

**LB FINANCE PLC**  
**FINANCIAL STATEMENTS**  
**31 MARCH 2020**

HMAJ/BV/JJ

**INDEPENDENT AUDITOR'S REPORT  
TO THE SHAREHOLDERS OF LB FINANCE PLC**

**Report on the audit of the consolidated financial statements**

***Opinion***

We have audited the financial statements of LB Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 2020, income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

***Basis for opinion***

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

(Contd...2/-)

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment allowance for loans &amp; receivables and lease rentals receivable &amp; stock out on hire.</b></p> <p>We considered the impairment allowance for loans &amp; receivables and lease rentals receivable &amp; stock out on hire as a key audit matter. Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. Probable impacts of COVID -19 outbreak on the economically impacted customers and related government relief measures on the key assumptions, the higher level of estimation uncertainty involved, and materiality of the amounts reported in the Group's financial statements, underpinned our basis for considering it as a Key Audit Matter.</p> <p>Loans &amp; receivables and lease rentals receivable &amp; stock out on hire amounted to Rs. 58,239,254 (Rs. '000) and Rs. 60,626,670 (Rs. '000) after deducting an impairment allowance of Rs. 2,383,038 (Rs. '000) and 2,908,033 (Rs. '000) respectively. These collectively contributed 82% to the Group's total assets.</p> <p>The Note 4.18 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation.</p>	<p>We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; these included the following procedures</p> <ul style="list-style-type: none"> <li>• We evaluated the design effectiveness of controls over impairment allowance, in the light of the requirements in SLFRS 9, focusing on the oversight, review and approval of impairment policies by the board audit committee and management.</li> <li>• We assessed whether the Group has applied a sufficiently rigorous criteria to identify specific credit - impaired balances.</li> <li>• We evaluated the model used to calculate impairment allowance to assess its appropriateness.</li> <li>• We assessed the completeness and relevance of the underlying information used in the impairment calculations by agreeing details to source documents and information in IT systems; Our assessment included evaluating whether the underlying historical information was up to the reporting date.</li> <li>• We rechecked the underlying calculations.</li> <li>• We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios.</li> <li>• We assessed the adequacy of the related financial statement disclosures as set out in note(s), 4.16 and 4.17 of the financial statements</li> </ul>

(Contd...3/-)

Key audit matter	How our audit addressed the key audit matter
<p><b>Management's assessment of possible effects of the COVID -19 outbreak on the nature and extent of risks arising from financial instruments and related disclosures.</b></p> <p>Management has assessed the possible impacts of the COVID-19 outbreak on, nature and extent of risks arising from financial instruments and related financial statement disclosures are made considering the best available information up to the date of assessment, as more fully described in section 5 of the financial statements.</p> <p>We considered such management's assessment and related disclosures as a key audit matter, considering nature of business and use of significant management judgments and estimates considering future events and circumstances.</p>	<p>Our audit procedures included the following;</p> <ul style="list-style-type: none"> <li>• We gained an understanding of management's assessment of the possible impacts of the COVID -19 outbreak on the nature and extent of risks arising from financial instruments and developing related disclosures of the Group.</li> <li>• We assessed the adequacy of qualitative disclosures made, in note(s) 5.2, 5.3 &amp; 5.6 to the financial statements focusing on credit risk and liquidity risk in the light of the objective of SLFRS 7.</li> <li>• In relation to significant judgments and estimates underpinning such disclosures, we assessed the reasonableness of those key assumptions considering related market information and internal decisions made by the Group.</li> </ul>

***Other information included in the Group's 2020 Annual Report***

Other information consists of the information included in the Annual Report, other than the financial statements and our 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.

(Contd...4/-)

### ***Responsibilities of management and those charged with governance***

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

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

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

### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(Contd...5/-)



Building a better  
working world

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.

22 June 2020  
Colombo

LB Finance PLC  
INCOME STATEMENT  
Year ended 31 March 2020

	Note	Company			Group		
		2020 Rs. '000	2019 Rs. '000	Change %	2020 Rs. '000	2019 Rs. '000	Change %
<b>Income</b>	4.1.1	31,222,860	29,278,024	7	31,359,418	29,342,212	7
Interest Income	4.1.2	29,160,292	27,363,768	7	29,297,103	27,420,842	7
Less: Interest Expenses	4.1.6	13,615,391	12,951,323	5	13,631,371	12,953,155	5
<b>Net Interest Income</b>	-	15,544,901	14,412,445	8	15,665,732	14,467,687	8
Fee and Commission Income	4.2	1,941,626	1,782,072	9	1,950,180	1,786,919	9
Net Trading Income	4.3	(2,099)	(2,558)	(18)	(2,099)	(2,558)	(18)
Other Operating Income	4.4	123,041	134,742	(9)	114,234	137,009	(17)
<b>Total Operating Income</b>		17,607,469	16,326,701	8	17,728,047	16,389,057	8
Less: Impairment Charges and Other Losses	4.5	1,831,057	983,154	86	1,856,495	986,892	88
<b>Net Operating Income</b>		15,776,412	15,343,547	3	15,871,552	15,402,165	3
<b>Less: Operating Expenses</b>							
Personnel Expenses	4.6	3,005,189	2,693,563	12	3,034,198	2,707,937	12
Depreciation of Property, Plant and Equipment	4.23	697,508	417,889	67	698,639	418,438	67
Amortisation of Intangible Assets	4.24	15,882	17,487	(9)	18,125	18,492	(2)
Other Operating Expenses	4.7	2,168,986	2,458,340	(12)	2,188,842	2,468,485	(11)
<b>Total Operating Expenses</b>		5,887,565	5,587,279	5	5,939,804	5,613,352	6
<b>Operating Profit before Tax on Financial Services</b>		9,888,847	9,756,268	1	9,931,748	9,788,813	1
Less: Tax on Financial Services	4.8	2,278,560	2,015,619	13	2,278,560	2,015,619	13
<b>Profit before Taxation</b>		7,610,287	7,740,649	(2)	7,653,188	7,773,194	(2)
Less: Income Tax Expense	4.9.1 (a)	2,423,234	2,685,989	(10)	2,442,327	2,693,771	(9)
<b>Profit for the Year</b>		5,187,053	5,054,660	3	5,210,861	5,079,423	3
<b>Profit Attributable to:</b>							
Equity Holders of the Company		5,187,053	5,054,660	3	5,210,861	5,079,349	3
Non-Controlling Interest		-	-	-	-	74	(100)
<b>Profit for the Year</b>		5,187,053	5,054,660	3	5,210,861	5,079,423	3
<b>Earnings per Share: Basic/Diluted (Rs.)</b>	4.10	37.45	36.49	3	37.62	36.67	3
<b>Dividend per Share</b>	4.11						
Dividend per Share: Gross (Rs.)			12.00				
Dividend per Share: Net (Rs.)			10.32				

Accounting Policies and Notes from pages 12 to 96 form an integral part of these Financial Statements.



LB Finance PLC  
STATEMENT OF COMPREHENSIVE INCOME  
Year ended 31 March 2020

	Note	Company			Group		
		2020 Rs. '000	2019 Rs. '000	Change %	2020 Rs. '000	2019 Rs. '000	Change %
<b>Profit for the Year</b>		5,187,053	5,054,660	3	5,210,861	5,079,423	3
<b>Other Comprehensive Income that will be Reclassified to Income Statement</b>							
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations		-	-		96,608	15,594	>100
Less: Deferred Tax Charge/(Reversal) on above Items		-	-		-	-	
<b>Net Other Comprehensive Income that will be Reclassified to Income Statement</b>		-	-		96,608	15,594	>100
<b>Other Comprehensive Income that will never be Reclassified to Income Statement</b>							
Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income		(30,569)	(31,913)	(4)	(30,569)	(31,913)	(4)
Actuarial Gains/(Losses) on Defined Benefit Plans	4.32.3	(41,707)	23,969	>(100)	(41,707)	23,969	>(100)
Less: Deferred Tax Charge/(Reversal) on Actuarial Gains and Losses	4.9.1 (b)	(11,678)	6,712	>(100)	(11,678)	6,712	>(100)
<b>Net Actuarial Gains/(Losses) on Defined Benefit Plans</b>		(30,029)	17,257	>(100)	(30,029)	17,257	>(100)
<b>Net Other Comprehensive Income that will never be Reclassified to Income Statement</b>		(60,598)	(14,656)	>100	(60,598)	(14,656)	>100
<b>Other Comprehensive Income for the Year, Net of Tax</b>		(60,598)	(14,656)	>100	36,010	938	>100
<b>Total Comprehensive Income for the Year, Net of Tax</b>		5,126,455	5,040,004	2	5,246,871	5,080,361	3
<b>Attributable to:</b>							
Equity Holders of the Company		5,126,455	5,040,004	2	5,246,871	5,080,240	3
Non-Controlling Interest		-	-	-	-	121	(100)
<b>Total Comprehensive Income for the Year, Net of Tax</b>		5,126,455	5,040,004	2	5,246,871	5,080,361	3

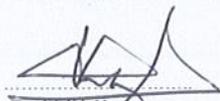
Accounting Policies and Notes from pages 12 to 96 form an integral part of these Financial Statements.



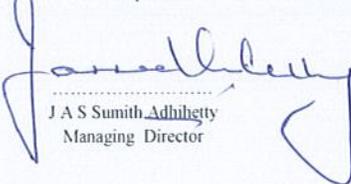
LB Finance PLC  
STATEMENT OF FINANCIAL POSITION  
As at 31 March 2020

	Note	Company			Group		
		2020 Rs. '000	2019 Rs. '000	Change %	2020 Rs. '000	2019 Rs. '000	Change %
<b>Assets</b>							
Cash and Cash Equivalents	4.14	6,162,637	4,040,586	53	6,472,312	4,058,610	59
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4.15	4,648	6,866	(32)	4,648	6,866	(32)
Financial Assets at Amortised Cost - Loans and Receivables	4.16	58,239,254	47,395,025	23	58,793,344	47,773,705	23
Financial Assets at Amortised Cost - Lease Rentals Receivable and Stock out on Hire	4.17	60,626,670	66,050,429	(8)	60,626,670	66,050,429	(8)
Financial Assets Measured at Fair Value Through Other Comprehensive Income	4.19	59,141	89,710	(34)	59,141	89,710	(34)
Other Financial Assets	4.20	9,119,681	10,804,517	(16)	9,105,761	10,794,673	(16)
Other Non Financial Assets	4.21	967,469	1,067,360	(9)	976,489	1,073,065	(9)
Investment in Subsidiary	4.22	521,162	318,999	63	-	-	-
Property, Plant and Equipment and Right-of-Use Assets	4.23	8,221,248	6,577,379	25	8,228,222	6,580,725	25
Intangible Assets	4.24	41,809	39,847	5	55,064	43,523	27
<b>Total Assets</b>		<b>143,963,719</b>	<b>136,390,718</b>	<b>6</b>	<b>144,321,651</b>	<b>136,471,306</b>	<b>6</b>
<b>Liabilities</b>							
Due to Banks	4.25	22,771,085	24,633,508	(8)	22,882,941	24,633,508	(7)
Financial Liabilities at Amortised Cost - Due to Depositors	4.26	89,256,435	83,214,949	7	89,315,097	83,242,617	7
Debt Instruments Issued and Other Borrowed Funds	4.27	3,111,186	3,107,783	0	3,111,186	3,107,783	0
Other Financial Liabilities	4.28	2,766,410	1,974,490	40	2,766,775	1,974,490	40
Other Non Financial Liabilities	4.29	909,266	2,070,632	(56)	925,778	2,075,791	(55)
Current Tax Liabilities	4.30	766,752	1,395,971	(45)	777,057	1,403,916	(45)
Deferred Tax Liabilities	4.31	1,037,580	1,309,722	(21)	1,037,580	1,309,722	(21)
Post Employment Benefit Liability	4.32	345,456	256,512	35	345,456	256,512	35
<b>Total Liabilities</b>		<b>120,964,170</b>	<b>117,963,567</b>	<b>3</b>	<b>121,161,870</b>	<b>118,004,339</b>	<b>3</b>
<b>Equity</b>							
Stated Capital	4.33	838,282	838,282	-	838,282	838,282	-
Reserves	4.34	6,216,939	5,210,097	19	6,334,326	5,230,876	21
Retained Earnings	4.35	15,944,328	12,378,772	29	15,987,173	12,397,809	29
<b>Total Equity Attributable to Equity Holders of the Company</b>		<b>22,999,549</b>	<b>18,427,151</b>	<b>25</b>	<b>23,159,781</b>	<b>18,466,967</b>	<b>25</b>
<b>Non-Controlling Interest</b>	4.36	-	-	-	-	-	-
<b>Total Equity</b>		<b>22,999,549</b>	<b>18,427,151</b>	<b>25</b>	<b>23,159,781</b>	<b>18,466,967</b>	<b>25</b>
<b>Total Liabilities and Equity</b>		<b>143,963,719</b>	<b>136,390,718</b>	<b>6</b>	<b>144,321,651</b>	<b>136,471,306</b>	<b>6</b>
<b>Commitments and Contingencies</b>	6.5	<b>1,928,805</b>	<b>1,820,856</b>	<b>6</b>	<b>1,816,949</b>	<b>1,820,856</b>	<b>(0)</b>
<b>Net Asset Value per Share (Rs.)</b>	6.6	<b>166.04</b>	<b>133.03</b>	<b>25</b>	<b>167.20</b>	<b>133.32</b>	<b>25</b>

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

  
Malith Hewage  
Assistant General Manager-Finance

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

  
J A S Sumith Adhietty  
Managing Director

  
Mrs. Yogadimusha Bhaskaran  
Director

Accounting Policies and Notes from pages 12 to 96 form an integral part of these Financial Statements.



## STATEMENT OF CHANGES IN EQUITY - COMPANY

Year ended 31 March 2020

	Stated Capital Rs. '000 Note 4.33	Retained Earnings Rs. '000 Note 4.35	Statutory Reserve Rs. '000 Note 4.34.1	Available for Sale Reserve Rs. '000 Note 4.34.2	Fair Value Reserve Rs. '000 Note 4.34.3	Total Equity Rs. '000
<b>Balance as at 31 March 2018</b>	838,282	10,240,092	4,274,827	(4,305)	-	15,348,896
Impact of Adoption of SLFRS 09	-	(299,578)	-	-	-	(299,578)
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale	-	39,444	-	(39,444)	-	-
Transfer of Available for Sale Reserve to Fair Value Reserve	-	-	-	43,749	(43,749)	-
<b>Restated Opening Balance as at 1 April 2018</b>	838,282	9,979,958	4,274,827	-	(43,749)	15,049,318
Net Profit for the Year	-	5,054,660	-	-	-	5,054,660
Other Comprehensive Income, Net of Tax	-	17,257	-	-	(31,913)	(14,656)
<b>Total Comprehensive Income for the Year, Net of Tax</b>	-	5,071,917	-	-	(31,913)	5,040,004
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>						
Transfers During the Year	-	(1,010,932)	1,010,932	-	-	-
Final Dividend for 2017/18	4.11	(554,057)	-	-	-	(554,057)
Interim Dividend for 2018/19	4.11	(1,108,114)	-	-	-	(1,108,114)
<b>Total Transactions with Equity Holders</b>	-	(2,673,103)	1,010,932	-	-	(1,662,171)
<b>Balance as at 31 March 2019</b>	838,282	12,378,772	5,285,759	-	(75,662)	18,427,151
Net Profit for the Year	-	5,187,053	-	-	-	5,187,053
Other Comprehensive Income, Net of Tax	-	(30,029)	-	-	(30,569)	(60,598)
<b>Total Comprehensive Income for the Year, Net of Tax</b>	-	5,157,024	-	-	(30,569)	5,126,455
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>						
Transfers During the Year	4.34	(1,037,411)	1,037,411	-	-	-
Final Dividend for 2018/19	4.11	(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

Chartered  
Accountants  
COLOMBO

Figures in brackets indicate deductions.  
Accounting Policies and Notes from pages 12 to 96 form an integral part of these Financial Statements.

## STATEMENT OF CHANGES IN EQUITY - GROUP

Year ended 31 March 2020

	Stated Capital Rs. '000 Note 4.33	Retained Earnings Rs. '000 Note 4.35	Statutory Reserve Rs. '000 Note 4.34.1	Available for Sale Reserve Rs. '000 Note 4.34.2	Fair Value Reserve Rs. '000 Note 4.34.3	Foreign Currency Translation Reserve Rs. '000 Note 4.34.4	Total Equity Attributable to Equity Holders of the Company Rs. '000	Non- Controlling Interest Rs. '000 Note 4.36	Total Equity Rs. '000
<b>Balance as at 31 March 2018</b>	838,282	10,234,440	4,274,827	(4,305)	-	5,231	15,348,475	459	15,348,934
Impact of Adoption of SLFRS 09	-	(299,578)	-	-	-	-	(299,578)	-	(299,578)
Transfer of Available for Sale Reserve built on Impairment of Financial Investments - Available for Sale	-	39,444	-	(39,444)	-	-	-	-	-
Transfer of Available for Sale Reserve to Fair Value Reserve	-	-	-	43,749	(43,749)	-	-	-	-
<b>Restated Opening Balance as at 1 April 2018</b>	838,282	9,974,306	4,274,827	-	(43,749)	5,231	15,048,897	459	15,049,356
Net Profit for the Year	-	5,079,349	-	-	-	-	5,079,349	74	5,079,423
Other Comprehensive Income, Net of Tax	-	17,257	-	-	(31,913)	15,548	891	47	938
<b>Total Comprehensive Income for the Year, Net of Tax</b>	-	5,096,606	-	-	(31,913)	15,548	5,080,240	121	5,080,361
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>									
Transfers During the Year	-	(1,010,932)	1,010,932	-	-	-	-	-	-
Final Dividend for 2017/18	4.11	(554,057)	-	-	-	-	(554,057)	-	(554,057)
Interim Dividend for 2018/19	4.11	(1,108,114)	-	-	-	-	(1,108,114)	-	(1,108,114)
Disposal of Shares	-	-	-	-	-	-	-	(580)	(580)
<b>Total Transactions with Equity Holders</b>	-	(2,673,103)	1,010,932	-	-	-	(1,662,171)	(580)	(1,662,751)
<b>Balance as at 31 March 2019</b>	838,282	12,397,809	5,285,759	-	(75,662)	20,779	18,466,967	-	18,466,967
Net Profit for the Year	-	5,210,861	-	-	-	-	5,210,861	-	5,210,861
Other Comprehensive Income, Net of Tax	-	(30,029)	-	-	(30,569)	96,608	36,010	-	36,010
<b>Total Comprehensive Income for the Year, Net of Tax</b>	-	5,180,832	-	-	(30,569)	96,608	5,246,871	-	5,246,871
<b>Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners</b>									
Transfers During the Year	4.34	(1,037,411)	1,037,411	-	-	-	-	-	-
Final Dividend for 2018/19	4.11	(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

Accountants  
in brackets indicate deductions.

Accounting policies and Notes from pages 12 to 96 form an integral part of these Financial Statements.

LB Finance PLC  
STATEMENT OF CASH FLOWS  
Year ended 31 March 2020

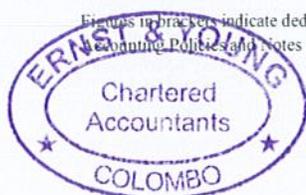
*Accounting Policy*

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.

	Note	Company		Group	
		2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Cash Flows From/(Used in) Operating Activities</b>					
Profit and Other Comprehensive Income before Taxation		7,538,011	7,732,705	7,677,520	7,780,844
Adjustments for -					
Depreciation of Property, Plant and Equipment and Right-of-Use Assets	4.23	697,508	417,889	698,639	418,438
Amortisation of Intangible Assets	4.24	15,882	17,487	18,125	18,492
Impairment Charges and Other Losses	4.5	1,831,057	983,154	1,856,495	986,892
Diminution (Appreciation) in Value of Investments		32,786	34,730	32,786	34,730
Loss/(Profit) on Disposal of Property, Plant and Equipment	4.4	(4,110)	(4,664)	(4,110)	(4,664)
Provision (Reversal) for Defined Benefit Plans	4.32.1	117,650	39,129	117,650	39,129
Foreign Currency Exchange (Gain) Loss		-	-	8,807	284
Dividend Received		(6,777)	(9,831)	(6,777)	(9,831)
Interest Income on Investing Activities		(1,342,283)	(1,140,937)	(1,342,283)	(1,140,937)
Withholding Tax Attributed to Fixed Deposits		-	(25,181)	-	(25,181)
Net Unrealised (Gains)/Losses Arising from Translating the Financial Statements of Foreign Operations		-	-	(96,608)	(15,594)
Operating Profit before Changes in Operating Assets and Liabilities		8,879,724	8,044,481	8,960,244	8,082,602
(Increase) Decrease in Operating Assets					
(Increase) Decrease in Financial Assets at Amortised Cost-Loans and Receivables		(11,958,602)	(8,207,246)	(12,159,450)	(8,550,784)
(Increase) Decrease in Financial Assets at Amortised Cost-Lease Rentals Receivable and Stock out on Hire		4,714,850	(4,167,949)	4,714,850	(4,167,949)
(Increase) Decrease in Other Financial Assets		1,905,052	(4,124,208)	1,909,128	(4,124,208)
(Increase) Decrease in Other Non Financial Assets		99,892	(226,370)	193,185	(216,030)
		(5,238,808)	(16,725,773)	(5,342,287)	(17,058,971)
Increase/(Decrease) in Operating Liabilities					
Increase/(Decrease) in Financial Liabilities at Amortised Cost - Due to Depositors		6,041,485	10,271,116	6,072,480	10,296,606
Increase/(Decrease) in Other Financial Liabilities		(620,905)	213,072	(620,539)	213,072
Increase/(Decrease) in Other Non Financial Liabilities		(1,599,038)	11,949	(1,591,413)	20,242
		3,821,542	10,496,137	3,860,528	10,529,920
Cash Generated From Operations		7,462,458	1,814,845	7,478,485	1,553,550
Retirement Benefit Liabilities Paid	4.32.1	(28,706)	(13,857)	(28,706)	(13,857)
Income Tax Paid	4.9.4	(2,875,243)	(1,588,320)	(2,897,059)	(1,588,320)
Net Cash From/(Used in) Operating Activities		4,558,509	212,668	4,552,720	(48,627)
<b>Cash Flows From/(Used in) Investing Activities</b>					
Acquisition of Property, Plant and Equipment and Right-of-Use Assets	4.23	(934,230)	(2,317,320)	(938,987)	(2,320,005)
Acquisition of Intangible Assets	4.24	(17,844)	(9,215)	(29,666)	(9,215)
Proceeds from Sale of Property, Plant and Equipment		13,189	7,335	13,189	7,335
Investment in Subsidiary		(202,163)	(166,084)	-	-
Interest Received		1,114,292	1,232,632	1,114,292	1,232,632
Dividend Received		6,777	9,831	6,777	9,831
Net Cash Flows From/(Used in) Investing Activities		(19,979)	(1,242,821)	165,605	(1,079,422)
<b>Cash Flows From/(Used in) Financing Activities</b>					
Net Cash Flow from Debt Funding from Banks		(1,514,471)	2,012,464	(1,402,616)	2,012,464
Net Cash Flow from Debt Instruments Issued and Other Borrowed Funds		-	(2,045,049)	-	(2,045,049)
Dividends Paid	4.11.1	(554,057)	(554,057)	(554,056)	(554,057)
Net Cash Flows From/(Used in) Financing Activities		(2,068,528)	(586,642)	(1,956,672)	(586,642)
Net Increase/(Decrease) in Cash and Cash Equivalents		2,470,002	(1,616,795)	2,761,653	(1,714,691)
Cash and Cash Equivalents at the Beginning of the Year		2,972,224	4,589,019	2,990,248	4,704,939
Cash and Cash Equivalents at the End of the Year	4.14.3	5,442,226	2,972,224	5,751,901	2,990,248
<b>Operational Cash Flows from Interest</b>					
Interest Received		29,108,901	27,455,462	29,245,712	27,512,536
Interest Paid		12,188,355	12,289,298	12,204,335	12,291,130

Figures in brackets indicate deductions.

Accounting Policies and Notes from pages 12 to 96 form an integral part of these Financial Statements.



## SECTION 02

### *Corporate Information*

#### 2.1 Reporting Entity

L B Finance PLC, is a domiciled, public limited liability company incorporated in Sri Lanka on 30 May 1971 under the Companies Act No 51 of 1938. The Company was re-registered under the Companies Act No 07 of 2007. It is a Licensed Finance Company registered under the Finance Business Act No 42 of 2011 and amendments thereto. The registered office of the Company is located at No 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07. The shares of the Company have a primary listing on the Colombo Stock Exchange. The staff strength of the Company as at 31 March 2020 was 3,606 (2019 - 3,618).

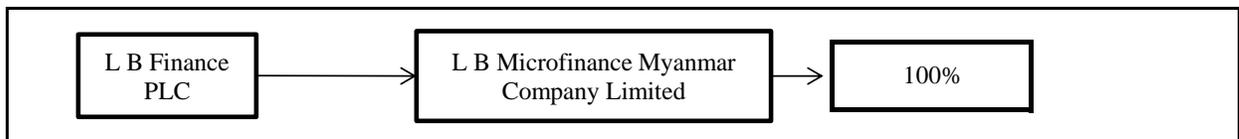
For purposes of this report, “L B Finance”, the “Company”, “we”, “our”, “us” or similar references mean L B Finance PLC.

#### 2.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended 31 March 2020, comprise the L B Finance PLC (Parent Company) and its Subsidiary (together referred to as the “Group” and individually as “Group entities”).

The Company’s parent undertaking is Vallibel One PLC. The Company’s ultimate parent undertaking is Vallibel One PLC, which is incorporated in Sri Lanka. The Company’s ultimate controlling party is Mr. Dhammika Perera.

#### 2.3 Principal Business Activities, Nature of Operations of the Group and Ownership by the Company in its Subsidiary



##### **L B Finance PLC**

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Maintenance of Savings Accounts, Providing Finance Lease, Hire Purchase, Mortgage Loans, Gold Loans, Margin Trading Facilities, Personal Loans, Factoring and Trade Finance Loans, Other Credit Facilities and Value Added Services.

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

##### **L B Microfinance Myanmar Company Limited**

L B Microfinance Myanmar Company Limited was incorporated in Myanmar on 22 May 2017 as a 99% (31 March 2020 - 100%) owned subsidiary of L B Finance PLC. The principal business activities include engaging in microfinance lending. A license was issued by the Myanmar Microfinance Supervisory Committee to operate as a microfinance institution. L B Microfinance Myanmar Company Limited commenced its commercial operations in December 2017.

#### 2.4 Approval of Financial Statements by Directors

The Financial Statements of the Group and the Company for the year ended 31 March 2020 (including comparatives for 31 March 2019) were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 22 June 2020.

## *Basis of Preparation*

### **2.5 Statement of Compliance**

Financial Statements of the Group and the separate Financial Statements of the Company which comprise the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Accounting Policies and Notes, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No 07 of 2007. The presentation of these Financial Statements is also in compliance with the requirements of Finance Business Act No 42 of 2011, Listing Rules of the Colombo Stock Exchange and the CBSL guidelines.

These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements.

### **2.6 Responsibilities for the Financial Statements**

The Board of Directors of the Company is responsible for these Financial Statements of the Group and the Company as per the provisions of the Companies Act No 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges the responsibility in relation to the Financial Statements, as set out in the 'Directors' Responsibility for Financial Reporting', 'Annual Report of the Board of Directors' and in the statement appearing with the Statement of Financial Position of the Annual Report.

### **2.7 Application of Sri Lanka Accounting Standard**

#### **2.7.1 SLFRS 16 (Leases)**

The Group adopted Sri Lanka Accounting Standard - SLFRS 16 (Leases) effective from 1 April 2019. This Standard replaces Sri Lanka Accounting Standard - LKAS 17 (Leases). The resulting impact on the adoption of SLFRS 16 is disclosed in the Transition Disclosures note (Note 2.17). The Group elected to apply the modified retrospective transition approach, without restatement of comparative figures. The comparative figures for the year ended 31 March 2019 remains as audited and published as per the Sri Lanka Accounting Standard - LKAS 17 (Leases).

#### **2.7.2 IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"**

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard - LKAS 12 (Income tax). It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following;

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group applies significant judgement in identifying uncertainties over income tax treatments. The Group determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Company.

**2.8 Basis of Measurement**

The Financial Statements of the Group have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position;

- Financial assets recognised through profit or loss - measured at fair value
- Financial assets measured at fair value through other comprehensive income
- Liabilities for defined benefit obligations are recognised using an actuarial technique (projected unit credit method)

**2.9 Going Concern**

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by an Accounting Standard.

**Rounding**

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements).

**2.13 Comparative Information**

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The Group has not restated the comparative information for the year ended 31 March 2019 for leases within the scope of Sri Lanka Accounting Standard – SLFRS 16 (Leases). Therefore, the comparative information for the year ended 31 March 2019 is reported under Sri Lanka Accounting Standard – LKAS 17 (Leases) and is not comparable to the information presented for year ended 31 March 2020.

**2.14 Sri Lanka Accounting Standards Issued but not yet Effective as at 31 March 2020**

The following new accounting standards/amendments have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those accounting standards will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements. None of those have been early adopted by the Group.

**2.14.1 Amendments to LKAS 1 and LKAS 8: Definition of Material**

Amendments to Sri Lanka Accounting Standard - LKAS 1 (Presentation of Financial Statements) and Sri Lanka Accounting Standard - LKAS 8 (Accounting policies, Changes in accounting Estimates and Errors) are made to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Group shall apply those amendments prospectively for annual financial periods beginning on or after 1 January 2020.

The amendments to the definition of material are not expected to have a significant impact on the Group's Financial Statements.

**2.14.2 Amendments to SLFRS 3: Definition of a Business**

Amendments to the definition of a business in Sri Lanka Accounting Standard - SLFRS 3 (Business Combinations) are made to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The Group shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after 1 January 2020, if the asset acquisitions occurs on or after the beginning of that period.

**2.14.3 Amendments to Conceptual Framework for Financial Reporting**

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- A new chapter on measurement;
- Guidance on reporting financial performance;
- Improved definitions of an asset and a liability, and guidance supporting these definitions; and
- Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

The amendments are effective for annual periods beginning on or after 1 January 2020, with early application is permitted. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Group's Financial Statements.

**2.15 Changes in Accounting Policies**

In these Financial Statements, the Company and the Group applied the Sri Lanka Accounting Standard - SLFRS 16 (Leases), effective for annual periods beginning on or after 1 April 2019, for the first time. Reconciliation of the amounts disclosed as operating lease commitments (as a lessee) as at 1 April 2019 to the net lease liabilities recognised as at that date is disclosed in Note 2.17 together with the amount of right-of-use assets recognised due to transition to Sri Lanka Accounting Standard - SLFRS 16.

The accounting policies adopted by the Group are consistent with those used in the previous financial year other than the above.

**2.16 Significant Accounting Assumptions, Judgments and Estimation Uncertainties**

The preparation of Financial Statements of the Group in conformity with Sri Lanka Accounting Standards requires the management to make assumptions, judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty involved with estimates, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation uncertainties, critical judgments and assumptions in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Group are as follows;

2.17	Determination of Lease Term and Estimating Incremental Borrowing Rate
3.8	Impairment of Non Financial Assets
4.9	Taxation
4.12	Classification of Financial Assets and Liabilities
4.13	Fair Value of Financial Instruments
4.18	Allowance for Impairment Losses
4.22	Investment in Subsidiary
4.23	Useful lifetime of the Property, Plant and Equipment
4.24	Useful lifetime of the Intangible Assets
4.31	Deferred Taxation
4.32	Post Employment Benefit Liability
6.5	Commitments and Contingencies
6.9	Events Occurring after the Reporting Date

**2.17 SLFRS 16 (Leases) Transition Disclosure****2.17.1 Background**

With effect from 1 January 2019, Sri Lanka Accounting Standard - SLFRS 16 replaced Sri Lanka Accounting Standard - LKAS 17 as well as the related interpretations. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on Statement of Financial Position. The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. Sri Lanka Accounting Standard - SLFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, as was required by Sri Lanka Accounting Standard - LKAS 17, and introduces a single lessee accounting model, where a right-of-use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. Sri Lanka Accounting Standard - SLFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the Group as a lessor are not different from those under Sri Lanka Accounting Standard - LKAS 17.

**2.17.2 Adoption and Transition**

The Group adopted Sri Lanka Accounting Standard - SLFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognised at the date of initial application. Accordingly, the Group and Company's previously reported financial results up to 31 March 2019 are presented in accordance with the requirements of Sri Lanka Accounting Standard - LKAS 17 and for the year ended 31 March 2020, and future reporting periods, are presented in terms of Sri Lanka Accounting Standard - SLFRS 16.

On adoption of SLFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of Sri Lanka Accounting Standard - LKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019.

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 March 2019.

**2.17.3 Determination of Lease Term and Estimating the Incremental Borrowing Rate**

The Group uses its judgement to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Group applies judgements in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic benefits for it to exercise either the renewal or termination.

Further, as the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure the lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease). The Group estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

**2.17.4 The Group's Leasing Activities and How These are Accounted for**

The Group is a lessee for the majority of its offices and branches under long-term rental agreements. Rental contracts are typically made for fixed average period of ten years. Most of the lease contracts are made under usual terms and conditions, which means they include options to extend the lease by a defined amount of time, price adjustment clauses and escalation clauses in line with general office rental market conditions.

Until 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to Income Statement.

From 1 April 2019, all existing operating leases, which were either not less than 12 months or not deemed a low value asset, were recognised as a right-of-use asset and a corresponding lease liability.

**2.17.5 Reconciliation between the Operating Lease Commitments to the Lease Liability Balances Reported under SLFRS 16 as at 1 April 2019**

	Rs. '000
Operating lease commitments as at 31 March 2019	2,337,215
Recognition exemptions adopted for short-term leases and leases of low-value assets	-
Adjustments as a result of de-scoped leases	-
<b>Undiscounted lease liabilities as at 1 April 2019</b>	<b>2,337,215</b>
Weighted average incremental borrowing rate as at 1 April 2019 (%)	12
<b>Lease liabilities due to initial application of SLFRS 16, recognised as at 1 April 2019</b>	<b>1,293,121</b>

**2.17.6 SLFRS 16 Key Financial Impacts**

The single lessee accounting model which comprises Sri Lanka Accounting Standard - SLFRS 16's most material impact for the Group results in an increase of Rs. 1,293,121,438/- in total assets and total liabilities. The total undiscounted operating lease commitments as at 31 March 2019 amounted to Rs. 2,337,214,830/- and the lease liability as at 1 April 2019 amounted to Rs. 1,293,121,438/-. This difference primarily relates to discounting the operating lease commitments balance at the Group's weighted average incremental borrowing rate, which is 12%.

**Impact on the Group's Summarised Statement of Financial Position on 1 April 2019**

	31 March 2019	SLFRS 16 transition adjustment at 1 April 2019	1 April 2019
	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>			
Property, Plant and Equipment and Right-of-Use Assets	6,580,725	1,436,599	8,017,324
Other financial and non-financial assets*	129,890,581	(143,478)	129,747,103
<b>Total Assets</b>	<b>136,471,306</b>	<b>1,293,121</b>	<b>137,764,427</b>
<b>Liabilities and Equity</b>			
Liabilities **	118,004,339	1,293,121	119,297,460
Equity	18,466,967	-	18,466,967
<b>Total Liabilities and Equity</b>	<b>136,471,306</b>	<b>1,293,121</b>	<b>137,764,427</b>

\* Due to derecognition of the LKAS 17 prepaid lease asset

\*\* Due to recognition of lease liabilities

**2.17.7 Leasing Transactions Under LKAS 17 (Leases) - (Applicable up to 31 March 2019)**

The Group enters into lease contracts both as a lessee and lessor. The terms and conditions of these contracts were assessed and the leases were classified as operating leases or finance leases according to their economic substance at inception of the lease.

**Finance Leases**

When the Group is the lessor under a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee are included in Note No. 4.17 to these Financial Statements.

**Operating Leases**

Assets leased under leases other than finance leases are classified as operating leases.

Group as Lessor - Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognise the rental income over the lease term. Details of Operating leases- Group as a lessor are given in Note No. 4.23.6 to these Financial Statements.

Group as Lessee - Operating lease rentals payable were recognized as an expense over the lease term, which commenced when the lessee controlled the physical use of the property. Lease incentives were treated as a reduction of rental expense and were also recognized over the lease term. Details of Operating leases- Group as a lessee are given in Note No. 4.23.9 to these Financial Statements.

## SECTION 03

### *General Accounting Policies and Notes*

*Accounting policy relating to each accounting topic is given along with the relevant note to the Financial Statements. The other significant accounting policies are described below;*

#### **3.1 Basis of Consolidation**

The Group's Financial Statements comprise, Consolidated Financial Statements of the Company and its Subsidiary in terms of the Sri Lanka Accounting Standard - SLFRS 10 (Consolidated Financial Statements).

##### **3.1.1 Non-Controlling Interest**

Details of Non-Controlling Interest are given in Note 4.36 to these Financial Statements

##### **3.1.2 Subsidiary**

Details of the Company's subsidiary are set out in Note 4.22 to these Financial Statements

##### **3.1.3 Loss of Control**

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interest and other components of equity. Any resulting gain or loss is recognised in Income Statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

##### **3.1.4 Transactions Eliminated on Consolidation**

Intra-group balances, transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **3.2 Foreign Currency**

##### **3.2.1 Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Company's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the middle exchange rate of the functional currency ruling as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency as at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in Income Statement. However, foreign currency differences arising from the translation of available for sale equity instruments are recognised in Other Comprehensive Income.

##### **3.2.2 Foreign Currency Translations**

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Company's functional currency. The Financial Statements of the foreign operations of the Company have been translated into the Group's presentation currency as explained under Note 3.2.3 below;

### 3.2.3 Foreign Operations

The results and financial position of overseas operations that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows;

Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange rates ruling as at the reporting date.

Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.

All resulting exchange differences are recognised in the Other Comprehensive Income and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the Non-Controlling Interest.

When a foreign operation is disposed of such that the control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to Income Statement as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount of the translation reserve is reattributed to Non-Controlling Interest.

### 3.3 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

### 3.4 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Group which do not relate directly to amounts of principal outstanding for loans and advances. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

### 3.5 Other Taxes

#### 3.5.1 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and subsequent amendments thereto, ESC was payable on Company's liable turnover at 0.5% and was deductible from income tax payable. As per Notice dated 31 December 2019 published by the Department of Inland Revenue, ESC was abolished with effect from 1 January 2020.

#### 3.5.2 Withholding Tax on Dividends (WHT)

Withholding Tax arises from the distribution of dividends by the Company and is recognised at the time the liability to pay the related dividend is recognised. As per Notice dated 18 February 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective 1 January 2020.

**3.6 Borrowing Costs**

As per the Sri Lanka Accounting Standard – LKAS 23 (Borrowing Costs), the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the Income Statement in the period in which they occur.

**3.7 Financial Guarantees and Loan Commitments**

Financial Guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Loan commitments at below market interest rates drawdown are initially measured at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statement of Financial Position.

Loan types with undrawn limits are expected to change the exposure over a period due to the available portion in the unutilised limit. The drawdowns for unutilised portions (only for Stage 1 and 2) is considered by applying the 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.

## SECTION 04

### *Specific Accounting Policies and Notes*

#### 4.1 NET INTEREST INCOME

##### *Accounting Policy*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The Group use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability.

The calculation of EIR takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as an impairment charge or reversal to the Income Statement.

Interest income on impaired financial instruments continues to be recognised at original EIR to the unadjusted carrying amount until the financial asset has been classified as fully impaired. Until such the accrued interest added to the unadjusted carrying amount has been impaired to the estimated Loss Given Default (LGD). Discontinuation of interest accrual is discussed in Note 4.18 to these Financial Statements. Interest from overdue rentals have been accounted for on a cash received basis.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>4.1.1 Income</b>				
Interest Income	29,160,292	27,363,768	29,297,103	27,420,842
Fee and Commission Income	1,941,626	1,782,072	1,950,180	1,786,919
Net Trading Income	(2,099)	(2,558)	(2,099)	(2,558)
Other Operating Income	123,041	134,742	114,234	137,009
	<u>31,222,860</u>	<u>29,278,024</u>	<u>31,359,418</u>	<u>29,342,212</u>
<b>4.1.2 Interest Income</b>				
Loans and Receivables (Note 4.1.3)	11,917,186	9,822,945	12,053,997	9,880,019
Lease Rentals Receivable and Stock Out on Hire (Note 4.1.4)	15,900,823	16,374,704	15,900,823	16,374,704
Other Financial Assets	1,342,283	1,166,119	1,342,283	1,166,119
	<u>29,160,292</u>	<u>27,363,768</u>	<u>29,297,103</u>	<u>27,420,842</u>
<b>4.1.3 Interest Income - Loans and Receivables</b>				
Gold Loans	6,980,205	5,566,077	6,980,205	5,566,077
Vehicle Loans	1,671,360	898,082	1,671,360	898,082
Medium and Short-Term Loans	1,149,318	1,119,726	1,286,129	1,176,800
Mortgage Loans	1,189,501	1,407,599	1,189,501	1,407,599
Quick Loans	66	2,690	66	2,690
Power Drafts	867,451	709,586	867,451	709,586
Margin Trading	3,076	2,920	3,076	2,920
Factoring Receivable	56,209	116,121	56,209	116,121
Real Estate Loans	-	144	-	144
	<u>11,917,186</u>	<u>9,822,945</u>	<u>12,053,997</u>	<u>9,880,019</u>
<b>4.1.4 Interest Income - Lease Rentals Receivable and Stock Out on Hire</b>				
Lease Rentals Receivable	15,900,823	16,340,276	15,900,823	16,340,276
Stock Out on Hire	-	34,428	-	34,428
	<u>15,900,823</u>	<u>16,374,704</u>	<u>15,900,823</u>	<u>16,374,704</u>
<b>4.1.5 Interest Income from Sri Lanka Government Securities</b>				
	<u>721,036</u>	<u>521,651</u>	<u>721,036</u>	<u>521,651</u>



	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Dividend Income from Financial Assets Measured at Fair Value Through Other Comprehensive Income	6,659	9,572	6,659	9,572
Profit/(Loss) on Disposal of Property, Plant and Equipment	4,110	4,664	4,110	4,664
Income on Operating Lease	106,308	111,121	106,308	111,121
Sundry Income*	5,964	9,385	(2,843)	11,652
	<u>123,041</u>	<u>134,742</u>	<u>114,234</u>	<u>137,009</u>

\* Negative goodwill amounted to Rs. 51,625/- generated from the acquisition of remaining 3,000 shares of the L B Microfinance Myanmar Company Limited has been included in the Sundry Income for the year ended 31 March 2019.

#### 4.5 IMPAIRMENT CHARGES AND OTHER LOSSES

##### Accounting Policy

The Group recognises the changes to the impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments). The methodology adopted by the Group is explained in the Note 4.18 to these Financial Statements. Recovery of amounts written-off as bad and doubtful debts is credited to impairment charges and other losses.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Loans and Receivables	1,112,900	367,641	1,138,338	371,379
Lease Rentals Receivable and Stock out on Hire	788,797	706,298	788,797	706,298
Other Losses	4,876	-	4,876	-
Recovery of Written-off Debts	(79,888)	(93,460)	(79,888)	(93,460)
Impairment on Investment in Fixed Deposits	7,775	251	7,775	251
Impairment on Off-Balance Sheet Credit Exposures	(3,403)	2,424	(3,403)	2,424
	<u>1,831,057</u>	<u>983,154</u>	<u>1,856,495</u>	<u>986,892</u>

##### 4.5.1 Impairment Charges and Other Losses (Detailed Breakdown) - Company

	2020			2019		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount
Loans and Receivables	27,121	1,085,779	1,112,900	24,100	343,541	367,641
Lease Rentals Receivable and Stock out on Hire	43,435	745,362	788,797	127,149	579,149	706,298
Other Losses	-	4,876	4,876	-	-	-
	<u>70,556</u>	<u>1,836,017</u>	<u>1,906,573</u>	<u>151,249</u>	<u>922,690</u>	<u>1,073,939</u>
Recovery of Written-off Debts			(79,888)			(93,460)
Impairment on Investment in Fixed Deposits			7,775			251
Impairment on Off-Balance Sheet Credit Exposures			(3,403)			2,424
			<u>1,831,057</u>			<u>983,154</u>

##### 4.5.2 Impairment Charges and Other Losses (Detailed Breakdown) - Group

	2020			2019		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount	Direct Write Offs	Charge/ (Reversal) for the Year	Net Amount
Loans and Receivables	27,121	1,111,217	1,138,338	23,057	348,322	371,379
Lease Rentals Receivable and Stock out on Hire	43,435	745,362	788,797	127,149	579,149	706,298
Other Losses	-	4,876	4,876	-	-	-
	<u>70,556</u>	<u>1,861,455</u>	<u>1,932,011</u>	<u>150,206</u>	<u>927,471</u>	<u>1,077,677</u>
Recovery of Written-off Debts			(79,888)			(93,460)
Impairment on Investment in Fixed Deposits			7,775			251
Impairment on Off-Balance Sheet Credit Exposures			(3,403)			2,424
			<u>1,856,495</u>			<u>986,892</u>

## 4.5.3 Analysis of Impairment Charges and Other Losses - Company

	2020			
	Rs. '000 Stage 01	Rs. '000 Stage 02	Rs. '000 Stage 03	Rs. '000 Total
Gold Loans	102,065	-	8,722	110,787
Vehicle Loans	24,335	28,377	39,983	92,695
Medium and Short Term-Loans	18,373	(7,329)	87,033	98,077
Mortgage Loans	(12,571)	(20,706)	814,812	781,535
Quick Loans	-	-	1,510	1,510
Power Drafts	(5,386)	260	4,907	(219)
Margin Trading	-	-	-	-
Factoring Receivable	(26,463)	-	48,003	21,540
Real Estate Loans	-	-	6,975	6,975
<b>Loans and Receivables</b>	<b>100,353</b>	<b>602</b>	<b>1,011,945</b>	<b>1,112,900</b>
Leases	(113,735)	49,616	877,021	812,902
Hire Purchase	(135)	(68)	(23,902)	(24,105)
<b>Lease Rentals Receivable and Stock Out on Hire</b>	<b>(113,870)</b>	<b>49,548</b>	<b>853,119</b>	<b>788,797</b>
<b>Other Losses</b>	<b>-</b>	<b>-</b>	<b>4,876</b>	<b>4,876</b>
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>

	2019			
	Rs. '000 Stage 01	Rs. '000 Stage 02	Rs. '000 Stage 03	Rs. '000 Total
Gold Loans	4,054	-	6,826	10,880
Vehicle Loans	10,537	4,141	17,792	32,470
Medium and Short Term-Loans	20,683	7,311	118,928	146,922
Mortgage Loans	2,048	(2,841)	98,499	97,706
Quick Loans	(11)	(3)	2,338	2,324
Power Drafts	3,362	1,843	44,531	49,736
Margin Trading	-	-	-	-
Factoring Receivable	-	-	27,669	27,669
Real Estate Loans	-	-	(66)	(66)
<b>Loans and Receivables</b>	<b>40,673</b>	<b>10,451</b>	<b>316,517</b>	<b>367,641</b>
Leases	37,369	54,921	629,693	721,983
Hire Purchase	(1,248)	(697)	(13,740)	(15,685)
<b>Lease Rentals Receivable and Stock Out on Hire</b>	<b>36,121</b>	<b>54,224</b>	<b>615,953</b>	<b>706,298</b>
Recovery of Written-off Debts				(93,460)
Impairment on Investment in Fixed Deposits				251
Impairment on Off-Balance Sheet Credit Exposures				2,424
<b>Total Allowance for Impairment Losses</b>				<b>983,154</b>

## 4.5.4 Analysis of Impairment Charges and Other Losses - Group

	2020			
	Rs. '000 Stage 01	Rs. '000 Stage 02	Rs. '000 Stage 03	Rs. '000 Total
Gold Loans	102,065	-	8,722	110,787
Vehicle Loans	24,335	28,377	39,983	92,695
Medium and Short Term-Loans	19,480	(4,820)	108,855	123,515
Mortgage Loans	(12,571)	(20,706)	814,812	781,535
Quick Loans	-	-	1,510	1,510
Power Drafts	(5,386)	260	4,907	(219)
Margin Trading	-	-	-	-
Factoring Receivable	(26,463)	-	48,003	21,540
Real Estate Loans	-	-	6,975	6,975
<b>Loans and Receivables</b>	<b>101,460</b>	<b>3,111</b>	<b>1,033,767</b>	<b>1,138,338</b>
Leases	(113,735)	49,616	877,021	812,902
Hire Purchase	(135)	(68)	(23,902)	(24,105)
<b>Lease Rentals Receivable and Stock Out on Hire</b>	<b>(113,870)</b>	<b>49,548</b>	<b>853,119</b>	<b>788,797</b>
<b>Other Losses</b>	<b>-</b>	<b>-</b>	<b>4,876</b>	<b>4,876</b>
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>

	2019			
	Rs. '000 Stage 01	Rs. '000 Stage 02	Rs. '000 Stage 03	Rs. '000 Total
Gold Loans	4,054	-	6,826	10,880
Vehicle Loans	10,537	4,141	17,792	32,470
Medium and Short Term-Loans	24,421	7,311	118,928	150,660
Mortgage Loans	2,048	(2,841)	98,499	97,706
Quick Loans	(11)	(3)	2,338	2,324
Power Drafts	3,362	1,843	44,531	49,736
Margin Trading	-	-	-	-
Factoring Receivable	-	-	27,669	27,669
Real Estate Loans	-	-	(66)	(66)
<b>Loans and Receivables</b>	<b>44,411</b>	<b>10,451</b>	<b>316,517</b>	<b>371,379</b>
Leases	37,369	54,921	629,693	721,983
Hire Purchase	(1,248)	(697)	(13,740)	(15,685)
<b>Lease Rentals Receivable and Stock Out on Hire</b>	<b>36,121</b>	<b>54,224</b>	<b>615,953</b>	<b>706,298</b>
Recovery of Written-off Debts				(93,460)
Impairment on Investment in Fixed Deposits				251
Impairment on Off-Balance Sheet Credit Exposures				2,424
<b>Total Allowance for Impairment Losses</b>				<b>986,892</b>

#### 4.6 PERSONNEL EXPENSES

##### Accounting Policy

Personnel Expenses include salaries and bonus, terminal benefits and other staff-related expenses. The provision for bonus is recognised when it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

##### Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund - Company

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The Company and the employees contribute 15% and 10% respectively on the salary of each employee to the Employees' Provident Fund.

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

##### Defined Contribution Plans - Social Security Fund - L B Microfinance Myanmar Company Limited

The Company and the employees contribute 3% and 2% respectively on the salary of each employee to the Social Security Board. The maximum contribution is limited to Myanmar kyat 9,000/- by the Company and Myanmar kyat 6,000/- by the employee.

##### Defined Benefit Plans - Company

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, staff gratuity was considered as defined benefit plan as per Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Salaries and Other Related Expenses	2,537,989	2,289,613	2,565,475	2,303,987
Employer's Contribution to Employees' Provident Fund	239,164	214,908	239,164	214,908
Employer's Contribution to Employees' Trust Fund	47,833	42,982	47,833	42,982
Gratuity Charge/(Reversal) for the Year	75,942	63,099	75,942	63,099
Staff Training	18,560	10,950	18,755	10,950
Staff Welfare Expenses	79,269	65,650	80,597	65,650
Amortisation of Staff Loan Day 01 Difference	6,432	6,361	6,432	6,361
	<b>3,005,189</b>	<b>2,693,563</b>	<b>3,034,198</b>	<b>2,707,937</b>

**4.7 OTHER OPERATING EXPENSES**

*Accounting Policy*

Other operating expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earnings of the specific items of the income. All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement in arriving at the profit for the year.

	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Directors' Emoluments	16,740	15,149	16,740	15,149
Auditors' Remuneration	3,525	3,137	8,609	4,642
Audit-Related Expenses	3,269	2,734	3,269	2,734
Non-Audit Fees to Auditors	2,253	486	2,253	486
Professional and Legal Expenses	43,313	55,608	44,368	55,608
Deposit Insurance Premium	118,134	106,064	118,134	106,064
General Insurance Expenses	135,077	153,447	135,113	153,447
Office Administration and Establishment Expenses	1,242,287	1,531,540	1,255,679	1,540,180
Advertising and Business Promotional Expenses	552,324	539,173	552,613	539,173
Crop Insurance Levy Expenses	52,064	51,002	52,064	51,002
	<u>2,168,986</u>	<u>2,458,340</u>	<u>2,188,842</u>	<u>2,468,485</u>

**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.

**4.8 TAX ON FINANCIAL SERVICES**

*Accounting Policy*

Tax on Financial Services include Value Added Tax on Financial Services and Nation Building Tax on Financial Services.

**Value Added Tax (VAT) on Financial Services**

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits.

VAT rate applied for the current financial year is 15%.

**Nation Building Tax (NBT) on Financial Services**

As per provisions of the Nation Building Tax (NBT) Act No 9 of 2009 and amendments thereto, NBT on Financial Services was payable at 2% on Company's value additions attributable to financial services with effect from 1 January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on Financial Services. As per Notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019.

**Debt Repayment Levy (DRL) on Financial Services**

As per the Finance Act No 35 of 2018, with effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on Financial Services. As per notice published by the Department of Inland Revenue dated 20 January 2020, DRL was abolished with effect from 01 January 2020.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Value Added Tax on Financial Services	1,456,843	1,424,376	1,456,843	1,424,376
Nation Building Tax on Financial Services	137,005	189,712	137,005	189,712
Debt Repayment Levy on Financial Services	684,712	401,531	684,712	401,531
	<u>2,278,560</u>	<u>2,015,619</u>	<u>2,278,560</u>	<u>2,015,619</u>

**4.9 TAXATION****Accounting Policy**

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in 'Equity' or 'Other Comprehensive Income (OCI)', in which case it is recognised in Equity or in OCI.

**Current Taxation**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 4.9.2 to these Financial Statements.

Provision for taxation on the overseas operations is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant statutes in those countries, using the tax rates enacted or substantively enacted as at the reporting date.

**Accounting Estimates**

Significant judgment was required to determine the total provision for current and deferred taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. The Company recognized assets and liabilities for current and deferred taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

**Deferred Taxation**

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 4.31 to these Financial Statements.

**4.9.1 The Major Components of Income Tax Expense for the Years ended 31 March are as follows;**

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>4.9.1 (a) Income Statement</b>				
<b>Current Income Tax</b>				
Income Tax for the Year	2,724,337	2,457,981	2,735,062	2,465,763
Under/(Over) Provision of Current Taxes in respect of Previous Years	(40,639)	(16,252)	(32,271)	(16,252)
<b>Deferred Tax</b>				
Deferred Taxation Charge/(Reversal) (Note 4.31)	(260,464)	244,260	(260,464)	244,260
	<u>2,423,234</u>	<u>2,685,989</u>	<u>2,442,327</u>	<u>2,693,771</u>
<b>4.9.1 (b) Other Comprehensive Income</b>				
<b>Deferred Tax</b>				
Deferred Taxation Charge/(Reversal) (Note 4.31)	(11,678)	6,712	(11,678)	6,712
	<u>(11,678)</u>	<u>6,712</u>	<u>(11,678)</u>	<u>6,712</u>
<b>4.9.1 (c) Total Tax Expense for the Financial Year</b>	<u>2,411,556</u>	<u>2,692,701</u>	<u>2,430,649</u>	<u>2,700,483</u>

**4.9.2 Reconciliation of Accounting Profit and Taxable Income**

A reconciliation between the tax expense and the accounting profit multiplied by relevant tax rate for the years ended 31 March is as follows;

	Tax Rate	Company		Group	
		2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Accounting Profit Before Income Taxation</b>		7,610,287	7,740,649	7,653,188	7,773,194
Income Tax Expense at the Statutory Income					
L B Finance PLC	28%	2,130,880	2,167,382	2,130,880	2,167,382
L B Microfinance Myanmar Company Limited	25%	-	-	10,725	8,136
Tax Effect of Non-Deductible Expenses		399,759	538,917	399,759	545,629
Tax Effect of Allowable Credits		(1,110)	(1,306)	(1,110)	(1,306)
Tax Effect of Exempt Income		(1,231)	(2,753)	(1,231)	(2,753)
Tax Effect of Rate change to 24% with effect from 1 January 2020		(76,103)	-	(76,103)	-
Under/(Over) Provision of Current Taxes in respect of Previous Years		(40,639)	(16,251)	(32,271)	(16,605)
		<u>2,411,556</u>	<u>2,685,989</u>	<u>2,430,649</u>	<u>2,700,483</u>
<b>Charge/(Reversal) for Deferred Tax</b>		<u>(260,464)</u>	<u>244,260</u>	<u>(260,464)</u>	<u>244,260</u>
<b>Effective Tax Rate</b>		31.69%	34.70%	31.76%	34.74%
<b>Effective Tax Rate (Excluding Deferred Tax)</b>		35.11%	31.54%	35.16%	31.60%
<b>Accounting Profit Before Tax on Financial Services</b>		<u>9,888,847</u>	<u>9,756,268</u>	<u>9,931,748</u>	<u>9,788,813</u>
<b>Effective Tax Rate (Excluding Tax on Financial Services)</b>		24.39%	27.53%	24.47%	27.59%

**4.9.3 Income Tax expense of the Company and its subsidiary have been recorded for on the taxable income at rates shown below;**

	2020	2019
L B Finance PLC (1 April - 31 December)	28%	28%
L B Finance PLC (1 January - 31 March)	24%	28%
L B Microfinance Myanmar Company Limited	25%	25%

**4.9.4 Summary of the Taxes Paid During the Financial Year**

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Direct Taxes</b>				
Income Tax	2,875,243	1,588,320	2,897,059	1,588,320
Value Added Tax on Financial Services	1,607,388	1,402,281	1,607,388	1,402,281
Nation Building Tax on Financial Services	157,173	186,500	157,173	186,500
Debt Repayment Levy on Financial Services	749,182	337,061	749,182	337,061
Crop Insurance Levy	54,797	47,320	54,797	47,320
Economic Service Charge	157,338	142,410	157,338	142,410
	<u>5,601,121</u>	<u>3,703,892</u>	<u>5,622,937</u>	<u>3,703,892</u>
<b>Indirect Taxes (Collected and Paid)</b>				
Value Added Tax	255,963	292,987	255,963	292,987
Nation Building Tax	31,402	36,502	31,402	36,502
Stamp Duty	324,986	411,308	324,986	411,308
Withholding Tax on Dividend and Interest	508,602	360,324	508,602	360,324
PAYE Tax	102,611	106,619	102,611	106,619
	<u>1,223,564</u>	<u>1,207,740</u>	<u>1,223,564</u>	<u>1,207,740</u>
<b>Total Taxes Paid during the Financial Year</b>	<u>6,824,685</u>	<u>4,911,632</u>	<u>6,846,501</u>	<u>4,911,632</u>

**4.10 EARNINGS PER ORDINARY SHARE****Accounting Policy**

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per the Sri Lanka Accounting Standard - LKAS 33 (Earnings Per Share).

Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees. The Group does not have any potentially dilutive shares.

**4.10.1 Income and Shares Details Used in the Basic Earning per Share Computation**

	Company		Group	
	2020	2019	2020	2019
<b>Amounts Used as the Numerators:</b>				
Profit after Tax for the Year Attributable to Equity Holders (Rs. '000)	5,187,053	5,054,660	5,210,861	5,079,349
<b>Number of Ordinary Shares Used as Denominators for Basic Earnings per Share</b>				
Weighted Average Number of Ordinary Shares in Issue	138,514,284	138,514,284	138,514,284	138,514,284
Basic/Diluted Earnings per Ordinary Share (Rs.)	37.45	36.49	37.62	36.67

**4.10.2** The Diluted earnings per ordinary share is equal to the basic earnings per ordinary share since the Company and the Group does not have any convertible securities as at the reporting date.

**4.10.3** There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

**4.11 DIVIDEND PAID AND PROPOSED****Accounting Policy**

Provision for final dividends is recognized 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 7 of 2007.

**4.11.1 Declared and Paid During the Year**

Dividends on Ordinary Shares:

Final Dividend for 2019 - Rs. 4.00 per Share (Final Dividend for 2018 - Rs. 4.00 per Share)

Company	
2020	2019
Rs. '000	Rs. '000
554,057	554,057
554,057	554,057

**4.11.2 Declared During the Year and Paid after the Reporting Date**

(recognized as a liability as at 31 March)

Dividends on Ordinary Shares:

(Interim Dividend for 2019 - Rs. 8.00 per Share)

-	1,108,114
---	-----------

**4.11.3 Proposed for Approval at Annual General Meeting**

(not recognized as a liability as at 31 March)

Dividends on Ordinary Shares:

(Final Dividend for 2019 - Rs. 4.00 per Share)

-	554,057
---	---------

#### 4.12 FINANCIAL INSTRUMENTS

##### *Accounting Policy*

##### **Date of Recognition**

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to depositors, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to depositors when funds are transferred to the Group.

##### **Classification and Initial Measurement of Financial Instruments**

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables of subsidiaries are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss.

##### **Day 1 Profit or Loss**

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and the fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

##### **Classification and Subsequent Measurement of Financial Assets**

As per SLFRS 9, 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 realized 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 amortization 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 9, the Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories;

\*Financial liabilities at fair value through profit or loss, and within this category as

#Held for trading; or

#Designated at fair value through profit or loss

\*Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

**Reclassification of Financial Assets and Financial Liabilities**

As per SLFRS 9, 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 9.

**Derecognition of Financial Assets and Financial Liabilities**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

**4.12.1 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKASs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

During the year Group has not offset any financial assets and financial liabilities in the Statement of Financial Position.

**Offsetting of Financial Instruments**

Offsetting of financial instruments based on the rights of set off relating to the financial instruments and cash collateral is as follows;

Company	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
As at 31 March	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	60,626,670	-	60,626,670	-	24,730,786	35,895,884
<b>Financial Liabilities</b>						
Due to Depositors	89,256,435	-	89,256,435	-	3,311,868	85,944,568
Group	2019					
	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
As at 31 March	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	66,050,429	-	66,050,429	-	28,094,634	37,955,795
<b>Financial Liabilities</b>						
Due to Depositors	83,214,949	-	83,214,949	-	2,855,607	80,359,342
Group	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
As at 31 March	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	60,626,670	-	60,626,670	-	24,730,786	35,895,884
<b>Financial Liabilities</b>						
Due to Depositors	89,315,097	-	89,315,097	-	3,311,868	86,003,229
Group	2019					
	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
As at 31 March	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Lease Rentals Receivable and Stock out on Hire	66,050,429	-	66,050,429	-	28,094,634	37,955,795
<b>Financial Liabilities</b>						
Due to Depositors	83,242,617	-	83,242,617	-	2,855,607	80,387,010

The financial instruments and cash collateral amounts have been recorded at amortised cost. The rights of set off relating to the financial instruments and cash collateral are conditional upon the default of the counterparty.

**4.13 FAIR VALUE MEASUREMENT****Accounting Policy**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

01. In the principal market for the asset or liability; or
  02. In the absence of a principal market, in the most advantageous market for the asset or liability.
- The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses various valuation methodologies that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

Level 1: Inputs include quoted prices for identical instruments.

Level 2: Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.

Level 3: Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments.

**Valuation Framework**

The Company has an established control framework for the measurement of fair values. Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department.

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

## 4.13.1 Fair Value Measurement Hierarchy - Financial Assets Measured at Fair Value - Company &amp; Group

As at 31 March	Notes	2020				2019			
		<i>Fair Value Measurement Using</i>				<i>Fair Value Measurement Using</i>			
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets Recognised Through Profit or Loss - Measured at Fair Value</b>	4.15								
Quoted Equities		4,648	-	-	4,648	6,866	-	-	6,866
<b>Financial Assets Measured at Fair Value Through Other Comprehensive Income</b>	4.19								
Quoted Equities		58,836	-	-	58,836	89,405	-	-	89,405
Unquoted Equities		-	-	305	305	-	-	305	305
		58,836	-	305	59,141	89,405	-	305	89,710

There were no transfers into and transfers out of the hierarchy levels during 2019 and 2020.

Details of valuation methodologies and assumptions are disclosed in Note 4.15 and Note 4.19 to these Financial Statements.

## 4.13.2 Fair Value Measurement Hierarchy - Financial Assets and Liabilities Measured at Amortised Cost

## 4.13.2 (a) Financial Assets Measured at Amortised Cost - Company

As at 31 March		2020					2019				
Notes		<i>Fair Value Measurement Using</i>				Carrying Value at Amortised Cost	<i>Fair Value Measurement Using</i>				Carrying Value at Amortised Cost
		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value		Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Total Fair Value	
		Level 1	Level 2	Level 3	Rs. '000		Level 1	Level 2	Level 3	Rs. '000	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cash and Cash Equivalents</b>											
4.14	Notes and Coins Held	936,075	-	-	936,075	936,075	873,072	-	-	873,072	873,072
	Balances with Banks	3,683,718	-	-	3,683,718	3,683,718	1,403,820	-	-	1,403,820	1,403,820
	Treasury Bills Repurchase Agreements	-	1,542,844	-	1,542,844	1,542,844	-	1,763,694	-	1,763,694	1,763,694
		4,619,793	1,542,844	-	6,162,637	6,162,637	2,276,892	1,763,694	-	4,040,586	4,040,586
<b>Financial Assets at Amortised Cost/Loans and Receivables (Net of Allowance for Impairment Losses)</b>											
4.16	Gold Loans	-	-	30,865,783	30,865,783	30,865,783	-	-	25,717,165	25,717,165	25,717,165
	Vehicle Loans	-	-	12,386,581	12,386,581	11,862,685	-	-	5,671,597	5,671,597	5,713,384
	Medium and Short-Term Loans	-	-	6,558,503	6,558,503	6,571,733	-	-	5,778,043	5,778,043	5,743,814
	Mortgage Loans	-	-	5,532,136	5,532,136	5,097,547	-	-	6,438,755	6,438,755	6,227,649
	Quick Loans	-	-	-	-	-	-	-	2,472	2,472	2,472
	Power Drafts	-	-	3,939,431	3,939,431	3,841,506	-	-	3,682,897	3,682,897	3,682,058
	Margin Trading	-	-	-	-	-	-	-	17,141	17,141	17,141
	Factoring Receivable	-	-	-	-	-	-	-	291,342	291,342	291,342
		-	-	59,282,434	59,282,434	58,239,254	-	-	47,599,412	47,599,412	47,395,025
<b>Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)</b>											
4.17	Lease Rentals Receivable	-	-	62,559,507	62,559,507	60,624,088	-	-	67,385,922	67,385,922	66,022,581
	Stock out on Hire	-	-	4,433	4,433	2,582	-	-	31,164	31,164	27,848
		-	-	62,563,940	62,563,940	60,626,670	-	-	67,417,086	67,417,086	66,050,429
<b>Other Financial Assets</b>											
4.20	Treasury Bills Repurchase Agreements	-	5,462,735	-	5,462,735	5,462,735	-	5,138,730	-	5,138,730	5,138,730
	Investment in Fixed Deposits	-	3,426,929	-	3,426,929	3,426,929	-	5,281,468	-	5,281,468	5,281,468
	Insurance Premium Receivable	-	206,038	-	206,038	206,038	-	349,425	-	349,425	349,425
	Due from Subsidiary	-	16,278	-	16,278	16,278	-	9,844	-	9,844	9,844
	Sundry Debtors	-	7,701	-	7,701	7,701	-	25,050	-	25,050	25,050
		-	9,119,681	-	9,119,681	9,119,681	-	10,804,517	-	10,804,517	10,804,517

## 4.13.2 (b) Financial Assets Measured at Amortised Cost - Group

As at 31 March		2020					2019				
		<i>Fair Value Measurement Using</i>			Total Fair Value	Carrying Value at Amortised Cost	<i>Fair Value Measurement Using</i>			Total Fair Value	Carrying Value at Amortised Cost
Notes	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs	Rs. '000			Rs. '000	Rs. '000	Rs. '000		
	Level 1	Level 2	Level 3	Rs. '000	Rs. '000	Level 1	Level 2	Level 3	Rs. '000	Rs. '000	
<b>Cash and Cash Equivalents</b>	4.14										
Notes and Coins Held		936,604	-	-	936,604	936,604	873,251	-	-	873,251	
Balances with Banks		3,992,864	-	-	3,992,864	3,992,864	1,421,665	-	-	1,421,665	
Treasury Bills Repurchase Agreements		-	1,542,844	-	1,542,844	1,542,844	-	1,763,694	-	1,763,694	
		4,929,468	1,542,844	-	6,472,312	6,472,312	2,294,916	1,763,694	-	4,058,610	
<b>Financial Assets at Amortised Cost/Loans and Receivables (Net of Allowance for Impairment Losses)</b>	4.16										
Gold Loans		-	-	30,865,783	30,865,783	30,865,783	-	-	25,717,165	25,717,165	
Vehicle Loans		-	-	12,386,581	12,386,581	11,862,685	-	-	5,671,597	5,713,384	
Medium and Short-Term Loans		-	-	7,112,593	7,112,593	7,125,823	-	-	6,156,723	6,122,494	
Mortgage Loans		-	-	5,532,136	5,532,136	5,097,547	-	-	6,438,755	6,227,649	
Quick Loans		-	-	-	-	-	-	-	2,472	2,472	
Power Drafts		-	-	3,939,431	3,939,431	3,841,506	-	-	3,682,897	3,682,058	
Margin Trading		-	-	-	-	-	-	-	17,141	17,141	
Factoring Receivable		-	-	-	-	-	-	-	291,342	291,342	
		-	-	59,836,524	59,836,524	58,793,344	-	-	47,978,092	47,773,705	
<b>Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)</b>	4.17										
Lease Rentals Receivable		-	-	62,559,507	62,559,507	60,624,088	-	-	67,385,922	66,022,581	
Stock out on Hire		-	-	4,433	4,433	2,582	-	-	31,164	27,848	
		-	-	62,563,940	62,563,940	60,626,670	-	-	67,417,086	66,050,429	
<b>Other Financial Assets</b>	4.20										
Treasury Bills Repurchase Agreements		-	5,462,735	-	5,462,735	5,462,735	-	5,138,730	-	5,138,730	
Investment in Fixed Deposits		-	3,426,929	-	3,426,929	3,426,929	-	5,281,468	-	5,281,468	
Insurance Premium Receivable		-	206,038	-	206,038	206,038	-	349,425	-	349,425	
Sundry Debtors		-	10,059	-	10,059	10,059	-	25,050	-	25,050	
		-	9,105,761	-	9,105,761	9,105,761	-	10,794,673	-	10,794,673	

**Sensitivity Analysis of Financial Assets Measured at Amortised Cost under Level 3 Category**

	Company		Group	
	2020	2019	2020	2019
Increase/(Decrease) in Interest Rate	Rs. '000	Rs. '000	Rs. '000	Rs. '000
1bp Up	(10,013)	(9,418)	(10,013)	(9,418)
1bp Down	10,015	9,419	10,015	9,419

**Unobservable Inputs Used in Measuring Fair Value under Level 3 Category**

The following table sets out information about significant unobservable inputs used as at 31 March 2020 and 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair Values as at 31 March 2020	Fair Values as at 31 March 2020	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Rs. '000	Rs. '000				
	Company	Group				
Financial Assets at Amortised Cost/Loans and Receivables (Net of Allowance for Impairment Losses)	59,282,434 (2019) 47,599,412	59,836,524 (2019) 47,978,092	Discounted cash flow	Spread	2-11.5% (2019 : 2-12.5%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	1.5-7.1% (2019 : 2-7%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	5-100% (2019 : 25-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.03-3.4% (2019 : 0.03-3.4%)	Correlates with the current interest rates
Financial Assets at Amortised Cost/Lease Rentals Receivable and Stock out on Hire (Net of Allowance for Impairment Losses)	62,563,940 (2019) 67,417,086	62,563,940 (2019) 67,417,086	Discounted cash flow	Spread	9% (2019 : 10%)	A significant increase in the spread would result in a lower fair value.
				Probability of default	1.5-7.1% (2019 : 2-7%)	Significant increases in probability of default isolation would result in lower fair values.
				Loss severity	5-100% (2019 : 5-100%)	A significant reduction would result in higher fair values.
				Expected prepayment rate	0.5-3.85% (2019: 0.5-3.85%)	Correlates with the current interest rates

There were no transfers into and transfers out of the hierarchy levels during 2020 and 2019.

**Valuation Methodologies and Assumptions****Cash and Cash Equivalents**

Included in cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of change in value due to interest rate, quoted price, or penalty on withdrawal. A debt security is classified as a cash equivalent if it meets these criteria and if it has a remaining time to maturity of three months or less from the date of acquisition. Amounts on deposit and available upon demand, or negotiated to provide for daily liquidity without penalty, are classified as cash and cash equivalents. Time deposits, certificates of deposit and money market accounts that meet the above criteria are reported at par value on our Statement of Financial Position.

**Finance Receivables (Loans, Lease Rentals Receivable and Stock out on Hire)**

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses, pre-payment speed, and applicable spreads to approximate current rates. Our assumptions regarding pre-payment speed and credit losses are based on historical performance. We use the fair value of collateral to determine the fair value of non-performing finance receivables. The collateral for finance receivable is the vehicle financed, real estate, gold or other property. The fair value of finance receivables is categorized 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.

Financial Liabilities Measured at Amortised Cost - Company		2020					2019				
		Fair Value Measurement Using			Carrying Value at Amortised Cost	Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost	
As at 31 March	Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs			Quoted Prices in Active Markets	Significant Observable Inputs	Significant Unobservable Inputs			
Notes	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value			
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000		
<b>Due to Banks</b>											
Bank Overdrafts	-	720,411	-	720,411	720,411	-	1,068,362	-	1,068,362		
Debt Funding from Banks	-	24,096,491	-	24,096,491	22,050,674	-	23,788,928	-	23,788,928		
	-	24,816,902	-	24,816,902	22,771,085	-	24,857,290	-	24,857,290		
<b>Financial Liabilities at Amortised Cost - Due to Depositors</b>											
Fixed Deposits	-	-	86,353,155	86,353,155	85,761,986	-	-	81,096,420	81,096,420		
Certificates of Deposit	-	-	10,373	10,373	10,373	-	-	88,737	88,737		
Savings Deposits	-	-	3,484,076	3,484,076	3,484,076	-	-	2,876,048	2,876,048		
	-	-	89,847,604	89,847,604	89,256,435	-	-	84,061,205	84,061,205		
<b>Debt Instruments Issued and Other Borrowed Funds</b>											
Unsecured Debentures	-	3,215,338	-	3,215,338	3,111,186	-	3,026,629	-	3,026,629		
	-	3,215,338	-	3,215,338	3,111,186	-	3,026,629	-	3,026,629		
<b>Other Financial Liabilities</b>											
Trade Payables	-	68,309	-	68,309	68,309	-	620,323	-	620,323		
Insurance Premium Payable	-	482,244	-	482,244	482,244	-	657,018	-	657,018		
Unclaimed Balances	-	657,711	-	657,711	657,711	-	573,891	-	573,891		
Lease Liability	-	1,321,454	-	1,321,454	1,321,454	-	-	-	-		
Advances Collected from Customers	-	99,166	-	99,166	99,166	-	27,862	-	27,862		
Other Payables	-	137,526	-	137,526	137,526	-	95,396	-	95,396		
	-	2,766,410	-	2,766,410	2,766,410	-	1,974,490	-	1,974,490		

## 4.13.3 (b) Financial Liabilities Measured at Amortised Cost - Group

As at 31 March	Notes	2020					2019				
		Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost	Fair Value Measurement Using			Total Fair Value	Carrying Value at Amortised Cost
		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	Rs. '000	Rs. '000	Rs. '000	Rs. '000		
<b>Due to Banks</b>	4.25										
Bank Overdrafts		-	720,411	-	720,411	720,411	-	1,068,362	-	1,068,362	1,068,362
Debt Funding from Banks		-	24,208,348	-	24,208,348	22,162,530	-	23,788,928	-	23,788,928	23,565,146
		-	24,928,759	-	24,928,759	22,882,941	-	24,857,290	-	24,857,290	24,633,508
<b>Financial Liabilities at Amortised Cost - Due to Depositors</b>	4.26										
Fixed Deposits		-	-	86,353,155	86,353,155	85,761,986	-	-	81,096,420	81,096,420	80,250,164
Certificates of Deposit		-	-	10,373	10,373	10,373	-	-	88,737	88,737	88,737
Savings Deposits		-	-	3,542,738	3,542,738	3,542,738	-	-	2,903,716	2,903,716	2,903,716
		-	-	89,906,266	89,906,266	89,315,097	-	-	84,088,873	84,088,873	83,242,617
<b>Debt Instruments Issued and Other Borrowed Funds</b>	4.27										
Unsecured Debentures		-	3,215,338	-	3,215,338	3,111,186	-	3,026,629	-	3,026,629	3,107,783
		-	3,215,338	-	3,215,338	3,111,186	-	3,026,629	-	3,026,629	3,107,783
<b>Other Financial Liabilities</b>	4.28										
Trade Payables		-	68,309	-	68,309	68,309	-	620,323	-	620,323	620,323
Insurance Premium Payable		-	482,244	-	482,244	482,244	-	657,018	-	657,018	657,018
Unclaimed Balances		-	658,068	-	658,068	658,068	-	573,891	-	573,891	573,891
Lease Liability		-	1,321,454	-	1,321,454	1,321,454	-	-	-	-	-
Advances Collected from Customers		-	99,166	-	99,166	99,166	-	27,862	-	27,862	27,862
Other Payables		-	137,534	-	137,534	137,534	-	95,396	-	95,396	95,396
		-	2,766,775	-	2,766,775	2,766,775	-	1,974,490	-	1,974,490	1,974,490

**Sensitivity Analysis of Financial Liabilities Measured at Amortised Cost under Level 3 Category**

	Company		Group	
	2020	2019	2020	2019
Increase/(Decrease) in Interest Rate	Rs. '000	Rs. '000	Rs. '000	Rs. '000
1bp Up	(9,972)	(9,888)	(9,972)	(9,888)
1bp Down	9,974	9,890	9,974	9,890

**Unobservable Inputs Used in Measuring Fair Value under Level 3 Category**

The following table sets out information about significant unobservable inputs used as at 31 March 2020 and 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of Financial Instrument	Fair Values as at 31 March 2020 Rs. '000	Fair Values as at 31 March 2020 Rs. '000	Valuation Technique	Significant Unobservable Input	Range of Estimates for Unobservable Input	Fair Value Measurement Sensitivity to Unobservable Inputs
	Company	Group				
Financial Liabilities at Amortised Cost - Due to Depositors	89,847,604	89,906,266	Discounted cash flow	Spread	0-2.66% (2019 : 0-2.1%)	A significant increase in the spread would result in a lower fair value.
	(2019) 84,061,205	(2019) 84,088,875		Expected premature rate	0.36-2.83% (2019 : 0.31-1.02%)	Correlates with the current interest rates

There were no financial liabilities recorded at fair value as at 31 March 2020 and 2019

There were no transfers into and transfers out of the hierarchy levels during 2020 and 2019.

**Valuation Methodologies and Assumptions****Due to Depositors**

We measure the fair value using internal valuation models. These models project future cash flows of fixed deposits based on scheduled maturities (including principal and interest) and pre-maturities of deposits. The projected cash flows are discounted to present value based on applicable spreads to approximate current deposit rates for each tenor. Our assumptions regarding pre-maturity speed and spreads are based on historical performance. Certificate of deposits that have a maturity less than one year and savings deposits without a specific maturity are assumed that the carrying amounts approximate their fair values. The fair value of Due to Depositors is categorized within Level 3 of the hierarchy.

**Debentures, Bank Borrowings, Securitised Notes and Debt Instruments**

We measure fair value for listed debentures using quoted prices for our own debentures with approximately the same remaining maturities, where possible. If the particular debenture is off the run, we estimate the fair value using discounted cash flows and market-based expectations for interest rates, credit risk, and the contractual terms of the debenture. Comparable on the run debenture yield to maturity (YTM) assumed to be a good approximation for the fair value estimation of off the run debentures. We estimate the fair value of Bank borrowings and debt instruments using discounted cash flows and use the most recent transacted rate and/or unexpired offered rate of a similar instrument or borrowing. Debt instrument and bank borrowing do not carry prepayment or embedded options. The fair value of debt is categorised within Level 2 of the hierarchy.

**Other Financial Liabilities**

Since all the liabilities which are under other financial liabilities have short-term maturities, it is assumed that the carrying amounts of those liabilities approximate their fair values.

**4.14 CASH AND CASH EQUIVALENTS***Accounting Policy*

Cash and cash equivalents includes cash and bank balances and money at call and short notice. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Notes and Coins Held	936,075	873,072	936,604	873,251
Balances with Banks	3,683,718	1,403,820	3,992,864	1,421,665
Treasury Bills Repurchase Agreements (Less than 03 Months)	1,542,844	1,763,694	1,542,844	1,763,694
	<u>6,162,637</u>	<u>4,040,586</u>	<u>6,472,312</u>	<u>4,058,610</u>
Fair Value	<u>6,162,637</u>	<u>4,040,586</u>	<u>6,472,312</u>	<u>4,058,610</u>

**4.14.1** The collateral value of repurchase agreements reflected on the Statement of Financial Position under cash and cash equivalents as at 31 March 2020 and 31 March 2019 was Rs. 1,685,700,000/- and Rs. 1,957,585,303/-, respectively.

**4.14.2 Cash and Cash Equivalents Allocated for the Liquidity Requirement***Accounting Policy*

Our cash and cash equivalents allocated for the liquidity requirement primarily include cash held to meet certain local governmental and regulatory reserve requirement and cash held under the terms of certain contractual agreements. This does not include required minimum balances or cash securing debt issued through securitization transactions. Cash and cash equivalents allocated for the liquidity requirement were as follows;

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Cash and Cash Equivalents Allocated for the Liquidity Requirement	<u>427,537</u>	<u>-</u>	<u>427,537</u>	<u>-</u>

**4.14.3 Net Cash and Cash Equivalents for the Purpose of the Cash Flow Statement***Accounting Policy*

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Cash and Cash Equivalents	6,162,637	4,040,586	6,472,312	4,058,610
Bank Overdrafts (Note 4.25)	(720,411)	(1,068,362)	(720,411)	(1,068,362)
Net Cash and Cash Equivalents	<u>5,442,226</u>	<u>2,972,224</u>	<u>5,751,901</u>	<u>2,990,248</u>

**4.15 FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE***Accounting Policy*

The Group classifies financial assets as financial assets recognised through profit or loss when they have been purchased primarily for short-term profit making through trading activities. Financial assets recognised through profit or loss are recorded and measured in the Statement of Financial Position at fair value. Changes in fair value are recognised in Net Trading Income.

Financial assets recognised through profit or loss include quoted equity securities that have been acquired principally for the purpose of selling in the near term, and are recorded at fair values. The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange.

SLFRS 9 requires financial instruments to be classified based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. For financial assets that are debt instruments, held for trading is a business model objective that results in measurement at fair value through profit or loss.

	Company & Group	
	2020 Rs. '000	2019 Rs. '000
Equity Securities - Quoted (Note 4.15.1)	<u>4,648</u>	<u>6,866</u>

4.15.1 Equity Securities - Quoted	Company & Group			Company & Group		
	Number of Shares	Cost as at	Market Value as at	Number of Shares	Cost as at	Market Value as at
	2020	2020	2020	2019	2019	2019
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	
<b>Bank Finance and Insurance</b>						
Seylan Bank PLC (Non-Voting)	104,110	1,685	2,301	96,257	1,685	3,457
		1,685	2,301		1,685	3,457
<b>Beverages, Food and Tobacco</b>						
Bairaha Farms PLC	17,600	425	1,385	17,600	425	2,020
		425	1,385		425	2,020
<b>Manufacturing</b>						
Lanka Walltiles PLC*	19,740	790	811	19,740	790	1,184
		790	811		790	1,184
<b>Trading</b>						
Hayleys PLC*	1,222	207	151	1,222	207	205
		207	151		207	205
<b>Total</b>		<b>3,107</b>	<b>4,648</b>		<b>3,107</b>	<b>6,866</b>

\* Investments made in related parties

#### 4.16 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

##### Accounting Policy

Loans and advances include financial assets measured at amortised cost if both of the following conditions are met:

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement loans and advances are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charges and other losses' in the Income Statement.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold Loans	31,017,589	25,766,906	31,017,589	25,766,906
Vehicle Loans	12,125,470	5,899,422	12,125,470	5,899,422
Medium and Short-Term Loans	6,923,467	6,041,682	7,511,289	6,424,565
Mortgage Loans	6,456,908	6,810,784	6,456,908	6,810,784
Quick Loans	-	6,474	-	6,474
Power Drafts	3,960,962	3,805,755	3,960,962	3,805,755
Margin Trading	-	17,142	-	17,142
Factoring Receivable	103,636	367,073	103,636	367,073
Real Estate Loans	528	910	528	910
<b>Gross Loans and Receivables</b>	<b>60,588,560</b>	<b>48,716,148</b>	<b>61,176,382</b>	<b>49,099,031</b>
Allowance for Impairment Losses (Note 4.18)	(2,349,306)	(1,321,123)	(2,383,038)	(1,325,326)
<b>Net Loans and Receivables subject to Fair Value (Note 4.16.2)</b>	<b>58,239,254</b>	<b>47,395,025</b>	<b>58,793,344</b>	<b>47,773,705</b>
Fair Value	59,282,434	47,599,412	59,836,524	47,978,092

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

4.16.1 Loans and Receivables Include Loans Granted to Employees, the Movement of which is as Follows;	Company & Group	
	2020 Rs. '000	2019 Rs. '000
As at the Beginning of the Year	508,402	356,942
Loans Granted During the Year	588,462	393,286
Repayments During the Year	(532,011)	(241,826)
As at the End of the Year	564,853	508,402

## 4.16.2 Contractual Maturity Analysis of Loans and Receivables- Company

As at 31 March 2020	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Gold Loans	31,017,589	-	-	31,017,589
Vehicle Loans	3,910,128	8,138,698	76,645	12,125,471
Medium and Short Term-Loans	4,020,875	2,902,592	-	6,923,467
Mortgage Loans	2,055,326	3,783,094	618,487	6,456,907
Power Drafts	3,305,596	655,366	-	3,960,962
Factoring Receivable	99,579	4,057	-	103,636
Real Estate Loans	528	-	-	528
<b>Gross Loans and Receivables</b>	<b>44,409,621</b>	<b>15,483,807</b>	<b>695,132</b>	<b>60,588,560</b>
Allowance for Impairment Losses (Note 4.18)				(2,349,306)
<b>Net Loans and Receivables</b>				<b>58,239,254</b>

As at 31 March 2019	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Gold Loans	25,766,906	-	-	25,766,906
Vehicle Loans	2,165,139	3,661,443	72,840	5,899,422
Medium and Short Term-Loans	3,634,984	2,406,698	-	6,041,682
Mortgage Loans	1,892,927	4,207,953	709,904	6,810,784
Quick Loans	6,474	-	-	6,474
Power Drafts	2,549,431	1,256,324	-	3,805,755
Margin Trading	17,142	-	-	17,142
Factoring Receivable	363,279	3,794	-	367,073
Real Estate Loans	910	-	-	910
<b>Gross Loans and Receivables</b>	<b>36,397,192</b>	<b>11,536,212</b>	<b>782,744</b>	<b>48,716,148</b>
Allowance for Impairment Losses (Note 4.18)				(1,321,123)
<b>Net Loans and Receivables</b>				<b>47,395,025</b>

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

## 4.16.3 Contractual Maturity Analysis of Loans and Receivables- Group

As at 31 March 2020	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Gold Loans	31,017,589	-	-	31,017,589
Vehicle Loans	3,910,128	8,138,698	76,645	12,125,471
Medium and Short Term-Loans	4,600,017	2,911,272	-	7,511,289
Mortgage Loans	2,055,326	3,783,094	618,487	6,456,907
Power Drafts	3,305,596	655,366	-	3,960,962
Factoring Receivable	99,579	4,057	-	103,636
Real Estate Loans	528	-	-	528
<b>Gross Loans and Receivables</b>	<b>44,988,763</b>	<b>15,492,487</b>	<b>695,132</b>	<b>61,176,382</b>
Allowance for Impairment Losses (Note 4.18)				(2,383,038)
<b>Net Loans and Receivables</b>				<b>58,793,344</b>
As at 31 March 2019	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Gold Loans	25,766,906	-	-	25,766,906
Vehicle Loans	2,165,139	3,661,443	72,840	5,899,422
Medium and Short Term-Loans	3,957,942	2,466,623	-	6,424,565
Mortgage Loans	1,892,927	4,207,953	709,904	6,810,784
Quick Loans	6,474	-	-	6,474
Power Drafts	2,549,431	1,256,324	-	3,805,755
Margin Trading	17,142	-	-	17,142
Factoring Receivable	363,279	3,794	-	367,073
Real Estate Loans	910	-	-	910
<b>Gross Loans and Receivables</b>	<b>36,720,150</b>	<b>11,596,137</b>	<b>782,744</b>	<b>49,099,031</b>
Allowance for Impairment Losses (Note 4.18)				(1,325,326)
<b>Net Loans and Receivables</b>				<b>47,773,705</b>

Our loans and receivables are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

## 4.16.4 Credit Exposure Movement - ECL Stage-wise - Company

Loans and Receivables	2020 Stage 01 Rs. '000	2020 Stage 02 Rs. '000	2020 Stage 03 Rs. '000	2020 Total Rs. '000
Gross Carrying Amount as at 1 April 2019	41,856,465	4,329,972	2,529,711	48,716,148
Transfer to Stage 01	424,101	(396,489)	(27,612)	-
Transfer to Stage 02	(2,143,465)	2,256,215	(112,750)	-
Transfer to Stage 03	(979,231)	(1,323,489)	2,302,720	-
New Assets Originated or Purchased	22,515,537	5,282,778	2,896,750	30,695,065
Financial Assets Derecognised or Repaid	(11,432,205)	(4,048,790)	(3,256,963)	(18,737,956)
Write-offs	(35)	(226)	(84,436)	(84,697)
As at 31 March 2020	<b>50,241,167</b>	<b>6,099,971</b>	<b>4,247,420</b>	<b>60,588,560</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

Loans and Receivables	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2018	34,308,332	3,991,280	2,422,051	40,721,663
Transfer to Stage 01	791,071	(607,195)	(183,876)	-
Transfer to Stage 02	(1,550,690)	1,670,294	(119,604)	-
Transfer to Stage 03	(769,259)	(503,377)	1,272,636	-
New Assets Originated or Purchased	19,017,672	3,128,837	1,422,952	23,569,461
Financial Assets Derecognised or Repaid	(9,940,652)	(3,349,786)	(2,232,476)	(15,522,914)
Write-offs	(9)	(81)	(51,972)	(52,062)
As at 31 March 2019	41,856,465	4,329,972	2,529,711	48,716,148

## 4.16.5 Credit Exposure Movement - ECL Stage-wise - Group

Loans and Receivables	2020	2020	2020	2020
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2019	42,239,348	4,329,972	2,529,711	49,099,031
Transfer to Stage 01	424,101	(396,489)	(27,612)	-
Transfer to Stage 02	(2,143,465)	2,256,215	(112,750)	-
Transfer to Stage 03	(979,231)	(1,323,489)	2,302,720	-
New Assets Originated or Purchased	23,016,720	5,287,796	2,921,470	31,225,986
Financial Assets Derecognised or Repaid	(11,822,909)	(4,049,202)	(3,256,963)	(19,129,074)
Write-offs	(35)	(226)	(84,436)	(84,697)
Exchange Rate Variance on Foreign Currency Provisions	65,136	-	-	65,136
As at 31 March 2020	50,799,665	6,104,577	4,272,140	61,176,382

Loans and Receivables	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April 2018	34,347,600	3,991,280	2,422,051	40,760,931
Transfer to Stage 01	791,071	(607,195)	(183,876)	-
Transfer to Stage 02	(1,550,690)	1,670,294	(119,604)	-
Transfer to Stage 03	(769,259)	(503,377)	1,272,636	-
New Assets Originated or Purchased	19,361,626	3,128,837	1,422,952	23,913,415
Financial Assets Derecognised or Repaid	(9,940,652)	(3,349,786)	(2,232,476)	(15,522,914)
Write-offs	(9)	(81)	(51,972)	(52,062)
Exchange Rate Variance on Foreign Currency Provisions	(339)	-	-	(339)
As at 31 March 2019	42,239,348	4,329,972	2,529,711	49,099,031

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

**4.17 FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE***Accounting Policy*

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the Statement of Financial Position. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Lease and stock out on hire include financial assets measured at amortised cost if both of the following conditions are met:

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, lease receivable and stock out on hire are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in 'impairment charges and other losses' in the Income Statement.

	Company & Group			Company & Group		
	2020 Lease Rs. '000	2020 Hire Purchase Rs. '000	2020 Total Rs. '000	2019 Lease Rs. '000	2019 Hire Purchase Rs. '000	2019 Total Rs. '000
<b>Gross Rentals Receivables</b>	82,924,583	117,309	83,041,892	91,216,889	216,907	91,433,796
Unearned Income	(19,502,061)	(87)	(19,502,148)	(22,949,287)	(1,013)	(22,950,300)
<b>Net Rentals Receivables</b>	<u>63,422,522</u>	<u>117,222</u>	<u>63,539,744</u>	<u>68,267,602</u>	<u>215,894</u>	<u>68,483,496</u>
Rentals Received in Advance	(5,041)	-	(5,041)	(7,279)	-	(7,279)
Allowance for Impairment Losses (Note 4.18)	(2,793,393)	(114,640)	(2,908,033)	(2,237,742)	(188,046)	(2,425,788)
<b>Total Net Rentals Receivable subject to Fair Value (Note 4.17.2)</b>	<u>60,624,088</u>	<u>2,582</u>	<u>60,626,670</u>	<u>66,022,581</u>	<u>27,848</u>	<u>66,050,429</u>
Fair Value			<u>62,563,940</u>			<u>67,417,086</u>

**Operating Lease**

All other leases are classified as operating leases. When acting as lessor, the Group includes the assets subject to operating leases in 'property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

**4.17.1 Lease and Hire Purchase Facilities Granted to Employees, the Movement of which is as Follows;**

	Company & Group	
	2020 Rs. '000	2019 Rs. '000
As at the Beginning of the Year		
Lease and Hire Purchase Facilities Granted During the Year	48,957	64,172
Repayments During the Year	17,448	26,745
As at the End of the Year	<u>(31,237)</u>	<u>(41,960)</u>
	<u>35,168</u>	<u>48,957</u>

## 4.17.2 Contractual Maturity Analysis of Lease Rentals Receivable and Stock Out on Hire

## As at 31 March 2020 - Company &amp; Group

	Lease			Hire Purchase				
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivables	36,692,691	46,202,072	29,820	82,924,583	116,644	665	-	117,309
Unearned Income	(10,079,620)	(9,420,682)	(1,759)	(19,502,061)	(64)	(23)	-	(87)
<b>Net Rentals Receivables</b>	<b>26,613,071</b>	<b>36,781,390</b>	<b>28,061</b>	<b>63,422,522</b>	<b>116,580</b>	<b>642</b>	<b>-</b>	<b>117,222</b>
Rentals Received in Advance				(5,041)				-
Allowance for Impairment Losses				(2,793,393)				(114,640)
<b>Total Net Rentals Receivable</b>				<b>60,624,088</b>				<b>2,582</b>

## As at 31 March 2019 - Company &amp; Group

	Lease			Hire Purchase				
	Within One Year	1 - 5 Years	Over 5 Years	Total	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Rentals Receivables	37,888,372	53,263,612	64,905	91,216,889	215,036	1,871	-	216,907
Unearned Income	(11,429,758)	(11,514,781)	(4,748)	(22,949,287)	(916)	(97)	-	(1,013)
<b>Net Rentals Receivables</b>	<b>26,458,614</b>	<b>41,748,831</b>	<b>60,157</b>	<b>68,267,602</b>	<b>214,120</b>	<b>1,774</b>	<b>-</b>	<b>215,894</b>
Rentals Received in Advance				(7,279)				-
Allowance for Impairment Losses				(2,237,742)				(188,046)
<b>Total Net Rentals Receivable</b>				<b>66,022,581</b>				<b>27,848</b>

Our lease rentals receivable and stock out on hire are prepayable, so prepayments may cause actual maturities to differ from contractual maturities.

## 4.17.3 Credit Exposure Movement - ECL Stage-wise

## Lease Rentals Receivable and Stock Out on Hire

	Company & Group				Company & Group			
	2020	2020	2020	2020	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Carrying Amount as at 1 April	44,672,064	18,700,586	5,103,566	68,476,216	43,008,567	17,130,475	4,351,777	64,490,819
Transfer to Stage 01	2,257,459	(2,095,376)	(162,083)	-	3,734,909	(3,470,004)	(264,905)	-
Transfer to Stage 02	(12,202,504)	12,624,522	(422,018)	-	(8,899,518)	9,409,933	(510,415)	-
Transfer to Stage 03	(2,531,399)	(4,398,591)	6,929,990	-	(1,246,415)	(1,981,043)	3,227,458	-
New Assets Originated or Purchased	29,602,847	17,016,383	7,044,877	53,664,107	34,341,787	14,049,525	3,513,503	51,904,815
Financial Assets Derecognised or Repaid	(29,317,134)	(19,862,726)	(9,119,208)	(58,299,068)	(26,266,745)	(16,434,171)	(4,785,512)	(47,486,428)
Write-offs	(50)	(687)	(305,816)	(306,553)	(521)	(4,129)	(428,340)	(432,990)
<b>As at 31 March</b>	<b>32,481,283</b>	<b>21,984,111</b>	<b>9,069,308</b>	<b>63,534,702</b>	<b>44,672,064</b>	<b>18,700,586</b>	<b>5,103,566</b>	<b>68,476,216</b>

#### 4.18 ALLOWANCE FOR IMPAIRMENT LOSSES

##### *Accounting Policy*

##### **Overview of the Expected Credit Loss (ECL) Principles**

The adoption of SLFRS 9 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 9.

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 in to Stage 1, Stage 2, Stage 3 as described below;

##### ***Stage 01***

When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

##### ***Stage 02***

When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the Lifetime ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

##### ***Stage 03***

When a loan is considered to be credit impaired/contain objective evidences of incurred loss, the Group records an allowance for the Lifetime ECLs.

##### **Significant Increase in Credit Risk**

The Group continuously monitors all assets subject to ECL, in order to determine whether there has been a significant increase in credit risk since initial recognition and whether the instrument or a portfolio of instruments is subject to 12 months ECL or Lifetime ECL. The Group considers an exposure to have a significant increase in credit risk at 30 days past due.

##### ***Individually Significant Impairment Assessment and Loans which are Not Impaired Individually***

Group will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

**4.18 ALLOWANCE FOR IMPAIRMENT LOSSES**

While establishing significant credit deterioration, Group will consider the following criteria;

- ▶ Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- ▶ Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- ▶ Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- ▶ An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- ▶ Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation
- ▶ An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- ▶ Significant increase in credit risk on other financial instruments of the same borrower
- ▶ An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

***Grouping Financial Assets Measured on a Collective Basis***

As explained above, Group calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to Stage 3. All assets which belong to Stage 1 and 2 will be assessed collectively for Impairment.

The Group allocates smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

***Calculation of ECL***

The expected cash shortfalls are calculated by multiplying respective loan level PDs, EADs and LGDs. The cash shortfall is discounted to the Effective Interest Rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

PDs and LGDs are adjusted to the forward looking information using statistically quantified variance.

The mechanics of the ECL calculation are outlined below and the key elements are as follows;

- ▶ Probability of Default (PD) : PD is an estimate of the likelihood of default over a given time horizon. Hence majority of our client base being retail; we use internal information to estimate the PDs. The client has two credit statuses which can be identified as default or not default. We used Cohort method (CM) to compute the PDs.
- ▶ Exposure at Default (EAD) : EAD is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principal and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- ▶ Loss Given Default (LGD) : LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

The published global financial sector credit rating migration matrix Probability of Default used for fixed income (bank deposits) securities expected loss calculation, Value at Risk Methodology (VAR) is used for gold based loan expected loss calculation and binominal distribution model is used for small number of obligors portfolio expected loss calculation. Any Financial Asset, fully secured through a cash collateral, has not taken into the expected loss calculation.

**4.18 ALLOWANCE FOR IMPAIRMENT LOSSES**

***Forward Looking Information***

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs in the Multiple economic factor model developed to forecast the expected Non-Performing Loans (NPL).

The model predicts the one year forward industry NPL levels and which has been used to adjust the Company PD curve using statistically quantified variance. The economic factor model is developed by the University of Colombo, Science and Technology CELL and consent to use with an annual review. The economic factor model predicts the NPL as an output and use some key economic factors as an input to the model. The key variables of the model is as follows;

- Industry NPL
- Business Confidence Index
- All Share Price Index(ASPI)
- Exchange Rates
- Fuel Prices
- GDP Growth Rate
- Disposable Income
- Real Interest Rates
- Inflation Rates
- Unemployment Rates
- Rainfall
- Assets Recovery Ratio
- Company Probability of Default Curve

#### 4.18 ALLOWANCE FOR IMPAIRMENT LOSSES

##### **Reversals of Impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financial asset impairment allowance account accordingly. The write-back is recognised in the Income Statement.

##### **Write-off of Loans and Receivables**

Financial assets and the related impairment allowance accounts are normally written-off when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

##### **Collateral Valuation**

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, other non financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Non financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

##### **Collateral Repossessed**

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**

Non performing classification point is triggered out when the receivables are more than five months in arrears, receivables are subject to legal action/ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. For receivables in non-accrual status, subsequent financing revenue is recognized only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

## 4.18 ALLOWANCE FOR IMPAIRMENT LOSSES (Contd.)

## 4.18.1 Stage-wise Analysis of the Allowance for Impairment Losses

	Company							
	Stage 01 2020	Stage 02 2020	Stage 03 2020	Total 2020	Stage 01 2019	Stage 02 2019	Stage 03 2019	Total 2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>4.18.1 (a) As at 1 April</b>	579,701	477,047	2,690,163	3,746,911				2,867,398
Transition Adjustment on Adoption of SLFRS 09								291,668
<b>Restated Opening Balance as at 1 April</b>					503,436	416,582	2,239,048	3,159,066
Charge/(Reversal) for the Year	11,896	49,699	1,840,102	1,901,697	76,794	64,675	931,427	1,072,896
Amounts Written-Off	(15)	(461)	(390,793)	(391,269)	(529)	(4,210)	(480,312)	(485,051)
<b>As at 31 March</b>	<u>591,582</u>	<u>526,285</u>	<u>4,139,472</u>	<u>5,257,339</u>	<u>579,701</u>	<u>477,047</u>	<u>2,690,163</u>	<u>3,746,911</u>
<b>4.18.1 (b) Individual Impairment</b>	-	-	4,139,472	4,139,472	-	-	2,690,163	2,690,163
Collective Impairment	591,582	526,285	-	1,117,867	579,701	477,047	-	1,056,748
<b>Total</b>	<u>591,582</u>	<u>526,285</u>	<u>4,139,472</u>	<u>5,257,339</u>	<u>579,701</u>	<u>477,047</u>	<u>2,690,163</u>	<u>3,746,911</u>
<b>4.18.1 (c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance</b>	-	-	13,316,729	13,316,729	-	-	7,633,276	7,633,276
Gross Amount of Loans Collectively Assessed for the Impairment	82,722,450	28,084,083	-	110,806,533	86,528,529	23,030,560	-	109,559,089
<b>Gross Receivables</b>	<u>82,722,450</u>	<u>28,084,083</u>	<u>13,316,729</u>	<u>124,123,262</u>	<u>86,528,529</u>	<u>23,030,560</u>	<u>7,633,276</u>	<u>117,192,365</u>
Gross Amount of Loans Individually Determined to be Impaired				10.73%				6.51%

## 4.18.2 Stage-wise Analysis of the Allowance for Impairment Losses

	Group							
	Stage 01 2020	Stage 02 2020	Stage 03 2020	Total 2020	Stage 01 2019	Stage 02 2019	Stage 03 2019	Total 2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>4.18.2 (a) As at 1 April</b>	583,905	477,047	2,690,163	3,751,115				2,867,788
Transition Adjustment on Adoption of SLFRS 09	-	-	-	-				291,668
<b>Restated Opening Balance as at 1 April</b>	583,905	477,047	2,690,163	3,751,115	503,826	416,582	2,239,048	3,159,456
Charge/(Reversal) for the Year	13,149	52,540	1,864,821	1,930,510	80,532	64,675	931,427	1,076,634
Amounts Written-Off	(15)	(461)	(390,793)	(391,269)	(529)	(4,210)	(480,312)	(485,051)
Exchange Rate Variance on Foreign Currency Provisions	714	-	-	714	76	-	-	76
<b>As at 31 March</b>	<u>597,753</u>	<u>529,126</u>	<u>4,164,191</u>	<u>5,291,070</u>	<u>583,905</u>	<u>477,047</u>	<u>2,690,163</u>	<u>3,751,115</u>
<b>4.18.2 (b) Individual Impairment</b>	-	-	4,164,191	4,164,191	-	-	2,690,163	2,690,163
Collective Impairment	597,753	529,126	-	1,126,879	583,905	477,047	-	1,060,952
<b>Total</b>	<u>597,753</u>	<u>529,126</u>	<u>4,164,191</u>	<u>5,291,070</u>	<u>583,905</u>	<u>477,047</u>	<u>2,690,163</u>	<u>3,751,115</u>
<b>4.18.2 (c) Gross Amount of Loans Individually Determined to be Impaired, before Deducting the Individually Assessed Impairment Allowance</b>	-	-	13,341,448	13,341,448	-	-	7,633,276	7,633,276
Gross Amount of Loans Collectively Assessed for the Impairment	83,280,534	28,089,102	-	111,369,636	86,911,411	23,030,560	-	109,941,971
<b>Gross Receivables</b>	<u>83,280,534</u>	<u>28,089,102</u>	<u>13,341,448</u>	<u>124,711,084</u>	<u>86,911,411</u>	<u>23,030,560</u>	<u>7,633,276</u>	<u>117,575,247</u>
Gross Amount of Loans Individually Determined to be Impaired				10.70%				6.49%

4.18.3	Product-wise Analysis of the Allowance for Impairment Losses	Company							
		2020	2020	2020	2020	2019	2019	2019	2019
		Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Gold Loans	141,187	-	10,619	151,806	20,996	-	28,745	49,741
	Vehicle Loans	58,667	49,200	154,918	262,785	34,333	20,823	130,882	186,038
	Medium and Short Term-Loans	73,111	14,926	262,705	350,742	54,773	22,480	220,613	297,866
	Mortgage Loans	30,535	52,609	1,276,216	1,359,360	43,107	73,314	466,714	583,135
	Quick Loans	-	-	-	-	-	-	4,002	4,002
	Power Drafts	5,093	8,480	105,883	119,456	10,478	8,220	105,000	123,698
	Factoring Receivable	-	-	104,629	104,629	19,107	-	56,626	75,733
	Real Estate Loans	-	-	528	528	-	-	910	910
	<b>Loans and Receivables</b>	<b>308,593</b>	<b>125,215</b>	<b>1,915,498</b>	<b>2,349,306</b>	<b>182,794</b>	<b>124,837</b>	<b>1,013,492</b>	<b>1,321,123</b>
	Leases	282,989	401,059	2,109,345	2,793,393	396,773	352,130	1,488,839	2,237,742
	Hire Purchase	-	12	114,628	114,640	134	80	187,832	188,046
	<b>Lease Rentals Receivable and Stock Out on Hire</b>	<b>282,989</b>	<b>401,071</b>	<b>2,223,973</b>	<b>2,908,033</b>	<b>396,907</b>	<b>352,210</b>	<b>1,676,671</b>	<b>2,425,788</b>
	<b>Total Allowance for Impairment Losses</b>	<b>591,582</b>	<b>526,286</b>	<b>4,139,471</b>	<b>5,257,339</b>	<b>579,701</b>	<b>477,047</b>	<b>2,690,163</b>	<b>3,746,911</b>
4.18.4	Product-wise Analysis of the Allowance for Impairment Losses	Group							
		2020	2020	2020	2020	2019	2019	2019	2019
		Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Gold Loans	141,187	-	10,619	151,806	20,996	-	28,745	49,741
	Vehicle Loans	58,667	49,200	154,918	262,785	34,333	20,823	130,882	186,038
	Medium and Short Term-Loans	79,282	17,767	287,424	384,473	58,977	22,480	220,613	302,070
	Mortgage Loans	30,535	52,609	1,276,216	1,359,360	43,107	73,314	466,714	583,135
	Quick Loans	-	-	-	-	-	-	4,002	4,002
	Power Drafts	5,093	8,480	105,883	119,456	10,478	8,220	105,000	123,698
	Factoring Receivable	-	-	104,629	104,629	19,107	-	56,626	75,733
	Real Estate Loans	-	-	528	528	-	-	910	910
	<b>Loans and Receivables</b>	<b>314,764</b>	<b>128,056</b>	<b>1,940,217</b>	<b>2,383,037</b>	<b>186,998</b>	<b>124,837</b>	<b>1,013,492</b>	<b>1,325,327</b>
	Leases	282,989	401,059	2,109,345	2,793,393	396,773	352,130	1,488,839	2,237,742
	Hire Purchase	-	12	114,628	114,640	134	80	187,832	188,046
	<b>Lease Rentals Receivable and Stock Out on Hire</b>	<b>282,989</b>	<b>401,071</b>	<b>2,223,973</b>	<b>2,908,033</b>	<b>396,907</b>	<b>352,210</b>	<b>1,676,671</b>	<b>2,425,788</b>
	<b>Total Allowance for Impairment Losses</b>	<b>597,753</b>	<b>529,127</b>	<b>4,164,190</b>	<b>5,291,070</b>	<b>583,905</b>	<b>477,047</b>	<b>2,690,163</b>	<b>3,751,115</b>

4.18.5 Stage Movements in Allowance for Impairment Losses	Company							
	2020	2020	2020	2020	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening Balance (ECL) as at 1 April	579,701	477,047	2,690,163	3,746,911	503,436	416,582	2,239,048	3,159,066
Transfer to Stage 01	72,001	(57,090)	(14,911)	-	117,038	(88,719)	(28,319)	-
Transfer to Stage 02	(131,195)	164,685	(33,490)	-	(89,586)	128,242	(38,656)	-
Transfer to Stage 03	(38,409)	(131,718)	170,127	-	(17,436)	(53,158)	70,594	-
New Assets Originated or Purchased	470,922	441,644	2,460,931	3,373,497	348,448	374,799	1,352,922	2,076,169
Financial Assets Derecognised or Repaid	(361,422)	(367,822)	(742,576)	(1,471,820)	(281,670)	(296,489)	(425,114)	(1,003,273)
Write-offs	(15)	(461)	(390,774)	(391,250)	(529)	(4,210)	(480,312)	(485,051)
As at 31 March	591,583	526,285	4,139,470	5,257,338	579,701	477,047	2,690,163	3,746,911

4.18.6 Stage Movements in Allowance for Impairment Losses	Group							
	2020	2020	2020	2020	2019	2019	2019	2019
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening Balance (ECL) as at 1 April	583,905	477,047	2,690,163	3,751,115	503,826	416,582	2,239,048	3,159,456
Transfer to Stage 01	72,001	(57,090)	(14,911)	-	117,038	(88,719)	(28,319)	-
Transfer to Stage 02	(131,195)	164,685	(33,490)	-	(89,586)	128,242	(38,656)	-
Transfer to Stage 03	(38,409)	(131,718)	170,127	-	(17,436)	(53,158)	70,594	-
New Assets Originated or Purchased	476,275	444,683	2,485,651	3,406,609	352,186	374,799	1,352,922	2,079,907
Financial Assets Derecognised or Repaid	(365,521)	(368,020)	(742,576)	(1,476,117)	(281,670)	(296,489)	(425,114)	(1,003,273)
Write-offs	(15)	(461)	(390,774)	(391,250)	(529)	(4,210)	(480,312)	(485,051)
Exchange Rate Variance on Foreign Currency Provisions	714			714	76	-	-	76
As at 31 March	597,755	529,126	4,164,190	5,291,071	583,905	477,047	2,690,163	3,751,115

## 4.18.7 Sensitivity Analysis of Allowance for Impairment Losses

Changed Criteria	Changed Factor	Sensitivity Effect on Impairment Allowance Increase (Rs. '000)	
		2020	2019
		Rs. '000	Rs. '000
Loss Given Default (LGD)	Increase by 10%	197,181	211,772
Probability of Default (PD)	Increase by 1%	16,403	11,526

**4.19 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME***Accounting Policy*

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under Sri Lanka Accounting Standard - LKAS 32 (Financial Instruments: Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to Income Statement. Dividends are recognised in the Income Statement as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in Other Comprehensive Income. Equity instruments at FVOCI are not subject to an impairment assessment.

	<b>Company &amp; Group</b>	
	<b>2020</b>	<b>2019</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Equity Securities - Quoted (Note 4.19.1)	58,836	89,405
Equity Securities - Unquoted (Note 4.19.2)	305	305
	<u>59,141</u>	<u>89,710</u>

**4.19.1 Equity Securities - Quoted**

	Number of Shares 2020	Cost as at 2020 Rs. '000	Market Value as at 2020 Rs. '000	Number of Shares 2019	Cost as at 2019 Rs. '000	Market Value as at 2019 Rs. '000
<b>Manufacturing</b>						
Central Industries PLC	8,184	150	268	8,184	150	231
Ceylon Grain Elevators PLC	44	5	2	44	5	2
Dankotuwa Porcelain PLC	32,512	1,012	146	32,512	1,012	172
Royal Ceramics Lanka PLC*	31,320	843	1,751	31,320	843	1,848
Samson International PLC	5,899	930	425	5,899	930	578
		<u>2,940</u>	<u>2,592</u>		<u>2,940</u>	<u>2,831</u>
<b>Hotels and Travels</b>						
The Fortress Resorts PLC*	4,051,100	81,990	31,599	4,051,100	81,990	40,511
Aitken Spence Hotel Holdings PL	308	6	5	308	6	7
Hotel Sigiriya PLC	700	30	25	700	30	41
		<u>82,026</u>	<u>31,629</u>		<u>82,026</u>	<u>40,559</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

	Number of Shares 2020	Cost as at 2020 Rs. '000	Market Value as at 2020 Rs. '000	Number of Shares 2019	Cost as at 2019 Rs. '000	Market Value as at 2019 Rs. '000
<b>Stores and Supplies</b>						
Hunters & Company PLC	10	3	4	10	3	4
		<u>3</u>	<u>4</u>		<u>3</u>	<u>4</u>
<b>Bank Finance and Insurance</b>						
Commercial Bank of Ceylon PLC	285	15	17	278	15	27
Seylan Bank PLC	2,718	155	91	2,590	155	163
Sampath Bank PLC	5	-	1	5	-	1
Softlogic Finance PLC	2,090,000	79,656	24,035	2,090,000	79,656	45,144
		<u>79,826</u>	<u>24,144</u>		<u>79,826</u>	<u>45,335</u>
<b>Beverages, Food and Tobacco</b>						
Keells Food Products PLC	500	21	54	500	21	62
Lanka Milk Foods PLC	5,500	250	406	5,500	250	605
Convenience Foods (Lanka) PLC	22	1	7	22	1	9
		<u>272</u>	<u>467</u>		<u>272</u>	<u>676</u>
<b>Total</b>		<u>165,067</u>	<u>58,836</u>		<u>165,067</u>	<u>89,405</u>

\* Investments made in related parties

4.19.2	Equity Securities - Unquoted	Number of Shares 2020	Cost as at 2020 Rs. '000	Fair Value as at 2020 Rs. '000	Number of Shares 2019	Cost as at 2019 Rs. '000	Fair Value as at 2019 Rs. '000
	As at 31 March						
	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>		<u>305</u>	<u>305</u>		<u>305</u>	<u>305</u>

Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

4.19.2 (a) Reconciliation of Fair Value Measurement for Unquoted Equity Securities under Level 3 Hierarchy	Company & Group	
	2020 Rs. '000	2019 Rs. '000
<b>As at 1 April</b>	<u>305</u>	<u>305</u>
Remeasurement Recognised in Other Comprehensive Income	-	-
Purchases	-	-
Sales	-	-
Transfers into or out of Level 3 Hierarchy	-	-
Remeasurement Recognised in Income Statement	-	-
<b>As at 31 March</b>	<u>305</u>	<u>305</u>

**4.20 OTHER FINANCIAL ASSETS****Accounting Policy**

These include treasury bills repurchase agreements, where we are the transferee and investments in fixed deposits with banks and other financial institutions. Treasury bills repurchase agreements allow us to offset our entire gross exposure in the event of default or breach of contract. Other financial assets are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the receivable amount (including interest income) is recognised in the Income Statement over the period of the assets using effective interest method.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Treasury Bills Repurchase Agreements (Note 4.20.1)	5,462,735	5,138,730	5,462,735	5,138,730
Investment in Fixed Deposits (Note 4.20.2)	3,426,929	5,281,468	3,426,929	5,281,468
Insurance Premium Receivable	206,038	349,425	206,038	349,425
Due from Subsidiary	16,278	9,844	-	-
Sundry Debtors	7,701	25,050	10,059	25,050
	<u>9,119,681</u>	<u>10,804,517</u>	<u>9,105,761</u>	<u>10,794,673</u>
Fair Value	<u>9,119,681</u>	<u>10,804,517</u>	<u>9,105,761</u>	<u>10,794,673</u>

**4.20.1** The collateral value of repurchase agreements reflected on the Statement of Financial Position under Other Financial Assets as at 31 March 2020 and 31 March 2019 was Rs. 6,090,600,000/- and Rs. 6,058,900,000/-, respectively.

**4.20.2 Investment in Fixed Deposits**

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Counterparty External Credit Rating*</b>				
AA-	838,314	31,930	838,314	31,930
A+	558,932	3,219,653	558,932	3,219,653
A-	2,038,010	2,030,437	2,038,010	2,030,437
Investment in Fixed Deposits	<u>3,435,256</u>	<u>5,282,020</u>	<u>3,435,256</u>	<u>5,282,020</u>
Impairment Allowance	<u>(8,327)</u>	<u>(552)</u>	<u>(8,327)</u>	<u>(552)</u>
Total	<u>3,426,929</u>	<u>5,281,468</u>	<u>3,426,929</u>	<u>5,281,468</u>

\*Fitch Ratings Lanka Ltd

**4.21 OTHER NON FINANCIAL ASSETS****Accounting Policy**

Group classifies all other non financial assets other than Intangible Assets and Property, Plant and Equipment under other non financial assets. Other non financial assets include real estate stock, vehicle stock, gold stock, deposits, advances and prepayments, etc. These assets are non-interest earning and recorded at the amounts that are expected to be received.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Real Estate Stock	-	31,650	-	31,650
Impairment Allowance	-	(31,650)	-	(31,650)
Vehicle Stock	14,673	22,041	14,673	22,041
Deposits, Advances and Prepayments	900,795	989,914	905,624	995,619
Gold Stock	1,514	1,514	1,514	1,514
Stationery Stock	15,361	10,626	15,361	10,626
Withholding Tax Receivable	-	5,633	-	5,633
Sundry Debtors	11,972	11,767	16,163	11,767
Pre-Paid Staff Cost (Note 4.21.1)	<u>23,154</u>	<u>25,865</u>	<u>23,154</u>	<u>25,865</u>
	<u>967,469</u>	<u>1,067,360</u>	<u>976,489</u>	<u>1,073,065</u>

**Gold Stock**

The gold inventory is valued at lower of cost and net realizable 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 realizable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

**4.21.1 The Movement in the Pre-Paid Staff Cost**

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
As at the Beginning of the Year	25,865	19,735	25,865	19,735
Adjustment for New Grants and Settlements	3,721	12,491	3,721	12,491
Charge to Personnel Expenses	<u>(6,432)</u>	<u>(6,361)</u>	<u>(6,432)</u>	<u>(6,361)</u>
As at the End of the Year	<u>23,154</u>	<u>25,865</u>	<u>23,154</u>	<u>25,865</u>

**4.22 INVESTMENT IN SUBSIDIARY**

Subsidiary is an investee controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the company continues to recognise the investments in Subsidiaries at cost.

The Financial Statements of Subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of the Subsidiary in the Group had a common financial year which ends on 31 March. However the financial year end of its Subsidiary L B Microfinance Myanmar Company Limited has changed from 31 March to 30 September. The reason for using different reporting date by L B Microfinance Myanmar Company Limited is due to the requirements imposed by Financial Regulatory Department of Myanmar. The Financial Statements of the Company's Subsidiary are prepared using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of the Subsidiary to transfer funds to the Parent (the Company) in the form of cash dividend or repayment of loans and advances.

As at 31 March	Holding %	Company		Company	
		2020 Cost Rs. '000	2020 Market Value Rs. '000	2019 Cost Rs. '000	2019 Market Value Rs. '000
L B Microfinance Myanmar Company Limited	100	521,162	521,162	318,999	318,999

The L B Microfinance Myanmar Company Limited was incorporated as a 99% (100% - 31 March 2020) owned subsidiary in Myanmar. The Company obtained a licence from the Myanmar Microfinance Supervisory Enterprise to operate as a microfinance organisation.

Cost is assumed to be the best approximation for the market value of the investment due to the absence of most recent exit prices.

**4.23 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS**

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets.

**Accounting Policy****Basis of Recognition**

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be reliably measured.

**Measurement**

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

**4.23 PROPERTY, PLANT AND EQUIPMENT (Contd..)****Cost Model**

The Group applies cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

**Subsequent Cost**

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are charged to the Income Statement as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

**Derecognition**

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in the Income Statement when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

**Right-of-Use Assets**

In accordance with SLFRS 16, effective from 1 January 2019, Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position.

The Group recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-Use assets are measured at cost less any accumulated amortization and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right of use assets are amortised on the straight line basis over the lease term.

**Depreciation**

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated. Freehold land is not depreciated.

The estimated useful lives of the property, plant and equipment of the Company as at 31 March 2020 are as follows:

<b>Asset Category</b>	<b>Period (Years)</b>	<b>Depreciation % per Annum</b>
Freehold Buildings and Edifices	50	2%
Improvement of Leasehold Asset	6.67	15%
Computer Hardware and Equipment	5	20%
Motor Vehicles	5-8	12.50-20%
Equipment	5	20%
Furniture and Fittings	6.67	15-20%
Fixtures and Fittings	5	20%

The above rates are compatible with the rates used by all Group entities.

**Accounting Estimates****Useful Lifetime of the Property, Plant and Equipment**

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant and Equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

## 4.23.1 Company - 2020

	Freehold Land Rs. '000	Freehold Buildings and Edifices Rs. '000	Furniture and Fittings Rs. '000	Equipment Rs. '000	Motor Vehicles Rs. '000	Computer Hardware and Equipment Rs. '000	Improvement of Leasehold Asset Rs. '000	Fixtures and Fittings Rs. '000	Right of Use Assets Rs. '000	Total Rs. '000
<b>Cost</b>										
Balance as at 1 April 2019	4,498,264	919,897	310,441	777,662	435,255	859,217	606,301	521,794	-	8,928,831
Impact from the implementation of SLFRS 16	-	-	-	-	-	-	-	-	1,436,599	1,436,599
Additions	228,859	1,277	63,129	101,446	120	97,814	100,277	179,860	141,076	913,858
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals/Write-offs	-	-	(4,027)	(15,661)	(15,394)	(14,526)	(11,368)	(7,699)	-	(68,675)
Balance as at 31 March 2020	4,727,123	921,174	369,543	863,447	419,981	942,505	695,210	693,955	1,577,675	11,210,613
<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)
Balance as at 31 March 2020	-	118,339	235,150	586,098	256,718	642,618	490,408	419,326	240,708	2,989,365
Net Book Value as at 31 March 2020	4,727,123	802,835	134,393	277,349	163,263	299,887	204,802	274,629	1,336,967	8,221,248

## 4.23.2 Company - 2019

	Freehold Land Rs. '000	Freehold Buildings and Edifices Rs. '000	Furniture and Fittings Rs. '000	Equipment Rs. '000	Motor Vehicles Rs. '000	Computer Hardware and Equipment Rs. '000	Improvement of Leasehold Asset Rs. '000	Fixtures and Fittings Rs. '000	Right of Use Assets Rs. '000	Total Rs. '000
<b>Cost</b>										
Balance as at 1 April 2018	2,734,972	788,381	288,287	789,889	404,377	640,380	930,808	84,364	-	6,661,458
Additions	1,763,292	131,516	30,111	127,613	36,650	141,308	32,811	54,019	-	2,317,320
Transfers	-	-	3,098	(126,994)	-	77,609	(340,165)	386,452	-	-
Disposals/Write-offs	-	-	(11,055)	(12,846)	(5,772)	(80)	(17,153)	(3,041)	-	(49,947)
Balance as at 31 March 2019	4,498,264	919,897	310,441	777,662	435,255	859,217	606,301	521,794	-	8,928,831
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2018	-	82,835	185,187	516,477	181,564	410,794	559,250	44,732	-	1,980,839
Charge for the Year	-	17,094	31,368	86,847	46,988	92,411	57,598	85,583	-	417,889
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	(1,661)	(91,016)	-	52,234	(157,766)	198,209	-	-
Disposals/Write-offs	-	-	(9,751)	(12,572)	(5,381)	(115)	(16,869)	(2,588)	-	(47,276)
Balance as at 31 March 2019	-	99,929	205,143	499,736	223,171	555,324	442,213	325,936	-	2,351,452
Net Book Value as at 31 March 2019	4,498,264	819,968	105,298	277,926	212,084	303,893	164,088	195,858	-	6,577,379

LB Finance PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

4.23.3 Group - 2020

	Freehold Land Rs. '000	Freehold Buildings and Edifices Rs. '000	Furniture and Fittings Rs. '000	Equipment Rs. '000	Motor Vehicles Rs. '000	Computer Hardware and Equipment Rs. '000	Improvement of Leasehold Asset Rs. '000	Fixtures and Fittings Rs. '000	Right of Use Assets Rs. '000	Total 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)
Balance as at 31 March 2020	4,727,123	921,174	371,710	865,592	420,083	947,102	695,210	693,955	1,577,675	11,219,624
<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)
Balance as at 31 March 2020	-	118,339	235,605	586,666	256,748	643,602	490,408	419,326	240,708	2,991,402
Net Book Value as at 31 March 2020	4,727,123	802,835	136,105	278,926	163,335	303,500	204,802	274,629	1,336,967	8,228,222

4.23.4 Group - 2019

	Freehold Land Rs. '000	Freehold Buildings and Edifices Rs. '000	Furniture and Fittings Rs. '000	Equipment Rs. '000	Motor Vehicles Rs. '000	Computer Hardware and Equipment Rs. '000	Improvement of Leasehold Asset Rs. '000	Fixtures and Fittings Rs. '000	Right of Use Assets Rs. '000	Total Rs. '000
<b>Cost</b>										
Balance as at 1 April 2018	2,734,972	788,381	288,607	790,202	404,465	640,978	930,808	84,364	-	6,662,777
Additions	1,763,292	131,516	30,955	128,293	36,650	142,469	32,811	54,019	-	2,320,005
Transfers	-	-	3,098	(126,994)	-	77,609	(340,165)	386,452	-	-
Exchange Rate Variance	-	-	(2)	(3)	(1)	(5)	-	-	-	(11)
Disposals/Write-offs	-	-	(11,055)	(12,846)	(5,772)	(80)	(17,153)	(3,041)	-	(49,947)
Balance as at 31 March 2019	4,498,264	919,897	311,603	778,652	435,342	860,971	606,301	521,794	-	8,932,824
<b>Accumulated Depreciation and Impairment Losses</b>										
Balance as at 1 April 2018	-	82,835	185,206	516,492	181,568	410,841	559,250	44,732	-	1,980,924
Charge for the Year	-	17,094	31,489	87,009	46,999	92,666	57,598	85,583	-	418,438
Impairment Loss	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	(1,661)	(91,016)	-	52,234	(157,766)	198,209	-	-
Exchange Rate Variance	-	-	3	4	-	6	-	-	-	13
Disposals/Write-offs	-	-	(9,751)	(12,572)	(5,381)	(115)	(16,869)	(2,588)	-	(47,276)
Balance as at 31 March 2019	-	99,929	205,286	499,917	223,186	555,632	442,213	325,936	-	2,352,099
Net Book Value as at 31 March 2019	4,498,264	819,968	106,317	278,735	212,156	305,339	164,088	195,858	-	6,580,725

**4.23.5 Property, Plant and Equipment Acquired During the Financial Year - Company & Group**

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 934,230,105/- (2019 - Rs. 2,317,321,174/-). Cash payments amounting to Rs. 934,230,105/- (2019 - Rs. 2,317,321,174/-) was paid during the year for purchases of property, plant and equipment.

During the financial year, the Group acquired property, plant and equipment to the aggregate value of Rs. 938,987,401/- (2019 - Rs. 2,320,005,344/-). Cash payments amounting to Rs. 938,987,401/- (2019 - Rs. 2,320,005,344/-) was paid during the year for purchases of property, plant and equipment.

**4.23.6 Property, Plant and Equipment subjected to Operating Lease - Company & Group**

Included in Property, Plant and Equipment are assets subject to operating lease where the Company is a lessor. At 31 March 2020, the net carrying value amount of those assets was Rs. 53,852,056/- (2019 - Rs. 73,742,064/-), on which the accumulated depreciation as at 31 March 2020 was Rs. 50,597,988/- (2019 - Rs. 30,707,979/-).

Summary of future operating lease receivable was as follows;

<b>As at 31 March 2020</b>	<b>Within One Year Rs. '000</b>	<b>1 - 5 Years Rs. '000</b>	<b>Over 5 Years Rs. '000</b>	<b>Total Rs. '000</b>
Future Operating Lease Receivable	31,118	41,268	-	72,386
<b>As at 31 March 2019</b>	<b>Within One Year Rs. '000</b>	<b>1 - 5 Years Rs. '000</b>	<b>Over 5 Years Rs. '000</b>	<b>Total Rs. '000</b>
Future Operating Lease Receivable	31,118	72,386	-	103,504

**4.23.7 Borrowing Costs - Company & Group**

There were no capitalised borrowing cost related to the acquisition of property, plant and equipment during the financial year 2020 (2019 – Nil).

**4.23.8 Fully-Depreciated Property, Plant and Equipment - Company & Group**

The initial cost of fully-depreciated property, plant and equipment, which are still in use as at reporting date is Rs. 1,527,144,852/- (2019 - Rs. 1,320,406,007/-).

**4.23.9 Lease Commitments - Company & Group**

The Group lease land, buildings, and equipment under agreements that expire over various contractual periods. As per LKAS 17, effective up to 31 March 2019 future minimum rentals payable under non-cancellable operating leases were considered as operating lease commitment, as follows:

<b>As at 31 March</b>	<b>2020</b>	<b>2019</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Within One Year	-	273,848
1 - 5 Years	-	1,090,204
Over 5 Years	-	973,163
<b>Total</b>	<b>-</b>	<b>2,337,215</b>

Operating lease expense for the years ended 31 March was as follows;

	<b>2020</b>	<b>2019</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Operating Lease Expense	-	299,260

**4.23.10 Information on the Freehold Land and Buildings - Company & Group**

As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange

<b>As at 31 March</b>	<b>2020</b>						<b>2019</b>
	<b>Number of Buildings</b>	<b>Extent (Perches)</b>	<b>Buildings (Square Feet)</b>	<b>Revalued Amount (Rs. '000)</b>	<b>Net Book Value (Rs. '000)</b>	<b>Revalued Amount as a % of Net Book Value</b>	<b>Net Book Value (Rs. '000)</b>
<b>Kollupitiya</b>							
No 20, Dharmapala Mawatha, Colombo 03.	1	52.82	57,020	2,096,000	881,885	238	894,437
<b>Kollupitiya</b>							
No 676, Galle Road, Colombo 03.	5	167.65	63,251	4,191,250	2,186,858	192	1,961,176
<b>Cinnamon Gardens</b>							
No 165, Dharmapala Mawatha, Colombo 07.	1	48.95	7,400	1,155,000	1,003,953	115	1,003,239
<b>Kandy</b>							
No 115B, Kotugodella Veediya, Kandy.	1	25.76	7,780	530,750	519,624	102	519,992
<b>Kandy</b>							
No 226, D S Senanayaka Street, Kandy.	1	7.05	3,674	76,000	10,345	735	10,405
<b>Kandy</b>							
Moragaspiyawatta Road, Balagolla, Kengalla.	2	110.00	2,400	54,500	29,577	184	29,748

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

As at 31 March Location	2020						2019
	Number of Buildings	Extent (Perches)	Buildings (Square Feet)	Revalued Amount (Rs. '000)	Net Book Value (Rs. '000)	Revalued Amount as a % of Net Book Value	Net Book Value (Rs. '000)
<b>Kandy</b> No 47/10 A, Luwiss Pieris Mawatha, Buwelikada, Kandy.	-	42.40	-	38,200	34,085	112	34,085
<b>Maradana</b> No 104/1, Vipulasena Mawatha, Colombo 10.	1	50.60	5,750	347,300	76,169	456	76,844
<b>Nuwara Eliya</b> No 35/4, Upper Lake Road, Nuwara Eliya.	-	359.00	-	392,000	64,906	604	64,906
<b>Wellawatta</b> No 51A, W A Silva Mawatha, Colombo 06.	-	14.23	-	170,000	156,442	109	156,442
<b>Panadura</b> No 37, Jayathilake Mawatha, Panadura.	1	42.00	1,925	129,500	104,224	124	104,224
<b>Kalutara</b> No 334, Main Street, Kalutara South.	1	26.27	10,620	217,600	195,181	111	196,183
<b>Borella</b> No 1024, Maradana Road, Borella.	-	25.50	-	331,500	266,710	124	266,710

Valuation of freehold land and buildings of the Company was carried out as at 31 March 2020 by H.B. Manjula Basnayaka. AIV (Sri Lanka), N.C.T., QS, (COT), incorporated valuer. Investment method, Contractor's Test method and Comparison method, Residual method have been used for the valuation.

Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy.

#### 4.23.11 Title Restriction on Property, Plant and Equipment - Company & Group

There were no restrictions existed on the title of the property, plant and equipment of the Company as at the reporting date.

#### 4.23.12 Property, Plant and Equipment Pledged as Security for Liabilities - Company & Group

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date other than those disclosed in the Note 6.7 of these Financial Statements.

#### 4.23.13 Compensation from Third Parties for Items of Property, Plant and Equipment - Company & Group

There were no compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up as at the reporting date.

#### 4.23.14 Temporarily Idle Property, Plant and Equipment - Company & Group

There were no temporarily idle Property, Plant and Equipment as at the reporting date.

#### 4.23.15 Property, Plant and Equipment Retired from Active Use - Company & Group

There were no Property, Plant and Equipment retired from active use as at the reporting date.

**4.24 INTANGIBLE ASSETS**

An intangible asset is an identifiable monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

**Accounting Policy****Basis of Recognition**

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

**Computer Software**

Cost of all computer software licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category of intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

**Subsequent Expenditure**

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

**Derecognition of Intangible Assets**

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition of an item of intangible asset is included in the Income Statement when the item is derecognised.

**Amortisation of Intangible Assets**

Intangible assets, except for goodwill, are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Group. Indefinite-lived intangible assets are not amortized, 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%		
<b>Computer Software</b>	<b>Company</b>		<b>Group</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Cost</b>				
Cost as at the Beginning of the Year	173,428	164,213	178,557	169,386
Additions and Improvements	17,844	9,215	29,339	9,215
Exchange Rate Variance	-	-	873	(44)
Cost as at the End of the Year	191,272	173,428	208,769	178,557
<b>Amortisation and Impairment Losses</b>				
Amortisation as at the Beginning of the Year	133,581	116,094	135,034	116,525
Charge for the Year	15,882	17,487	18,125	18,492
Impairment Loss	-	-	-	-
Exchange Rate Variance	-	-	546	17
Accumulated Amortisation as at the End of the Year	149,463	133,581	153,705	135,034
<b>Net Book Value as at 31 March</b>	<b>41,809</b>	<b>39,847</b>	<b>55,064</b>	<b>43,523</b>

**4.24.1** There were no restrictions on the title of the intangible assets as at the reporting date. Further there were no items pledged as securities for liabilities.

## 4.25 DUE TO BANKS

**Accounting Policy**

These include bank overdrafts, finance leases, syndicated loans, term loans, securitisation loans and other bank facilities. Due to bank balances are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (Net of transaction cost) and the repayable amount (including interest) is recognised in the Income Statement over the period of the loan using effective interest rate method.

Under finance leases, the leased assets are capitalised and included in 'property, plant and equipment' and the corresponding liability to the lessor is included in 'Due to Banks'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Interest Expense' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining period of the liability.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Bank Overdrafts	720,411	1,068,362	720,411	1,068,362
Debt Funding from Banks (Note 4.25.1)	22,050,674	23,565,146	22,162,530	23,565,146
	<u>22,771,085</u>	<u>24,633,508</u>	<u>22,882,941</u>	<u>24,633,508</u>
Fair Value	<u>24,816,902</u>	<u>24,857,290</u>	<u>24,816,902</u>	<u>24,857,290</u>

## 4.25.1 Debt Funding from Banks

	As at 01 April 2019 Rs. '000	*Loans Obtained Rs. '000	Interest Recognised Rs. '000	Repayments Capital Rs. '000	Interest Rs. '000	As at 31 March 2020 Rs. '000
<b>Syndicated Loans</b>						
Syndication 1	453,488	-	6,440	(450,000)	(9,929)	-
Syndication 2	1,337,429	-	99,261	(1,320,000)	(116,690)	-
Syndication 3	1,474,774	-	166,851	(568,750)	(163,841)	909,034
Syndication 4	1,242,440	-	136,994	(475,000)	(53,641)	850,793
Syndication 5	2,234,285	-	276,245	-	-	2,510,530
Syndication 6	1,063,402	-	132,228	-	-	1,195,631
Syndication 7	1,045,778	-	131,156	-	-	1,176,934
Syndication 8	-	1,290,292	91,066	-	-	1,381,358
	<u>8,851,596</u>	<u>1,290,292</u>	<u>1,040,241</u>	<u>(2,813,750)</u>	<u>(344,101)</u>	<u>8,024,280</u>
<b>Term Loans</b>						
Bank of Ceylon	1,673,002	-	112,304	(1,250,000)	(115,967)	419,339
Commercial Bank 1	446,686	-	14,179	(446,000)	(14,865)	-
Commercial Bank 2	313,076	-	22,618	(250,000)	(23,068)	62,626
Commercial Bank 3	1,225,720	-	139,255	(444,000)	(140,512)	780,463
Commercial Bank 4	-	2,496,866	223,310	(468,750)	(217,412)	2,034,014
Commercial Bank 5	-	323,200	10,079	(31,200)	(7,430)	294,649
Nations Trust Bank 1	286,679	-	12,466	(286,000)	(13,145)	-
Nations Trust Bank 2	504,163	-	15,119	(500,000)	(19,282)	-
Nations Trust Bank 3	958,163	-	105,116	(252,000)	(105,079)	706,200
Nations Trust Bank 4	-	499,430	38,136	(112,000)	(35,580)	389,986
Hatton National Bank 1	369,320	-	13,204	(366,830)	(15,694)	-
Hatton National Bank 2	525,010	-	42,578	(525,000)	(42,588)	-
Hatton National Bank 3	422,296	-	33,086	(420,000)	(35,382)	-
Public Bank 1	100,209	-	8,792	(40,000)	(8,905)	60,096
Public Bank 2	60,048	-	5,510	(20,000)	(5,529)	40,029
Seylan Bank 1	441,560	-	44,290	(250,008)	(46,816)	189,026
Seylan Bank 2	1,007,572	-	27,963	(1,000,000)	(35,535)	-
Seylan Bank 3	-	1,998,425	62,538	(2,000,000)	(60,963)	-
Seylan Bank 4	-	2,000,000	593	(2,000,000)	(593)	-
Seylan Bank 5	-	2,000,000	7,693	(2,000,000)	(7,693)	-
DFCC Bank 1	489,599	-	49,115	(187,500)	(51,794)	299,420
DFCC Bank 2	820,487	-	83,350	(250,000)	(87,001)	566,836
DFCC Bank 3	1,181,848	-	126,335	(171,429)	(130,141)	1,006,613
DFCC Bank 4	-	997,781	26,869	(33,333)	(18,372)	972,945
AXIS Bank	419,833	-	32,988	(416,800)	(36,021)	-
Habib Bank	258,133	-	25,614	(100,000)	(25,471)	158,276
Sampath Bank	-	2,977,769	221,987	(150,000)	(184,931)	2,864,825
	<u>11,503,404</u>	<u>13,293,471</u>	<u>1,505,087</u>	<u>(13,970,850)</u>	<u>(1,485,769)</u>	<u>10,845,343</u>
<b>Securitisation Loans</b>						
Sampath Bank	3,210,146	-	409,014	(375,000)	(63,108)	3,181,051
	<u>3,210,146</u>	<u>-</u>	<u>409,014</u>	<u>(375,000)</u>	<u>(63,108)</u>	<u>3,181,051</u>
<b>Total Debt Funding from Banks- Company</b>						
	<u>23,565,146</u>	<u>14,583,763</u>	<u>2,954,342</u>	<u>(17,159,600)</u>	<u>(1,892,978)</u>	<u>22,050,674</u>
<b>LB Microfinance Myanmar Company Limited</b>						
<b>Term Loan</b>						
CB Bank	-	108,400	11,371	-	(7,915)	111,856
	<u>-</u>	<u>108,400</u>	<u>11,371</u>	<u>-</u>	<u>(7,915)</u>	<u>111,856</u>
<b>Total Debt Funding from Banks- Group</b>						
	<u>23,565,146</u>	<u>14,692,163</u>	<u>2,965,713</u>	<u>(17,159,600)</u>	<u>(1,900,893)</u>	<u>22,162,530</u>

\* Net of transaction cost

The Group has unutilized borrowing facilities of Rs. 4,492,727,321/- as at 31 March 2020 (2019 - Rs. 2,453,000,000/-).

Details of the assets pledged as security for liabilities are disclosed in Note 6.7 of these Financial Statements.

## 4.25.2 Contractual Maturity Analysis of Debt Funding from Banks

As at 31 March 2020	Company			
	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	1,882,308	6,141,971	-	8,024,280
Term Loans	4,058,782	6,643,744	142,817	10,845,343
Securitisation Loans	1,364,312	1,816,740	-	3,181,051
	<u>7,305,402</u>	<u>14,602,455</u>	<u>142,817</u>	<u>22,050,674</u>
As at 31 March 2020	Group			
	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	1,882,308	6,141,971	-	8,024,280
Term Loans	4,116,438	6,697,944	142,817	10,957,199
Securitisation Loans	1,364,312	1,816,740	-	3,181,051
	<u>7,363,058</u>	<u>14,656,655</u>	<u>142,817</u>	<u>22,162,530</u>
As at 31 March 2019	Company & Group			
	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Syndicated Loans	2,824,821	6,026,775	-	8,851,596
Term Loans	6,541,666	4,647,492	314,246	11,503,404
Securitisation Loans	396,923	2,813,223	-	3,210,146
	<u>9,763,410</u>	<u>13,487,490</u>	<u>314,246</u>	<u>23,565,146</u>

## 4.26 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS

*Accounting Policy*

Due to depositors comprise of interest bearing savings deposits and term deposits. Customer deposits are initially recognised at fair value net of transactions cost. Subsequent to the initial recognition they are measured at their amortised cost using the effective interest rate method. Interest expense on these deposits is recognised to the Income Statement.

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fixed Deposits	85,761,986	80,250,164	85,761,986	80,250,164
Certificates of Deposit	10,373	88,737	10,373	88,737
Savings Deposits	3,484,076	2,876,048	3,542,738	2,903,716
	<u>89,256,435</u>	<u>83,214,949</u>	<u>89,315,097</u>	<u>83,242,617</u>
Fair Value	<u>89,847,604</u>	<u>84,061,205</u>	<u>89,906,266</u>	<u>84,088,873</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

**4.26 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO DEPOSITORS (Contd...)****4.26.1 Sri Lanka Deposit Insurance and Liquidity Support Scheme - Company**

Under the Direction No 2 of 2010 [Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka and subsequent amendments thereto, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation upto a maximum of Rs. 600,000/- for each depositor. The Company has paid Rs. 118,134,385/- as the premium of the said Insurance scheme during the current financial year (2019 - Rs. 106,063,772/-).

**4.26.2 Contractual Maturity Analysis of Customer Deposits - Company**

As at 31 March 2020	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total 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
	<u>74,725,038</u>	<u>14,531,397</u>	<u>-</u>	<u>89,256,435</u>

As at 31 March 2019	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Fixed Deposits	62,423,413	17,826,751	-	80,250,164
Certificates of Deposit	88,737	-	-	88,737
Savings Deposits	2,876,048	-	-	2,876,048
	<u>65,388,198</u>	<u>17,826,751</u>	<u>-</u>	<u>83,214,949</u>

**4.26.3 Contractual Maturity Analysis of Customer Deposits - Group**

As at 31 March 2020	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total 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
	<u>74,783,700</u>	<u>14,531,397</u>	<u>-</u>	<u>89,315,097</u>

As at 31 March 2019	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Fixed Deposits	62,423,413	17,826,751	-	80,250,164
Certificates of Deposit	88,737	-	-	88,737
Savings Deposits	2,903,716	-	-	2,903,716
	<u>65,415,866</u>	<u>17,826,751</u>	<u>-</u>	<u>83,242,617</u>

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

Year ended 31 March 2020

**4.27 DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS***Accounting Policy*

Debt instruments and other borrowings are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the repayable amount (including interest) is recognised in the Income Statement over the period of the loan using effective interest rate method.

	Company & Group	
	2020 Rs. '000	2019 Rs. '000
Unsecured Debentures (Note 4.27.1)	3,111,186	3,107,783
Fair Value	3,215,338	3,026,629

**4.27.1 Unsecured Debentures**

Category	Interest Payable	Features	Amortised Cost Rs. '000	Face Value Rs. '000	Interest Rate	Issued Date	Redemption Date
Type A (60 Months)	Biannually	Listed	1,036,042	1,000,000	12.75% p.a	11 December 2017	11 December 2022
Type B (60 Months)	Biannually	Listed	2,075,144	2,000,000	13.25% p.a	11 December 2017	11 December 2022
			<u>3,111,186</u>	<u>3,000,000</u>			

**4.27.2 Contractual Maturity Analysis of Debt Instruments Issued and Other Borrowed Funds - Company & Group**

As at 31 March 2020	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Unsecured Debentures	116,611	2,994,575	-	3,111,186

**Contractual Maturity Analysis of Debt Instruments Issued and Other Borrowed Funds - Company & Group**

As at 31 March 2019	Within One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Unsecured Debentures	116,205	2,991,578	-	3,107,783

**4.28 OTHER FINANCIAL LIABILITIES***Accounting Policy*

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade payables are obligations to pay for vehicle suppliers in the ordinary course of business.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Trade Payables	68,309	620,323	68,309	620,323
Insurance Premium Payable	482,244	657,018	482,244	657,018
Unclaimed Balances	657,711	573,891	658,068	573,891
Lease Liability (Note 4.28.1)	1,321,454	-	1,321,454	-
Advances Collected from Customers	99,166	27,862	99,166	27,862
Other Payables	137,526	95,396	137,534	95,396
	<u>2,766,410</u>	<u>1,974,490</u>	<u>2,766,775</u>	<u>1,974,490</u>
Fair Value	2,766,410	1,974,490	2,766,775	1,974,490

**4.28.1 Lease Liability***Accounting Policy*

The Group recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Group has measured the lease liability at the present value of the remaining lease payments, discounted using the Group's Incremental Borrowing Rate.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Lease liabilities due to initial application of SLFRS 16, recognised as at 1 April	1,293,121	-	1,293,121	-
Additions	123,106	-	123,106	-
Accretion of interest	157,447	-	157,447	-
Payments	(252,220)	-	(252,220)	-
Balance as at 31 March	<u>1,321,454</u>	<u>-</u>	<u>1,321,454</u>	<u>-</u>

**4.28.1 (a) Sensitivity Analysis of Lease Liability**

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the Company as at 31 March 2020.

	2020	
	Rs. '000	Rs. '000
<b>Increase/(Decrease) in Incremental Borrowing Rate</b>	<b>Sensitivity effect on Lease Liability Increase / (Reduction) in the Liability</b>	<b>Sensitivity effect on Interest Expense Increase / (Reduction) in Profits for the Year</b>
1bp Up	(41,952)	1,215
1bp Down	44,039	(1,523)

**4.28.1 (b) Contractual Maturity Analysis of Lease Liability**

As at 31 March 2020	Within One Year	1 - 5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Liability	<u>117,838</u>	<u>827,939</u>	<u>375,676</u>	<u>1,321,454</u>

**4.29 OTHER NON FINANCIAL LIABILITIES***Accounting Policy*

Group classifies all non financial liabilities other than post employment benefit liability, deferred tax liabilities and current tax liabilities under other non financial liabilities. Other non financial liabilities include accruals, advances and provisions. These liabilities are non-interest bearing and recorded at the amounts that are expected to be paid.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Dividend Payable	-	1,108,114	-	1,108,114
Stamp Duty Payable	53,959	96,420	53,959	96,420
EPF/ETF/PAYE Payable	38,331	38,081	38,331	38,081
Withholding Tax Payable	7,378	179,459	7,378	179,459
Crop Insurance Levy Payable	13,152	15,884	13,152	15,884
Accrued Expenses	768,511	606,588	779,949	606,588
Other Payable	23,980	18,728	29,054	23,887
Impairment Provision in Respect of Off-Balance Sheet Credit Exposures	3,955	7,358	3,955	7,358
	<u>909,266</u>	<u>2,070,632</u>	<u>925,778</u>	<u>2,075,791</u>

**4.30 CURRENT TAX LIABILITIES**

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Income Tax	761,499	1,136,794	771,804	1,144,739
Value Added Tax (VAT)	5,253	172,033	5,253	172,033
Nation Building Tax (NBT)	-	22,674	-	22,674
Debt Repayment Levy (DRL)	-	64,470	-	64,470
	<u>766,752</u>	<u>1,395,971</u>	<u>777,057</u>	<u>1,403,916</u>

**4.31 DEFERRED TAXATION****Accounting Policy**

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses (if any), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the unused tax credits and unused tax losses carried forward can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Accounting Estimates**

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax planning strategies.

**Deferred Tax Assets, Liabilities and Income Tax Relate to the Followings;**

	Reflected in				Reflected in				Reflected in			
	Statement of Financial Position				Income Statement				Statement of Comprehensive Income			
	Company		Group		Company		Group		Company		Group	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Deferred Tax Liability</b>												
Depreciation of Leased Assets	1,043,577	1,133,983	1,043,577	1,133,983	(90,406)	211,698	(90,406)	211,698	-	-	-	-
Depreciation of Property, Plant and Equipment	220,956	229,052	220,956	229,052	(8,096)	7,118	(8,096)	7,118	-	-	-	-
	<u>1,264,533</u>	<u>1,363,035</u>	<u>1,264,533</u>	<u>1,363,035</u>	<u>(98,502)</u>	<u>218,816</u>	<u>(98,502)</u>	<u>218,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Deferred Tax Assets</b>												
Defined Benefit Obligation - Income Statement	(74,252)	(61,025)	(74,252)	(61,025)	(13,227)	(13,786)	(13,227)	(13,786)				
Right-of-Use Assets	(25,200)	-	(25,200)	-	(25,200)	-	(25,200)	-				
Defined Benefit Obligation - Other Comprehensive Income	(22,476)	(10,798)	(22,476)	(10,798)					(11,678)	6,712	(11,678)	6,712
Carried Forward Impairment Provision	(105,025)	18,510	(105,025)	18,510	(123,535)	39,232	(123,535)	39,232				
	<u>(226,953)</u>	<u>(53,313)</u>	<u>(226,953)</u>	<u>(53,313)</u>	<u>(161,962)</u>	<u>25,446</u>	<u>(161,962)</u>	<u>25,446</u>	<u>(11,678)</u>	<u>6,712</u>	<u>(11,678)</u>	<u>6,712</u>
<b>Deferred Income Tax Charge/(Reversal)</b>					<u>(260,464)</u>	<u>244,262</u>	<u>(260,464)</u>	<u>244,262</u>	<u>(11,678)</u>	<u>6,712</u>	<u>(11,678)</u>	<u>6,712</u>
<b>Net Deferred Tax Liability/(Asset)</b>	<u>1,037,580</u>	<u>1,309,722</u>	<u>1,037,580</u>	<u>1,309,722</u>								

4.31.1 Deferred tax has been determined based on the enacted tax rate of 28% for the Company.

**4.32 POST EMPLOYMENT BENEFIT LIABILITY***Accounting Estimates*

Our end of service benefit obligations are measured based on the present value of projected future benefit payments for all participants for services rendered to date. The measurement of projected future benefits is dependent on the stipulated formula, salary assumptions, demographics of the group covered by the plan, and other key measurement assumptions. The net periodic benefit costs associated with the Company's defined benefit plans are determined using assumptions regarding the benefit obligations. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

*Recognition of Actuarial Gains and Losses*

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

*Expected Return on Assets*

Expected return on assets is zero as the plan is not pre-funded.

*Funding Arrangements*

The gratuity liability is not externally funded.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>4.32.1 Post Employment Benefit Liability</b>				
Balance at the Beginning of the Year	256,512	231,240	256,512	231,240
Amount Charged/(Reversed) for the Year	117,650	39,129	117,650	39,129
Payments Made During the Year	(28,707)	(13,857)	(28,707)	(13,857)
Balance at the End of the Year	<u>345,456</u>	<u>256,512</u>	<u>345,456</u>	<u>256,512</u>
	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>4.32.2 Amounts Recognised in the Income Statement</b>				
Current Service Cost for the Year	46,443	38,818	46,443	38,818
Interest Cost on the Net Defined Benefit Liability for the Year	29,500	24,280	29,500	24,280
	<u>75,943</u>	<u>63,098</u>	<u>75,943</u>	<u>63,098</u>
	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>4.32.3 Amounts Recognised in the Other Comprehensive Income</b>				
Liability (Gains)/Losses due to Changes in Assumptions	33,472	(30,106)	33,472	(30,106)
Liability Experience (Gains)/Losses Arising During the Year	8,235	6,137	8,235	6,137
	<u>41,707</u>	<u>(23,969)</u>	<u>41,707</u>	<u>(23,969)</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

4.32.4 Defined Benefit Obligation Reconciliation	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Benefit Obligation at End of Prior Year	256,512	231,240	256,512	231,240
Current Service Cost for the Year	46,443	38,818	46,443	38,818
Net Interest Cost on the Net Defined Benefit Liability for the Year	29,500	24,280	29,500	24,280
Liability (Gains)/Losses due to Changes in Assumptions	33,473	(30,106)	33,473	(30,106)
Liability Experience (Gains)/Losses Arising During the Year	8,235	6,137	8,235	6,137
Payments Made During the Year	(28,707)	(13,857)	(28,707)	(13,857)
	<u>345,456</u>	<u>256,512</u>	<u>345,456</u>	<u>256,512</u>

4.32.5 Average future working lifetime as per the assumptions made is 14.7 years as of 31 March 2020 (14.6 years as of 31 March 2019).

## 4.32.6 Assumptions

	2020	2019
Discount Rate	10.00%	11.50%
Salary Increment	9.00%	10.00%
Staff Turnover		
20 to 40 years	25.00%	25.00%
45 years	1.00%	1.00%
50 years	1.00%	1.00%
Mortality	- GA 1983 Mortality Table	
Disability	- Long Term Disability 1987 Soc. Sec. Table	
Retirement Age	- Normal Retirement Age (55 Years), or Age on Valuation Date, if greater	

An actuarial valuation of the gratuity was carried out as at 31 March 2020 by Piyal S. Goonetilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Method', required by the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

## 4.32.7 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the retirement benefit liability measurement.

The sensitivity of the Statement of Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment on the profit or loss and retirement benefit obligation for the year.

Increase / (Decrease) in Discount Rate	Increase / (Decrease) in Salary Increment	2020		2019	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
		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
1%		32,917	(32,917)	25,192	(25,192)
-1%		(39,291)	39,291	(30,106)	30,106
	1%	(38,366)	38,366	(29,511)	29,511
	-1%	32,766	(32,766)	25,144	(25,144)

## 4.32.8

The Expected Benefit Payout in the Future Years for Retirement Gratuity	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Within the Next 12 Months	14,091	16,453	14,091	16,453
Between 2 and 5 Years	182,133	125,615	182,133	125,615
Beyond 5 Years	191,319	230,337	191,319	230,337
	<u>387,543</u>	<u>372,405</u>	<u>387,543</u>	<u>372,405</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

## 4.33 STATED CAPITAL

## 4.33.1 Issued and Fully Paid Ordinary Shares

At the Beginning of the Year  
At the End of the Year

Company & Group 2020		Company & Group 2019	
No. of Shares	Rs. '000	No. of Shares	Rs. '000
138,514,284	838,282	138,514,284	838,282
138,514,284	838,282	138,514,284	838,282

## 4.33.2 Rights of Shareholders

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

## 4.34 RESERVES

Statutory Reserve  
Available for Sale Reserve  
Fair Value Reserve  
Foreign Currency Translation Reserve

	Company			Group		
	As at 1 April 2019	Movement / Transfers	As at 31 March 2020	As at 1 April 2019	Movement / Transfers	As at 31 March 2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Statutory Reserve	5,285,759	1,037,411	6,323,170	5,285,759	1,037,411	6,323,170
Available for Sale Reserve	-	-	-	-	-	-
Fair Value Reserve	(75,662)	(30,569)	(106,231)	(75,662)	(30,569)	(106,231)
Foreign Currency Translation Reserve	-	-	-	20,779	96,608	117,387
	5,210,097	1,006,842	6,216,939	5,230,876	1,103,450	6,334,326

## 4.34.1 Statutory Reserve

Balance as at 1 April  
Transfers made during the financial year  
Balance as at 31 March

Company & Group	
2020	2019
Rs. '000	Rs. '000
5,285,759	4,274,827
1,037,411	1,010,932
6,323,170	5,285,759

Statutory reserve is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No 1 of 2003.

## 4.34.2 Available for Sale Reserve

Balance as at 1 April  
Transfers made during the financial year/Fair Value Gains and Losses arising on Re-measuring Available for Sale Financial Assets  
Balance as at 31 March

Company & Group	
2020	2019
Rs. '000	Rs. '000
-	(4,305)
-	4,305
-	-

The available for sale reserve comprises the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

**4.34.3 Fair Value Reserve**

	Company & Group	
	2020	2019
	Rs. '000	Rs. '000
Balance as at 1 April	(75,662)	(43,749)
Transfers made during the financial year / Net Gains/(Losses) on Investment in Equity Instruments - Fair Value Through Other Comprehensive Income	(30,569)	(31,913)
Balance as at 31 March	<u>(106,231)</u>	<u>(75,662)</u>

The fair value through other comprehensive income reserve comprises the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until they are derecognised or impaired. Due to the adoption of SLFRS 09, the balance of the available for sale reserve as at 1 April 2018, was transferred to fair value through other comprehensive income reserve.

**4.34.4 Foreign Currency Translation Reserve**

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 April	-	-	20,779	5,231
Net Gains/(Losses) from Translating the Financial Statements of the Foreign Operations	-	-	96,608	15,548
Balance as at 31 March	<u>-</u>	<u>-</u>	<u>117,387</u>	<u>20,779</u>

The foreign currency translation reserve comprises of all foreign currency differences arising from the translation of the Financial Statements of foreign operations. As at the reporting date, the assets and liabilities of the L B Microfinance Myanmar Company Limited a subsidiary of the Company were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the reporting date and the Income Statement and Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation are taken to foreign currency translation reserve through other comprehensive income.

**4.35 RETAINED EARNINGS**

	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1 April	12,378,772	10,240,092	12,397,809	10,234,440
Impact of Adoption of SLFRS 09	-	(299,578)	-	(299,578)
Transfer of Available for Sale Reserve build on Impairment of Financial Investments - Available for Sale	-	39,444	-	39,444
Dividend Paid	(554,057)	(1,662,171)	(554,057)	(1,662,171)
Profit for the Year	5,187,053	5,054,660	5,210,861	5,079,349
Other Comprehensive Income, Net of Tax	(30,029)	17,257	(30,029)	17,257
Transfers During the Year (Note 4.34)	(1,037,411)	(1,010,932)	(1,037,411)	(1,010,932)
Balance as at 31 March	<u>15,944,328</u>	<u>12,378,772</u>	<u>15,987,173</u>	<u>12,397,809</u>

Retained earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future losses or dividends payable.

**4.36 NON-CONTROLLING INTEREST**

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

	Group	
	2020	2019
	Rs. '000	Rs. '000
Balance as at 1 April	-	459
Non-Controlling Interest contribution for subsidiary share issues	-	-
Profit for the year	-	74
Other Comprehensive Income, Net of Tax	-	47
Disposal of Shares	-	(580)
Balance as at 31 March	<u>-</u>	<u>-</u>

## 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 optimized through the application and the embedment of the risk management process including risk identification, risk analysis, risk measurement, risk management decision and execution, risk monitoring and reporting.

The overall responsibility and oversight of the Risk Management framework of the Group is vested with the Board of Directors. The Integrated Risk Management Committee (IRMC), a sub committee appointed by the Board, is responsible for developing and monitoring Group's risk management policies practiced.

The following management committees, each with a defined responsibility, support the IRMC by executing their respective risk management mandates.

- Asset and Liability Committee
- Credit Committee
- IT Steering Committee
- Sustainability Committee

#### **Risk Management Department (RMD)**

Whilst the business units have primary responsibility for Risk Management the RMD provides an independent oversight function acting as a second line of defense. RMD is headed by the Head of Risk Management who directly reports to the Managing Director and also has a functional reporting to the IRMC. The RMD co-exists with other control functions in the Group that might uncover risk management issues, most notably Internal Audit, Compliance and Finance. Each of the control functions has a different focus and potential overlap between them is kept at a minimum, while ensuring that the approaches taken are complementary and lead to consistent, effective and timely escalation of risks.

#### 5.2 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers/other companies and investments in debt securities. Credit risk constitutes the Group's largest risk exposure category. This can be broadly categorized 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.

**5.2 CREDIT RISK (Contd...)**

**Settlement risk** is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis.

Group manages credit risk by focusing on following steps;

The loan origination stage comprises preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations in an objective manner. The Company/Group has clearly defined guidelines for credit approvals where the limits have been set taking into consideration the factors such as maximum counterparty exposures, loan to value ratio and forced sale value. These steps enables the Company/Group in assessing the default risk of the borrower.

A comprehensive set of credit risk indicators are monitored monthly to review credit concentrations, status of loan recoveries and compliance with regulatory and prudent exposure limits.

**Post Disbursement Review**

Initial monitoring and follow up activities are carried out by the Credit Department. Once a loan is overdue for a period exceeding the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. Risk Management Department (RMD) reviews asset quality performance regularly. Delinquencies are handled early with effective follow ups and reminders. Swift recovery actions are taken against critical exposures.

**Management of Large Exposures****Credit Committee**

The Credit Committee consists of the Managing Director, Executive Directors, Chief Financial Officer and Chief Risk Officer. Sanctioning of large exposures are primarily handled by the Credit Committee. RMD independently monitors post sanctioning performance of large exposures.

**Impairment Assessment**

The methodology of the impairment assessment has been explained in the Note 4.18 to these Financial Statements.

**Collateral and Other Credit Enhancements**

The Group uses collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, letters of guarantees, real estate, receivables, inventories and other non financial assets. The fair value of collateral is generally assessed at the inception based on the guidelines issued by the Central Bank of Sri Lanka and the Central Bank of Myanmar.

To the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Non financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner through public auctions and the proceeds are used to reduce or recover the outstanding claims and the amount recovered in excess of the dues is refunded to the customer.

**COVID -19 Impact Assessment**

The outbreak of COVID 19 has caused disruptions to business and economic activities, and uncertainty to the global and local economy. The subsequent adverse economic effects have caused financial stress among our retail, SME and corporate clients which may lead to elevated levels of credit risk in the short term. Therefore the Company is currently in the process of providing relief for the affected businesses and individuals in line with the directions issued by the CBSL. The relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products and waiving off certain fees and charges. The Management of the Company is in the process of finalizing the moratorium applications and the recovery efforts have been strengthened on the customers who were not affected by Covid-19 and not eligible for CBSL debt moratoriums.

As a measure of prudence, the Group considered the portfolio delinquency state, probability of default, and loss given default as at 31 March 2020 for the impairment provisioning which partially reflects the impact of Covid-19.

Further the impact on Myanmar business operations are closely supervised by the management and the directions issued by Myanmar Financial Regulatory Department in relation to Covid-19 are being strictly adhered to.

The Company's Enterprise Risk Management Framework strives to manage the outcomes of adverse economic and market conditions proactively, whilst achieving the risk-return objectives of the Company.

## 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) As at 31 March - Company

	2020		2019	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	6,162,637	-	4,040,586	-
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4,648	4,648	6,866	6,866
Loans and Receivables (Gross) *	60,588,560	5,702,886	48,716,149	4,243,415
Lease Rentals Receivable and Stock out on Hire (Gross)	63,534,703	3,117,674	68,476,217	3,111,225
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	59,141	89,710	89,710
Other Financial Assets **	9,119,681	3,656,946	10,804,517	5,665,787
<b>Total Financial Assets</b>	<b>139,469,370</b>	<b>12,541,295</b>	<b>132,134,045</b>	<b>13,117,003</b>

\* At 31 March 2020, the net credit risk exposure of Gold Loans was Rs. 141,186,809/- (2019 - Rs. 12,623,938/-).

\*\* Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2020, the net carrying value amount of those investments was Rs. 3,426,929,172/- (2019 - Rs. 5,282,020,232/-).

## 5.2.1 (b) As at 31 March - Group

	2020		2019	
	Maximum Exposure to Credit Risk	Net Exposure	Maximum Exposure to Credit Risk	Net Exposure
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents	6,472,312	-	4,058,610	-
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4,648	4,648	6,866	6,866
Loans and Receivables (Gross) *	61,176,382	6,290,708	49,099,031	4,626,297
Lease Rentals Receivable and Stock out on Hire (Gross)	63,534,703	3,117,674	68,476,217	3,111,225
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	59,141	89,710	89,710
Other Financial Assets **	9,105,761	3,643,026	10,794,673	5,655,943
<b>Total Financial Assets</b>	<b>140,352,947</b>	<b>13,115,197</b>	<b>132,525,107</b>	<b>13,490,041</b>

\* At 31 March 2020, the net credit risk exposure of Gold Loans was Rs. 141,186,809/- (2019 - Rs. 12,623,938/-).

\*\* Net exposure of the Other Financial Assets mainly includes investment in fixed deposits in banks and other financial institutions. As at 31 March 2020, the net carrying value amount of those investments was Rs. 3,426,929,172/- (2019 - Rs. 5,282,020,232/-).

## 5.2.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS-COMPANY

As at 31 March 2020	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	<b>Assets</b>			
Cash and Cash Equivalents	6,162,637	-	-	6,162,637
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4,648	-	-	4,648
Loans and Receivables (Gross)	33,918,197	22,421,153	4,249,210	60,588,560
Lease Rentals Receivable and Stock out on Hire (Gross)	13,119,185	41,346,210	9,069,308	63,534,703
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	-	-	59,141
Other Financial Assets	9,119,681	-	-	9,119,681
<b>Total Financial Assets</b>	<b>62,383,489</b>	<b>63,767,363</b>	<b>13,318,518</b>	<b>139,469,370</b>

\* Collectively assessed for the impairment

## Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets

	Past Due But Not Impaired				Total
	Less than 31 Days	31 to 60 Days	61 to 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
	<b>31,433,315</b>	<b>18,643,084</b>	<b>12,722,926</b>	<b>968,038</b>	<b>63,767,363</b>
	49.29%	29.24%	19.95%	1.52%	100.00%

## Past Due but not Impaired Loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Company's assessment do not need to be individually impaired.

LB Finance PLC  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2020

As at 31 March 2019	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Cash and Cash Equivalents	4,040,586	-	-	4,040,586
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	6,866	-	-	6,866
Loans and Receivables (Gross)	31,212,662	14,973,776	2,529,711	48,716,149
Lease Rentals Receivable and Stock out on Hire (Gross)	29,125,389	34,247,262	5,103,566	68,476,217
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	89,710
Other Financial Assets	10,804,517	-	-	10,804,517
<b>Total Financial Assets</b>	<b>75,279,730</b>	<b>49,221,038</b>	<b>7,633,277</b>	<b>132,134,045</b>

\* Collectively assessed for the impairment

**Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets**

	Past Due But Not Impaired				Total Rs. '000
	Less than 31 Days	31 to 60 Days	61 to 90 Days	More than 90 Days	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and Receivables (Gross)	7,977,076	4,317,835	2,069,998	608,867	14,973,776
Lease Rentals Receivable and Stock out on Hire (Gross)	15,547,271	12,738,114	5,961,877	-	34,247,262
	<u>23,524,347</u>	<u>17,055,949</u>	<u>8,031,875</u>	<u>608,867</u>	<u>49,221,038</u>
	47.79%	34.65%	16.32%	1.24%	100.00%

**Past Due but not Impaired Loans**

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Company's assessment do not need to be individually impaired.

**5.2.3 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS-GROUP**

As at 31 March 2020	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Cash and Cash Equivalents	6,472,312	-	-	6,472,312
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4,648	-	-	4,648
Loans and Receivables (Gross)	34,471,513	22,430,940	4,273,929	61,176,382
Lease Rentals Receivable and Stock out on Hire (Gross)	13,119,185	41,346,210	9,069,308	63,534,703
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	-	-	59,141
Other Financial Assets	9,105,761	-	-	9,105,761
<b>Total Financial Assets</b>	<b>63,232,560</b>	<b>63,777,150</b>	<b>13,343,237</b>	<b>140,352,947</b>

\* Collectively assessed for the impairment

**Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets**

	Past Due But Not Impaired				Total Rs. '000
	Less than 31 Days	31 to 60 Days	61 to 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
	<u>31,438,083</u>	<u>18,645,984</u>	<u>12,725,045</u>	<u>968,038</u>	<u>63,777,150</u>
	49.28%	29.24%	19.95%	1.52%	100.00%

**Past Due but not Impaired Loans**

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Group's assessment do not need to be individually impaired.

As at 31 March 2019	Neither Past Due Nor Impaired *	Past Due But Not Impaired *	Individually Impaired	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>				
Cash and Cash Equivalents	4,058,610	-	-	4,058,610
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	6,866	-	-	6,866
Loans and Receivables (Gross)	31,592,670	14,976,650	2,529,711	49,099,031
Lease Rentals Receivable and Stock out on Hire (Gross)	29,125,389	34,247,262	5,103,566	68,476,217
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	89,710
Other Financial Assets	10,794,673	-	-	10,794,673
<b>Total Financial Assets</b>	<b>75,667,918</b>	<b>49,223,912</b>	<b>7,633,277</b>	<b>132,525,107</b>

\* Collectively assessed for the impairment

**Aging Analysis of Past Due (i.e. Facilities in Arrears of 1 Day and Above) But Not Impaired Loans, by Class of Financial Assets**

	Past Due But Not Impaired				Total Rs. '000
	Less than 31 Days	31 to 60 Days	61 to 90 Days	More than 90 Days	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Loans and Receivables (Gross)	7,979,597	4,318,188	2,069,998	608,867	14,976,650
Lease Rentals Receivable and Stock out on Hire (Gross)	15,547,271	12,738,114	5,961,877	-	34,247,262
	<u>23,526,868</u>	<u>17,056,302</u>	<u>8,031,875</u>	<u>608,867</u>	<u>49,223,912</u>
	47.79%	34.65%	16.32%	1.24%	100.00%

**Past Due but not Impaired Loans**

Past due but not impaired loans are those for which contractual interest or principal payments are past due, however as per the Group's assessment do not need to be individually impaired.

**5.2.4 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 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 Other Comprehensive Income	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,903,093	11,834,506	-	-	28,737,599
Manufacturing	-	-	3,968,130	2,693,123	-	-	6,661,253
Construction	-	-	634,244	802,636	-	-	1,436,880
Financial Services	6,162,637	-	954,295	481,768	-	9,119,681	16,718,381
Trading	-	4,648	8,148,338	10,843,427	59,141	-	19,055,554
Retail	-	-	373,638	-	-	-	373,638
Government	-	-	-	-	-	-	-
Hotels	-	-	341,044	501,470	-	-	842,514
Services	-	-	26,916,472	33,469,740	-	-	60,386,212
<b>Total</b>	<b>6,162,637</b>	<b>4,648</b>	<b>58,239,254</b>	<b>60,626,670</b>	<b>59,141</b>	<b>9,119,681</b>	<b>134,212,031</b>

**5.2.4 (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 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 (c) Industry-wise Concentration

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

As at 31 March 2019 - Company

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables **	Lease Rentals Receivable and Stock out on Hire **	Financial Assets Measured at Fair Value Through Other Comprehensive Income	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,116,050	13,542,251	-	-	29,658,301
Manufacturing	-	-	2,796,920	2,335,810	-	-	5,132,730
Construction	-	-	670,951	999,796	-	-	1,670,747
Financial Services	4,040,586	-	778,990	441,419	-	10,804,517	16,065,512
Trading	-	6,866	6,036,483	11,830,720	89,710	-	17,963,779
Retail	-	-	1,961,610	-	-	-	1,961,610
Government	-	-	-	-	-	-	-
Hotels	-	-	557,865	543,602	-	-	1,101,467
Services	-	-	18,476,156	36,356,831	-	-	54,832,987
<b>Total</b>	<b>4,040,586</b>	<b>6,866</b>	<b>47,395,025</b>	<b>66,050,429</b>	<b>89,710</b>	<b>10,804,517</b>	<b>128,387,133</b>

## 5.2.4 (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 2019 - Company

Province	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,777,180	7,387,091	11,164,271
Eastern	2,629,169	2,496,101	5,125,270
North Central	1,285,204	3,188,759	4,473,963
North Western	3,088,154	7,063,226	10,151,380
Northern	3,432,359	430,794	3,863,153
Sabaragamuwa	964,643	2,437,535	3,402,178
Southern	3,237,573	8,677,033	11,914,606
Uva	1,133,613	2,518,089	3,651,702
Western	27,847,130	31,851,801	59,698,931
<b>Total</b>	<b>47,395,025</b>	<b>66,050,429</b>	<b>113,445,454</b>

## 5.2.4 (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 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 Other Comprehensive Income	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	17,457,183	11,834,506	-	-	29,291,689
Manufacturing	-	-	3,968,130	2,693,123	-	-	6,661,253
Construction	-	-	634,244	802,636	-	-	1,436,880
Financial Services	6,472,312	-	954,295	481,768	-	9,105,761	17,014,136
Trading	-	4,648	8,148,338	10,843,427	59,141	-	19,055,554
Retail	-	-	373,638	-	-	-	373,638
Government	-	-	-	-	-	-	-
Hotels	-	-	341,044	501,470	-	-	842,514
Services	-	-	26,916,472	33,469,740	-	-	60,386,212
<b>Total</b>	<b>6,472,312</b>	<b>4,648</b>	<b>58,793,344</b>	<b>60,626,670</b>	<b>59,141</b>	<b>9,105,761</b>	<b>135,061,876</b>

## 5.2.4 (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 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>

## 5.2.4 (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 2019 - Group

Sector-wise Breakdown	Cash and Cash Equivalents	Financial Assets Recognised Through Profit or Loss	Loans and Receivables **	Lease Rentals Receivable and Stock out on Hire **	Financial Assets Measured at Fair Value Through Other Comprehensive Income	Other Financial Assets	Total Financial Assets
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Agriculture	-	-	16,494,730	13,542,251	-	-	30,036,981
Manufacturing	-	-	2,796,920	2,335,810	-	-	5,132,730
Construction	-	-	670,951	999,796	-	-	1,670,747
Financial Services	4,058,610	-	778,990	441,419	-	10,794,673	16,073,692
Trading	-	6,866	6,036,483	11,830,720	89,710	-	17,963,779
Retail	-	-	1,961,610	-	-	-	1,961,610
Government	-	-	-	-	-	-	-
Hotels	-	-	557,865	543,602	-	-	1,101,467
Services	-	-	18,476,156	36,356,831	-	-	54,832,987
<b>Total</b>	<b>4,058,610</b>	<b>6,866</b>	<b>47,773,705</b>	<b>66,050,429</b>	<b>89,710</b>	<b>10,794,673</b>	<b>128,773,993</b>

During the early stages of the global pandemic the Management of the Group conducted an indepth analysis on the probable industries which would get affected and the scale of impact it may have on Group's lending portfolio. The outset of COVID-19 in Sri Lanka in mid March 2020 stressed the importance of diversification of the Group's loan book across a wide range of industries which in turn would ensure the resilience of the Group in an economic shock of this nature. The Group is comfortable with the existing composition of its loan book and continuous monitoring activities will be carried out to avoid accumulation of exposures to risky economic segments.

## 5.2.4 (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 2019 - Group

Province/Country	Loans and Receivables	Lease Rentals Receivable and Stock out on Hire	Total
	Rs. '000	Rs. '000	Rs. '000
Central	3,777,180	7,387,091	11,164,271
Eastern	2,629,169	2,496,101	5,125,270
North Central	1,285,204	3,188,759	4,473,963
North Western	3,088,154	7,063,226	10,151,380
Northern	3,432,359	430,794	3,863,153
Sabaragamuwa	964,643	2,437,535	3,402,178
Southern	3,237,573	8,677,033	11,914,606
Uva	1,133,613	2,518,089	3,651,702
Western	27,847,130	31,851,801	59,698,931
Myanmar	378,680	-	378,680
<b>Total</b>	<b>47,773,705</b>	<b>66,050,429</b>	<b>113,824,134</b>

### 5.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may differ, due to Covid-19 related events.

Market liquidity risk is the inability to easily exit a position. Group's market liquidity risk is low if assets can be liquidated without moving the price too much.

Funding liquidity risk means the Group's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Group's credit quality is, or at least perceived to be, deteriorating, but also because financial conditions as a whole are deteriorating.

The Group's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Group regularly monitors liquidity position and maintain an adequate buffer of liquid assets. Group also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management. With the onset of COVID 19 pandemic in late March of this year, the Group introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Group is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

#### Assets and Liability Management Committee (ALCO)

ALCO is chaired by the Managing Director and comprises of Executive Directors, representatives from Treasury Department, Fixed Deposits, the Head of Finance, the Head of Risk Management. The Committee meets regularly and make all policy decisions with regard to funding matters, duration management of assets and liabilities and investments, to keep the liquidity at healthy levels, whilst satisfying regulatory requirements. ALCO closely monitors any developments related to the COVID 19 pandemic and reviews measures undertaken by the Group in response to resulting risk. These actions has helped the Group maintain its existing liquidity position while mitigating any adverse effect on its asset liability position that may arise due to the continuously

#### 5.3.1 ANALYSIS OF LIQUIDITY RISK EXPOSURE

5.3.1 (a) The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2020. The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may also differ, due to rollover of loans and advances and Covid-19 related events.

As at 31 March 2020 - Group	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	4,619,793	1,546,143	-	-	-	6,165,936
Financial Assets Recognised Through Profit or Loss	4,648	-	-	-	-	4,648
Loans and Receivables	11,594,373	23,622,717	14,943,052	19,459,546	2,432,744	72,052,432
Lease Rentals Receivable and Stock out on Hire	5,629,677	8,541,583	22,927,722	46,402,437	29,862	83,531,281
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	-	-	-	-	59,141
Other Financial Assets	230,017	1,205,999	8,179,481	-	-	9,615,497
<b>Total Financial Assets</b>	<b>22,137,649</b>	<b>34,916,442</b>	<b>46,050,255</b>	<b>65,861,983</b>	<b>2,462,606</b>	<b>171,428,935</b>
<b>Financial Liabilities</b>						
Due to Banks	720,411	1,997,670	6,598,117	18,711,345	149,444	28,176,987
Due to Depositors	3,484,076	26,520,127	49,434,932	16,890,892	-	96,330,027
Debt Instruments Issued and Other Borrowed Funds	-	196,250	196,312	3,784,938	-	4,177,500
Other Financial Liabilities	1,444,956	65,777	205,228	1,074,051	686,448	3,476,460
<b>Total Financial Liabilities</b>	<b>5,649,443</b>	<b>28,779,824</b>	<b>56,434,589</b>	<b>40,461,226</b>	<b>835,892</b>	<b>132,160,974</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>16,488,206</b>	<b>6,136,618</b>	<b>(10,384,334)</b>	<b>25,400,757</b>	<b>1,626,714</b>	<b>39,267,961</b>

5.3.1 (b) The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2019. The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2019 - Company	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	2,276,892	1,765,744	-	-	-	4,042,636
Financial Assets Recognised Through Profit or Loss	6,866	-	-	-	-	6,866
Loans and Receivables	8,136,234	20,673,063	11,570,569	15,489,274	1,777,630	57,646,770
Lease Rentals Receivable and Stock out on Hire	3,811,553	9,217,509	25,078,392	53,566,180	65,002	91,738,636
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	-	-	89,710
Other Financial Assets	384,319	2,641,987	8,328,339	-	-	11,354,645
<b>Total Financial Assets</b>	<b>14,705,574</b>	<b>34,298,303</b>	<b>44,977,300</b>	<b>69,055,454</b>	<b>1,842,632</b>	<b>164,879,263</b>
<b>Financial Liabilities</b>						
Due to Banks	1,068,362	2,911,289	8,220,809	17,883,500	353,444	30,437,404
Due to Depositors	2,876,047	26,248,075	40,922,119	21,284,340	-	91,330,581
Debt Instruments Issued and Other Borrowed Funds	-	195,712	196,788	4,177,500	-	4,570,000
Other Financial Liabilities	1,974,490	-	-	-	-	1,974,490
<b>Total Financial Liabilities</b>	<b>5,918,899</b>	<b>29,355,076</b>	<b>49,339,716</b>	<b>43,345,340</b>	<b>353,444</b>	<b>128,312,475</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>8,786,675</b>	<b>4,943,227</b>	<b>(4,362,416)</b>	<b>25,710,114</b>	<b>1,489,188</b>	<b>36,566,788</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

5.3.1 (c) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2020.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may also differ, due to rollover of loans and advances and Covid-19 related events.

As at 31 March 2020 - Group	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	4,929,468	1,546,143	-	-	-	6,475,611
Financial Assets Recognised Through Profit or Loss	4,648	-	-	-	-	4,648
Loans and Receivables	11,573,838	23,851,736	15,328,964	19,487,327	2,432,744	72,674,609
Lease Rentals Receivable and Stock out of Control	5,629,677	8,541,583	22,927,722	46,402,437	29,862	83,531,281
Financial Assets Measured at Fair Value	59,141	-	-	-	-	59,141
Other Financial Assets	216,097	1,205,999	8,179,481	-	-	9,601,577
<b>Total Financial Assets</b>	<b>22,412,869</b>	<b>35,145,461</b>	<b>46,436,167</b>	<b>65,889,764</b>	<b>2,462,606</b>	<b>172,346,867</b>
<b>Financial Liabilities</b>						
Due to Banks	832,267	2,001,146	6,660,604	18,773,445	149,444	28,416,906
Due to Depositors	3,542,738	26,520,127	49,434,932	16,890,892	-	96,388,689
Debt Instruments Issued and Other Borrowed Funds	-	196,250	196,312	3,784,938	-	4,177,500
Other Financial Liabilities	1,445,321	65,777	205,228	1,074,051	686,448	3,476,825
<b>Total Financial Liabilities</b>	<b>5,820,326</b>	<b>28,783,300</b>	<b>56,497,076</b>	<b>40,523,326</b>	<b>835,892</b>	<b>132,459,920</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>16,592,543</b>	<b>6,362,161</b>	<b>(10,060,909)</b>	<b>25,366,438</b>	<b>1,626,714</b>	<b>39,886,947</b>

5.3.1 (d) The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2019.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns.

As at 31 March 2019 - Group	On Demand	Less than 3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>						
Cash and Cash Equivalents	2,294,916	1,765,744	-	-	-	4,060,660
Financial Assets Recognised Through Profit or Loss	6,866	-	-	-	-	6,866
Loans and Receivables	8,136,233	20,790,367	11,840,363	15,553,266	1,777,630	58,097,859
Lease Rentals Receivable and Stock out of Control on Hire	3,811,553	9,217,509	25,078,392	53,566,180	65,002	91,738,636
Financial Assets Measured at Fair Value Through Other Comprehensive Income	89,710	-	-	-	-	89,710
Other Financial Assets	374,475	2,641,987	8,328,339	-	-	11,344,801
<b>Total Financial Assets</b>	<b>14,713,753</b>	<b>34,415,607</b>	<b>45,247,094</b>	<b>69,119,446</b>	<b>1,842,632</b>	<b>165,338,532</b>
<b>Financial Liabilities</b>						
Due to Banks	1,068,362	2,911,289	8,220,809	17,883,500	353,444	30,437,404
Due to Depositors	2,903,715	26,248,075	40,922,119	21,284,340	-	91,358,249
Debt Instruments Issued and Other Borrowed Funds	-	195,712	196,788	4,177,500	-	4,570,000
Other Financial Liabilities	1,974,490	-	-	-	-	1,974,490
<b>Total Financial Liabilities</b>	<b>5,946,567</b>	<b>29,355,076</b>	<b>49,339,716</b>	<b>43,345,340</b>	<b>353,444</b>	<b>128,340,143</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>8,767,186</b>	<b>5,060,531</b>	<b>(4,092,622)</b>	<b>25,774,106</b>	<b>1,489,188</b>	<b>36,998,389</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

## 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.

<b>As at 31 March 2020 Company</b>	<b>On Demand</b>	<b>Less than 3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Contingent Liabilities</b>						
Guarantees Issued to Banks and Other Institutions	-	4,000	8,570	-	-	12,570
Counter Indemnity Issued to Banks for Guarantees	-	-	-	188,058	-	188,058
Import LC and Ordinary Guarantees	83,753	-	-	-	-	83,753
<b>Total Contingent Liabilities</b>	<b>83,753</b>	<b>4,000</b>	<b>8,570</b>	<b>188,058</b>	<b>-</b>	<b>284,381</b>
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments</b>	<b>1,644,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,644,424</b>
<b>Total Commitments and Contingencies</b>	<b>1,728,177</b>	<b>4,000</b>	<b>8,570</b>	<b>188,058</b>	<b>-</b>	<b>1,928,805</b>
<b>As at 31 March 2020 Group</b>						
	<b>On Demand</b>	<b>Less than 3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Contingent Liabilities</b>						
Guarantees Issued to Banks and Other Institutions	-	4,000	8,570	-	-	12,570
Counter Indemnity Issued to Banks for Guarantees	-	-	-	76,202	-	76,202
Import LC and Ordinary Guarantees	83,753	-	-	-	-	83,753
<b>Total Contingent Liabilities</b>	<b>83,753</b>	<b>4,000</b>	<b>8,570</b>	<b>76,202</b>	<b>-</b>	<b>172,525</b>
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,644,424	-	-	-	-	1,644,424
<b>Total Commitments</b>	<b>1,644,424</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,644,424</b>
<b>Total Commitments and Contingencies</b>	<b>1,728,177</b>	<b>4,000</b>	<b>8,570</b>	<b>76,202</b>	<b>-</b>	<b>1,816,949</b>
<b>As at 31 March 2019 Company and Group</b>						
	<b>On Demand</b>	<b>Less than 3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Contingent Liabilities</b>						
Guarantees Issued to Banks and Other Institutions	-	-	5,270	-	-	5,270
<b>Total Contingent Liabilities</b>	<b>-</b>	<b>-</b>	<b>5,270</b>	<b>-</b>	<b>-</b>	<b>5,270</b>
<b>Commitments</b>						
Commitment for Unutilised Facilities	1,815,586	-	-	-	-	1,815,586
<b>Total Commitments</b>	<b>1,815,586</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,815,586</b>
<b>Total Commitments and Contingencies</b>	<b>1,815,586</b>	<b>-</b>	<b>5,270</b>	<b>-</b>	<b>-</b>	<b>1,820,856</b>

## 5.3.3 LIQUIDITY RESERVES

The table below sets out the components of the Company's liquidity reserves:

	<b>2020</b>		<b>2019</b>	
	<b>Rs. '000 Carrying Amount</b>	<b>Rs. '000 Fair Value</b>	<b>Rs. '000 Carrying Amount</b>	<b>Rs. '000 Fair Value</b>
Notes and Coins Held	936,075	936,075	873,072	873,072
Balances with Banks	3,683,718	3,683,718	1,403,820	1,403,820
Treasury Bills Repurchase Agreements (Less than 03 Months)	1,542,844	1,542,844	1,763,694	1,763,694
Treasury Bills Repurchase Agreements (More than 03 Months)	5,462,735	5,462,735	5,138,730	5,138,730
Investment in Fixed Deposits	3,426,929	3,426,929	5,281,468	5,281,468
<b>Total Liquidity Reserves</b>	<b>15,052,301</b>	<b>15,052,301</b>	<b>14,460,784</b>	<b>14,460,784</b>

**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 minimizing interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Group conducts periodic reviews and reprices its assets accordingly.

The Management of the Company is closely scrutinizing the impact on NII/NIMs resulting from interest rate related relief measures announced by CBSL to the Covid-19 affected groups.

**5.4.2 COMMODITY PRICE RISK**

Commodity price risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. Given the significance of the Gold Loans business to Group's overall loan book, sharp fluctuations to the gold prices could have an adverse impact to earnings. Gold price fluctuations lead to market risk which is the primary source of credit risk associated with this product.

Group currently manages the credit and market risks arising from adverse movements in Gold prices by adopting the following strategies;

- Shorter product life: Group, as a credit risk management strategy lends for shorter periods allowing it to initiate its recovery process faster.
- Frequent revisions to Loan-to-Value (LTV) ratio: Group practices a process of revising advance offered per gold sovereign to reflect market value fluctuations to maintain the desired loan to value ratio.

**5.4.3 EQUITY PRICE RISK**

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

The economic fallout of the COVID-19 pandemic resulted in sharp losses in equity market indexes and subsequent closure of the exchange for trading. However, equities have retraced slightly and management is monitoring the equity price movements

**5.4.4 EXCHANGE RATE RISK**

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Exchange risk could materialize as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk.

Group is exposed to two types of risk caused by currency volatility.

Transaction risk – This risk arises whenever the Group has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. This type of exposure is short-term to medium-term in nature.

Translation risk – This exposure arises from the effect of currency fluctuations on the consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term.

The Sri Lankan Rupee witnessed a sharp depreciation against the US Dollar in March 2020 on the back of economic fallout, resulting from the COVID-19 pandemic. Management analyses the market condition of foreign exchange and its likely impact to the Group.

**5.4.5 INTEREST RATE SENSITIVITY**

The following table demonstrates the impact on net interest income to a reasonably possible change in interest rates based on the assumption that a rate sensitive asset surplus would be subjected to reinvestment risk whereas a rate sensitive asset deficit would be subjected to funding risk.

Impact on Net Interest Income due to a parallel rate shock of 100 basis points (bps) on rate sensitive assets and liabilities is shown below.

**Net Interest Income (NII) Sensitivity by Interest Rate Change**

As at 31 March	2020		2019	
Impact on NII (Rs.'000)	Parallel Increase 100 bps	Parallel Decrease 100 bps	Parallel Increase 100 bps	Parallel Decrease 100 bps
Annual Impact	(+) 107,361	(-) 107,361	(+) 45,046	(-) 45,046

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

**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 categorized by the earlier of contractual reprising or maturity dates.

<b>As at 31 March 2020 - Company</b>	<b>Up to 3 Months</b>	<b>3-12 Months</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>Over 5 Years</b>	<b>Non-Interest Sensitive</b>	<b>Total</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
<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
	<u>56,258,918</u>	<u>31,082,181</u>	<u>35,237,646</u>	<u>10,192,526</u>	<u>210,879</u>	<u>1,229,881</u>	<u>134,212,031</u>
<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
	<u>36,188,421</u>	<u>49,750,458</u>	<u>25,667,902</u>	<u>4,286,837</u>	<u>566,542</u>	<u>1,444,956</u>	<u>117,905,116</u>
<b>Interest Sensitivity Gap</b>	<u>20,070,497</u>	<u>(18,668,277)</u>	<u>9,569,744</u>	<u>5,905,689</u>	<u>(355,663)</u>	<u>(215,075)</u>	<u>16,306,915</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

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 categorized by the earlier of contractual reprising or maturity dates.

As at 31 March 2019 - Company	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and Cash Equivalents	3,167,514	-	-	-	-	873,072	4,040,586
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	6,866	6,866
Loans and Receivables	33,810,376	6,679,348	5,038,374	1,785,056	81,871	-	47,395,025
Lease Rentals Receivable and Stock out on Hire	9,576,758	16,130,295	30,826,521	9,458,788	58,067	-	66,050,429
Financial Assets Measured at Fair Value Through Other Comprehensive Inco	-	-	-	-	-	89,710	89,710
Other Financial Assets	2,619,053	7,801,145	-	-	-	384,319	10,804,517
	<u>49,173,701</u>	<u>30,610,788</u>	<u>35,864,895</u>	<u>11,243,844</u>	<u>139,938</u>	<u>1,353,967</u>	<u>128,387,133</u>
<b>Financial Liabilities</b>							
Due to Banks	11,406,473	3,714,479	5,714,106	3,798,450	-	-	24,633,508
Due to Depositors	28,145,642	37,242,556	14,832,852	2,993,899	-	-	83,214,949
Debt Instruments Issued and Other Borrowed Funds	118,594	(2,308)	(6,155)	2,997,652	-	-	3,107,783
Other Financial Liabilities	-	-	-	-	-	1,974,490	1,974,490
	<u>39,670,709</u>	<u>40,954,727</u>	<u>20,540,803</u>	<u>9,790,001</u>	<u>-</u>	<u>1,974,490</u>	<u>112,930,730</u>
<b>Interest Sensitivity Gap</b>	<u>9,502,992</u>	<u>(10,343,939)</u>	<u>15,324,092</u>	<u>1,453,843</u>	<u>139,938</u>	<u>(620,523)</u>	<u>15,456,403</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

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 categorized by the earlier of contractual reprising or maturity dates.

As at 31 March 2020 - Group	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and Cash Equivalents	5,535,708	-	-	-	-	936,604	6,472,312
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	4,648	4,648
Loans and Receivables	39,260,020	8,865,439	7,329,828	3,153,889	184,168	-	58,793,344
Lease Rentals Receivable and Stock out on Hire	10,787,921	14,857,420	27,915,981	7,038,637	26,711	-	60,626,670
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	59,141	59,141
Other Financial Assets	1,187,806	7,701,858	-	-	-	216,097	9,105,761
	<u>56,771,455</u>	<u>31,424,717</u>	<u>35,245,809</u>	<u>10,192,526</u>	<u>210,879</u>	<u>1,216,490</u>	<u>135,061,876</u>
<b>Financial Liabilities</b>							
Due to Banks	6,993,586	4,043,308	9,221,447	2,624,600	-	-	22,882,941
Due to Customers	29,111,476	45,672,223	13,210,448	1,320,950	-	-	89,315,097
Debt Instruments Issued and Other Borrowed Funds	119,241	(2,630)	2,994,575	-	-	-	3,111,186
Other Financial Liabilities	26,236	91,757	295,632	341,287	566,542	1,445,321	2,766,775
	<u>36,250,539</u>	<u>49,804,658</u>	<u>25,722,102</u>	<u>4,286,837</u>	<u>566,542</u>	<u>1,445,321</u>	<u>118,075,999</u>
<b>Interest Sensitivity Gap</b>	<u>20,520,916</u>	<u>(18,379,941)</u>	<u>9,523,707</u>	<u>5,905,689</u>	<u>(355,663)</u>	<u>(228,831)</u>	<u>16,985,877</u>

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 categorized by the earlier of contractual reprising or maturity dates.

As at 31 March 2019 - Group	Up to 3 Months	3-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Interest Sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Financial Assets</b>							
Cash and Cash Equivalents	3,185,359	-	-	-	-	873,251	4,058,610
Financial Assets Recognised Through Profit or Loss	-	-	-	-	-	6,866	6,866
Loans and Receivables	33,902,278	6,906,862	5,097,638	1,785,056	81,871	-	47,773,705
Lease Rentals Receivable and Stock out on Hire	9,576,758	16,130,295	30,826,521	9,458,788	58,067	-	66,050,429
Financial Assets Measured at Fair Value Through Other Comprehensive Income	-	-	-	-	-	89,710	89,710
Other Financial Assets	2,609,209	7,801,145	-	-	-	384,319	10,794,673
	<u>49,273,604</u>	<u>30,838,302</u>	<u>35,924,159</u>	<u>11,243,844</u>	<u>139,938</u>	<u>1,354,146</u>	<u>128,773,993</u>
<b>Financial Liabilities</b>							
Due to Banks	11,406,473	3,714,479	5,714,106	3,798,450	-	-	24,633,508
Due to Customers	28,173,310	37,242,556	14,832,852	2,993,899	-	-	83,242,617
Debt Instruments Issued and Other Borrowed Funds	118,594	(2,308)	(6,155)	2,997,652	-	-	3,107,783
Other Financial Liabilities	-	-	-	-	-	1,974,490	1,974,490
	<u>39,698,377</u>	<u>40,954,727</u>	<u>20,540,803</u>	<u>9,790,001</u>	<u>-</u>	<u>1,974,490</u>	<u>112,958,398</u>
<b>Interest Sensitivity Gap</b>	<u>9,575,227</u>	<u>(10,116,425)</u>	<u>15,383,356</u>	<u>1,453,843</u>	<u>139,938</u>	<u>(620,344)</u>	<u>15,815,595</u>

**5.5 CAPITAL ADEQUACY**

For a financial institution, capital is a buffer against insolvency. It is available to absorb unforeseen losses which will assure the sustainability of the Group's operations so the Group can remain in business. The more capital the Group has relative to the risks it takes, the more confidence the stakeholders are that it will meet its obligations to them. Group's capital management process is steered with the aim of holding sufficient capital to support the Group's risk appetite whilst maintaining adequate capital to meet minimum regulatory capital requirements.

**Regulatory Capital - Company**

The Company manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies in Sri Lanka. Thus the Company's operations are directly supervised by the CBSL and the Company is required to comply Directions on Risk Weighted Capital Adequacy Ratio issued by CBSL. During the year under review existing capital adequacy framework was revised and changes were implemented requiring a higher capital charge for operational risks. Following the revision, the Licensed Finance Companies (LFCs) in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 11% and a Core Capital Ratio (Tier 1) of atleast 7% upto 1 July 2020. LFCs with total assets equal or more than Rs.100 bn were defined as Domestic Systematically Important LFCs where a capital surcharge will be applicable on a staggered basis. Therefore L B Finance PLC as a Domestic Systematically Important LFC is required to maintain following minimum capital ratios within the stipulated time frames.

Components of Capital	1 July 2020	1 July 2021
Tier 1 Capital (%)	8%	10%
Total Capital (%)	12%	14%

As of 31 March 2020, the Company has maintained Risk Weighted Capital Adequacy Ratios above the CBSL's minimum capital requirements.

**5.6 Probable Impact of Covid-19 outbreak on Business Operations of the Group**

After a stringent lockdown period over a month, curfew has been gradually eased off. The Group has seen a smooth transition with the resumption of business activities where the Group is already seeing positive momentum.

The exact impact on the business operations of the group is still to be determined given the volatility and unexpected developments caused by COVID -19 outbreak. However, the Group evaluated the resilience of its businesses considering a wide range of factors under multiple circumstances such as optimistic (best case), most likely (base case) and pessimistic (worst case) scenarios, relating to expected income streams, cost management practices, profitability, cash reserves, credit and collection management practice, deposit renewals, availability of amount of undrawn borrowing facilities, and potential sources of financing facilities. These have been further disclosed in notes 5.2, 5.3 and 5.4 of the financial statements.

Having evaluated the above by the Management, and after due consideration of the range and likelihood of outcomes, the Management is satisfied that the Group have adequate resources to continue in operational existence. The Group will continue to monitor the impacts on its operations and proactively take measures to ensure the business continues as seamlessly as possible.

**SECTION 06***Other Disclosures***6.1 RELATED PARTY DISCLOSURES**

The Group carried out transactions with key management and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates except that the key management have availed facilities under the loan schemes uniformly applicable to all the staff.

The Company's parent undertaking is Vallibel One PLC. The Company's ultimate parent undertaking is Vallibel One PLC, which is incorporated in Sri Lanka. The Company's ultimate controlling party is Mr. Dhammika Perera.

Details of related party transactions during the year are as follows;

**6.1.1 Transactions with Key Management Personnel (KMPs)**

Related party includes KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. Such KMPs include the Board of Directors of the Company (inclusive of executive and non-executive directors ), KMPs of the subsidiary and KMPs of the parent company.

	Company		Group	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Short-Term Employment Benefits	409,376	342,422	409,376	342,422
Directors' Fees and Expenses	16,740	15,149	16,740	15,149
Post Employment Benefit Liability	58,710	48,308	58,710	48,308
	<u>484,826</u>	<u>405,879</u>	<u>484,826</u>	<u>405,879</u>

In addition to the above, the Company has also paid non-cash benefits such as vehicles and fuel to Key Management Personnel in line with the approved employment benefits of the Company.

**6.1.2 Transactions, Arrangements and Agreements Involving KMPs and Their Close Members of the Family (CMFs)**

CMFs of KMPs are those family members who may be expected to influence, or be influenced by, those KMPs in their dealing with the entity.

Statement of Financial Position	Reported Under	Company		Group	
		2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	523,210	895,284	523,210	895,284
Savings Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	7,125	4,869	7,125	4,869
Dividend Payable	Other Non Financial Liabilities	-	3,764	-	3,764
		<u>530,335</u>	<u>903,917</u>	<u>530,335</u>	<u>903,917</u>
<b>Income Statement</b>					
Interest Expense on Customer Deposits	Interest Expenses	84,617	83,835	84,617	83,835
		<u>84,617</u>	<u>83,835</u>	<u>84,617</u>	<u>83,835</u>
<b>Other Transactions</b>					
Deposits Accepted During the Year		96,232	244,761	96,232	244,761
Dividend Paid on Shareholdings		3,764	1,567	3,764	1,567
		<u>99,996</u>	<u>246,328</u>	<u>99,996</u>	<u>246,328</u>

**6.1.3 Transaction, Arrangements and Agreements Involving Entities which are Controlled, and/or Jointly Controlled by the KMPs and Their CMFs**

Statement of Financial Position	Reported Under	Company		Group	
		2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Assets</b>					
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	151	205	151	205
Lease Rentals Receivable	Lease Rentals Receivable and Stock out on Hire	-	-	-	-
Leasehold Improvements	Property, Plant and Equipment	88,085	31,889	88,085	31,889
		<u>88,236</u>	<u>32,094</u>	<u>88,236</u>	<u>32,094</u>
<b>Liabilities</b>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	151,279	104,743	151,279	104,743
<b>Income Statement</b>					
Interest Income on Lease and Vehicle Loans	Interest Income	-	2,111	-	2,111
Income on Operating Lease	Other Operating Income	26,540	24,088	26,540	24,088
Interest Expense on Customer Deposits	Interest Expenses	13,772	5,234	13,772	5,234
Dividend Income	Other Operating Income	-	8	-	8
		<u>40,312</u>	<u>31,441</u>	<u>40,312</u>	<u>31,441</u>
<b>Other Transactions</b>					
Deposits Accepted During the Year		100,000	90,000	100,000	90,000
		<u>100,000</u>	<u>90,000</u>	<u>100,000</u>	<u>90,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

## 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	
		2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Statement of Financial Position</b>	<b>Reported Under</b>				
<i>Liabilities</i>					
Dividend Payable	Other Non Financial Liabilities	-	573,459	-	573,459
		-	573,459	-	573,459
<b>Other Transactions</b>					
Dividend Paid on Shareholdings		573,459	286,730	573,459	967,712
		573,459	286,730	573,459	967,712
Transactions with Subsidiary		Company		Group	
		2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Statement of Financial Position</b>	<b>Reported Under</b>				
<i>Assets</i>					
Investment in Equity Securities	Investment in Subsidiary	521,162	318,471	-	-
Due from Subsidiary	Other Financial Assets	16,278	9,844	-	-
		537,440	328,315	-	-
<b>Other Transactions</b>					
Counter Indemnity Issued to Banks for Contingent Liabilities Guarantees		188,058	-	188,058	-
		188,058	-	188,058	-
Transactions with Fellow Subsidiaries and Associate Companies of the Parent		Company		Group	
		2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
<b>Statement of Financial Position</b>	<b>Reported Under</b>				
<i>Assets</i>					
Leasehold Improvements	Property, Plant and Equipment	6,180	2,382	6,180	2,382
Investment in Equity Securities	Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	811	1,184	811	1,184
Investment in Equity Securities	Financial Assets Measured at Fair Value Through Other Comprehensive Income	33,349	42,359	33,349	42,359
		40,340	45,925	40,340	45,925
<i>Liabilities</i>					
Fixed Deposits	Financial Liabilities at Amortised Cost - Due to Depositors	305,555	112,664	305,555	112,664
Dividend Payable	Other Non Financial Liabilities	-	288,986	-	288,986
		305,555	401,650	305,555	401,650
<b>Income Statement</b>					
<b>Reported Under</b>					
Dividend Income	Other Operating Income	4,098	4,379	4,098	4,379
Interest Expense on Customer Deposits	Interest Expenses	15,180	2,664	15,180	2,664
		19,278	7,043	19,278	7,043
<b>Other Transactions</b>					
Deposits Accepted During the Year		292,500	110,000	292,500	110,000
Dividend Paid on Shareholdings		288,986	144,493	288,986	144,493
		581,486	254,493	581,486	254,493

## 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 maximize 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.

As at 31 March	Company						Group					
	2020	2020	2020	2019	2019	2019	2020	2020	2020	2019	2019	2019
	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
<b>Assets</b>												
Cash and Cash Equivalents	6,162,637	-	6,162,637	4,040,586	-	4,040,586	6,472,312	-	6,472,312	4,058,610	-	4,058,610
Financial Assets Recognised Through Profit or Loss - Measured at Fair Value	4,648	-	4,648	6,866	-	6,866	4,648	-	4,648	6,866	-	6,866
Financial Assets at Amortised Cost - Loans and Receivables	43,441,871	14,797,383	58,239,254	35,784,930	11,610,095	47,395,025	43,995,961	14,797,383	58,793,344	36,104,345	11,669,360	47,773,705
Financial Assets at Amortised Cost - Lease Rentals												
Receivable and Stock out on Hire	25,645,341	34,981,329	60,626,670	25,707,053	40,343,376	66,050,429	25,645,341	34,981,329	60,626,670	25,707,053	40,343,376	66,050,429
Financial Assets Measured at Fair Value Through Other Comprehensive Income	59,141	-	59,141	89,710	-	89,710	59,141	-	59,141	89,710	-	89,710
Other Financial Assets	9,119,681	-	9,119,681	10,804,517	-	10,804,517	9,105,761	-	9,105,761	10,794,673	-	10,794,673
Other Non Financial Assets	915,119	52,350	967,469	938,421	128,939	1,067,360	924,139	52,350	976,489	944,126	128,939	1,073,065
Investment in Subsidiary	-	521,162	521,162	-	318,999	318,999	-	-	-	-	-	-
Property, Plant and Equipment and Right-of-Use Assets	-	8,221,248	8,221,248	-	6,577,379	6,577,379	-	8,228,222	8,228,222	-	6,580,725	6,580,725
Intangible Assets	-	41,809	41,809	-	39,847	39,847	-	55,064	55,064	-	43,523	43,523
<b>Total Assets</b>	<b>85,348,438</b>	<b>58,615,281</b>	<b>143,963,719</b>	<b>77,372,083</b>	<b>59,018,635</b>	<b>136,390,718</b>	<b>86,207,303</b>	<b>58,114,348</b>	<b>144,321,651</b>	<b>77,705,383</b>	<b>58,765,923</b>	<b>136,471,306</b>
<b>Liabilities</b>												
Due to Banks	8,025,813	14,745,272	22,771,085	10,831,772	13,801,736	24,633,508	8,083,469	14,799,472	22,882,941	10,831,772	13,801,736	24,633,508
Financial Liabilities at Amortised Cost - Due to Depositors	74,725,037	14,531,398	89,256,435	65,388,198	17,826,751	83,214,949	74,783,700	14,531,397	89,315,097	65,415,866	17,826,751	83,242,617
Debt Instruments Issued and Other Borrowed Funds	116,611	2,994,575	3,111,186	116,205	2,991,578	3,107,783	116,611	2,994,575	3,111,186	116,205	2,991,578	3,107,783
Other Financial Liabilities	1,562,949	1,203,461	2,766,410	1,974,490	-	1,974,490	1,563,314	1,203,461	2,766,775	1,974,490	-	1,974,490
Other Non Financial Liabilities	909,266	-	909,266	2,070,632	-	2,070,632	925,778	-	925,778	2,075,791	-	2,075,791
Current Tax Liabilities	766,752	-	766,752	1,395,971	-	1,395,971	777,057	-	777,057	1,403,916	-	1,403,916
Deferred Tax Liabilities	-	1,037,580	1,037,580	-	1,309,722	1,309,722	-	1,037,580	1,037,580	-	1,309,722	1,309,722
Post Employment Benefit Liability	-	345,456	345,456	-	256,512	256,512	-	345,456	345,456	-	256,512	256,512
<b>Total Liabilities</b>	<b>86,106,428</b>	<b>34,857,742</b>	<b>120,964,170</b>	<b>81,777,268</b>	<b>36,186,299</b>	<b>117,963,567</b>	<b>86,249,929</b>	<b>34,911,941</b>	<b>121,161,870</b>	<b>81,818,040</b>	<b>36,186,299</b>	<b>118,004,339</b>
<b>Maturity Gap</b>	<b>(757,990)</b>	<b>23,757,539</b>	<b>22,999,549</b>	<b>(4,405,185)</b>	<b>22,832,336</b>	<b>18,427,151</b>	<b>(42,626)</b>	<b>23,202,407</b>	<b>23,159,781</b>	<b>(4,112,657)</b>	<b>22,579,624</b>	<b>18,466,967</b>
<b>Cumulative Gap</b>	<b>(757,990)</b>	<b>22,999,549</b>	<b>-</b>	<b>(4,405,185)</b>	<b>18,427,151</b>	<b>-</b>	<b>(42,626)</b>	<b>23,159,781</b>	<b>-</b>	<b>(4,112,657)</b>	<b>18,466,967</b>	<b>-</b>

## 6.4 SEGMENTAL INFORMATION

*Accounting Policy*

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Company has identified operating segments based on products and services. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed on a Group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2019 or 2020.

There were no transactions between reportable segments in

	Leasing and Stock out on Hire		Loans and Receivables		Others		International operation		Total	
	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Interest Income	15,900,624	16,374,704	11,917,386	9,822,944	1,342,282	1,166,120	136,811	57,074	29,297,103	27,420,842
Less: Interest Expenses	6,804,199	7,085,779	5,734,218	4,801,088	1,076,974	1,064,456	15,980	1,832	13,631,371	12,953,155
Net Interest Income	9,096,425	9,288,925	6,183,168	5,021,856	265,308	101,664	120,831	55,242	15,665,732	14,467,687
Fee and Commission Income	827,288	534,268	1,102,697	1,064,976	11,641	182,828	8,554	4,847	1,950,180	1,786,919
Net Trading Income and Other Operating Income	33,092	30,791	305	2,430	87,545	101,230	(8,807)	-	112,135	134,451
Total Operating Income	9,956,805	9,853,984	7,286,170	6,089,262	364,494	385,722	120,578	60,089	17,728,047	16,389,057
Less: Impairment Charges and Other Losses	725,603	632,703	1,094,543	350,451	10,910	-	25,439	3,738	1,856,495	986,892
Net Operating Income	9,231,202	9,221,281	6,191,627	5,738,811	353,584	385,722	95,139	56,351	15,871,552	15,402,165
Less: Other Costs	2,742,002	2,957,517	2,385,355	2,147,796	46,818	46,589	48,865	24,520	5,223,040	5,176,422
Less: Depreciation	364,106	235,340	342,489	192,853	6,794	7,184	3,375	1,553	716,764	436,930
Operating Profits Before Taxes	6,125,094	6,028,424	3,463,783	3,398,162	299,972	331,949	42,899	30,278	9,931,748	9,788,813
Less: Taxes	2,912,262	2,904,462	1,646,904	1,637,216	142,626	159,930	19,094	7,782	4,720,887	4,709,390
Profits for the Year	3,212,832	3,123,962	1,816,879	1,760,946	157,346	172,019	23,805	22,496	5,210,861	5,079,423
Less: Non-Controlling Interest									-	74
Profit Attributable to Equity Holders of the Company									5,210,861	5,079,349
Segmental Assets	64,783,204	69,998,724	62,466,252	50,547,893	16,714,262	15,844,101	895,372	399,587	144,859,090	136,790,305
Elimination	-	-	-	-	(537,439)	(318,999)	-	-	(537,439)	(318,999)
Total Segmental Assets	64,783,204	69,998,724	62,466,252	50,547,893	16,176,823	15,525,102	895,372	399,587	144,321,651	136,471,306
Segmental Liabilities	54,387,225	60,525,910	52,544,874	43,737,712	14,032,068	13,699,945	213,981	50,617	121,178,148	118,014,183
Elimination	-	-	-	-	-	-	(16,278)	(9,844)	(16,278)	(9,844)
Total Segmental Liabilities	54,387,225	60,525,910	52,544,874	43,737,712	14,032,068	13,699,945	197,703	40,773	121,161,870	118,004,339
Cash Flows from Operating Activities	2,062,713	109,146	1,988,941	78,817	515,074	24,705	(5,788)	(261,293)	4,560,940	(48,626)
Cash Flows from Investing Activities	2,245	3,764	2,164	2,718	1,121,629	1,243,315	-	-	1,126,039	1,249,798
Cash Flows from Financing Activities	(934,319)	(301,078)	(900,903)	(217,416)	(233,306)	(68,148)	111,856	-	(1,956,672)	(586,642)
Capital Expenditure										
Property, Plant and Equipment	(421,976)	(1,189,300)	(406,884)	(858,824)	(105,370)	(269,196)	(4,757)	(2,685)	(938,987)	(2,320,005)
Intangible Assets	(8,060)	(4,729)	(7,772)	(3,415)	(2,013)	(1,070)	(11,822)	-	(29,666)	(9,215)

## 6.5 COMMITMENTS AND CONTINGENCIES

### Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

6.5.1 Contingent Liabilities	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Guarantees Issued to Banks and Other Institutions	12,570	5,270	12,570	5,270
Counter Indemnity Issued to Banks for Guarantees*	188,058	-	76,202	-
Import LC and Ordinary Guarantees	83,753	-	83,753	-
<b>Total Contingent Liabilities</b>	<b>284,381</b>	<b>5,270</b>	<b>172,525</b>	<b>5,270</b>

\* Contingent liability as at 31 March 2020, on counter indemnity for letter of guarantee issued by Sampath Bank PLC on behalf of LB Microfinance Myanmar Company Limited favoring CB Bank Limited, Myanmar. Total of this sum relates to the term loan facility obtained by LB Microfinance Myanmar Company Limited

6.5.2 Commitments	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitment for Unutilised Facilities	1,644,424	1,815,586	1,644,424	1,815,586
<b>Total Commitments</b>	<b>1,644,424</b>	<b>1,815,586</b>	<b>1,644,424</b>	<b>1,815,586</b>
<b>Total Commitments and Contingencies</b>	<b>1,928,805</b>	<b>1,820,856</b>	<b>1,816,949</b>	<b>1,820,856</b>
Allowance for Impairment	(3,955)	(7,358)	(3,955)	(7,358)
<b>Net of Impairment</b>	<b>1,924,850</b>	<b>1,813,498</b>	<b>1,812,994</b>	<b>1,813,498</b>

### 6.5.3 Litigation Against the Company

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. Based on the information currently available, the Board of Directors is of the opinion that the ultimate resolution of the litigations would not likely to have a material impact on the Group.

Cases Pending Against the Company (Values Claimed)	Company		Group	
	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	83,260	39,260	83,260	39,260

## 6.6 NET ASSET VALUE PER SHARE

### Amounts Used as the Numerators:

Total Equity Attributable to Equity Holders	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	22,999,549	18,427,151	23,159,781	18,466,967

### Number of Ordinary Shares Used as Denominators:

Total Number of Ordinary Shares in Issue	2020	2019	2020	2019
	138,514,284	138,514,284	138,514,284	138,514,284

Net Asset Value per Share (Rs.)

2020	2019	2020	2019
Rs. '000	Rs. '000	Rs. '000	Rs. '000
166.04	133.03	167.20	133.32

## 6.7 ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Included Under	Carrying Amount Pledged				
			Company		Group		
			2020	2019	2020	2019	
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lease Rentals Receivable and Stock out on Hire / Loans and Receivables*	Debt Funding from Banks	Lease Rentals Receivable and Stock out on Hire	24,730,786	28,094,634	24,730,786	28,094,634	
Freehold Land and Building	Term Loans	Property, Plant and Equipment	1,979,558	1,181,848	1,979,558	1,181,848	
			<b>26,710,344</b>	<b>29,276,482</b>	<b>26,710,344</b>	<b>29,276,482</b>	

\* 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.

## 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**

No circumstances have arisen subsequent to the reporting date which would require adjustment to or disclosure in the Financial Statements.

**6.10 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES***Accounting Policy*

Sri Lanka Accounting Standard - LKAS 07 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2020 are disclosed below together with the comparative figures for the year ended 31 March 2019.

The funds borrowed by the Company and the Group are given in Note 4.25 and Note 4.27.

	<b>Company</b>			
	<b>Debt Funding from Banks</b>		<b>Debt Instruments Issued and Other Borrowed Funds</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Balance as at 1 April	23,565,146	21,552,682	3,107,783	5,152,832
Net cash flows from financing activities	(2,575,836)	1,351,115	-	(2,000,000)
Non cash changes				
Foreign exchange movements			-	-
Net accrual for interest expense	1,061,364	661,349	3,403	(45,049)
Balance as at 31 March	<u>22,050,674</u>	<u>23,565,146</u>	<u>3,111,186</u>	<u>3,107,783</u>
Within 12 Months	7,305,402	9,763,410	116,611	116,205
After 12 Months	14,745,272	13,801,736	2,994,575	2,991,578
Total	<u>22,050,674</u>	<u>23,565,146</u>	<u>3,111,186</u>	<u>3,107,783</u>

	<b>Group</b>			
	<b>Debt Funding from Banks</b>		<b>Debt Instruments Issued and Other Borrowed Funds</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Balance as at 1 April	23,565,146	21,552,682	3,107,783	5,152,832
Net cash flows from financing activities	(2,467,436)	1,351,115	-	(2,000,000)
Non cash changes				
Foreign exchange movements			-	-
Net accrual for interest expense	1,064,820	661,349	3,403	(45,049)
Balance as at 31 March	<u>22,162,530</u>	<u>23,565,146</u>	<u>3,111,186</u>	<u>3,107,783</u>
Within 12 Months	7,363,058	9,763,410	116,611	116,205
After 12 Months	14,799,472	13,801,736	2,994,575	2,991,578
Total	<u>22,162,530</u>	<u>23,565,146</u>	<u>3,111,186</u>	<u>3,107,783</u>