,937			62,563,940

#### 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.

#### 4.18.1 Lease and Hire Purchase Facilities Granted to Employees, the Movement of which is as Follows;

	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
As at the Beginning of the Year	35,168	48,957
Lease and Hire Purchase Facilities Granted During the Year	6,009	17,448
Repayments During the Year	(21,934)	(31,237)
As at the End of the Year	19,243	35,168

#### 4.18.2 Contractual Maturity Analysis of Lease Rentals Receivable and Stock out on Hire - Company & Group

As at 31 March 2021	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 Receivable	28,863,006	35,682,196	5,925	64,551,127	104,401	79	-	104,480
Unearned Income	(7,483,700)	(6,647,373)	(295)	(14,131,368)	(24)	(1)	-	(25)
<b>Net Rentals Receivable</b>	<b>21,379,306</b>	<b>29,034,823</b>	<b>5,630</b>	<b>50,419,759</b>	<b>104,377</b>	<b>78</b>	<b>-</b>	<b>104,455</b>
Rentals Received in Advance				(3,308)				-
Allowance for Impairment Losses				(3,057,037)				(104,234)
<b>Total Net Rentals Receivable</b>				<b>47,359,414</b>				<b>221</b>

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 Receivable	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 Receivable</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>

Our lease rentals receivable and stock out on hire are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

# Notes to the Financial Statements

## 4.18.3 Credit Exposure Movement - ECL Stage-wise Lease Rentals Receivable and Stock out on Hire

	Company & Group				Company & Group			
	2021				2020			
	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	32,481,283	21,984,111	9,069,308	63,534,702	44,672,064	18,700,586	5,103,566	68,476,216
Transfer to Stage 01	6,643,342	(5,895,550)	(747,792)	-	2,257,459	(2,095,376)	(162,083)	-
Transfer to Stage 02	(4,471,360)	5,457,333	(985,973)	-	(12,202,504)	12,624,522	(422,018)	-
Transfer to Stage 03	(1,315,361)	(2,993,444)	4,308,805	-	(2,531,399)	(4,398,591)	6,929,990	-
New Assets Originated or Purchased	18,672,757	10,189,423	4,825,552	33,687,732	29,602,847	17,016,383	7,044,878	53,664,108
Financial Assets Derecognised or Repaid	(20,409,212)	(17,725,983)	(8,208,392)	(46,343,587)	(29,317,134)	(19,862,726)	(9,119,208)	(58,299,068)
Write-offs	-	-	(357,941)	(357,941)	(50)	(687)	(305,816)	(306,553)
As at the End of the Year	31,601,449	11,015,890	7,903,567	50,520,906	32,481,283	21,984,111	9,069,309	63,534,703

## 4.19 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 01, Stage 02, Stage 03 as described below;

#### Stage 01

When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 01 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 02.

#### 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 02 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 03.

### 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 03. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 01 or Stage 02, 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;

- ④ Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- ④ Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- ④ Other information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- ④ An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally.
- ④ Existing or forecasted 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.
- ④ 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.
- ④ Significant increase in credit risk on other financial instruments of the same borrower.
- ④ 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 03. All assets which belong to Stage 01 and 02 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;

- ④ 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.

## Notes to the Financial Statements

- 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 percentage of the EAD.

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. 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 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 uses the machine learning technique to predict the NPL based on the use of some key economic factors as an input to the model. The key variables of the model is as follows;

- |                               |                   |                         |
|-------------------------------|-------------------|-------------------------|
| ● Industry NPL                | ● Fuel Prices     | ● Unemployment Rates    |
| ● Business Confidence Index   | ● GDP Growth Rate | ● Per Capita GDP        |
| ● All Share Price Index(ASPI) | ● Interest Rates  | ● Assets Recovery Ratio |
| ● Exchange Rates              | ● Inflation Rates |                         |

### 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

Revaluation of immovable properties obtained as collaterals against any accommodation granted are assessed based on the requirements in the Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka (CBSL). The assessment of immovable properties is carrying out by independent professional valuers as required by the said direction issued by CBSL.

The assessed fair value of the immovable properties does not consider for measurement of regulatory provisions for bad and doubtful debts as per Direction No 03 of 2006 and subsequent amendments thereto issued by CBSL.

### Collateral Repossessed

Repossessed 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 repossessed collaterals to the business operations are not significant.

### Non-Accrual Receivables

Cessation of Interest income recognition is triggered out when the receivables are more than four 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.

#### 4.19.1 Stage-wise Analysis of the Allowance for Impairment Losses - Company

	2021				2020			
	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>4.19.1 (a) As at the Beginning of the Year</b>	591,582	526,285	4,139,472	5,257,339	579,701	477,047	2,690,163	3,746,911
Charge/(Reversal) for the Year	675,846	(88,293)	1,166,173	1,753,726	11,896	49,699	1,840,102	1,901,697
Amounts Written-Off	-	-	(479,073)	(479,073)	(15)	(461)	(390,793)	(391,269)
<b>As at the End of the Year</b>	<b>1,267,428</b>	<b>437,992</b>	<b>4,826,572</b>	<b>6,531,992</b>	<b>591,582</b>	<b>526,285</b>	<b>4,139,472</b>	<b>5,257,339</b>
<b>4.19.1 (b) Individual Impairment</b>	-	-	4,826,572	4,826,572	-	-	4,139,472	4,139,472
Collective Impairment	1,267,428	437,992	-	1,705,420	591,582	526,285	-	1,117,867
<b>Total</b>	<b>1,267,428</b>	<b>437,992</b>	<b>4,826,572</b>	<b>6,531,992</b>	<b>591,582</b>	<b>526,285</b>	<b>4,139,472</b>	<b>5,257,339</b>
<b>4.19.1 (c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance</b>	-	-	13,493,569	13,493,569	-	-	13,318,518	13,318,518
Gross Amount of Loans Collectively Assessed for the Impairment	90,236,960	16,939,286	-	107,176,246	82,720,661	28,084,084	-	110,804,745
<b>Gross Receivables</b>	<b>90,236,960</b>	<b>16,939,286</b>	<b>13,493,569</b>	<b>120,669,815</b>	<b>82,720,661</b>	<b>28,084,084</b>	<b>13,318,518</b>	<b>124,123,263</b>
Gross Amount of Loans Individually Determined to be Impaired				11.18%				10.73%

#### 4.19.2 Stage-wise Analysis of the Allowance for Impairment Losses - Group

	2021				2020			
	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>4.19.2 (a) As at the Beginning of the Year</b>	597,753	529,127	4,164,191	5,291,071	583,905	477,047	2,690,163	3,751,115
Charge/(Reversal) for the Year	689,804	(73,183)	1,174,350	1,790,971	13,149	52,540	1,864,821	1,930,510
Amounts Written-Off	-	-	(479,073)	(479,073)	(15)	(461)	(390,793)	(391,269)
Exchange Rate Variance on Foreign Currency Provisions	314	144	1,259	1,717	714	-	-	714
<b>As at the End of the Year</b>	<b>1,287,871</b>	<b>456,088</b>	<b>4,860,727</b>	<b>6,604,686</b>	<b>597,753</b>	<b>529,127</b>	<b>4,164,191</b>	<b>5,291,071</b>
<b>4.19.2 (b) Individual Impairment</b>	-	-	4,860,727	4,860,727	-	-	4,164,191	4,164,191
Collective Impairment	1,287,871	456,088	-	1,743,959	597,753	529,127	-	1,126,880
<b>Total</b>	<b>1,287,871</b>	<b>456,088</b>	<b>4,860,727</b>	<b>6,604,686</b>	<b>597,753</b>	<b>529,127</b>	<b>4,164,191</b>	<b>5,291,071</b>
<b>4.19.2 (c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance</b>	-	-	13,797,056	13,797,056	-	-	13,343,237	13,343,237
Gross Amount of Loans Collectively Assessed for the Impairment	90,346,958	17,286,888	-	107,633,846	83,279,160	28,088,688	-	111,367,848
<b>Gross Receivables</b>	<b>90,346,958</b>	<b>17,286,888</b>	<b>13,797,056</b>	<b>121,430,902</b>	<b>83,279,160</b>	<b>28,088,688</b>	<b>13,343,237</b>	<b>124,711,085</b>
Gross Amount of Loans Individually Determined to be Impaired				11.36%				10.70%

# Notes to the Financial Statements

## 4.19.3 Product-wise Analysis of the Allowance for Impairment Losses - Company

As at 31 March	2021				2020			
	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	373,668	48,518	22,557	444,743	141,187	-	10,619	151,806
Vehicle Loans	142,665	49,558	220,557	412,780	58,667	49,200	154,918	262,785
Term Loans	181,931	10,729	192,928	385,588	73,111	14,925	263,234	351,270
Mortgage Loans	121,911	71,391	1,662,992	1,856,294	30,535	52,609	1,276,216	1,359,360
Power Drafts	20,701	10,410	157,264	188,375	5,093	8,480	105,883	119,456
Factoring Receivable	-	-	82,941	82,941	-	-	104,629	104,629
<b>Loans and Receivables</b>	<b>840,876</b>	<b>190,606</b>	<b>2,339,239</b>	<b>3,370,721</b>	<b>308,593</b>	<b>125,214</b>	<b>1,915,499</b>	<b>2,349,306</b>
Leases	426,552	247,385	2,383,100	3,057,037	282,989	401,059	2,109,345	2,793,393
Hire Purchase	-	1	104,233	104,234	-	12	114,628	114,640
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>426,552</b>	<b>247,386</b>	<b>2,487,333</b>	<b>3,161,271</b>	<b>282,989</b>	<b>401,071</b>	<b>2,223,973</b>	<b>2,908,033</b>
<b>Total Allowance for Impairment Losses</b>	<b>1,267,428</b>	<b>437,992</b>	<b>4,826,572</b>	<b>6,531,992</b>	<b>591,582</b>	<b>526,285</b>	<b>4,139,472</b>	<b>5,257,339</b>

## 4.19.4 Product-wise Analysis of the Allowance for Impairment Losses - Group

As at 31 March	2021				2020			
	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	373,668	48,518	22,557	444,743	141,187	-	10,619	151,806
Vehicle Loans	142,665	49,558	220,557	412,780	58,667	49,200	154,918	262,785
Term Loans	202,374	28,825	227,083	458,282	79,282	17,767	287,952	385,001
Mortgage Loans	121,911	71,391	1,662,992	1,856,294	30,535	52,609	1,276,216	1,359,360
Power Drafts	20,701	10,410	157,264	188,375	5,093	8,480	105,884	119,457
Factoring Receivable	-	-	82,941	82,941	-	-	104,629	104,629
<b>Loans and Receivables</b>	<b>861,319</b>	<b>208,702</b>	<b>2,373,394</b>	<b>3,443,415</b>	<b>314,764</b>	<b>128,056</b>	<b>1,940,218</b>	<b>2,383,038</b>
Leases	426,552	247,385	2,383,100	3,057,037	282,989	401,059	2,109,345	2,793,393
Hire Purchase	-	1	104,233	104,234	-	12	114,628	114,640
<b>Lease Rentals Receivable and Stock out on Hire</b>	<b>426,552</b>	<b>247,386</b>	<b>2,487,333</b>	<b>3,161,271</b>	<b>282,989</b>	<b>401,071</b>	<b>2,223,973</b>	<b>2,908,033</b>
<b>Total Allowance for Impairment Losses</b>	<b>1,287,871</b>	<b>456,088</b>	<b>4,860,727</b>	<b>6,604,686</b>	<b>597,753</b>	<b>529,127</b>	<b>4,164,191</b>	<b>5,291,071</b>

#### 4.19.5 Stage Movements in Allowance for Impairment Losses - Company

	2021				2020			
	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	591,583	526,285	4,139,471	5,257,339	579,701	477,047	2,690,163	3,746,911
Transfer to Stage 01	223,248	(151,313)	(71,935)	-	72,001	(57,090)	(14,911)	-
Transfer to Stage 02	(48,938)	117,985	(69,047)	-	(131,195)	164,685	(33,490)	-
Transfer to Stage 03	(15,528)	(79,204)	94,732	-	(38,409)	(131,718)	170,127	-
New Assets Originated or Purchased	993,575	472,499	2,068,339	3,534,413	470,922	441,644	2,460,951	3,373,517
Financial Assets Derecognised or Repaid	(476,512)	(448,260)	(855,915)	(1,780,687)	(361,422)	(367,822)	(742,576)	(1,471,820)
Write-offs	-	-	(479,073)	(479,073)	(15)	(461)	(390,793)	(391,269)
<b>As at the End of the Year</b>	<b>1,267,428</b>	<b>437,992</b>	<b>4,826,572</b>	<b>6,531,992</b>	<b>591,583</b>	<b>526,285</b>	<b>4,139,471</b>	<b>5,257,339</b>

#### 4.19.6 Stage Movements in Allowance for Impairment Losses - Group

	2021				2020			
	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	597,754	529,127	4,164,190	5,291,071	583,905	477,047	2,690,163	3,751,115
Transfer to Stage 01	223,511	(151,440)	(72,071)	-	72,001	(57,090)	(14,911)	-
Transfer to Stage 02	(50,367)	119,414	(69,047)	-	(131,195)	164,685	(33,490)	-
Transfer to Stage 03	(18,168)	(82,272)	100,440	-	(38,409)	(131,718)	170,127	-
New Assets Originated or Purchased	1,017,421	492,568	2,094,386	3,604,375	476,274	444,684	2,485,651	3,406,609
Financial Assets Derecognised or Repaid	(482,594)	(451,454)	(879,357)	(1,813,405)	(365,521)	(368,020)	(742,576)	(1,476,117)
Write-offs	-	-	(479,073)	(479,073)	(15)	(461)	(390,774)	(391,250)
Exchange Rate Variance on Foreign Currency Provisions	314	145	1,259	1,718	714	-	-	714
<b>As at the End of the Year</b>	<b>1,287,871</b>	<b>456,088</b>	<b>4,860,727</b>	<b>6,604,686</b>	<b>597,754</b>	<b>529,127</b>	<b>4,164,190</b>	<b>5,291,071</b>

#### 4.19.7 Sensitivity Analysis of Allowance for Impairment Losses

Changed Criteria	Changed Factor	Sensitivity Effect on Impairment Allowance Increase	
		2021	2020
		Rs. '000	Rs. '000
Loss Given Default (LGD)	Increase by 10%	168,101	197,181
Probability of Default (PD)	Increase by 1%	5,434	16,403

## Notes to the Financial Statements

### 4.19.8 Measurement Uncertainty and Sensitivity Analysis of ECL Estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation including estimation of Probabilities of Default (PD), Loss Given Default (LGD), a range of unbiased future economic scenarios, estimation of expected lives, estimation of Exposures at Default (EAD) and assessing significant increases in credit risk. This becomes more complex, particularly in times of economic volatility and uncertainty. The Group form multiple economic scenarios based on economic forecasts to estimate future credit losses and to determine an unbiased ECL estimate. Management judgements are used to address the data and model limitations and expert credit judgements.

#### Methodology

The Group have been used three scenarios at multiple confidence levels to capture the exceptional nature of the current economic environment and to simulate management's view of the range of potential outcomes. The range of forecasts are generated through the model due to the uncertainty caused by COVID-19 and resultant restrictions on mobility and economic activities. These three scenarios are drawn from the model developed by the Company with Colombo Science and Technology CELL of University of Colombo. The model uses multiple economic variables like GDP, unemployment, inflation, and trained to identify the historical correlations. The impact arising from the upside, downside and base scenarios have been simulated through a machine learning technique.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes.

#### ECL Scenarios and Sensitivity Analysis of Allowance for Impairment Losses

As expected, the scenarios create differing impacts on ECL and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

The simulated ECL impacts of the multiple scenarios are presented in the table below;

#### Economic Factor Adjustment - Percentage Variance

	Upto 01 Year		
	Base	Upside	Downside
Forecast	-5.32%		
At 99% Confidence		-32.50%	21.50%
At 95% Confidence		-26.28%	15.32%
At 90% Confidence		-22.83%	12.02%
At 80% Confidence		-18.83%	8.26%
	Beyond 01 Year		
	Base	Upside	Downside
Forecast	-19.24%		
At 99% Confidence		-57.25%	19.47%
At 95% Confidence		-48.77%	9.85%
At 90% Confidence		-44.01%	5.26%
At 80% Confidence		-38.37%	-0.08%

### Economic Factor Adjustment - Value Variance

	Upto 01 Year		
	Base	Upside	Downside
	Rs. '000	Rs. '000	Rs. '000
Forecast	(28,931)		
At 99% Confidence		(176,587)	116,798
At 95% Confidence		(142,788)	83,241
At 90% Confidence		(124,025)	65,304
At 80% Confidence		(102,292)	44,907

	Beyond 01 Year		
	Base	Upside	Downside
	Rs. '000	Rs. '000	Rs. '000
Forecast	(104,556)		
At 99% Confidence		(311,079)	105,768
At 95% Confidence		(265,010)	53,502
At 90% Confidence		(239,135)	28,588
At 80% Confidence		(208,475)	(456)

### Scenario Analysis

#### Base Scenario

Economic Factor Adjustment (EFA) model of the Company features a moderate improvement in non-performing advances in 2021 according to the Base Scenario as economic activities gradually return to the levels experienced prior to the outbreak of COVID-19. This results in the positive impact of 5.32% and 19.24% in the year 2021 and 2022, respectively.

Despite the sharp contraction in activity, the measures from Government and the Central Bank of Sri Lanka including moratoria, lowering the policy interest rates, measures for funding markets are expected to support the economy and the financial system. Such support intends to ensure economic activities will improve. In addition, the deployment of mass vaccination programmes mark a significant step forward in combating the virus and will ease the burden on healthcare systems. We expect vaccination programmes across our key markets to contribute positively to recovery prospects.

#### Upside Scenario

Compared with the Base Scenario, the Upside Scenario features a faster recovery in economic activity during the first two years. These include the successful containment and prompt deployment of a vaccine; speedy recover of the industries that were affected by the pandemic. The Upside Scenario expects a significant decrease in the EFA 32.50% and 57.25% respectively in the first two years at confidence level of 99% which declines when the confidence level move downwards.

#### Downside Scenario

In the Downside Scenario, economic recovery is considerably weaker compared with the Base Scenario. GDP growth remains weak, unemployment rates stay elevated and asset and commodity prices fall before gradually recovering towards their long-run trends. This tend to impact the EFA negatively 21.50% in year 1 and 19.47% in year 2 at 99% confidence level. The slow recovery expects the EFA to be improve gradually over the next two years.

# Notes to the Financial Statements

## Management Judgemental Adjustments

Management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge.

Given the degree of uncertainty surrounding the economic impact of COVID-19 and the lack of reliable data to model the impact on portfolio, as well as the operational and timing challenges in incorporating the latest available macroeconomic inputs into the ECL models, it was necessary to place greater emphasis on judgemental adjustments to modelled outcomes than in previous years.

The Company decided to use the down side scenario at 95% confidence level when assessing the economic factor adjustments with the objective of capturing the impact of COVID-19 and uncertainties in the future outlook on the ECL computation as at the reporting date.

The governmental support programmes and customer payment reliefs have dislocated the correlation between economic conditions and defaults on which models are based. The Group recognised that the Management judgemental adjustments are required to help ensure that an appropriate amount of ECL impairment is recognised. Although the granting of the customer reliefs as directed by governmental and CBSL support programmes do not necessarily indicate that the credit risk of those facilities have significantly increased nor credit impaired. However, the management judged that the PDs applicable for credit impaired facilities to be applied in calculating the ECL for these facilities that are in stage 01 and stage 02.

Measures taken to contain the spread of the COVID-19 has affected economic activities, which in turn, has resulted in lost revenue and disrupted supply chain. This adversely affected business dealing in many industries, especially those that involve close in-person contact industries. Industries that have been severely affected do not automatically trigger in additional consideration of ECL through the model. The Group judged that the portfolios concentrated in tourism and transport sectors require further judgement. Thus, credit impaired PDs were applied for the facilities where the credit risk has not significantly increased or credit impaired under the tourism and transport sectors.

## 4.20 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.

As at 31 March	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Equity Securities - Quoted (Note 4.20.1)	77,484	58,836
Equity Securities - Unquoted (Note 4.20.2)	305	305
	77,789	59,141

#### 4.20.1 Equity Securities - Quoted

As at 31 March	2021			2020		
	Number of Shares	Cost	Market Value	Number of Shares	Cost	Market Value
		Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Capital Goods</b>						
Central Industries PLC	8,569	150	883	8,184	150	268
Royal Ceramics Lanka PLC*	31,320	843	8,049	31,320	843	1,751
Samson International PLC	5,899	930	792	5,899	930	425
		1,923	9,724		1,923	2,444
<b>Consumer Services</b>						
The Fortress Resorts PLC*	4,051,100	81,990	45,372	4,051,100	81,990	31,599
Aitken Spence Hotel Holdings PLC	308	6	9	308	6	5
Hotel Sigiriya PLC	700	30	40	700	30	25
		82,026	45,421		82,026	31,629
<b>Retailing</b>						
Hunters & Company PLC	10	3	6	10	3	4
		3	6		3	4
<b>Banks</b>						
Commercial Bank of Ceylon PLC	349	15	23	285	15	17
Seylan Bank PLC	2,774	155	136	2,718	155	91
Sampath Bank PLC	5	-	-	5	-	1
		170	159		170	109
<b>Food, Beverage and Tobacco</b>						
Keells Food Products PLC	500	21	81	500	21	54
Lanka Milk Foods PLC	5,500	250	826	5,500	250	406
Convenience Foods (Lanka) PLC	22	1	27	22	1	7
Ceylon Grain Elevators PLC	44	5	5	44	5	2
		277	939		277	469
<b>Consumer Durables and Apparel</b>						
Dankotuwa Porcelain PLC	32,512	1,012	335	32,512	1,012	146
		1,012	335		1,012	146
<b>Diversified Financials</b>						
Softlogic Finance PLC	2,090,000	79,656	20,900	2,090,000	79,656	24,035
		79,656	20,900		79,656	24,035
<b>Total</b>		165,067	77,484		165,067	58,836

Global Industry Classification Standard (GICS)

\*Investments made in related parties

## Notes to the Financial Statements

### 4.20.2 Equity Securities - Unquoted

As at 31 March	2021			2020		
	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>		<b>305</b>	<b>305</b>		<b>305</b>	<b>305</b>

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.

### 4.20.2 (a) Reconciliation of Fair Value Measurement for Unquoted Equity Securities under Level 3 Hierarchy

	Company & Group	
	2021	2020
	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>

### 4.21 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury Bills Repurchase Agreements (Note 4.21.1)	3,537,745	5,462,735	3,537,745	5,462,735
Investment in Fixed Deposits (Note 4.21.2)	6,503,654	3,426,929	6,503,654	3,426,929
Insurance Premium Receivables	331,731	206,038	331,731	206,038
Due from Subsidiary	21,848	16,278	-	-
Sundry Debtors	58,925	7,701	60,019	10,059
	10,453,903	9,119,681	10,433,149	9,105,761
<b>Fair Value</b>	<b>10,453,903</b>	<b>9,119,681</b>	<b>10,433,149</b>	<b>9,105,761</b>

**4.21.1** The collateral value of repurchase agreements reflected on the Statement of Financial Position under other financial assets as at 31 March 2021 and 31 March 2020 was Rs. 3,756,500,000/- and Rs. 6,090,600,000/-, respectively.

#### 4.21.2 Investment in Fixed Deposits - Counterparty External Credit Ratings

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
AA-	4,574,371	838,314	4,574,371	838,314
A+	1,946,080	558,932	1,946,080	558,932
A-	-	2,038,010	-	2,038,010
Investment in Fixed Deposits	6,520,451	3,435,256	6,520,451	3,435,256
Impairment Allowance	(16,797)	(8,327)	(16,797)	(8,327)
<b>Total</b>	<b>6,503,654</b>	<b>3,426,929</b>	<b>6,503,654</b>	<b>3,426,929</b>

Ratings are based on Fitch Ratings Lanka Ltd

## 4.22 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 vehicle stock, gold stock, stationary stock, deposits, advances and prepayments, etc. These assets are non-interest earning and recorded at the amounts that are expected to be received.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Vehicle Stock	33,100	14,673	33,100	14,673
Deposits, Advances and Prepayments	845,785	900,795	850,665	905,624
Gold Stock	1,514	1,514	1,514	1,514
Stationery Stock	15,854	15,361	15,854	15,361
Sundry Debtors	13,669	11,972	16,213	16,163
Pre-Paid Staff Cost (Note 4.22.1)	10,484	23,154	10,484	23,154
	920,406	967,469	927,830	976,489

### 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.

#### 4.22.1 The Movement in the Pre-Paid Staff Cost

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the Beginning of the Year	23,154	25,865	23,154	25,865
Adjustment for New Grants and Settlements	(8,407)	3,721	(8,407)	3,721
Charge to Personnel Expenses	(4,263)	(6,432)	(4,263)	(6,432)
<b>As at the End of the Year</b>	<b>10,484</b>	<b>23,154</b>	<b>10,484</b>	<b>23,154</b>

# Notes to the Financial Statements

## 4.23 INVESTMENT IN SUBSIDIARY

### ► Accounting Policy

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 was 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			
		2021		2020	
		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	521,162	521,162

The L B Microfinance Myanmar Company Limited was incorporated as a 99% (100% - 31 March 2021) owned subsidiary in Myanmar. The Company obtained a license 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.

## 4.24 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 for more than one year. 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.

#### 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, 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

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position. Right-of-use assets of the Group include land and buildings under long term rental agreements for its use as offices and branches.

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 2021 are as follows;

Asset Category	Period (Years)	Depreciation % per Annum
Freehold Buildings and Edifices	50	2%
Furniture and Fittings	5-6.67	15-20%
Equipment	5	20%
Motor Vehicles	5-8	12.50-20%
Computer Hardware and Equipment	5	20%
Improvement of Leasehold Asset	6.67	15%
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

## 4.24.1 Company - 2021

	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 2020	4,727,123	921,174	369,543	863,447	419,981	942,505	695,210	693,955	1,577,675	11,210,613
Additions	128,011	53,784	20,980	49,897	16,000	45,746	65,004	102,539	354,256	836,217
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(13,281)	(26,507)	(50,503)	(12,950)	(67,009)	(22,826)	(81,819)	(274,895)
<b>Balance as at 31 March 2021</b>	<b>4,855,134</b>	<b>974,958</b>	<b>377,242</b>	<b>886,837</b>	<b>385,478</b>	<b>975,301</b>	<b>693,205</b>	<b>773,668</b>	<b>1,850,112</b>	<b>11,771,935</b>
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2020	-	118,339	235,150	586,098	256,718	642,618	490,408	419,326	240,708	2,989,365
Charge for the Year	-	19,356	35,256	103,795	37,967	107,490	60,120	106,512	258,297	728,793
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(12,528)	(26,043)	(30,704)	(12,169)	(65,175)	(20,708)	(20,155)	(187,482)
<b>Balance as at 31 March 2021</b>	<b>-</b>	<b>137,695</b>	<b>257,878</b>	<b>663,850</b>	<b>263,981</b>	<b>737,939</b>	<b>485,353</b>	<b>505,130</b>	<b>478,850</b>	<b>3,530,676</b>
<b>Net Book Value as at 31 March 2021</b>	<b>4,855,134</b>	<b>837,263</b>	<b>119,364</b>	<b>222,987</b>	<b>121,497</b>	<b>237,362</b>	<b>207,852</b>	<b>268,538</b>	<b>1,371,262</b>	<b>8,241,259</b>

## 4.24.2 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	-	-	-	-	-	-	-	-	-	-
Additions	228,859	1,277	63,129	101,446	120	97,814	100,277	179,860	1,436,599	1,436,599
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>

## 4.24.3 Group - 2021

	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 2020	4,727,123	921,174	371,710	865,592	420,083	947,102	695,210	693,955	1,577,675	11,219,624
Additions	128,011	53,784	22,190	51,004	16,289	47,281	65,004	102,539	354,256	840,358
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	111	110	5	236	-	-	-	462
Disposals/Write-offs	-	-	(13,281)	(26,507)	(50,503)	(12,950)	(67,009)	(22,826)	(81,819)	(274,895)
<b>Balance as at 31 March 2021</b>	<b>4,855,134</b>	<b>974,958</b>	<b>380,730</b>	<b>890,199</b>	<b>385,874</b>	<b>981,669</b>	<b>693,205</b>	<b>773,668</b>	<b>1,850,112</b>	<b>11,785,549</b>
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2020	-	118,339	235,605	586,666	256,748	643,602	490,408	419,326	240,708	2,991,402
Charge for the Year	-	19,356	35,691	104,363	38,006	108,568	60,120	106,512	258,297	730,913
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange Rate Variance	-	-	38	45	4	83	-	-	-	170
Disposals/Write-offs	-	-	(12,528)	(26,043)	(30,704)	(12,169)	(65,175)	(20,708)	(20,155)	(187,482)
<b>Balance as at 31 March 2021</b>	<b>-</b>	<b>137,695</b>	<b>258,806</b>	<b>665,031</b>	<b>264,054</b>	<b>740,084</b>	<b>485,353</b>	<b>505,130</b>	<b>478,850</b>	<b>3,535,003</b>
<b>Net Book Value as at 31 March 2021</b>	<b>4,855,134</b>	<b>837,263</b>	<b>121,924</b>	<b>225,168</b>	<b>121,820</b>	<b>241,585</b>	<b>207,852</b>	<b>268,538</b>	<b>1,371,262</b>	<b>8,250,546</b>

## 4.24.4 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	435,342	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	240,708	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>240,708</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>

## Notes to the Financial Statements

### 4.24.5 Property, Plant and Equipment and ROU Assets Acquired During the Financial Year - Company & Group

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 836,217,067/- (2020 - Rs. 913,858,542/-). Cash payments amounting to Rs. 535,961,733/- (2020 - Rs. 934,230,105/-) 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. 840,358,237/- (2020 - Rs. 918,195,965/-). Cash payments amounting to Rs. 540,394,355/- (2020 - Rs. 938,987,401/-) was paid during the year for purchases of property, plant and equipment.

### 4.24.6 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 2021, the net carrying value amount of those assets was Rs. 26,331,910/- (2020 - Rs. 53,852,056/-), on which the accumulated depreciation as at 31 March 2021 was Rs. 65,618,133/- (2020 - Rs. 50,597,988/-).

Summary of future operating lease receivable was as follows;

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Future Operating Lease Receivable	26,540	11,294	-	37,834

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Future Operating Lease Receivable	31,118	41,268	-	72,386

### 4.24.7 Borrowing Costs - Company & Group

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the financial year 2021 and 2020.

### 4.24.8 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. 1,699,302,710/- (2020 - Rs. 1,527,144,852/-).

#### 4.24.9 Information on the Freehold Land and Buildings - Company & Group

Freehold land and buildings of the Company are revalued at minimum once in every two years or more frequently if the fair values previously disclosed are substantially different from the fair values as at the reporting date.

The Company engages independent professional valuers for revaluation of its freehold land and buildings as specified by the Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

Information on the freehold land and buildings as required by the Rule No 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange.

As at 31 March	2021						2020
	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	2,128,835	869,333	245	881,885
<b>Kollupitiya</b> No 676, Galle Road, Colombo 03.	5	167.65	63,251	4,358,900	2,204,470	198	2,186,858
<b>Cinnamon Gardens</b> No 165, Dharmapala Mawatha, Colombo 07.	1	48.95	7,400	1,177,650	1,034,914	114	1,003,953
<b>Kandy</b> No 115B, Kotugodella Veediya, Kandy.	1	25.76	7,780	580,335	519,255	112	519,624
<b>Kandy</b> No 226, D S Senanayaka Street, Kandy.	1	7.05	3,674	83,061	10,284	808	10,345
<b>Kandy</b> Moragaspitiyawatta Road, Balagolla, Kengalla.	2	110.00	2,400	59,800	29,406	203	29,577
<b>Kandy</b> No 47/10 A, Luwiss Pieris Mawatha, Buwelikada, Kandy.	-	42.40	-	40,280	34,085	118	34,085
<b>Maradana</b> No 104/1, Vipulasena Mawatha, Colombo 10.	1	50.60	5,750	358,800	75,493	475	76,169
<b>Nuwara Eliya</b> No 35/4, Upper Lake Road, Nuwara Eliya.	-	359.00	-	466,700	64,906	719	64,906
<b>Wellawatta</b> No 51A, W A Silva Mawatha, Colombo 06.	1	14.23	5,678	224,736	157,187	143	156,442
<b>Panadura</b> No 37, Jayathilake Mawatha, Panadura.	1	42.00	1,925	139,869	104,224	134	104,224
<b>Kalutara</b> No 334, Main Street, Kalutara South.	1	26.27	10,620	218,685	194,119	113	195,181
<b>Borella</b> No 1024, Maradana Road, Borella.	-	25.50	-	344,250	266,710	129	266,710
<b>Rajagiriya*</b> No 1149, Kotte Road, Rajagiriya.	-	16.30	-	128,011	128,011	100	-

\*Freehold land and building purchased during the financial year ended 31 March 2021.

Valuation of freehold land and buildings of the Company was carried out as at 31 March 2021 by H.B. Manjula Basnayaka. AIV (Sri Lanka), N.C.T., QS, (COT), incorporated valuer. Investment method, Contractor's Test method, Comparison method and Residual method have been used for the valuation.

Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy.

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# Notes to the Financial Statements

## 4.24.10 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.

## 4.24.11 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.

## 4.24.12 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.

## 4.24.13 Temporarily Idle Property, Plant and Equipment - Company & Group

There were no temporarily idle property, plant and equipment as at the reporting date.

## 4.24.14 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.

## 4.25 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	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost</b>				
Cost as at the Beginning of the Year	191,272	173,428	208,769	178,557
Additions and Improvements	658	17,844	658	29,339
Disposals/Write-off	(9)	-	(9)	-
Exchange Rate Variance	-	-	890	873
Cost as at the End of the Year	191,921	191,272	210,308	208,769
<b>Amortisation and Impairment Losses</b>				
Amortisation as at the Beginning of the Year	149,463	133,581	153,705	135,034
Charge for the Year	16,446	15,882	20,019	18,125
Impairment Loss	-	-	-	-
Disposals/Write-off	(9)	-	(9)	-
Exchange Rate Variance	-	-	322	546
Accumulated Amortisation as at the End of the Year	165,900	149,463	174,037	153,705
<b>Net Book Value as at 31 March</b>	<b>26,021</b>	<b>41,809</b>	<b>36,271</b>	<b>55,064</b>

**4.25.1** 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.

#### 4.26 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank Overdrafts	988,099	720,411	988,099	720,411
Debt Funding from Banks (Note 4.26.1)	15,479,080	22,050,674	15,538,558	22,162,530
	16,467,179	22,771,085	16,526,657	22,882,941
Fair Value	17,083,937	24,816,902	17,143,415	24,928,759

# Notes to the Financial Statements

## 4.26.1 Debt Funding from Banks

	As at	Loans	Interest	Repayments		As at
	1 April 2020	Obtained*	Recognised	Capital	Interest	31 March 2021
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Syndicated Loans</b>						
Syndication 1	909,034	-	27,715	(910,000)	(26,749)	-
Syndication 2	850,793	-	34,728	(625,000)	(260,521)	-
Syndication 3	2,510,530	-	240,655	(2,000,000)	(751,185)	-
Syndication 4	1,195,631	-	117,174	(1,000,000)	(312,805)	-
Syndication 5	1,176,934	-	113,854	(1,000,000)	(290,788)	-
Syndication 6	1,381,358	-	126,169	(1,300,000)	(207,527)	-
	8,024,280	-	660,295	(6,835,000)	(1,849,575)	-
<b>Term Loans</b>						
Bank of Ceylon	419,339	-	6,774	(416,667)	(9,446)	-
Commercial Bank 1	62,626	-	1,133	(62,500)	(1,259)	-
Commercial Bank 2	780,463	-	44,636	(779,000)	(46,099)	-
Commercial Bank 3	2,034,014	-	171,715	(625,000)	(173,471)	1,407,258
Commercial Bank 4	294,649	-	19,157	(124,800)	(20,887)	168,119
Nations Trust Bank 1	706,200	-	54,761	(252,000)	(54,907)	454,054
Nations Trust Bank 2	389,986	-	27,191	(168,000)	(28,479)	220,698
Hatton National Bank 1	-	1,495,763	111,177	(281,250)	(104,388)	1,221,302
Hatton National Bank 2	-	1,491,960	33,848	(1,500,000)	(25,808)	-
Hatton National Bank 3	-	1,500,000	1,125	(1,500,000)	(1,125)	-
Hatton National Bank 4	-	1,500,000	488	(1,500,000)	(488)	-
Hatton National Bank 5	-	1,000,000	137	(1,000,000)	(137)	-
Public Bank 1	60,096	-	3,460	(40,000)	(3,535)	20,021
Public Bank 2	40,029	-	2,567	(20,000)	(2,584)	20,012
Seylan Bank 1	189,026	-	8,635	(187,474)	(10,187)	-
Seylan Bank 2	-	250,000	1,282	(250,000)	(1,282)	-
Seylan Bank 3	-	500,000	66	(500,000)	(66)	-
DFCC Bank 1	299,420	-	13,131	(296,875)	(15,676)	-
DFCC Bank 2	566,836	-	38,087	(250,000)	(40,777)	314,146
DFCC Bank 3	1,006,613	-	74,435	(171,429)	(77,743)	831,876
DFCC Bank 4	972,945	-	72,962	(200,000)	(76,176)	769,731
Habib Bank	158,276	-	6,933	(158,333)	(6,876)	-
Sampath Bank 1	2,864,825	-	294,208	(750,000)	(299,470)	2,109,563
Sampath Bank 2	-	1,996,000	115,172	(416,750)	(111,991)	1,582,431
Standard Chartered Bank	-	750,000	16,068	(750,000)	(16,068)	-
National Development Bank 1	-	1,000,000	32,263	(583,800)	(32,166)	416,297
National Development Bank 2	-	700,000	22,581	(408,800)	(22,513)	291,268
National Development Bank 3	-	300,000	15,386	-	(15,306)	300,080
National Development Bank 4	-	1,500,000	76,932	-	(76,531)	1,500,401
National Development Bank 5	-	500,000	25,907	-	(25,772)	500,135
National Development Bank 6	-	1,300,000	67,358	-	(67,007)	1,300,351
	10,845,343	15,783,723	1,359,575	(13,192,678)	(1,368,220)	13,427,743
<b>Securitisation Loans</b>						
Sampath Bank	3,181,051	-	356,581	(1,125,000)	(361,295)	2,051,337
	3,181,051	-	356,581	(1,125,000)	(361,295)	2,051,337
<b>Total Debt Funding from Banks - Company</b>	<b>22,050,674</b>	<b>15,783,723</b>	<b>2,376,451</b>	<b>(21,152,678)</b>	<b>(3,579,090)</b>	<b>15,479,080</b>

	As at	Loans	Interest	Repayments		As at
	1 April	Obtained*	Recognised	Capital	Interest	31 March
	2020					2021
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>L B Microfinance Myanmar Company Limited</b>						
<b>Term Loan</b>						
CB Bank	111,856	-	16,946	(56,960)	(12,364)	59,478
	111,856	-	16,946	(56,960)	(12,364)	59,478
<b>Total Debt Funding from Banks - Group</b>	<b>22,162,530</b>	<b>15,783,723</b>	<b>2,393,397</b>	<b>(21,209,638)</b>	<b>(3,591,454)</b>	<b>15,538,558</b>

\*Net of transaction cost

The Group has unutilised borrowing facilities of Rs. 5,453,000,000/- as at 31 March 2021 (2020 - Rs. 4,492,727,321/-).

Details of the assets pledged as security for liabilities are disclosed in Note 6.7 to these Financial Statements.

#### 4.26.2 Contractual Maturity Analysis of Debt Funding from Banks - Company

As at 31 March 2021	Within	1 - 5	Over	Total
	One Year	Years	5 Years	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	-	-	-	-
Term Loans	5,842,357	7,585,386	-	13,427,743
Securitisation Loans	2,051,337	-	-	2,051,337
	7,893,694	7,585,386	-	15,479,080
<b>As at 31 March 2020</b>				
As at 31 March 2020	Within	1 - 5	Over	Total
	One Year	Years	5 Years	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	1,882,308	6,141,972	-	8,024,280
Term Loans	4,058,782	6,643,744	142,817	10,845,343
Securitisation Loans	1,364,311	1,816,740	-	3,181,051
	7,305,401	14,602,456	142,817	22,050,674

## Notes to the Financial Statements

### 4.26.3 Contractual Maturity Analysis of Debt Funding from Banks - Group

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	-	-	-	-
Term Loans	5,901,835	7,585,386	-	13,487,221
Securitisation Loans	2,051,337	-	-	2,051,337
	7,953,172	7,585,386	-	15,538,558

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	1,882,308	6,141,972	-	8,024,280
Term Loans	4,116,438	6,697,944	142,817	10,957,199
Securitisation Loans	1,364,311	1,816,740	-	3,181,051
	7,363,057	14,656,656	142,817	22,162,530

### 4.27 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	81,916,722	85,761,986	81,916,722	85,761,986
Certificates of Deposit	7,500	10,373	7,500	10,373
Savings Deposits	3,935,848	3,484,076	4,015,991	3,542,738
	85,860,070	89,256,435	85,940,213	89,315,097
Fair Value	87,194,929	89,847,604	87,275,072	89,906,266

#### 4.27.1 Sri Lanka Deposit Insurance and Liquidity Support Scheme - Company

Under the Direction No 1 of 2021 [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. 1,100,000/- for each depositor. The Company has paid Rs. 122,113,256/- as the premium of the said insurance scheme during the current financial year (2020 - Rs. 118,134,385/-).

#### 4.27.2 Contractual Maturity Analysis of Customer Deposits - Company

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	68,380,102	13,536,620	-	81,916,722
Certificates of Deposit	7,500	-	-	7,500
Savings Deposits	3,935,848	-	-	3,935,848
	72,323,450	13,536,620	-	85,860,070

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

#### 4.27.3 Contractual Maturity Analysis of Customer Deposits - Group

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	68,380,102	13,536,620	-	81,916,722
Certificates of Deposit	7,500	-	-	7,500
Savings Deposits	4,015,991	-	-	4,015,991
	72,403,593	13,536,620	-	85,940,213

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

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.

# Notes to the Financial Statements

## 4.28 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 instrument using effective interest rate method.

As at 31 March	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Unsecured Debentures (Note 4.28.1)	3,113,916	3,111,186
Fair Value	3,405,315	3,215,338

### 4.28.1 Unsecured Debentures

Category	Interest Payable	Features	Amortised Cost	Face Value	Interest Rate	Issued Date	Redemption Date
			Rs. '000	Rs. '000			
Type A (60 Months)	Biannually	Listed	1,036,959	1,000,000	12.75% p.a	11 December 2017	11 December 2022
Type B (60 Months)	Biannually	Listed	2,076,957	2,000,000	13.25% p.a	11 December 2017	11 December 2022
			3,113,916	3,000,000			

### 4.28.2 Contractual Maturity Analysis of Debt Instruments Issued and Other Borrowed Funds - Company & Group

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unsecured Debentures	116,224	2,997,692	-	3,113,916

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

## 4.29 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade Payables	277,055	68,309	277,055	68,309
Insurance Premium Payables	495,145	482,244	495,145	482,244
Unclaimed Balances	677,661	657,711	678,461	658,068
Lease Liability (Note 4.29.1)	1,440,965	1,321,454	1,440,965	1,321,454
Advances Collected from Customers	46,750	99,166	46,750	99,166
Other Payables	105,950	137,526	105,964	137,534
	3,043,526	2,766,410	3,044,340	2,766,775
Fair Value	3,043,526	2,766,410	3,044,340	2,766,775

#### 4.29.1 Lease Liability

##### ► Accounting Policy

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	1,321,454	1,293,121	1,321,454	1,293,121
Additions	300,255	123,106	300,255	123,106
Accretion of Interest	164,034	157,447	164,034	157,447
Terminations	(64,258)	-	(64,258)	-
Payments	(280,520)	(252,220)	(280,520)	(252,220)
<b>Balance as at the End of the Year</b>	<b>1,440,965</b>	<b>1,321,454</b>	<b>1,440,965</b>	<b>1,321,454</b>

#### 4.29.2 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.

Increase/(Decrease) in Incremental Borrowing Rate	2021		2020	
	Sensitivity effect on Lease Liability Increase/(Reduction) in the Liability	Sensitivity effect on Interest Expense Increase/(Reduction) in Profits for the Year	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	Rs. '000	Rs. '000
1bp Up	(41,722)	8,358	(41,952)	7,167
1bp Down	43,701	(8,981)	44,039	(7,764)

#### 4.29.3 Contractual Maturity Analysis of Lease Liability

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Liability	145,529	764,230	531,206	1,440,965
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

#### 4.29.4 Undiscounted Maturity Analysis of Lease Liability

As at 31 March 2021	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Liability	309,578	1,441,057	393,336	2,143,971
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	271,005	1,074,051	686,448	2,031,505

# Notes to the Financial Statements

## 4.30 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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Accrued Expenses	851,774	768,511	861,213	779,949
Stamp Duty Payable	81,310	53,959	81,310	53,959
EPF/ETF/PAYE Payable	37,537	38,331	37,537	38,331
Crop Insurance Levy Payable	28,414	13,152	28,414	13,152
Other Payables	23,774	23,980	37,466	29,054
Withholding Tax Payable	870	7,378	870	7,378
Impairment Provision in Respect of Off-Balance Sheet Credit Exposures	4,375	3,955	4,375	3,955
	1,028,054	909,266	1,051,185	925,778

## 4.31 CURRENT TAX LIABILITIES

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Tax	1,657,779	761,499	1,663,183	771,804
Value Added Tax (VAT)	214,375	5,253	214,375	5,253
	1,872,154	766,752	1,877,558	777,057

## 4.32 DEFERRED TAX LIABILITIES

### ► 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 and Liabilities and Income Tax Relate to the Followings;

	Reflected in						Reflected in												
	Statement of Financial Position						Income Statement						Statement of Comprehensive Income						
	Company		Group		Group		Company		Group		Group		Company		Group		Group		
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Deferred Tax Liabilities</b>																			
Depreciation of Leased Assets	687,133	1,043,577	687,133	1,043,577	(356,443)	(90,406)	(356,443)	(90,406)	(90,406)										
Depreciation of Property, Plant and Equipment	165,815	220,956	165,815	220,956	(55,141)	(8,096)	(55,141)	(8,096)	(8,096)										
	852,948	1,264,533	852,948	1,264,533	(411,584)	(98,502)	(411,584)	(98,502)	(98,502)										
<b>Deferred Tax Assets</b>																			
Right-of-Use Assets	(43,089)	(25,200)	(43,089)	(25,200)	(17,889)	(25,200)	(17,889)	(25,200)	(25,200)										
Defined Benefit Obligation - Income Statement	(74,871)	(74,252)	(74,871)	(74,252)	(619)	(13,227)	(619)	(13,227)	(13,227)										
Defined Benefit Obligation - Other Comprehensive Income	(12,792)	(22,476)	(12,792)	(22,476)															(11,678)
Carried Forward Impairment Provision	(85,123)	(105,025)	(85,123)	(105,025)	19,901	(123,535)	19,901	(123,535)	19,901	(123,535)									
	(215,875)	(226,953)	(215,875)	(226,953)	1,393	(161,962)	1,393	(161,962)	1,393	(161,962)	9,684	(11,678)	9,684	(11,678)	9,684	(11,678)	9,684	(11,678)	(11,678)
<b>Deferred Income Tax Charge/ (Reversal)</b>					(410,191)	(260,464)	(410,191)	(260,464)	(410,191)	(260,464)	9,684	(11,678)	9,684	(11,678)	9,684	(11,678)	9,684	(11,678)	(11,678)
<b>Net Deferred Tax Liability/(Asset)</b>	<b>637,073</b>	<b>1,037,580</b>	<b>637,073</b>	<b>1,037,580</b>															

**4.32.1**

Revised income tax rates proposed to the Inland Revenue Act, No. 24 of 2017 by Circular No. PN/IT/2020-03 (Revised), be implemented with effect from 01 January 2020. On 23 April 2021, CA Sri Lanka issued Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 Income Tax to provide an interpretation on the application of tax rates which is substantively enacted in the measurement of current tax and deferred tax for financial reporting period ending 26 March 2021. Accordingly, the Company applied 24% income tax rate for the determination of deferred tax in 2021 and recognised an adjustment to deferred tax liabilities amounting to Rs. 148,225,709 /- from reduction in tax rate.

# Notes to the Financial Statements

## 4.33 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.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefit'. However, under the Payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

### 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.

### 4.33.1 Post Employment Benefit Liability

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	345,456	256,512	345,456	256,512
Amount Charged/(Reversed) for the Year	53,569	117,650	53,569	117,650
Payments Made During the Year	(33,760)	(28,706)	(33,760)	(28,706)
Balance as at the End of the Year	365,265	345,456	365,265	345,456

### 4.33.2 Amounts Recognised in the Income Statement

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current Service Cost for the Year	59,372	46,443	59,372	46,443
Interest Cost on the Net Defined Benefit Liability for the Year	34,546	29,500	34,546	29,500
	93,918	75,943	93,918	75,943

#### 4.33.3 Amounts Recognised in the Other Comprehensive Income

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Liability (Gains)/Losses due to Changes in Assumptions	19,051	33,472	19,051	33,472
Liability Experience (Gains)/Losses Arising During the Year	(59,400)	8,235	(59,400)	8,235
	(40,349)	41,707	(40,349)	41,707

#### 4.33.4 Defined Benefit Obligation Reconciliation

	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Benefit Obligation at the End of Prior Year	345,456	256,512
Current Service Cost for the Year	59,372	46,443
Net Interest Cost on the Net Defined Benefit Liability for the Year	34,546	29,500
Liability (Gains)/Losses due to Changes in Assumptions	19,051	33,472
Liability Experience (Gains)/Losses Arising During the Year	(59,400)	8,235
Payments Made During the Year	(33,760)	(28,706)
	365,265	345,456

4.33.5 Average future working lifetime as per the assumptions made is 14.6 years as of 31 March 2021 (14.7 years as of 31 March 2020).

#### 4.33.6 Assumptions

	2021	2020
Discount Rate	8.50%	10.00%
Salary Increment	8.00%	9.00%
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 2021 by Piyal S. Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', required by the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

## Notes to the Financial Statements

### 4.33.7 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	2021		2020	
		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%		35,634	(35,634)	32,917	(32,917)
-1%		(42,603)	42,603	(39,291)	39,291
	1%	(41,417)	41,417	(38,366)	38,366
	-1%	35,355	(35,355)	32,766	(32,766)

### 4.33.8 The Expected Benefit Payout in the Future Years for Retirement Gratuity

	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Within the Next 12 Months	34,678	14,091
Between 2 and 5 Years	146,776	182,133
Beyond 5 Years	172,252	191,319
	353,706	387,543

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.

### 4.34 STATED CAPITAL

#### 4.34.1 Issued and Fully Paid Ordinary Shares

	Company & Group		Company & Group	
	2021		2020	
	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
Ordinary Shares on Share Split	415,542,852	-	-	-
At the End of the Year	554,057,136	838,282	138,514,284	838,282

On 10 March 2021, the Company effected the sub-division of ordinary shares on the basis of a sub-division of every one (01) ordinary share into four (04) ordinary shares, thus increasing the existing 138,514,284 issued ordinary shares of the Company to 554,057,136 ordinary shares without in anyway changing the Stated Capital of the Company, which would remain at Rs. 838,282,159/-.

#### 4.34.2 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.

#### 4.35 RESERVES

	Company			Group		
	As at 1 April 2020	Movement/ Transfers	As at 31 March 2021	As at 1 April 2020	Movement/ Transfers	As at 31 March 2021
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory Reserve	6,323,170	1,360,519	7,683,689	6,323,170	1,360,519	7,683,689
Fair Value Reserve	(106,231)	18,648	(87,583)	(106,231)	18,648	(87,583)
Foreign Currency Translation Reserve	-	-	-	117,387	33,514	150,901
	6,216,939	1,379,167	7,596,106	6,334,326	1,412,681	7,747,007

#### 4.35.1 Statutory Reserve

	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	6,323,170	5,285,759
Transfers Made During the Year	1,360,519	1,037,411
Balance as at the End of the Year	7,683,689	6,323,170

Statutory reserve is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No 1 of 2003.

#### 4.35.2 Fair Value Reserve

	Company & Group	
	2021	2020
	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	(106,231)	(75,662)
Transfers Made During the Year/Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	18,648	(30,569)
Balance as at the End of the Year	(87,583)	(106,231)

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.

## Notes to the Financial Statements

### 4.35.3 Foreign Currency Translation Reserve

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	-	-	117,387	20,779
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	33,514	96,608
Balance as at the End of the Year	-	-	150,901	117,387

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.

### 4.36 RETAINED EARNINGS

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	15,944,328	12,378,772	15,987,173	12,397,809
Dividend Paid	(1,662,171)	(554,057)	(1,662,171)	(554,057)
Profit for the Year	6,802,597	5,187,053	6,806,805	5,210,861
Other Comprehensive Income, Net of Tax	30,665	(30,029)	30,665	(30,029)
Transfers During the Year	(1,360,519)	(1,037,411)	(1,360,519)	(1,037,411)
Balance as at the End of the Year	19,754,900	15,944,328	19,801,953	15,987,173

Retained earnings represents the undistributed earnings held to be used in its operations. This could be used to absorb future losses or dividends payable.

### 4.37 NON-CONTROLLING INTEREST

#### ► Accounting Policy

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.

The Company owned 100% shares of its subsidiary as at the reporting date. Accordingly, there were no Non-Controlling interest as at 31 March 2021 and 31 March 2020.

# 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 defence. 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 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 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.

# Notes to the Financial Statements

## 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, Deputy Managing Director, Executive Directors, Assistant General Manager-Finance and Head of Risk Management. 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 4.19 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, securities, 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 was halted as per the directions issued by the Central Bank which was introduced a relief measure to the COVID-19 affected individuals and entities.

### COVID-19 Impact Assessment

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. This has been proven through the Company's ability to maintain its

NPL at a lower level compared to the industry average (LFCs & SLCs). Company has always acted with due care and taken prudent measures to ensure an effective, efficient and healthy repayment behavior of credit customers while safeguarding the interests of the stakeholders.

The subsequent adverse economic effects induced by the outbreak of COVID-19 pandemic, have caused financial stress among our retail, SME and corporate clients which inserted pressure on credit risk in the short term and the Company has provided relief measures to the affected businesses and individuals who are eligible as per the directions issued by the CBSL.

### Impact to Myanmar Subsidiary Operations

Through out the year under review, the impact on Myanmar business operations has been closely supervised by the Management and the directions issued by Myanmar Financial Regulatory Department in relation to COVID-19 are being strictly adhered to.

Following the military coup occurred since February 2021, the operations of the Myanmar subsidiary have been disrupted. However, the development of the current situation and its impact to the business operations are being closely monitored by the Management.

### 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	2021		2020	
	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	6,187,300	-	6,162,637	-
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,862	10,862	4,648	4,648
Loans and Receivables (Gross)	70,148,909	6,211,143	60,588,560	5,702,886
Lease Rentals Receivable and Stock out on Hire (Gross)	50,520,906	2,856,391	63,534,703	3,117,674
Financial Assets Measured at Fair Value Through Other Comprehensive Income	77,789	77,789	59,141	59,141
Other Financial Assets*	10,453,903	6,916,158	9,119,681	3,656,946
<b>Total Financial Assets</b>	<b>137,399,669</b>	<b>16,072,343</b>	<b>139,469,370</b>	<b>12,541,295</b>

\*Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2021, the net carrying value amount of those investments was Rs. 6,503,654,162/- (2020 - Rs. 3,426,929,172/-).

#### 5.2.1 (b) Group

As at 31 March	2021		2020	
	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	6,380,786	-	6,472,312	-
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,862	10,862	4,648	4,648
Loans and Receivables (Gross)	70,909,996	6,972,230	61,176,382	6,290,708
Lease Rentals Receivable and Stock out on Hire (Gross)	50,520,906	2,856,391	63,534,703	3,117,674
Financial Assets Measured at Fair Value Through Other Comprehensive Income	77,789	77,789	59,141	59,141
Other Financial Assets*	10,433,149	6,895,404	9,105,761	3,643,026
<b>Total Financial Assets</b>	<b>138,333,488</b>	<b>16,812,676</b>	<b>140,352,947</b>	<b>13,115,197</b>

\*Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2021, the net carrying value amount of those investments was Rs. 6,503,654,162/- (2020 - Rs. 3,426,929,172/-).

## Notes to the Financial Statements

### 5.2.2 Collateral and Other Credit Enhancements

The below tables provide an analysis of the values of collateral held and credit enhancements for Stage 03 assets. The values in the tables represent the expected market value on an open market basis. No adjustment has been made to the collateral for any expected costs of recovery.

#### 5.2.2 (a) Company

As at 31 March 2021	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	5,590,002	5,673,053	12,574,165	18,247,218	(12,657,216)	2,339,239
Lease Rentals Receivable and Stock out on Hire	7,903,567	20,360,205	-	20,360,205	(12,456,638)	2,487,333
	13,493,569	26,033,258	12,574,165	38,607,423	(25,113,854)	4,826,572

As at 31 March 2020	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	4,249,210	3,755,674	10,456,698	14,212,372	(9,963,161)	1,915,499
Lease Rentals Receivable and Stock out on Hire	9,069,309	22,301,171	-	22,301,171	(13,231,862)	2,223,973
	13,318,519	26,056,845	10,456,698	36,513,543	(23,195,023)	4,139,472

#### 5.2.2 (b) Group

As at 31 March 2021	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	5,893,489	5,673,053	12,574,165	18,247,218	(12,353,729)	2,373,394
Lease Rentals Receivable and Stock out on Hire	7,903,567	20,360,205	-	20,360,205	(12,456,638)	2,487,333
	13,797,056	26,033,258	12,574,165	38,607,423	(24,810,367)	4,860,727

As at 31 March 2020	Maximum Exposure to Credit Risk	Movable Securities	Immovable Securities	Total Collateral	Net Exposure	Associated ECL
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables	4,273,929	3,755,674	10,456,698	14,212,372	(9,938,443)	1,940,218
Lease Rentals Receivable and Stock out on Hire	9,069,309	22,301,171	-	22,301,171	(13,231,862)	2,223,973
	13,343,238	26,056,845	10,456,698	36,513,543	(23,170,305)	4,164,191

### 5.2.3 Credit Quality By Class Of Financial Assets

#### 5.2.3 (a) Company

As at 31 March 2021	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	6,187,300	-	-	6,187,300
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,862	-	-	10,862
Loans and Receivables (Gross)	49,870,237	14,688,670	5,590,002	70,148,909
Lease Rentals Receivable and Stock out on Hire (Gross)	20,914,856	21,702,483	7,903,567	50,520,906
Financial Assets Measured at Fair Value Through Other Comprehensive Income	77,789	-	-	77,789
Other Financial Assets	10,453,903	-	-	10,453,903
<b>Total Financial Assets</b>	<b>87,514,947</b>	<b>36,391,153</b>	<b>13,493,569</b>	<b>137,399,669</b>

\*Collectively assessed for the impairment

#### Aging Analysis of Past Due (i.e. Facilities in Arrears of 01 Day and Above) But Not Impaired Loans, by Class of Financial Assets

As at 31 March 2021	Past Due But Not Impaired			Total
	Less than 31 Days	31 - 60 Days	61 - 90 Days	
	Rs. '000	Rs. '000	Rs. '000	
Loans and Receivables (Gross)	8,779,264	3,804,806	2,104,600	14,688,670
Lease Rentals Receivable and Stock out on Hire (Gross)	10,686,604	7,185,759	3,830,120	21,702,483
	19,465,868	10,990,565	5,934,720	36,391,153
	53.49%	30.20%	16.31%	100%

#### 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 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 01 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%

### Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Company's assessment do not need to be individually impaired.

### 5.2.3 (b) Group

As at 31 March 2021	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	6,380,786	-	-	6,380,786
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	10,862	-	-	10,862
Loans and Receivables (Gross)	49,998,362	15,018,145	5,893,489	70,909,996
Lease Rentals Receivable and Stock out on Hire (Gross)	20,914,856	21,702,483	7,903,567	50,520,906
Financial Assets Measured at Fair Value Through Other Comprehensive Income	77,789	-	-	77,789
Other Financial Assets	10,433,149	-	-	10,433,149
<b>Total Financial Assets</b>	<b>87,815,804</b>	<b>36,720,628</b>	<b>13,797,056</b>	<b>138,333,488</b>

\*Collectively assessed for the impairment

**Aging Analysis of Past Due (i.e. Facilities in Arrears of 01 Day and Above) But Not Impaired Loans, by Class of Financial Assets**

As at 31 March 2021	Past Due But Not Impaired			
	Less than 31 Days	31 - 60 Days	61 - 90 Days	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Loans and Receivables (Gross)	8,897,843	3,914,138	2,206,164	15,018,145
Lease Rentals Receivable and Stock out on Hire (Gross)	10,686,604	7,185,759	3,830,120	21,702,483
	19,584,447	11,099,897	6,036,284	36,720,628
	0.53%	30.23%	16.44%	100%

**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.

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

**Assets**

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 01 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)	12,075,802	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%

**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

### 5.2.4 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.

#### 5.2.4 (a) Industry-wise Concentration

The outbreak of COVID-19 pandemic highlighted the importance of maintaining a well-diversified portfolio mix through which adverse impact on a certain sector can be covered from the other unaffected sectors to minimise the overall impact on the resilience of the Company. Being a Domestic Systematically Important LFC (D-SILFC), Company has identified its wider responsibility and review the risk appetite and tolerance levels regularly by monitoring the business environment continuously to eliminate being exposed to risky asset classes and customer segments beyond the tolerance levels. This is a prudent measure taken by the Company to manage its concentration risk effectively.

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

As at 31 March 2021 - 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	-	-	19,976,087	10,059,067	-	-	30,035,154
Manufacturing	-	-	4,753,542	2,577,430	-	-	7,330,972
Construction	-	-	786,401	806,707	-	-	1,593,108
Financial Services	6,187,300	-	908,402	367,725	-	10,453,903	17,917,330
Trading	-	10,862	9,765,924	8,667,853	77,789	-	18,522,428
Retail	-	-	62,602	-	-	-	62,602
Hotels	-	-	320,000	325,319	-	-	645,319
Services	-	-	30,205,230	24,555,534	-	-	54,760,764
<b>Total</b>	<b>6,187,300</b>	<b>10,862</b>	<b>66,778,188</b>	<b>47,359,635</b>	<b>77,789</b>	<b>10,453,903</b>	<b>130,867,677</b>

#### 5.2.4 (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 2021 - Company

Province	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	4,801,897	5,227,412	10,029,309
Eastern	3,851,440	1,637,653	5,489,093
North Central	2,310,614	2,473,851	4,784,465
North Western	4,618,716	5,497,555	10,116,271
Northern	4,480,713	304,099	4,784,812
Sabaragamuwa	1,334,843	603,998	1,938,841
Southern	6,003,133	8,157,549	14,160,682
Uva	2,227,308	1,920,384	4,147,692
Western	37,149,524	21,537,134	58,686,658
<b>Total</b>	<b>66,778,188</b>	<b>47,359,635</b>	<b>114,137,823</b>

#### 5.2.4 (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 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
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>

## Notes to the Financial Statements

### 5.2.4 (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 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>

### 5.2.4 (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 2021 - 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	-	-	20,664,480	10,059,067	-	-	30,723,547
Manufacturing	-	-	4,753,542	2,577,430	-	-	7,330,972
Construction	-	-	786,401	806,707	-	-	1,593,108
Financial Services	6,380,786	-	908,402	367,725	-	10,433,149	18,090,062
Trading	-	10,862	9,765,924	8,667,853	77,789	-	18,522,428
Retail	-	-	62,602	-	-	-	62,602
Hotels	-	-	320,000	325,319	-	-	645,319
Services	-	-	30,205,230	24,555,534	-	-	54,760,764
<b>Total</b>	<b>6,380,786</b>	<b>10,862</b>	<b>67,466,581</b>	<b>47,359,635</b>	<b>77,789</b>	<b>10,433,149</b>	<b>131,728,802</b>

#### 5.2.4 (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 2021 - Group

Province/Country	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	4,801,897	5,227,412	10,029,309
Eastern	3,851,440	1,637,653	5,489,093
North Central	2,310,614	2,473,851	4,784,465
North Western	4,618,716	5,497,555	10,116,271
Northern	4,480,713	304,099	4,784,812
Sabaragamuwa	1,334,843	603,998	1,938,841
Southern	6,003,133	8,157,549	14,160,682
Uva	2,227,308	1,920,384	4,147,692
Western	37,149,524	21,537,134	58,686,658
Myanmar	688,393	-	688,393
<b>Total</b>	<b>67,466,581</b>	<b>47,359,635</b>	<b>114,826,216</b>

#### 5.2.4 (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 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
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>

## Notes to the Financial Statements

### 5.2.4 (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 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>

### 5.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

In the context of a financial institution, liquidity risk arises primarily due to mismatches in the maturity profile of assets and liabilities. Liquidity risk for a financial institution can take two forms; market liquidity and funding liquidity risk.

**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 and its second wave in October 2020, 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. Further, the group has taken prudent measures to increase its liquidity buffers and maintained a strong excess liquidity position throughout the year under review. 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 Deputy Managing Director, Executive Directors, representatives from Treasury Department, Fixed Deposits, the Assistant General Manager-Finance and 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.

### 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 2021.

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 2021 - 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	2,787,635	3,399,665	-	-	-	6,187,300
Financial Assets Recognised Through Profit or Loss	10,862	-	-	-	-	10,862
Loans and Receivables	8,606,882	31,370,459	16,373,255	23,314,658	2,459,566	82,124,820
Lease Rentals Receivable and Stock out on Hire	4,417,018	6,724,062	18,236,573	35,691,618	5,925	65,075,196
Financial Assets Measured at Fair Value Through Other Comprehensive Income	77,789	-	-	-	-	77,789
Other Financial Assets	412,504	3,243,829	7,064,079	-	-	10,720,412
<b>Total Financial Assets</b>	<b>16,312,690</b>	<b>44,738,015</b>	<b>41,673,907</b>	<b>59,006,276</b>	<b>2,465,491</b>	<b>164,196,379</b>
<b>Financial Liabilities</b>						
Due to Banks	988,099	1,370,864	7,568,565	8,146,773	-	18,074,301
Due to Depositors	12,423,232	16,416,604	46,735,233	15,251,257	-	90,826,326
Debt Instruments Issued and Other Borrowed Funds	-	195,651	196,788	3,392,500	-	3,784,939
Other Financial Liabilities	1,602,562	74,269	235,309	1,441,057	393,336	3,746,533
<b>Total Financial Liabilities</b>	<b>15,013,893</b>	<b>18,057,388</b>	<b>54,735,895</b>	<b>28,231,587</b>	<b>393,336</b>	<b>116,432,099</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>1,994,491</b>	<b>25,984,933</b>	<b>(13,061,988)</b>	<b>30,774,689</b>	<b>2,072,155</b>	<b>47,764,280</b>

## Notes to the Financial Statements

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 2020.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

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>Financial Assets</b>						
Cash and Cash Equivalents	4,619,793	1,542,844	-	-	-	6,162,637
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>34,913,143</b>	<b>46,050,255</b>	<b>65,861,983</b>	<b>2,462,606</b>	<b>171,425,636</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>6,133,319</b>	<b>(10,384,334)</b>	<b>25,400,757</b>	<b>1,626,714</b>	<b>39,264,662</b>

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 2021.

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 2021 - 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	2,981,121	3,399,665	-	-	-	6,380,786
Financial Assets Recognised Through Profit or Loss	10,862	-	-	-	-	10,862
Loans and Receivables	8,895,653	31,587,748	16,663,261	23,335,362	2,459,566	82,941,590
Lease Rentals Receivable and Stock out on Hire	4,417,018	6,724,062	18,236,573	35,691,618	5,925	65,075,196
Financial Assets Measured at Fair Value Through Other Comprehensive Income	77,789	-	-	-	-	77,789
Other Financial Assets	391,750	3,243,829	7,064,079	-	-	10,699,658
<b>Total Financial Assets</b>	<b>16,774,193</b>	<b>44,955,304</b>	<b>41,963,913</b>	<b>59,026,980</b>	<b>2,465,491</b>	<b>165,185,881</b>
<b>Financial Liabilities</b>						
Due to Banks	988,099	1,373,564	7,631,127	8,146,773	-	18,139,563
Due to Depositors	12,503,374	16,416,604	46,735,233	15,251,257	-	90,906,468
Debt Instruments Issued and Other Borrowed Funds	-	195,651	196,788	3,392,500	-	3,784,939
Other Financial Liabilities	1,603,375	74,269	235,309	1,441,057	393,336	3,747,346
<b>Total Financial Liabilities</b>	<b>15,094,848</b>	<b>18,060,088</b>	<b>54,798,457</b>	<b>28,231,587</b>	<b>393,336</b>	<b>116,578,316</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>2,375,039</b>	<b>26,199,522</b>	<b>(12,834,544)</b>	<b>30,795,393</b>	<b>2,072,155</b>	<b>48,607,565</b>

## Notes to the Financial Statements

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 2020.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

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>

### 5.3.2 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 2021 - 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	-	5,000	28,800	-	-	33,800
Counter Indemnity Issued to Banks for Guarantees	-	-	-	198,441	-	198,441
<b>Total Contingent Liabilities</b>	-	5,000	28,800	198,441	-	232,241
<b>Commitments</b>						
Commitment for Unutilised Facilities	671,312	-	-	-	-	671,312
<b>Total Commitments</b>	671,312	-	-	-	-	671,312
<b>Total Commitments and Contingencies</b>	671,312	5,000	28,800	198,441	-	903,553

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>	83,753	4,000	8,570	188,058	-	284,381
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments</b>	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments and Contingencies</b>	1,728,177	4,000	8,570	188,058	-	1,928,805

## Notes to the Financial Statements

As at 31 March 2021 - 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	-	5,000	28,800	-	-	33,800
Counter Indemnity Issued to Banks for Guarantees	-	-	-	138,963	-	138,963
<b>Total Contingent Liabilities</b>	-	5,000	28,800	138,963	-	172,763
<b>Commitments</b>						
Commitment for Unutilised Facilities	671,312	-	-	-	-	671,312
<b>Total Commitments</b>	671,312	-	-	-	-	671,312
<b>Total Commitments and Contingencies</b>	671,312	5,000	28,800	138,963	-	844,075

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>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>	83,753	4,000	8,570	76,202	-	172,525
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments</b>	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments and Contingencies</b>	1,728,177	4,000	8,570	76,202	-	1,816,949

### 5.3.3 Liquidity Reserves

The table below sets out the components of the Company's liquidity reserves;

As at 31 March	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Notes and Coins Held	1,126,735	1,126,735	936,075	936,075
Balances with Banks	1,660,900	1,660,900	3,683,718	3,683,718
Treasury Bills Repurchase Agreements (Less than 03 Months)	3,399,665	3,399,665	1,542,844	1,542,844
Treasury Bills Repurchase Agreements (More than 03 Months)	3,537,745	3,537,745	5,462,735	5,462,735
Investment in Fixed Deposits	6,503,654	6,503,654	3,426,929	3,426,929
<b>Total Liquidity Reserves</b>	<b>16,228,699</b>	<b>16,228,699</b>	<b>15,052,301</b>	<b>15,052,301</b>

### 5.3.4 Financial Assets Available For Future Funding

The total financial assets recognised in the statement of financial position as at 31 March 2021 and 2020 that can be use for the future funding is shown in the following tables;

As at 31 March 2021 - Company	Encumbered		Unencumbered		Total
	Pledged as Collateral	Other	Available as Collateral	Other	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and Cash Equivalents	-	3,406,500	2,780,800	-	6,187,300
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	-	-	10,862	-	10,862
Financial Assets at Amortised Cost - Loans and Receivables	4,339,514	-	62,438,673	-	66,778,188
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	15,035,388	-	32,324,247	-	47,359,635
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	77,789	-	77,789
Other Financial Assets	-	3,756,500	6,284,898	412,504	10,453,903
<b>Total</b>	<b>19,374,902</b>	<b>7,163,000</b>	<b>103,917,270</b>	<b>412,504</b>	<b>130,867,677</b>

## Notes to the Financial Statements

As at 31 March 2020 - Company	Encumbered		Unencumbered		Total
	Pledged as Collateral	Other	Available as Collateral	Other	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and Cash Equivalents	-	2,113,237	4,049,400	-	6,162,637
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	-	-	4,648	-	4,648
Financial Assets at Amortised Cost - Loans and Receivables	-	-	58,239,254	-	58,239,254
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	24,730,786	-	35,895,884	-	60,626,670
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	59,141	-	59,141
Other Financial Assets	-	6,090,600	2,799,064	230,017	9,119,681
<b>Total</b>	<b>24,730,786</b>	<b>8,203,837</b>	<b>101,047,391</b>	<b>230,017</b>	<b>134,212,031</b>

### 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 is closely scrutinising 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 throughout the year 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	2021		2020	
Impact on NII (Rs. '000)	Parallel Increase 100 bps	Parallel Decrease 100 bps	Parallel Increase 100 bps	Parallel Decrease 100 bps
Annual Impact	(+) 135,282	(-) 135,282	(+) 107,361	(-) 107,361

## 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 2021 - 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	
<b>Financial Assets</b>							
Cash and Cash Equivalents	5,060,565	-	-	-	-	1,126,735	6,187,300
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	10,862	10,862
Loans and Receivables	43,200,238	10,142,110	9,483,643	3,840,917	111,280	-	66,778,188
Lease Rentals Receivable and Stock out on Hire	8,218,232	12,025,759	21,964,625	5,145,759	5,260	-	47,359,635
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	77,789	77,789
Other Financial Assets	3,210,631	6,830,767	-	-	-	412,505	10,453,903
	59,689,666	28,998,636	31,448,268	8,986,676	116,540	1,627,891	130,867,677
<b>Financial Liabilities</b>							
Due to Banks	7,742,186	4,645,189	4,079,804	-	-	-	16,467,179
Due to Depositors	28,084,670	44,238,780	12,034,344	1,502,276	-	-	85,860,070
Debt Instruments Issued and Other Borrowed Funds	-	116,224	2,997,692	-	-	-	3,113,916
Other Financial Liabilities	31,679	113,850	346,231	417,999	531,206	1,602,561	3,043,526
	35,858,535	49,114,043	19,458,071	1,920,275	531,206	1,602,561	108,484,691
Interest Sensitivity Gap	23,831,131	(20,115,407)	11,990,197	7,066,401	(414,666)	25,330	22,382,986

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 repricing 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	
<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
Interest Sensitivity Gap	20,070,497	(18,668,277)	9,569,744	5,905,689	(355,663)	(215,075)	16,306,915

## 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 repricing or maturity dates.

As at 31 March 2021 - 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	
<b>Financial Assets</b>							
Cash and Cash Equivalents	5,247,998	-	-	-	-	1,132,788	6,380,786
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	10,862	10,862
Loans and Receivables	43,660,178	10,355,675	9,498,531	3,840,917	111,280	-	67,466,581
Lease Rentals Receivable and Stock out on Hire	8,218,232	12,025,759	21,964,625	5,145,759	5,260	-	47,359,635
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	77,789	77,789
Other Financial Assets	3,210,631	6,830,767	-	-	-	391,751	10,433,149
	60,337,039	29,212,201	31,463,156	8,986,676	116,540	1,613,190	131,728,802
<b>Financial Liabilities</b>							
Due to Banks	7,744,704	4,702,149	4,079,804	-	-	-	16,526,657
Due to Depositors	28,164,813	44,238,780	12,034,344	1,502,276	-	-	85,940,213
Debt Instruments Issued and Other Borrowed Funds	-	116,224	2,997,692	-	-	-	3,113,916
Other Financial Liabilities	31,679	113,850	346,231	417,999	531,206	1,603,375	3,044,340
	35,941,196	49,171,003	19,458,071	1,920,275	531,206	1,603,375	108,625,126
Interest Sensitivity Gap	24,395,843	(19,958,802)	12,005,085	7,066,401	(414,666)	9,815	23,103,676

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 repricing 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	
<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 Depositors	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
Interest Sensitivity Gap	20,520,916	(18,379,941)	9,523,707	5,905,689	(355,663)	(228,831)	16,985,877

## Notes to the Financial Statements

### 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

As per the Finance Business Act Direction No 3 of 2018, the Licensed Finance Companies (LFCs) with assets of Rs. 100 Bn and above required to maintain a minimum Capital Adequacy Ratio (CAR) of 12% and a Core Capital Ratio (Tier 1) of 8% by 1 July 2020. However, due to the stress on the Sri Lankan Financial System caused by the pandemic, the Central Bank of Sri Lanka (CBSL) has deferred the enhancements of these minimum capital adequacy requirements due by LFCs on 1 July 2020 and 1 July 2021, for a further period of one year until 1 July 2021 and 1 July 2022 respectively. Therefore, being a Domestic Systematically Important LFC, Company is required to maintain following minimum capital ratios within the stipulated time frames.

#### Components of Capital

	1 July 2021	1 July 2022
Tier 1 Capital (%)	8%	10%
Total Capital (%)	12%	14%

As of 31 March 2021, the Company has maintained Risk Weighted Capital Adequacy Ratios above the CBSL's minimum capital requirements.

### 5.6 PROBABLE IMPACT OF COVID-19 OUTBREAK ON BUSINESS OPERATIONS OF THE GROUP

Outbreak of third wave of COVID-19 pandemic in mid April 2021, has raised uncertainties in the business environment. Owing to the current situation, certain branches in lockdown areas have to be closed and Company had to tighten the safety measures to safeguard the health of the staff and also the customers. In order to ensure a smooth business operation, the development of the current situation and its impact to the business operations are being closely monitored by the Management.

## 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) and KMPs of the parent company.

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Short-Term Employment Benefits	413,856	409,376	413,856	409,376
Directors' Fees and Expenses	13,814	16,740	13,814	16,740
Post Employment Benefit Liability	63,608	58,710	63,608	58,710
	491,278	484,826	491,278	484,826

In addition to the above, the Company has also paid non-cash benefits such as vehicles and fuel to Key Management Personnel in line with the approved employment benefits of the Company.

##### 6.1.2 Transactions, Arrangements and Agreements Involving KMPs and Their Close Members of the Family (CMFs)

CMFs of KMPs are those family members who may be expected to influence, or be influenced by, those KMPs in their dealing with the entity.

	Reported Under	Company		Group	
		2021	2020	2021	2020
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Loans against Deposits	Loans and Advances	8,484	-	8,484	-
Advance and Prepayments	Other Non Financial Assets	2,068	-	2,068	-
		10,552	-	10,552	-
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	686,354	523,210	686,354	523,210
Savings Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	18,957	7,125	18,957	7,125
		705,311	530,335	705,311	530,335

## Notes to the Financial Statements

	Reported Under	Company		Group	
		2021	2020	2021	2020
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Income Statement</b>					
Interest Income on Loans and Receivables	Interest Income	46	-	46	-
Interest Expense on Customer Deposits	Interest Expenses	60,221	84,617	60,221	84,617
Administration and Establishment Expenses	Other Operating Expenses	6,425	91	6,425	91
		66,692	84,708	66,692	84,708
<b>Other Transactions</b>					
Deposits Accepted During the Year		297,910	134,215	297,910	134,215
Dividend Paid on Shareholdings		7,223	4,207	7,223	4,207
Supplier Payments		-	5,500	-	5,500
		305,133	143,922	305,133	143,922

### 6.1.3 Transaction, Arrangements and Agreements Involving Entities which are Controlled, and/or Jointly Controlled by the KMPs and Their CMFs

	Reported Under	Company		Group	
		2021	2020	2021	2020
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	74	151	74	151
Leasehold Improvements	Property, Plant and Equipment	22,585	50,293	22,585	50,293
		22,659	50,444	22,659	50,444
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	-	151,279	-	151,279
<b>Income Statement</b>					
Income on Operating Lease	Other Operating Income	26,540	26,540	26,540	26,540
Interest Expense on Customer Deposits	Interest Expenses	3,266	13,772	3,266	13,772
Administration and Establishment Expenses	Other Operating Expenses	4,998	6,507	4,998	6,507
		34,804	46,819	34,804	46,819
<b>Other Transactions</b>					
Deposits Accepted During the Year		-	100,000	-	100,000
Supplier Payments		12,050	22,160	12,050	22,160
		12,050	122,160	12,050	122,160

### 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

	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Other Transactions</b>				
Dividend Paid on Shareholdings	860,189	573,459	860,189	573,459
	860,189	573,459	860,189	573,459

#### Transactions with Subsidiary

	Reported Under	Company		Group	
		2021	2020	2021	2020
		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	521,162	-	-
Due from Subsidiary	Other Financial Assets	21,848	16,278	-	-
		543,010	537,440	-	-
<b>Other Transactions</b>					
Counter Indemnity Issued to Banks for Guarantees	Contingent Liabilities	198,441	188,058	198,441	188,058
		198,441	188,058	198,441	188,058

#### Transactions with Fellow Subsidiaries and Associate Companies of the Parent

	Reported Under	Company		Group	
		2021	2020	2021	2020
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Leasehold Improvements	Property, Plant and Equipment	7,914	6,180	7,914	6,180
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	3,721	811	3,721	811
Investment in Equity Securities	Financial Assets Measured at Fair Value Through Other Comprehensive Income	53,422	33,349	53,422	33,349
Due from Related Party		22	-	22	-
		65,079	40,340	65,079	40,340
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	316,214	305,555	316,214	305,555
Due to Related Party	Other Financial Liabilities	-	128	-	128
		316,214	305,683	316,214	305,683

## Notes to the Financial Statements

	Reported Under	Company		Group	
		2021	2020	2021	2020
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Income Statement</b>					
Dividend Income	Other Operating Income	-	4,098	-	4,098
Interest Expense on Customer Deposits	Interest Expenses	34,621	15,180	34,621	15,180
Operating Expenses	Other Operating Expenses	622	1,046	622	1,046
		35,243	20,324	35,243	20,324
<b>Other Transactions</b>					
Deposits Accepted During the Year		41,000	292,500	41,000	292,500
Dividend Paid on Shareholdings		433,479	288,986	433,479	288,986
		474,479	581,486	474,479	581,486

### 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.

### 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					
	2021			2020			2021			2020		
	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total	Within 12 Months	After 12 Months	Total
Rs. '000	Rs. '000	Rs. '000	Rs. '000	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	6,187,300	-	6,187,300	6,162,637	-	6,162,637	6,380,786	-	6,380,786	6,472,312	-	6,472,312
Financial Assets Recognised Through Profit or Loss												
- Measured at Fair Value	10,862	-	10,862	4,648	-	4,648	10,862	-	10,862	4,648	-	4,648
Financial Assets at Amortised Cost												
- Loans and Receivables	48,525,243	18,252,945	66,778,188	43,441,871	14,797,383	58,239,254	49,197,014	18,269,567	67,466,581	43,995,961	14,797,383	58,793,344
- Lease Rentals Receivable and Stock out on Hire	20,243,991	27,115,644	47,359,635	25,645,341	34,981,329	60,626,670	20,243,991	27,115,644	47,359,635	25,645,341	34,981,329	60,626,670
Financial Assets Measured at Fair Value Through												
Other Comprehensive Income	77,789	-	77,789	59,141	-	59,141	77,789	-	77,789	59,141	-	59,141
Other Financial Assets	10,453,903	-	10,453,903	9,119,681	-	9,119,681	10,433,149	-	10,433,149	9,105,761	-	9,105,761
Other Non Financial Assets	920,406	-	920,406	915,119	52,350	967,469	927,830	-	927,830	924,139	52,350	976,489
Investment in Subsidiary	-	521,162	521,162	-	521,162	521,162	-	-	-	-	-	-
Property, Plant and Equipment and Right-of-Use Assets	-	8,241,259	8,241,259	-	8,221,248	8,221,248	-	8,250,546	8,250,546	-	8,228,222	8,228,222
Intangible Assets	-	26,021	26,021	-	41,809	41,809	-	36,271	36,271	-	55,064	55,064
<b>Total Assets</b>	86,419,494	54,157,031	140,576,525	85,348,438	58,615,281	143,963,719	87,271,421	53,672,028	140,943,449	86,207,303	58,114,348	144,321,651
<b>Liabilities</b>												
Due to Banks	8,881,793	7,585,386	16,467,179	8,025,813	14,745,272	22,771,085	8,941,271	7,585,386	16,526,657	8,083,469	14,799,472	22,882,941
Financial Liabilities at Amortised Cost - Due to Depositors	72,323,450	13,536,620	85,860,070	74,725,038	14,531,397	89,256,435	72,403,593	13,536,620	85,940,213	74,783,700	14,531,397	89,315,097
Debt Instruments Issued and Other Borrowed Funds	116,224	2,997,692	3,113,916	116,611	2,994,575	3,111,186	116,224	2,997,692	3,113,916	116,611	2,994,575	3,111,186
Other Financial Liabilities	1,748,090	1,295,436	3,043,526	1,562,949	1,203,461	2,766,410	1,748,904	1,295,436	3,044,340	1,563,314	1,203,461	2,766,775
Other Non Financial Liabilities	1,028,054	-	1,028,054	909,266	-	909,266	1,051,185	-	1,051,185	925,778	-	925,778
Current Tax Liabilities	1,872,154	-	1,872,154	766,752	-	766,752	1,877,558	-	1,877,558	777,057	-	777,057
Deferred Tax Liabilities	-	637,073	637,073	-	1,037,580	1,037,580	-	637,073	637,073	-	1,037,580	1,037,580
Post Employment Benefit Liability	-	365,265	365,265	-	345,456	345,456	-	365,265	365,265	-	345,456	345,456
<b>Total Liabilities</b>	85,969,765	26,417,472	112,387,237	86,106,429	34,857,741	120,964,170	86,138,735	26,417,472	112,556,207	86,249,929	34,911,941	121,161,870
<b>Maturity Gap</b>	449,729	27,739,559	28,189,288	(757,991)	23,757,540	22,999,549	1,132,686	27,254,556	28,387,242	(42,626)	23,202,407	23,159,781
<b>Cumulative Gap</b>	449,729	28,189,288	-	(757,991)	22,999,549	-	1,132,686	28,387,242	-	(42,626)	23,159,781	-

# Notes to the Financial Statements

## 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 Group is organised into four operating segments based on services offered and geographical operations as presented in the table below. Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed separately for the Company and its international operation and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2021 or 2020. There were no transactions between reportable segments in 2021 or 2020.

	Lease and Stock out on Hire		Loans and Receivables		Others		International Operation		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	13,562,554	15,900,624	12,582,425	11,917,386	1,312,762	1,342,282	153,235	136,811	27,610,976	29,297,103
Less: Interest Expenses	4,931,629	6,804,199	5,523,308	5,734,218	1,067,864	1,076,974	20,525	15,980	11,543,326	13,631,371
Net Interest Income	8,630,925	9,096,425	7,059,117	6,183,168	244,898	265,308	132,710	120,831	16,067,650	15,665,732
Fee and Commission Income	771,882	827,288	1,407,428	1,102,697	5,637	11,641	11,440	8,554	2,196,387	1,950,180
Net Trading Income and Other Operating Income	2,203	33,092	82,398	305	38,834	87,545	(479)	(807)	122,956	112,135
Total Operating Income	9,405,010	9,956,805	8,548,943	7,286,170	289,369	364,494	143,671	120,578	18,386,993	17,728,047
Less: Impairment Charges and Other Losses	570,708	725,603	1,113,404	1,094,543	7,622	10,910	36,173	25,439	1,727,907	1,856,495
Net Operating Income	8,834,302	9,231,202	7,435,539	6,191,627	281,747	353,584	107,498	95,139	16,659,086	15,871,552
Less: Other Costs	2,227,868	2,742,002	2,578,945	2,385,355	23,838	46,818	80,367	48,865	4,911,018	5,223,040
Less: Depreciation	295,795	364,106	448,465	342,489	979	6,794	5,693	3,375	750,932	716,764
Operating Profits Before Taxes	6,310,639	6,125,094	4,408,129	3,463,783	256,930	299,972	21,438	42,899	10,997,136	9,931,748
Less: Taxes	2,399,384	2,912,262	1,676,028	1,646,904	97,689	142,627	17,230	19,094	4,190,331	4,720,887
Profits for the Year	3,911,255	3,212,832	2,732,101	1,816,879	159,241	157,345	4,208	23,805	6,806,805	5,210,861
Less: Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-
Profit Attributable to Equity Holders of the Company	3,911,255	3,212,832	2,732,101	1,816,879	159,241	157,345	4,208	23,805	6,806,805	5,210,861
Segmental Assets	50,684,560	64,783,204	71,466,410	62,466,252	18,425,552	16,714,262	909,935	895,372	141,486,457	144,859,090
Elimination	-	-	-	-	(543,008)	(537,439)	-	-	(543,008)	(537,439)
Total Segmental Assets	50,684,560	64,783,204	71,466,410	62,466,252	17,882,544	16,176,823	909,935	895,372	140,943,449	144,321,651
Segmental Liabilities	40,671,757	54,387,225	57,348,123	52,544,874	14,367,355	14,032,068	190,820	213,981	112,578,055	121,178,148
Elimination	-	-	-	-	-	-	(21,848)	(16,278)	(21,848)	(16,278)
Total Segmental Liabilities	40,671,757	54,387,225	57,348,123	52,544,874	14,367,355	14,032,068	168,972	197,703	112,556,207	121,161,870
Cash Flows from Operating Activities	3,044,699	2,562,308	4,293,095	2,470,667	1,074,231	639,826	(59,378)	(5,789)	8,352,647	5,667,012
Cash Flows from Investing Activities	(152,482)	(421,017)	(215,004)	(405,960)	(53,799)	(105,131)	(4,433)	(16,579)	(425,718)	(948,687)
Cash Flows from Financing Activities	(2,980,178)	(934,319)	(4,202,120)	(900,903)	(1,051,467)	(233,306)	(52,378)	111,856	(8,286,143)	(1,956,672)
Capital Expenditure	-	-	-	-	-	-	-	-	-	-
Property, Plant and Equipment	(193,989)	(421,976)	(273,529)	(406,884)	(68,443)	(105,370)	(4,433)	(4,757)	(540,394)	(938,987)
Intangible Assets	(238)	(8,059)	(336)	(7,772)	(84)	(2,013)	-	(11,822)	(658)	(29,666)

## 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

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Guarantees Issued to Banks and Other Institutions	33,800	12,570	33,800	12,570
Counter Indemnity Issued to Banks for Guarantees*	198,441	188,058	138,963	76,202
Import LC and Ordinary Guarantees	-	83,753	-	83,753
<b>Total Contingent Liabilities</b>	<b>232,241</b>	<b>284,381</b>	<b>172,763</b>	<b>172,525</b>

\*Contingent liability as at 31 March 2021, 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

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitment for Unutilised Facilities	671,312	1,644,424	671,312	1,644,424
<b>Total Commitments</b>	<b>671,312</b>	<b>1,644,424</b>	<b>671,312</b>	<b>1,644,424</b>

### 6.5.3 Commitments and Contingencies

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingent Liabilities	232,241	284,381	172,763	172,525
Commitments	671,312	1,644,424	671,312	1,644,424
<b>Total Commitments and Contingencies</b>	<b>903,553</b>	<b>1,928,805</b>	<b>844,075</b>	<b>1,816,949</b>
Allowance for Impairment	(4,375)	(3,955)	(4,375)	(3,955)
<b>Net of Impairment</b>	<b>899,178</b>	<b>1,924,850</b>	<b>839,700</b>	<b>1,812,994</b>

## Notes to the Financial Statements

### 6.5.4 Litigation Against the Company and Group

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.

As at 31 March	Company		Group	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cases Pending Against the Company and Group (Values Claimed)</b>	141,916	83,260	141,916	83,260

### 6.6 NET ASSET VALUE PER SHARE

As at 31 March	Company			Group		
	2021	2020	2020	2021	2020	2020
	Rs. '000					
		Restated			Restated	
<b>Amounts Used as the Numerators:</b>						
Total Equity Attributable to Equity Holders	28,189,288	22,999,549	22,999,549	28,387,242	23,159,781	23,159,781
<b>Number of Ordinary Shares Used as Denominators:</b>						
Total Number of Ordinary Shares in Issue	554,057,136	554,057,136	138,514,284	554,057,136	554,057,136	138,514,284
Net Asset Value per Share (Rs.)	50.88	41.51	166.04	51.24	41.80	167.20

Net Assets Value per Ordinary Share of 2020 have been restated based on the post sub-division weighted average number of ordinary shares as at 31 March 2021.

### 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	
			2021	2020	2021	2020
			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/Loans and Receivables	19,374,902	24,730,786	19,374,902	24,730,786
Freehold Land and Building	Term Loans	Property, Plant and Equipment	1,601,607	1,979,558	1,601,607	1,979,558
			20,976,509	26,710,344	20,976,509	26,710,344

\*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. 25,272,925,414/- (2020 - Rs. 32,470,082,916/-).

## 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.

## 6.9 EVENTS OCCURRING AFTER THE REPORTING DATE

As the third wave of COVID-19 pandemic evolves, governments are implementing additional measures to address the resulting public health issues and the economic impact. To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices. We increased our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.

The Group will continue to monitor the COVID-19 situation and will take further action as necessary in response to the economic disruption.

Subsequent to the reporting date, the Board of Directors of the Company recommended the payment of a final dividend of Rs. 4.00 per share for the year ended 31 March 2021. This final dividend is yet to be approved at the Annual General Meeting to be held on 30 June 2021. In accordance with the Sri Lanka Accounting Standard – LKAS 10 (Events After the Reporting Period), this proposed final dividend has not been recognised as a liability as at 31 March 2021.

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 2021 are disclosed below together with the comparative figures for the year ended 31 March 2020.

The funds borrowed by the Company and the Group are given in Note 4.26 and Note 4.28.

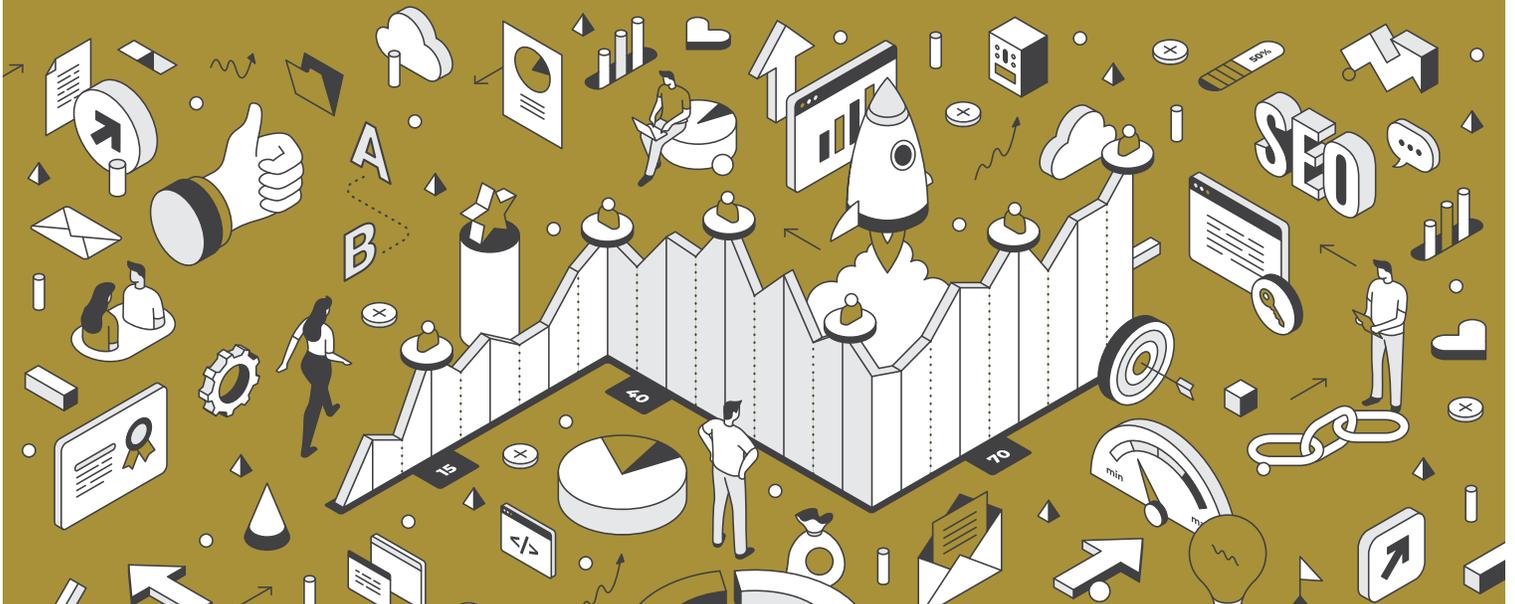
	Company			
	Debt Funding from Banks		Debt Instruments Issued and Other Borrowed Funds	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	22,050,674	23,565,145	3,111,186	3,107,783
Net Cash Flows from Financing Activities	(5,368,955)	(2,575,836)	-	-
Non Cash Changes				
Foreign Exchange Movements	-	-	-	-
Net Accrual for Interest Expense	(1,202,639)	1,061,365	2,730	3,403
<b>Balance as at the End of the Year</b>	<b>15,479,080</b>	<b>22,050,674</b>	<b>3,113,916</b>	<b>3,111,186</b>
Within 12 Months	7,893,694	7,305,401	116,224	116,611
After 12 Months	7,585,386	14,745,273	2,997,692	2,994,575
<b>Total</b>	<b>15,479,080</b>	<b>22,050,674</b>	<b>3,113,916</b>	<b>3,111,186</b>

## Notes to the Financial Statements

	Group			
	Debt Funding from Banks		Debt Instruments Issued and Other Borrowed Funds	
	2021	2020	2021	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at the Beginning of the Year	22,162,530	23,565,145	3,111,186	3,107,783
Net Cash Flows from Financing Activities	(5,425,914)	(2,467,435)	-	-
Non Cash Changes				
Foreign Exchange Movements	-	-	-	-
Net Accrual for Interest Expense	(1,198,058)	1,064,820	2,730	3,403
<b>Balance as at the End of the Year</b>	<b>15,538,558</b>	<b>22,162,530</b>	<b>3,113,916</b>	<b>3,111,186</b>
Within 12 Months	7,953,172	7,363,058	116,224	116,611
After 12 Months	7,585,386	14,799,472	2,997,692	2,994,575
<b>Total</b>	<b>15,538,558</b>	<b>22,162,530</b>	<b>3,113,916</b>	<b>3,111,186</b>

# Supplementary Information

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# Decade at a Glance

Key Indicators		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Operating Results</b>											
Net Interest Margin	%	11.43	10.22	10.38	12.67	12.17	10.91	11.15	11.87	11.96	12.15
Cost to Income	%	41.75	42.30	41.29	35.88	35.89	39.01	37.37	34.22	33.44	30.56
Interest Spread	%	10.84	9.49	9.45	11.55	11.09	9.59	9.65	10.32	10.46	10.62
<b>Financial Position</b>											
Total Assets to Equity	No. of times	10.75	10.18	9.80	8.52	8.07	8.21	7.87	7.40	6.26	4.99
Debt to Equity	No. of times	9.48	8.89	8.54	7.15	6.73	6.89	6.58	6.02	5.01	3.74
Equity to Deposits	%	14.60	13.75	13.46	17.45	19.63	20.71	21.04	22.14	25.77	32.83
<b>Investor Information</b>											
Return on Equity (ROE)	%	52.64	36.62	23.23	30.88	40.40	34.09	30.52	29.93	25.04	26.58
Return on Assets (ROA)	%	4.85	3.51	2.33	3.40	4.89	4.18	3.80	3.93	3.70	4.78
Equity to Assets	%	9.31	9.83	10.21	11.74	12.40	12.17	12.70	13.51	15.98	20.05
Net Assets Value per Share*	Rs.	7.16	9.62	11.20	14.31	18.91	22.58	27.70	33.26	41.51	50.88
Earnings per Share (EPS)*	Rs.	3.09	3.07	2.42	3.94	6.71	7.07	7.67	9.12	9.36	12.28
Dividend per Share (DPS)	Rs.	5.00	6.50	6.50	10.00	7.50	9.00	11.00	12.00	-	7.00
Dividend Cover	No. of times	4.95	3.78	2.98	3.15	3.58	3.14	2.79	3.04	-	1.75
Dividend Yield	%	2.86	4.82	4.90	9.99	9.99	8.48	9.25	10.09	-	23.24
Dividend Payout	%	20.20	26.45	33.59	31.74	27.94	31.82	35.84	32.88	-	57.01
Price Earning Ratio (PE)	No. of times	5.45	5.40	5.17	4.77	3.95	4.19	3.87	3.29	3.22	3.86
Price to Book Value (PBV)	No. of times	2.35	1.72	1.12	1.31	1.40	1.31	1.07	0.90	0.73	0.93
Market Price per Share**	Rs.	134.90	132.70	100.10	150.20	106.10	118.40	118.90	120.10	120.50	47.40
Market Capitalisation	Rs. Million	9,343	9,190	6,933	10,402	14,696	16,400	16,469	16,636	16,691	26,262
Interest Cover	No. of times	1.69	1.42	1.26	1.56	1.92	1.72	1.56	1.60	1.56	1.81
<b>Growth</b>											
Income	%	44.26	43.23	19.88	8.51	5.81	23.76	29.35	16.90	6.64	(4.67)
Interest Income	%	42.01	44.25	20.78	7.65	5.42	24.13	30.62	16.97	6.57	(5.84)
Interest Expense	%	46.87	67.39	20.05	(16.65)	(2.96)	40.52	41.74	12.64	5.13	(15.37)
Net Interest Income	%	37.69	22.31	21.72	38.76	11.86	13.20	21.41	21.16	7.86	2.51
Profit before Taxation	%	46.19	3.63	(26.05)	78.33	59.81	10.33	10.26	19.50	(1.68)	22.29
Profit after Taxation	%	67.98	(0.69)	(21.27)	62.84	70.37	5.39	8.49	18.91	2.62	31.15
Total Assets	%	52.15	27.17	12.16	11.06	25.13	21.59	17.57	12.89	5.55	(2.35)
Lending Portfolio	%	55.03	22.09	9.99	13.75	27.87	24.59	14.80	10.85	4.78	(3.98)
Deposit Base	%	34.1	42.58	18.98	(1.44)	17.50	13.16	20.76	14.08	7.26	(3.81)
Equity	%	55.97	34.29	16.48	27.72	32.20	19.37	22.70	20.06	24.81	22.56
<b>Employee</b>											
Profit before Tax per Employee	Rs. '000	1,541	1,229	875	1,387	1,940	1,823	1,883	2,139	2,110	2,631
Profit after Tax per Employee	Rs. '000	1,020	828	627	908	1,354	1,216	1,235	1,397	1,438	1,923
Total Assets per Employee	Rs. '000	25,395	26,385	28,497	28,131	30,800	31,904	35,112	37,697	39,923	39,755
No. of Branches		65	89	97	100	110	118	123	127	129	152
No. of Gold Loan Centres		47	37	37	35	36	36	36	36	36	17
Total No. of Outlets		112	126	134	135	146	154	159	163	165	169
No. of Employees		1,679	2,055	2,134	2,401	2,744	3,221	3,441	3,618	3,606	3,536
Employees per Outlet		15	16	16	18	19	21	22	22	22	21

\*2019/20 Ratios have been restated based on the post sub-division of shares.

\*\*Market price per share of 2019/20 represents the share price before the sub-division.

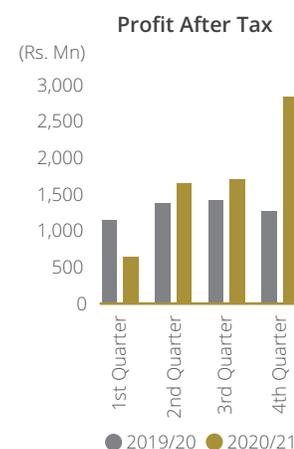
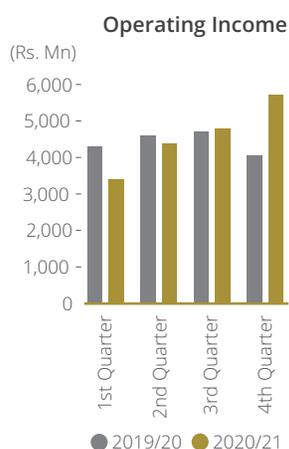
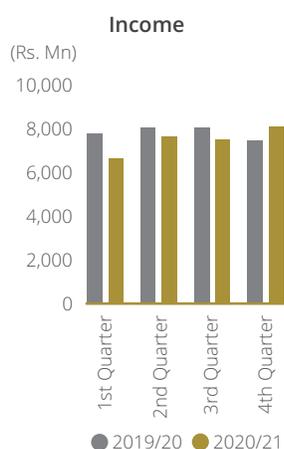
## FINANCIAL STATEMENTS PREPARED UNDER LKASs AND SLFRSs - COMPANY

	2011/12 Rs. '000	2012/13 Rs. '000	2013/14 Rs. '000	2014/15 Rs. '000	2015/16 Rs. '000	2016/17 Rs. '000	2017/18 Rs. '000	2018/19 Rs. '000	2019/20 Rs. '000	2020/21 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	29,766,124
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	27,457,741
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	11,522,802
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	15,934,939
Other Operating Income	639,481	841,422	914,408	1,100,686	1,217,737	1,453,493	1,652,087	1,914,256	2,062,567	2,308,383
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	18,243,322
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	1,691,734
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	5,575,890
Profit before Taxation	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	9,306,375
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	1,669,323
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	2,503,778
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	6,802,597
<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	6,187,300
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	10,862
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	66,778,188
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	47,359,635
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	77,789
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	10,453,903
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	920,406
Investment in Subsidiary	-	-	-	-	-	-	152,915	318,999	521,162	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	8,241,259
Intangible Assets	19,340	23,669	36,425	35,305	34,765	49,189	48,119	39,847	41,809	26,021
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	140,576,525
<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	16,467,179
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	85,860,070
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	3,113,916
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	3,043,526
Other Non Financial Liabilities	757,275	694,933	250,496	516,719	597,806	673,436	852,715	2,070,632	909,266	1,028,054
Current Tax Liabilities	244,831	147,956	103,717	534,744	741,251	691,091	633,058	1,395,971	766,752	1,872,154
Deferred Tax Liabilities	-	-	-	11,930	143,142	503,488	1,058,750	1,309,722	1,037,580	637,073
Post Employment Benefit Liability	44,231	60,230	93,198	112,574	126,858	153,621	231,240	256,512	345,456	365,265
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	112,387,237
<b>Equity</b>										
Stated Capital	838,282	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	19,754,900
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	7,596,106
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	28,189,288
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	140,576,525

# Quarterly Financial Statements 2020/21

## INCOME STATEMENT - COMPANY

For the 3 months ended	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2020	30.06.2019	30.09.2020	30.09.2019	31.12.2020	31.12.2019	31.03.2021	31.03.2020
	Rs. '000	Rs. '000						
<b>Income</b>	6,625,050	7,723,847	7,597,826	8,025,906	7,472,565	8,024,351	8,070,683	7,448,756
Interest Income	6,253,967	7,261,800	6,908,276	7,532,438	6,972,376	7,496,400	7,323,122	6,869,655
Less: Interest Expenses	3,240,614	3,439,702	3,235,783	3,445,264	2,690,143	3,325,576	2,356,263	3,404,850
<b>Net Interest Income</b>	3,013,353	3,822,098	3,672,493	4,087,174	4,282,233	4,170,824	4,966,859	3,464,805
Fee and Commission Income	354,366	432,995	649,448	452,567	446,631	496,259	734,501	559,806
Net Trading Income	1,426	(761)	1,473	52	1,967	978	1,458	(2,369)
Other Operating Income	15,291	29,813	38,629	40,849	51,591	30,714	11,602	21,664
<b>Total Operating Income</b>	3,384,436	4,284,145	4,362,043	4,580,642	4,782,422	4,698,775	5,714,420	4,043,906
Less: Impairment Charges and Other Losses	1,019,573	357,034	108,136	76,167	440,093	225,537	123,930	1,172,319
<b>Net Operating Income</b>	2,364,863	3,927,111	4,253,907	4,504,475	4,342,329	4,473,238	5,590,490	2,871,587
<b>Less: Operating Expenses</b>								
Personnel Expenses	670,670	703,354	785,960	766,062	767,231	766,610	735,962	769,163
Depreciation of Property, Plant and Equipment	176,656	110,225	185,665	113,499	187,459	116,547	179,014	357,237
Amortisation of Intangible Assets	4,487	4,140	4,127	3,994	4,025	3,890	3,806	3,858
Other Operating Expenses	395,168	663,473	481,699	690,950	469,480	639,850	524,482	174,713
<b>Operating Profit before Tax on Financial Services</b>	1,117,882	2,445,919	2,796,456	2,929,970	2,914,134	2,946,341	4,147,226	1,566,616
Less: Tax on Financial Services	215,991	604,813	424,215	704,918	450,132	690,829	578,985	278,000
<b>Profit before Taxation</b>	901,891	1,841,106	2,372,241	2,225,052	2,464,002	2,255,512	3,568,241	1,288,616
Less: Income Tax Expense	263,197	705,907	730,818	853,069	766,091	842,415	743,672	21,843
<b>Profit for the Year</b>	638,694	1,135,199	1,641,423	1,371,983	1,697,911	1,413,097	2,824,569	1,266,773



**STATEMENT OF FINANCIAL POSITION - COMPANY**

As at	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	30.06.2020	30.06.2019	30.09.2020	30.09.2019	31.12.2020	31.12.2019	31.03.2021	31.03.2020
	Rs. '000							
<b>Assets</b>								
Cash and Cash Equivalents	11,539,664	7,954,473	9,675,531	9,023,378	9,999,949	9,140,567	6,187,300	6,162,637
Financial Assets Recognised Through Profit or Loss								
- Measured at Fair Value	6,074	6,105	7,547	6,157	9,514	7,135	10,862	4,648
Financial Assets at Amortised Cost								
- Loans and Receivables	56,743,210	49,399,715	62,372,238	52,177,948	63,300,464	55,677,052	66,778,188	58,239,254
Financial Assets at Amortised Cost								
- Lease Rentals Receivable and Stock out on Hire	57,534,311	65,052,489	52,394,925	63,235,034	49,100,964	61,932,840	47,359,635	60,626,670
Financial Assets Measured at Fair Value								
Through Other Comprehensive Income	71,637	91,350	71,503	78,751	83,935	87,810	77,789	59,141
Other Financial Assets	11,797,570	8,578,324	12,841,145	11,155,069	13,404,418	8,336,199	10,453,903	9,119,681
Other Non Financial Assets	896,814	1,092,676	830,335	1,015,469	899,913	1,103,778	920,406	967,469
Investment in Subsidiary	521,162	318,999	521,162	318,999	521,162	521,162	521,162	521,162
Property, Plant and Equipment and Right-of-Use Assets	8,173,114	6,885,939	8,193,515	6,945,751	8,100,199	6,909,019	8,241,259	8,221,248
Intangible Assets	37,322	51,404	34,460	49,045	30,434	45,155	26,021	41,809
<b>Total Assets</b>	<b>147,320,878</b>	<b>139,431,474</b>	<b>146,942,361</b>	<b>144,005,601</b>	<b>145,450,952</b>	<b>143,760,717</b>	<b>140,576,525</b>	<b>143,963,719</b>
<b>Liabilities</b>								
Due to Banks	26,008,792	25,949,519	22,390,055	27,936,586	20,171,762	26,927,450	16,467,179	22,771,085
Financial Liabilities at Amortised Cost								
- Due to Depositors	88,730,175	85,038,452	89,692,374	87,062,879	88,312,929	86,322,649	85,860,070	89,256,435
Debt Instruments Issued and Other Borrowed Funds	3,013,393	3,010,696	3,112,985	3,110,397	3,016,326	3,013,310	3,113,916	3,111,186
Other Financial Liabilities	2,939,118	1,741,322	3,066,111	1,741,202	3,039,371	1,793,699	3,043,526	2,766,410
Other Non Financial Liabilities	1,183,416	1,113,616	1,412,630	1,253,126	1,579,378	1,178,697	1,028,054	909,266
Current Tax Liabilities	399,037	1,440,305	579,984	947,831	924,995	1,141,496	1,872,154	766,752
Deferred Tax Liabilities	1,037,580	1,309,721	1,037,580	1,309,721	1,037,580	1,309,721	637,073	1,037,580
Post Employment Benefit Liability	358,629	263,851	358,615	274,543	366,242	282,222	365,265	345,456
<b>Total Liabilities</b>	<b>123,670,140</b>	<b>119,867,482</b>	<b>121,650,334</b>	<b>123,636,285</b>	<b>118,448,583</b>	<b>121,969,244</b>	<b>112,387,237</b>	<b>120,964,170</b>
<b>Equity</b>								
Stated Capital	838,282	838,282	838,282	838,282	838,282	838,282	838,282	838,282
Reserves	6,357,173	5,438,778	6,685,323	5,700,574	7,037,337	5,992,253	7,596,106	6,216,939
Retained Earnings	16,455,283	13,286,932	17,768,422	13,830,460	19,126,750	14,960,938	19,754,900	15,944,328
<b>Total Equity</b>	<b>23,650,738</b>	<b>19,563,992</b>	<b>25,292,027</b>	<b>20,369,316</b>	<b>27,002,369</b>	<b>21,791,473</b>	<b>28,189,288</b>	<b>22,999,549</b>
<b>Total Liabilities and Equity</b>	<b>147,320,878</b>	<b>139,431,474</b>	<b>146,942,361</b>	<b>144,005,601</b>	<b>145,450,952</b>	<b>143,760,717</b>	<b>140,576,525</b>	<b>143,963,719</b>
<b>Quarterly NPL Information</b>								
NPL Ratio - Gross	6.61%	3.25%	7.90%	3.09%	7.95%	3.34%	5.36%	3.93%
NPL Ratio - Net	1.56%	0.08%	2.91%	-0.17%	2.47%	-0.07%	0.10%	-0.12%

## Income Statement (Us Dollars)

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	US\$. '000	US\$. '000	US\$. '000	US\$. '000
<b>Income</b>	148,831	164,331	149,653	165,050
Interest Income	137,289	153,475	138,055	154,195
Less: Interest Expenses	57,614	71,660	57,717	71,744
<b>Net Interest Income</b>	79,675	81,815	80,338	82,451
Fee and Commission Income	10,925	10,219	10,983	10,264
Net Trading Income	32	(11)	32	(11)
Other Operating Income	585	648	583	601
<b>Total Operating Income</b>	91,217	92,671	91,936	93,305
Less: Impairment Charges and Other Losses	8,459	9,637	8,640	9,771
<b>Net Operating Income</b>	82,758	83,034	83,296	83,533
<b>Less: Operating Expenses</b>				
Personnel Expenses	14,799	15,817	15,040	15,969
Depreciation of Property, Plant and Equipment	3,644	3,671	3,655	3,677
Amortisation of Intangible Assets	82	84	100	95
Other Operating Expenses	9,354	11,416	9,515	11,520
<b>Total Operating Expenses</b>	27,879	30,986	28,310	31,261
<b>Operating Profit before Tax on Financial Services</b>	54,879	52,048	54,986	52,272
Less: Tax on Financial Services	8,347	11,992	8,347	11,992
<b>Profit before Taxation</b>	46,532	40,055	46,639	40,280
Less: Income Tax Expense	12,519	12,754	12,605	12,854
<b>Profit for the Year</b>	34,013	27,301	34,034	27,426
<b>Profit Attributable to:</b>				
Equity Holders of the Company	34,013	27,301	34,034	27,426
Non-Controlling Interest	-	-	-	-
<b>Profit for the Year</b>	34,013	27,301	34,034	27,426
<b>Earnings per Share: Basic/Diluted (US\$)</b>	0.06	0.05	0.06	0.05
<b>Dividend per Share</b>				
Dividend per Share (US\$)	0.04	-		

Exchange rate of US\$ was Rs. 200.00 as at 31 March 2021 (Rs. 190.00 as at 31 March 2020).

## Statement of Comprehensive Income (US Dollars)

Year ended 31 March	Company		Group	
	2021	2020	2021	2020
	US\$. '000	US\$. '000	US\$. '000	US\$. '000
<b>Profit for the Year</b>	34,013	27,301	34,034	27,426
<b>Other Comprehensive Income that will be Reclassified to Income Statement</b>				
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	168	508
Less: Deferred Tax Charge/(Reversal) on above Items	-	-	-	-
<b>Net Other Comprehensive Income that will be Reclassified to Income Statement</b>	-	-	168	508
<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	93	(161)	93	(161)
Actuarial Gains/(Losses) on Defined Benefit Plans	202	(220)	202	(220)
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	48	(61)	48	(61)
Net Actuarial Gains/(Losses) on Defined Benefit Plans	154	(159)	154	(159)
<b>Net Other Comprehensive Income that will never be Reclassified to Income Statement</b>	247	(320)	247	(320)
<b>Other Comprehensive Income for the Year, Net of Tax</b>	247	(320)	415	188
<b>Total Comprehensive Income for the Year, Net of Tax</b>	34,260	26,981	34,449	27,614
<b>Attributable to:</b>				
Equity Holders of the Company	34,260	26,981	34,449	27,614
Non-Controlling Interest	-	-	-	-
<b>Total Comprehensive Income for the Year, Net of Tax</b>	34,260	26,981	34,449	27,614

Exchange rate of US\$ was Rs. 200.00 as at 31 March 2021 (Rs. 190.00 as at 31 March 2020).

## Statement of Financial Position (US Dollars)

As at 31 March	Company		Group	
	2021	2020	2021	2020
	US\$. '000	US\$. '000	US\$. '000	US\$. '000
<b>Assets</b>				
Cash and Cash Equivalents	30,937	32,435	31,904	34,065
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	54	24	54	24
Financial Assets at Amortised Cost - Loans and Receivables	333,891	306,522	337,333	309,439
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	236,798	319,088	236,798	319,088
Financial Assets Measured at Fair Value Through Other Comprehensive Income	389	311	389	311
Other Financial Assets	52,270	47,998	52,166	47,925
Other Non Financial Assets	4,602	5,093	4,639	5,140
Investment in Subsidiary	2,606	2,743	-	-
Property, Plant and Equipment and Right-of-Use Assets	41,206	43,270	41,253	43,306
Intangible Assets	130	220	181	290
<b>Total Assets</b>	<b>702,883</b>	<b>757,704</b>	<b>704,717</b>	<b>759,588</b>
<b>Liabilities</b>				
Due to Banks	82,336	119,848	82,633	120,437
Financial Liabilities at Amortised Cost - Due to Depositors	429,300	469,771	429,701	470,079
Debt Instruments Issued and Other Borrowed Funds	15,570	16,375	15,570	16,375
Other Financial Liabilities	15,218	14,560	15,222	14,562
Other Non Financial Liabilities	5,140	4,784	5,256	4,872
Current Tax Liabilities	9,361	4,036	9,388	4,090
Deferred Tax Liabilities	3,185	5,461	3,185	5,461
Post Employment Benefit Liability	1,826	1,818	1,826	1,818
<b>Total Liabilities</b>	<b>561,936</b>	<b>636,653</b>	<b>562,781</b>	<b>637,694</b>
<b>Equity</b>				
Stated Capital	4,191	4,412	4,191	4,412
Reserves	37,981	32,721	38,735	33,339
Retained Earnings	98,775	83,918	99,010	84,143
<b>Total Equity Attributable to Equity Holders of the Company</b>	<b>140,947</b>	<b>121,051</b>	<b>141,936</b>	<b>121,894</b>
Non-Controlling Interest	-	-	-	-
<b>Total Equity</b>	<b>140,947</b>	<b>121,051</b>	<b>141,936</b>	<b>121,894</b>
<b>Total Liabilities and Equity</b>	<b>702,883</b>	<b>757,704</b>	<b>704,717</b>	<b>759,588</b>
<b>Commitments and Contingencies</b>	<b>4,518</b>	<b>10,152</b>	<b>4,220</b>	<b>9,563</b>
<b>Net Asset Value per Share (US\$)</b>	<b>0.25</b>	<b>0.22</b>	<b>0.26</b>	<b>0.22</b>

Exchange rate of US\$ was Rs. 200.00 as at 31 March 2021 (Rs. 190.00 as at 31 March 2020).

# Creating Opportunities for Gender Equity

## STRATEGIC FOCUS

### Strategies and goals for gender parity

As a responsible corporate steward, LBF is committed to supporting greater inclusivity on the basis that a more diverse workforce will drive innovation and broader perspectives that will benefit to the Company and all its stakeholders. In this context, we are looking in particular to bridge the gender parity at all levels of our business. Stemming from our non-discriminatory approach, we have established specific gender parity thresholds for every stage of the employment lifecycle. Our efforts are supported by LBF's HR policy framework and in particular the following policies.

### Our internal policy frameworks/ actions/ activities that promote gender equality

**Diversity and inclusion** - Reflects LBF's commitment to maintain gender equality across all HR processes including recruitment, remuneration and benefits, training and development, promotions, employee retention, flexible work

arrangements, leave entitlement, policies and procedures, Board appointments, and succession planning.

**Gender pay equity** - Guides LBF's Board and management in remuneration decisions, ensuring that men and women in similar roles at any level of the organisation are entitled to be remunerated equally.

Specific policies on sexual harassment in the workplace are aimed at safeguarding employees of all sexes from unwanted sexual advances and providing them with guidelines to report incidents. These are all zero tolerance policies and include;

**The discrimination and harassment** - Which stipulates that the Company does not tolerate discrimination or harassment against any person on any status protected by law, including their gender.

The Company discourages discrimination based on a person's sex, race, caste, community, marital or family status, religion, age, sexual orientation, and disability. The policy also states that if

an employee hears about or observes a possible harassment or discrimination, the respective employee is accountable to report the situation to the HR Department.

### Grievances Redress

All complaints pertaining to workplace harassment or discrimination are handled by LBF's grievance redress actions which comes under the purview of the HR Department. The following principles govern the work of the grievance redress actions and ensure its ability to function independently and without bias:

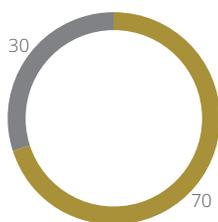
- ④ The HR is required to ensure the confidentiality of the complaint procedure is maintained at all times
- ④ The HR should ensure that complainants or witnesses are not victimized or discriminated against while dealing with complaints
- ④ The HR shall make a report to the management of the organization of complaints received and the action taken by them when necessary

## COMPOSITION

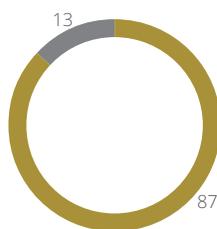
### Gender representation per occupational level

There is growing representation of females at all occupational levels in the organisation

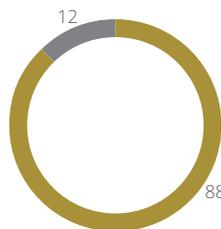
**Board of Directors**  
(%)



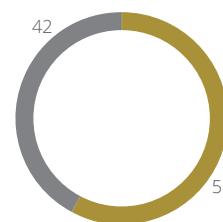
**Senior Management**  
(%)



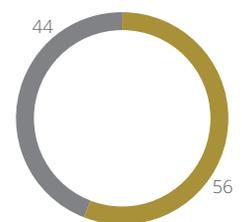
**Middle Management**  
(%)



**Executive level**  
(%)



**Other levels**  
(%)



● Male ● Female

## Creating Opportunities for Gender Equity

Category	2020/21		2019/20	
	Gender		Gender	
	Male	Female	Male	Female
Board of Directors	4	-	4	-
Senior Management	27	4	25	4
Middle Management	352	47	317	45
Executive	986	725	971	721
Clerical	732	623	797	621
Minor	56	8	76	2
<b>Total</b>	<b>2,157</b>	<b>1,407</b>	<b>2,190</b>	<b>1,393</b>

### Composition of male female representation

#### Recruitments

Province	2020/21			2019/20		
	No. of employees			No. of employees		
	Male	Female	Total	Male	Female	Total
Central	58	11	69	56	22	78
Eastern	50	33	83	60	20	80
Northern	33	29	62	36	15	51
North-central	11	10	21	30	13	43
North-western	25	10	35	54	27	81
Sabaragamuwa	21	9	30	50	7	57
Southern	41	5	46	63	14	77
Uva	28	8	36	28	9	37
Western	374	243	617	487	300	787
<b>Total</b>	<b>641</b>	<b>358</b>	<b>999</b>	<b>864</b>	<b>427</b>	<b>1,291</b>

#### Promotions

Category	2020/21	
	Male	Female
Board of Directors	1	0
Senior Management	30	2
Middle Management	100	7
Executive	522	568
Clerical	2	2
Minor	3	0
<b>Total</b>	<b>658</b>	<b>579</b>

## Major geographic location

Province	2020/21			2019/20		
	No. of employees			No. of employees		
	Male	Female	Total	Male	Female	Total
Central	203	90	293	192	95	287
Eastern	115	73	188	123	67	190
Northern	74	62	136	69	47	116
North-central	70	31	101	97	33	130
North-western	134	79	213	129	84	213
Sabaragamuwa	112	55	167	113	47	160
Southern	177	77	254	174	82	256
Uva	89	34	123	76	33	109
Western	1,183	906	2,089	1,217	905	2,122

## Employee resignations

Reason	2020/21			2019/20		
	Male	Female	Total	Male	Female	Total
Resignation	685	366	1,051	918	402	1,320
Retirement	2	-	2	-	-	-
Premature retirement	-	-	-	-	-	-
Deceased	2	-	2	1	-	1
Termination	-	2	2	1	2	3
<b>Total</b>	<b>689</b>	<b>368</b>	<b>1,057</b>	<b>920</b>	<b>404</b>	<b>1,324</b>

## GENDER GAP INDICATORS

Category	Ratio of basic salary men to women			
	2020/21		2019/20	
	Male	Female	Male	Female
Senior Management	1	0.32	1	0.31
Middle Management	1	0.95	1	0.93
Executive	1	0.91	1	0.91
Clerical	1	0.91	1	0.91

## SOLUTION FOR THE GENDER GAP

Indicator	Explanation of LBF	Result
Gender inequality in the Jobs of the future	Economic gender gap from closing is women's under-representation in emerging roles	03 women represent the LBF Board out of 10 Directors
Female work force participation	number of women in leadership position	03 women represent the LBF senior management out of 29 Directors
Closing wage gaps and preparing women for jobs of the future	Benefit structure is based on the performance of the worker	There is no wage gap differences

# Creating Opportunities for Gender Equity

## PROPORTION OF WOMEN WHO RECEIVED TRAINING

### Training hours analyzed by gender

Employee category and type of programme	2020/21					
	Training hours			No. of employees		
	Male	Female	Total	Male	Female	Total
<b>Senior Management</b>	34	-	34	20	-	20
Technical	12	-	12	10	-	10
Soft skills	22	-	22	10	-	10
<b>Middle Management</b>	505	17	522	216	29	245
Technical	128	12	140	68	18	86
Soft skills	377	5	382	148	11	159
<b>Executives</b>	1,617	1,493	3,164	449	434	883
Technical	609	461	1,071	172	154	326
Soft skills	1,062	1,032	2,093	277	280	557
<b>Clerical</b>	1,581	2,436	4,018	349	593	942
Technical	681	595	1,276	178	204	382
Soft skills	900	1,842	2,742	171	389	560
<b>Minor</b>						
Technical	-	-	-	-	-	-
Soft skills	-	-	-	-	-	-
<b>Total</b>	<b>3,791</b>	<b>3,946</b>	<b>7,737</b>	<b>1,034</b>	<b>1,056</b>	<b>4,180</b>

## RETENTION OF WOMEN AT WORK 12 MONTHS AFTER MATERNITY LEAVE

Description	2020/21	2019/20
Total number of female employees	1,773	1,833
Total number of employees that were entitled to parental leave, by gender	495	548
Total number of employees that took maternity leave	85	110
Number of employees who returned to work after maternity leave ended	83	104
Number of employees who returned to work after maternity leave ended and still employed twelve months after their return to work	75	73
Return to work rate	98	95
Retention rate	88	66

## PROPORTION OF FEMALES WHO RECEIVED A PERFORMANCE BONUS

There is no difference between men and women for the bonus, it is depending on the individual performance.

Current economic models appear to have failed to generate progress and prosperity for all which has resulted in the economic opportunity gap widening this year compared to last year. However, there is statistics to suggest that corporations continue to work towards embedding diversity and inclusion into the heart of their businesses.

## RESPONSIBLE BRAND

### Evaluation of gender bias in advertising and communications

There is no evidence to suggest gender bias in LBF's advertising and communications

### Activities that support gender parity of the supply chain

In our supply chain activities we focus only on the quality, reliability and sustainability of suppliers. This ensures LBF's supply chain decisions are free of any gender bias.

# Independent Assurance Report on Sustainability



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

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

## INDEPENDENT ASSURANCE REPORT TO LB FINANCE PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT- 2020/21

### Introduction and scope of the engagement

The management of LB Finance PLC (“the Company”) engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2020/21 (“the Report”).

- Reasonable assurance on the information on financial performance as specified on page 18 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: ‘In accordance’ – Comprehensive guidelines.

### Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’, issued by the Institute of Chartered Accountants of Sri Lanka (“ICASL”).

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines (“GRI Guidelines”) and related information in particular, the requirements to achieve GRI Standards ‘In accordance’ - Comprehensive guideline publication, publicly available at GRI’s global website at “www.globalreporting.org”.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly,

we do not express an opinion providing reasonable assurance.

### Management of the Company’s responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

### Ernst & Young’s responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: ‘In accordance’ - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 5 May 2021. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

### Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant company personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.

- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company’s audited financial statements for the year ended 31 March 2021.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: ‘In accordance’ – Comprehensive guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

### Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

### Conclusion

Based on the procedures performed, as described above, we conclude that:

- The information on financial performance as specified on page 18 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2021.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company’s sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- ‘In accordance’ Comprehensive.

Ernst & Young

19 May 2021  
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 A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

## List of Abbreviations

<b>AFS</b>	Available for Sale
<b>AGM</b>	Annual General Meeting
<b>ALCO</b>	Assets and Liabilities Management Committee
<b>APSP</b>	Average Petroleum Spot Price
<b>ASPI</b>	All Share Price Index
<b>ATM</b>	Automated Teller Machine
<b>AWDR</b>	Average-Weighted Deposit Rate
<b>AWFDR</b>	Average-Weighted Fixed Deposit Rate
<b>AWPLR</b>	Average Weighted Prime Lending Rate
<b>BFI</b>	Banking Finance Insurance
<b>BN</b>	Billion
<b>BOD</b>	Board of Directors
<b>BPO</b>	Business Process Outsource
<b>BPS</b>	Basis Points
<b>CAR</b>	Capital Adequacy Ratio
<b>CBSL</b>	Central Bank of Sri Lanka
<b>CDS</b>	Central Depository System
<b>CDM</b>	Cash Deposit Machine
<b>CMU</b>	Customer Management Unit
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CGU</b>	Cash Generating Unit
<b>CRO</b>	Chief Risk Officer
<b>CRM</b>	Customer Relationship Management
<b>CSE</b>	Colombo Stock Exchange
<b>CSR</b>	Corporate Social Responsibility
<b>DR</b>	Disaster Recovery
<b>EIR</b>	Effective Interest Rate
<b>EPF</b>	Employees' Provident Fund
<b>EPS</b>	Earnings per Share
<b>ERP</b>	Enterprise Resource Planning System
<b>ESC</b>	Economic Service Charge
<b>ETF</b>	Employees' Trust Fund
<b>FVtPL</b>	Fair Value through Profit or Loss
<b>GDP</b>	Gross Domestic Product
<b>GRI</b>	Global Reporting Initiative
<b>HFT</b>	Held for Trading
<b>HODs</b>	Head of Departments
<b>HP</b>	Hire Purchase
<b>HTM</b>	Held to Maturity
<b>ICASL</b>	The Institute of Chartered Accountants of Sri Lanka
<b>IFA</b>	Investment Fund Account
<b>IFRS</b>	International Financial Reporting Standard
<b>IIRC</b>	International Integrated Reporting Council
<b>IRMC</b>	Integrated Risk Management Committee
<b>IRMU</b>	Integrated Risk Management Unit
<b>ISO</b>	International Standard Organisation
<b>IT</b>	Information Technology
<b>KMP</b>	Key Management Personnel
<b>KPIs</b>	Key Performance Indicators
<b>KRIs</b>	Key Risk Indicators
<b>L&amp;R</b>	Loans and Receivables
<b>LRA</b>	Lanka Rating Agency
<b>LBF</b>	L B Finance PLC
<b>LBMF</b>	LB Microfinance Myanmar Company Limited
<b>LCB</b>	Licensed Commercial Bank
<b>LFC</b>	Licensed Finance Company
<b>LKAS</b>	Lanka Accounting Standards
<b>LKR</b>	Sri Lankan Rupees
<b>LTV</b>	Loan to Value
<b>MN</b>	Million
<b>M3</b>	Cubic Meter
<b>MOU</b>	Memorandum of Understanding
<b>MSME</b>	Micro, Small and Medium Enterprises
<b>MRMR</b>	Monthly Risk Management and Reporting
<b>NBFI</b>	Non-Bank Financial Institutions
<b>NBT</b>	Nation Building Tax
<b>NCRE</b>	Non-Conventional Renewable Energy
<b>NPA</b>	Non-Performing Advances
<b>NII</b>	Net Interest Income
<b>NIM</b>	Net Interest Margin
<b>NPL</b>	Non-Performing Loans
<b>OCI</b>	Other Comprehensive Income
<b>PAT</b>	Profit after Tax
<b>PAYE</b>	Pay As You Earn
<b>PDC</b>	Product Development Committee
<b>PER</b>	Price Earnings Ratio
<b>PLC</b>	Public Limited Company
<b>RMD</b>	Risk Management Department
<b>ROA</b>	Return on Assets
<b>ROCE</b>	Return on Capital Employed
<b>ROE</b>	Return on Equity
<b>RWA</b>	Risk-Weighted Assets
<b>SBU's</b>	Strategic Business Units
<b>SEC</b>	Securities and Exchange Commission
<b>SLC</b>	Specialised Leasing Company
<b>SLA</b>	Statutory Liquid Assets
<b>SLAR</b>	Statutory Liquid Asset Ratio
<b>SLAS</b>	Sri Lanka Accounting Standard
<b>SLCF</b>	Sri Lanka Carbon Fund
<b>SLFRS</b>	Sri Lanka Financial Reporting Standard
<b>SLIPS</b>	Sri Lanka Inter-Bank Payment System
<b>SME</b>	Small and Medium Enterprises
<b>UOM</b>	Unit of Measurement
<b>USD</b>	US Dollar
<b>VAR</b>	Value at Risk
<b>VAT</b>	Value Added Tax
<b>WHT</b>	Withholding Tax

# 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.

### ACCRUAL BASIS

The system of accounting wherein revenue is recognised at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

### ALLOWANCE FOR IMPAIRMENT

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

### AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life. Amortised cost Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any deduction for impairment or uncollectability.

### ASSET AND LIABILITY COMMITTEE (ALCO)

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.

### 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.

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# Glossary of Terms

## G

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### GLOBAL REPORTING INITIATIVE (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

### GOING CONCERN

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

### GROSS DIVIDEND

The proportion of profit distributed to shareholders including the tax withheld.

### GUARANTEES

An assurance made by a third party (Guarantor) who is not a party to contract between two others, that the guarantor will be liable if the Guarantee fails to fulfil the contractual obligation

## H

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### 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

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### IMPAIRED LOANS

Impaired loans are loans where the company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

### IMPAIRMENT

This occurs when the recoverable amount of an asset is less than its carrying amount.

### IMPAIRMENT CHARGE/(REVERSAL)

An increase/(decrease) of the difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset compared to the previous reporting date.

### INDIVIDUAL IMPAIRMENT

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

### INDIVIDUAL SIGNIFICANT LOANS

Exposures which are above a certain threshold decided by the management which should be assessed for objective evidence, measurement and recognition of impairment on an individual basis.

### INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance.

### INTEGRATED REPORTING

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

### INTEREST COVER

Earnings before interest and taxes divided by interest cost. This indicates the number of times interest expenses is covered by earnings before interest and tax; ability to cover interest expenses.

### INTEREST SPREAD

Represents the difference between the average interest rate earned on average interest earning assets and the average interest rate paid on average interest bearing liabilities.

## K

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### KEY MANAGEMENT PERSONNEL (KMP)

People those who are having authority and responsibility for planning, directing and controlling the activities of the entity.

## L

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### 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

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### 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 equals the security's current price.

# Corporate Information

## NAME OF COMPANY

L B Finance PLC

## LEGAL FORM

Public Limited Liability Company  
Incorporated in Sri Lanka under the provisions of the Companies Ordinance No. 51 of 1938 (Cap 145) and 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

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Maintenance of Savings Accounts, Providing Finance Lease and operating leases, Hire Purchase, Mortgage Loans, Gold Loans, Personal Loans, Factoring, Other Credit Facilities, Digital Financial Services and Value-Added Services.

Company's 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 - 152

Gold loan centres - 17

## 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. Niroschan Udage  
(Deputy Managing 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. Niroshan Udage

Mr. B D A Perera

Mr. Ravindra Yatawara

Mr. Bimal Perera

Mr. Malith Hewage

Mr. B S Pulle

Mrs. Deshika Yatawara

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

National Development 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 OF SUBSIDIARY

844 FC of 2016-2017 (YGN)

### REGISTERED OFFICE OF SUBSIDIARY

Myawaddy Bank  
Luxury Complex, 4th Floor,  
Apt 401 Bo Gyoke Road cnr,  
W a Dan Street, Lanmadaw Township,  
Yangon, Myanmar

### BOARD OF DIRECTORS OF SUBSIDIARY

Mr. Dhammika Perera

Mr. Sumith Adhihetty

Mr. Niroshan Udage

Mr. B D A Perera

Mr. Ravindra Yatawara

Mr. Dulan de Silva

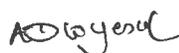
# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Forty Eighth (48th) Annual General Meeting of L B Finance PLC will be held as a Hybrid Meeting (hybrid of physical and electronic means) centred at the Auditorium of the Corporate Office of the Company, No. 20, Dharmapala Mawatha, Colombo 3 on Wednesday, 30th June 2021 at 8.30 a.m to conduct the following businesses:

- 1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and its subsidiary and the Financial Statements for the year ended 31st March 2021 and the Report of the Auditors thereon.
- 2 To declare a final dividend as recommended by the Directors.
- 3 To re-elect Mrs Ashwini Natesan as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company.
- 4 To re-elect Mr Dharmadasa Rangalle as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company
- 5 To pass the ordinary resolution set out below to re-appoint Mr John Anthony Sunil Sumith Adhihetty who attained the age of 70 years on 4th July 2020, 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 attained the age of 70 years on 4th July 2020 and that he be and is hereby re-appointed a Director of the Company."

- 6 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.
- 7 To authorize the Directors to determine donations for the year ending 31st March 2022 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

7th June 2021

Notes:

1. A shareholder is entitled to appoint a Proxy to attend and vote at the meeting on his/her behalf, in accordance with the instructions in that regard as contained in the Circular to Shareholders, dated 7th June 2021.
2. A Proxy need not be a shareholder of the Company.
3. A Form of Proxy accompanies this Notice.
4. For more information on how to participate in the above Hybrid Meeting, please refer to the Circular to Shareholders dated 7th June 2021.

# 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 Eighth (48th) Annual General Meeting of the Company to be held on 30th June 2021 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To declare a final dividend as recommended by the Directors	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mrs Ashwini Natesan as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. Dharmadasa Rangalle as a Director in terms of Articles 85 and 86 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
4. To pass the ordinary resolution set out below to re-appoint Mr John Anthony Sunil Sumith Adihetty who attained the age of 70 years on 4th July 2020 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 attained the age of 70 years on 4th July 2020 and that he be and is hereby re-appointed a Director of the Company.”	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint the retiring Auditors Messrs Ernst & Young, Chartered Accountants as the Company's Auditors and authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize the Directors to determine donations for the year ending 31st March 2022 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 one.

.....  
 Signature of Shareholder/s

\*Please delete what is inapplicable.

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## 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 or be emailed to lfin.pwcs@gmail.com by 8.30 a.m. on 28th June 2021.
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.

## Feedback Form – Annual Report 2020/21

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 (✓) 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 (✓) 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 2020/21 - 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:

**Manager – Integrated Reporting and Sustainability**

LB Finance PLC

**Corporate office**

No. 20, Dharmapala Mawatha, Colombo 3.

Email : thusithaw@lbfinance.lk

Tel : 0112155504



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Printing by Gunaratne Offset (Pvt) Ltd



[www.lbfinance.com](http://www.lbfinance.com)